At Passage Wealth it is important that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. If you have any questions or would like to continue the conversation, please reach out.

December now marks three months in a row with improving news on inflation. Monthly prices declined by 0.1% in December and annual prices increase by 6.5%, down from a 7.1% increase in November[1]. However, core inflation, which excludes volatile energy and food prices, did tick up during the month, rising 0.3% compared to November's 0.2% rise. Under the hood, the report showed energy prices fell 4.5%, despite a rise in natural gas prices during the cold weather around Christmas along with prices on used and new cars falling, the first time in two years that prices on new cars declined.

While the job market remains fairly tight, the pace of new jobs continues to slowly cool down. In December, 223,000 new jobs were added to the economy, though this was the fifth month in a row of fewer new jobs than the prior month[2]. Construction, health care, and hospitality were a few stand-out areas of job growth within the report. Despite a lot of headlines about the residential housing market, total construction jobs increased on average by 19,000 per month in 2022. Overall, the unemployment rate declined from 3.7% to 3.5%.

Consumer sentiment has been in focus lately and, while still pessimistic from a historical standpoint, it improved substantially in the preliminary January report, rising to 64.6, from 59.7 in December[3]. It marks the highest the index has been since April 2022 as respondents have an improved view of the state of their personal finances as well as the long-run economic outlook. The improving inflation picture also appears to be helping with shorter-term inflation expectations also coming down to their lowest levels since April 2021.

The bottom line: With three months of improving inflation reports, the trend is moving in the right direction and has positive momentum. This may give the Fed some breathing room, though the Fed is still likely to tighten a bit further over their next few policy meetings. A cooling jobs market helps, though there still may not be enough slack within the labor market for the Fed to sleep terribly easy. The language coming from the Fed, as well as the overall economic picture, is likely to play a critical role in market sentiment going forward, with any surprises or abrupt changes presenting as a risk to the early strength of the market in 2023.

Sources:

1. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm
2. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
3. University of Michigan's Consumer Sentiment Index, preliminary January release, http://www.sca.isr.umich.edu/

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The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan.