

Good afternoon. We are now in our third week of the New Year and the markets have been positive all-around to start the New Year. This is important because of the so-called "January Effect" where the performance for the first month of the year can dictate how the rest of the year will play out. With 7 trading days left in the month, it's looking good so far but it's also worth mentioning that we are in the heart of earnings season.

The next couple of weeks are going to be packed with earnings and economic reports that will dictate the short-term directions for both equity and fixed income markets. The biggest concerns for the markets right now are: Earnings & A Soft Landing vs. A Hard Landing. Remember, our thesis has been we need inflation to fall faster than economic growth. Let's take a deeper look at the economic backdrop.

Hard Landing vs. Soft Landing:

Last week the "Hard Landing" camp received a boost via sharp drops in economic data around retail sales and manufacturing:

- Retail Sales dropped -1.1% vs. estimates of -0.9% & Nov estimates were revised down
  - "Control" retail sales dropped -0.7% vs estimates of -0.3% which measures spending ex-auto's/gasoline/building materials. A better measure of true consumer spending.
- Empire Manufacturing Survey - Came in a -32.9 vs. estimates of -8.1. This is the worst reading outside of the Covid shutdown since 2009 and confirms a contraction of the manufacturing sector in the Mid-Atlantic.

In the first few weeks of the year, the markets have been in the "Soft Landing" camp and that was dealt a blow last week. The next couple of weeks will deliver the bulk of the S&P 500 earnings so we will be watching that closely. We also get more data on the economy with the Flash Composite PMI (economic activity) and Consumer Prices (inflation). Both readings will be important to the Federal Reserve which matters to markets because the sooner we get a Fed Pause on rates, the better the markets will feel.

We ended last year with our newsletter *"It's The Data, Stupid"* and that has rung true in the first three weeks. So far, it's been a mixed bag and it will likely take weeks and/or months to get things settled. We will update you accordingly but until things are more clear, expect the market to be in a trading range and volatility to continue.

Have a great week!

Regards,

Tim

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