

## Inflation Ain't Dead Yet

Higher than expected inflation reports struck a cautionary tone in equities last week. The S&P 500 Index was -0.2%, the Dow was flat, and the NASDAQ was +0.5%. The 10-year U.S. Treasury note yield increased to 3.828% at Friday's close versus 3.743% the previous week.

The January Consumer Price Index (CPI) and Producer Price Index reports injected some caution into investor sentiment as the reports showed that inflation is not dead yet. January CPI was +0.5% month-to-month and PPI was +0.7% month-to-month. This week, the minutes of the February 1st Federal Open Market Committee (FOMC) are scheduled for release on Wednesday, so we may gain some insight to how committee members were viewing the inflation outlook earlier this month. The January Personal Consumption Expenditures (PCE) Price Index is scheduled for release on Friday. The core PCE Price data, which excludes food and energy, is the FOMC's preferred measurement of inflation.

Four hundred five companies have reported fourth quarter earnings results, and another 62 companies are scheduled to report earnings this week. The current consensus for fourth quarter earnings for the S&P 500 Index is a 2.8% decline in year-over-year earnings on 5.3% revenue growth. Of the 405 companies in the S&P 500 that have reported earnings to date, 67.4% have reported earnings above analyst estimates. This compares to a long-term average of 66.3% and prior four quarter average of 75.5%. For full-year 2022, current consensus is 5.2% year-over-year earnings growth on 11.3% revenue growth. The current consensus expectation for full-year 2023 is 1.6% earnings growth on 1.7% revenue growth.

In our *Dissecting Headlines* section, we explain an Earnings Recession.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-0.2%	6.5%	Aggregate Bond Index	-0.5%	1.1%
Dow Jones Industrial Average	0.0%	2.3%	U.S. Dollar Index	0.2%	0.3%
NASDAQ 100	0.5%	13.1%	WTI Crude Oil	-4.2%	-4.9%
Russell 2000 (Small Cap Index)	1.5%	10.7%	Gold	-1.5%	0.7%
International Stocks (MSCI ex-US)	-0.4%	6.6%	Real Estate (US REIT Index)	-0.8%	8.7%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: Earnings Recession

An earnings recession is two consecutive quarters of decline in year-over-year earnings. While not the same as an economic recession, as declared by the National Bureau of Economic Research, the two can often be coincident and indicative of issues impacting a broad swath of the economy.

We are 80% of the way through fourth quarter of 2022 earnings for companies in the S&P 500 Index. Earnings are currently expected to decline 2.8% year-over-year. Eight of eleven sectors in the S&P 500 are expected to report a year-over-year earnings decline with the Energy, Industrials, and Real Estate sectors expected to show positive earnings growth.

For the first quarter of 2023, the current consensus expectation is for an earnings decline of 3.9%. Seven of eleven sectors in the S&P 500 are expected to report a year-over-year earnings decline for the first quarter with the Consumer Discretionary, Energy, Industrial, and Financial sectors expected to show positive earnings growth.

These consecutive year-over-year declines would mark an earnings recession. Much of the earnings decline has potentially already been discounted in stock prices during the steep declines we saw in 2022. The stock market tends to be a forward looking mechanism and seeks incremental data of trends developing beyond the current quarter. For full-year 2023, the S&P 500 Index is currently expected to show a year-over-year gain of 1.6%, implying a return to growth in the second half of the year.

## The NovaPoint Capital Team



**Joseph Sroka, CFA, CMT / Chief Investment Officer / [jsroka@novapointcapital.com](mailto:jsroka@novapointcapital.com)**

Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



**Alan J. Conner / President and Chief Compliance Officer / [aconner@novapointcapital.com](mailto:aconner@novapointcapital.com)**

Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



**Frederick Wright, CFA / Managing Director & Portfolio Manager / [fwright@novapointcapital.com](mailto:fwright@novapointcapital.com)**

Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



**Timothy Benbow, CFP / Managing Director & Portfolio Manager / [tbenbow@novapointcapital.com](mailto:tbenbow@novapointcapital.com)**

Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



**Allan Duncan / Investment Adviser / [aduncan@novapointcapital.com](mailto:aduncan@novapointcapital.com)**

Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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