Ropes Wealth Considers CPI Data and the Potential for a 2023 Market Comeback

Arguably the most important economic report remaining before the Fed's next scheduled policy decision on February 1 was this week's December Consumer Price Index (CPI) reading. For the most part, it was good news: headline CPI fell -0.1% month-over-month thanks to a -4.5% decline in energy prices and level food prices. This decline in headline CPI brought the annualized inflation rate down from 7.1% to 6.5%, the slowest pace since 2021 and the sixth consecutive month of cooling price pressures.

Excluding food and energy prices, core CPI rose 5.7% year-over-year on mixed details. Goods prices for items like used and new cars were down, but services inflation continues to confound. Housing rents in particular continued to pressure inflation higher: indeed, rents rose 7.9% month-over-month, the second fastest pace of this cycle.

This CPI report confirms inflation is easing and is a welcome validation to the Fed that monetary policy action is having the intended result. With that, markets are hoping (and maybe praying a little, too) that the Committee will soon pivot and pause rate hikes. Keeping perspective, much of the improvement in inflation has been concentrated in energy costs that have retreated for now. However, looking beyond energy to key categories such as housing and food, prices are still rising, which is likely to keep the Fed in play at least for several more meetings. The Fed already made one policy error by holding onto the transitory language and crisis-level monetary policy accommodation for longer than appropriate. They do not want to make another mistake.

Some market pundits are betting the Fed will slow rate hikes to increments of 25 basis points starting in February and continue to move until they reach a Fed Funds target rate of 5.25% (the current range is 4.25% - 4.50%). On the bright side, we are closer to the end than the beginning, which is perhaps why, as markets have turned the calendar over to 2023, stock prices have been buoyant. Also helping lift animal spirits is the reopening euphoria over China, though the lack of health data from the country is concerning. The mild winter in Europe, a Chinese consumer comeback, and decline in the U.S. dollar relative to other currencies have lifted global stock markets of late and finally provided some gratification to globally diversified investors.

Which brings us to the silver linings playbook of investing: what was once a headwind becomes a tailwind, directionality of data matters more than the absolute, and the best investment plan is a long-term one where you avoid getting whipsawed. Besides the resurgence among global equities, it is worth noting that technology and communication services shares, among the most punished in 2022, are on the rise in 2023. Markets are coming back into balance, and that is a positive sign and often a precursor to a sustainable recovery. Yet we urge a healthy respect for the risks still prevalent, and caution against being too bold as a corporate profits recession (if not an economic recession) is coming. Now is the time to review and renew all your holdings and plan with our help, so you will have poise and confidence as the year unfolds that you are positioned optimally for that sustainable recovery. There will be bumps on the way in 2023, but you have weathered the storm now and we can see a horizon line.

Wishing you a wonderful long weekend and celebration of Dr. Martin Luther King, Jr.'s legacy. May we all remember his dream and his call to serve: “The time is always right to do what is right.”

Thank you as always for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600