Summary

U.S. stocks ended Friday higher and all of the major indices finished in the green for the week as the December jobs reports inspired a late rally in the market. The Dow Jones Industrial Average rose 1.5% from last week's close. The S&P 500 increased 1.4%, and the NASDAQ climbed 1.0% for the week. Last week was a busy week for economic reports. Nonfarm payrolls climbed 223,000 in December and nonfarm private payrolls rose 220,000. Average hourly earnings for all workers on private nonfarm payrolls increased 0.3% last month and were up 4.6% from a year earlier. The unemployment rate dropped to 3.5% in November as the labor force participation rate rose slightly to 62.3%. Initial unemployment claims for the week ending December 31 were down 19,000 to 204,000. Continuing claims for the week ending December 24 decreased 24,000 to 1,694,000. Construction spending climbed 0.2% in November compared with expectations of a 0.4% decline. The Job Openings and Labor Turnover Survey (JOLTS) report showed both the number of job openings and hires in November declined modestly. The ISM Manufacturing Index fell 0.6 points to 48.4%; a reading above 50.0% indicates expansion. The U.S. trade deficit narrowed more than expected in November as both imports and exports decreased.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Construction Spending (Nov – Tu 10:00)	+0.2%	-0.4%	Higher interest rates impacting construction spending
ISM Manufacturing Index (Dec – We 10:00)	48.4%	48.5%	Reading above 50.0% indicates expansion
JOLTS – Job Openings (Nov – We 10:00)	10.458 Mil	NA	
Initial Claims (12/31 – Th 8:30)	204 K	225 K	
Continuing Claims (12/24 – Th 8:30)	1,694 K	NA	
Trade Balance (Nov – Th 8:30)	-$61.5 Bil.	-$76.4 Bil.	Smallest trade deficit since Sep. 2020
Nonfarm Payrolls (Dec – Fr 8:30)	+223 K	+210 K	3-month average for total nonfarm payrolls decreased to 247,000 from 263,000
Nonfarm Private Payrolls (Dec – Fr 8:30)	+220 K	+200 K	
Unemployment Rate (Dec – Fr 8:30)	3.5%	3.7%	Matches a 50-year low
Average Hourly Earnings (Dec – Fr 8:30)	+0.3%	+0.4%	
Average Workweek (Dec – Fr 8:30)	34.3	34.4	
Upcoming Week: Indicator	**Consensus Expectation***	**Last Period**	**Comment**
Consumer Credit (Nov – Mo 3:00)	+$19.0 Bil.	+$27.0 Bil.	
Wholesale Inventories (Nov – Tu 10:00)	NA	+0.5%	
Consumer Price Index (Dec – Th 8:30)	+0.1%	+0.1%	
Core Consumer Price Index (Dec – Th 8:30)	+0.4%	+0.2%	
Initial Claims (1/7 – Th 8:30)	215 K	204 K	
Continuing Claims (12/31 – Th 8:30)	NA	1,694 K	Not available
Treasury Budget (Dec – Th 2:00)	NA	-$248.5 Bil.	Not available
Michigan Sentiment (Jan – Fr 10:00)	59.4	59.7	

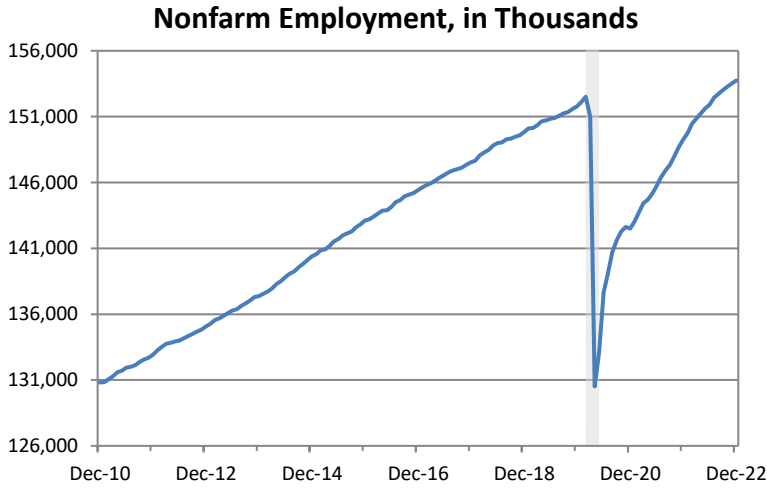
**Sources: www.briefing.com and www.federalreserve.gov*

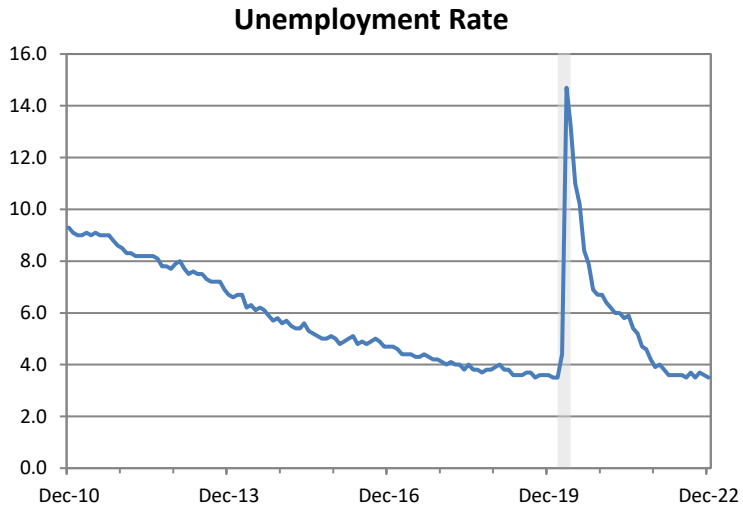
Economic Review

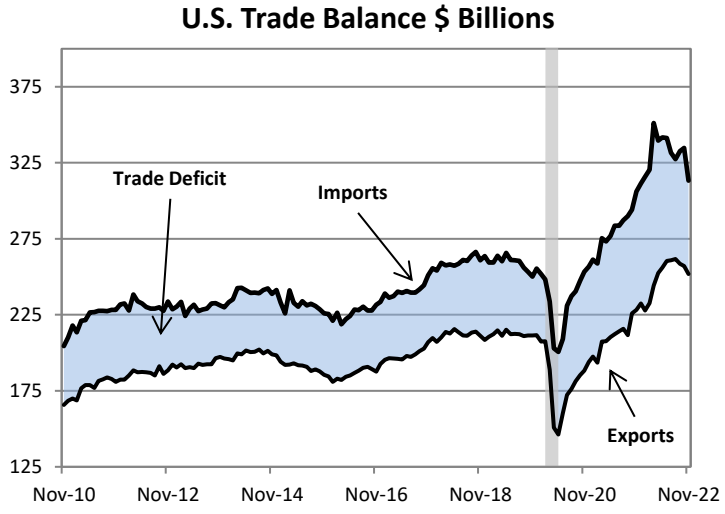
Job growth exceeded economists' expectations in December. NONFARM PAYROLLS advanced 223,000 last month compared with expectations for a gain of 210,000 after rising 256,000 in November. The education/health sector added 78,000 jobs last month and employment in the leisure/hospitality sector increased 67,000. NONFARM PRIVATE PAYROLLS advanced 220,000. The AVERAGE WORKWEEK declined slightly to 34.3 hours. AVERAGE HOURLY EARNINGS for all employees on private nonfarm payrolls were $32.82, up 0.3% from the previous month; over the past 12 months, average hourly earnings climbed 4.6%--a slower pace than the previous month which supported a stock market rally on Friday.

The U.S. jobless rate was down last month, and the labor force participation rate increased. The UNEMPLOYMENT RATE declined to 3.5% in December as the labor force participation rate was up 0.1 percentage point to 62.3%. The number of people unemployed for 27 weeks or longer in November made up 18.5% of the unemployed. The Labor Department's U-6 rate, which accounts for people who have stopped looking for work or cannot find full-time jobs, decreased 0.2 percentage points to 6.5%. As the labor market maintains steady growth, the Federal Reserve will continue to increase the target range for the federal funds rate until the central bank is confident inflation is under control.

The TRADE BALANCE narrowed in November to a deficit of $61.5 billion from an upwardly revised $77.8 billion in October. November exports came in at $251.9 billion and imports were $313.4 billion. Exports of industrial supplies and materials fell $3.6 billion. Exports of pharmaceutical preparations increased $1.2 billion. Exports of capital goods dropped $1.3 billion, and imports of capital goods fell $3.0 billion. Imports of automotive vehicles, parts, and engines declined $3.3 billion. The weakness in exports and imports suggests declining global demand.







Fed Speeches

James Bullard, President and CEO of the Federal Reserve Bank of St. Louis, gave a presentation entitled "The Prospects for Disinflation in 2023" last week at the CFA Society St. Louis in St. Louis, Missouri. President Bullard shared his thoughts on gross domestic product (GDP) growth and the labor market performance in the United States over the past year:

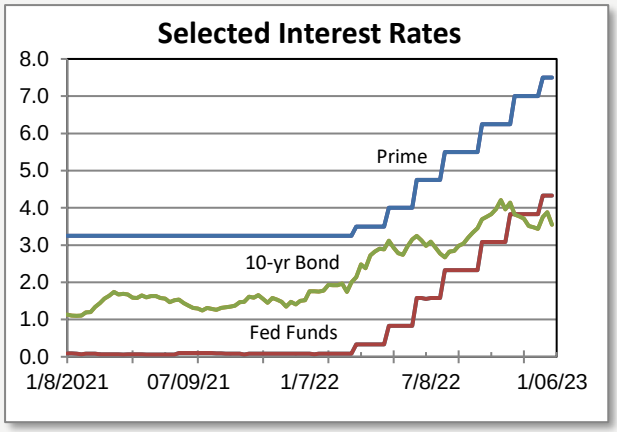
> *Real GDP growth now appears to have been stronger in the second half of 2022 than previously thought after puzzling readings in the first half of 2022… Perhaps the best interpretation is that real GDP growth is slowing to be in a neighborhood just below the potential growth rate of about 2% on a year-on-year basis after stellar growth in 2021.*

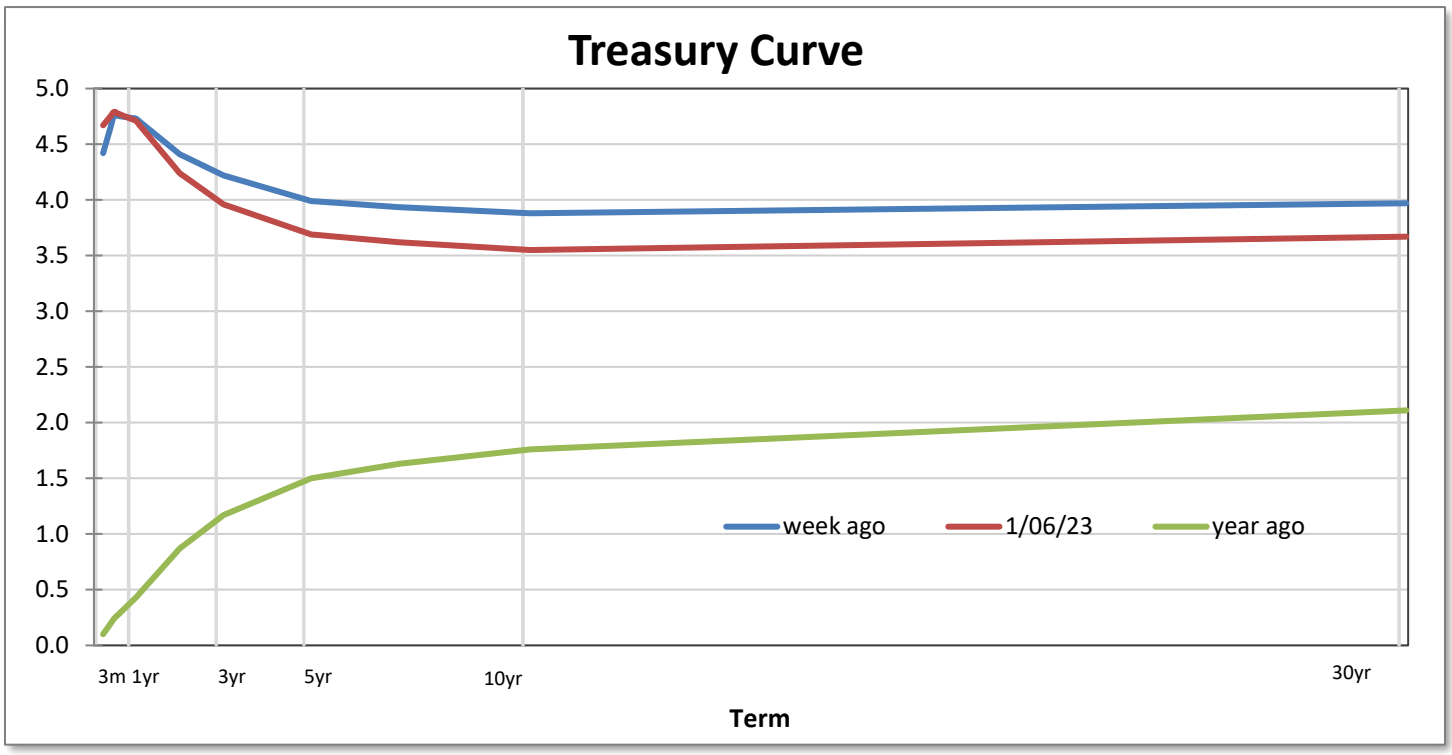
President Bullard went on to say that these factors, along with a front-loaded Fed policy, may help to make 2023 a disinflationary year:

> *A natural forecast is that the pace of quarterly growth will now moderate and unemployment will rise to return to its longer-run level… During 2023, actual inflation will likely follow inflation expectations to a lower level as the real economy normalizes*.

Financial Markets

U.S. stocks finished higher last week with the Dow Jones Industrial Average rising 1.5%, the S&P 500 increasing 1.4%, and the NASDAQ climbing 1.0%. Treasury yields were generally lower across the curve with the 10-year yield falling 33 basis points (bps) to 3.55% and the 30-year yield decreasing 30 bps to 3.67%. Oil prices dropped 8.3% and ended the week at $73.75 per barrel. The U.S. dollar rose 0.8% against the Japanese yen and the euro fell 0.6% against the greenback last week.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 4.25% to 4.50% at the Fed's December policy meeting. In the statement released following the December meeting, the FOMC said, "Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures." The statement went on to say that the Committee "anticipates that ongoing increases in the target range will be appropriate."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
1st Qtr '23	7.50	4.38	4.26	4.81	4.59	4.24	4.49	6.81
2nd Qtr	7.83	4.71	4.59	4.99	4.81	4.52	4.75	6.83
3rd Qtr	8.17	5.04	4.92	5.11	4.90	4.91	4.95	6.80
4th Qtr	8.25	5.13	5.00	4.96	4.97	5.11	5.21	6.75
1st Qtr '24	8.25	5.13	5.00	4.93	5.02	5.06	5.16	6.65

**Forecast as of December 30, 2022*

FINANCIAL MARKET SUMMARY

	As of 1/6/2023	As of 12/30/2022	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	7.50	7.50	0	50	125
LIBOR Index Base Rate (1Month)	4.39	4.37	2	12	109
Fed Funds (Wed close)	4.33	4.33	0	50	125
TREASURIES (BE) (Changes in BPs)					
3 Months	4.67	4.42	25	39	121
6 Months	4.79	4.76	3	8	75
1 Year	4.71	4.73	(2)	0	52
2 Years	4.24	4.41	(17)	(7)	1
5 Years	3.69	3.99	(30)	(2)	(36)
10 Years	3.55	3.88	(33)	7	(28)
30 Years	3.67	3.97	(30)	23	(14)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.42	2.67	(25)	(7)	(58)
5-Year Muni	2.39	2.56	(17)	(11)	(67)
10-Year Muni	2.50	2.64	(14)	0	(67)
30-Year Muni	3.46	3.63	(17)	(5)	(38)
30-Year Conventional Mortgage	6.48	6.42	6	15	(18)
MARKET INDICATORS (Changes in %)					
DJIA	33,630.61	33,147.25	1.5	0.5	14.8
S&P 500	3,895.08	3,839.50	1.4	(1.0)	7.0
NASDAQ	10,569.29	10,466.48	1.0	(4.0)	(0.8)
CRB Futures	287.56	301.33	(4.6)	(0.2)	(6.3)
Oil (WTI Crude)	73.75	80.44	(8.3)	(8.0)	(7.5)
Gold	1,871.00	1,830.00	2.2	3.3	9.9
Yen / Dollar	132.12	131.12	0.8	(3.3)	(9.1)
Dollar / Euro	1.06	1.07	(0.6)	1.0	9.3