

March update: U.S. Equity Indexes Decline Amid Strong Economic Data

We hope all is well with you. After a strong January, major U.S. equity indexes experienced declines in February as government bond yields rose. Economic data remained strong throughout the month, including job and inflation metrics, leading the market to expect further interest rate hikes by the Federal Reserve.

For the month of February, the S&P 500 (\$SPX) declined by [2.6%](#), and the Dow Jones Industrial Average (\$DJI) shed [4.2%](#).

Fed Signals

Starting out last month, the Fed raised rates by 25 basis points at its February 1st meeting. Market participants widely expected the 25-basis-point hike.

The statement released with the rate hike had somewhat of a dovish tone but with a bit of [mixed messaging](#). The Fed acknowledged that inflation has eased somewhat, which was welcome news. However, Federal Reserve Chair Jerome Powell [said](#), “If we continue to get, for example, strong labor market reports or higher inflation reports, it may well be the case that we have to do more and raise rates more than is priced in.”

U.S. equity markets initially moved higher on the Fed's acknowledgment that inflation has eased somewhat. But after digesting the full message—which noted “data-dependency” for the future direction of policy and having “a long way to go”—markets turned negative on the day and kept the negative tone throughout the rest of the month.

Hot Jobs Number

After Powell reiterated that policy would heavily depend on economic data, attention quickly turned to the upcoming non-farm payrolls data. The jobs number came in super hot, showing [517,000 jobs created](#) versus 183,000 expected.

Markets reacted to the downside on the data release, although in an orderly and muted fashion.

Inflation Ran Hot Again

Following Fed commentary on “data dependency” and several strong economic data releases, all eyes were on the next release: the January Consumer Price Index.

On Valentine's Day, the Fed's sweet treat showed consumer pricing running hotter than expected at a 6.4% year-over-year rise versus estimates for 6.2%. On a month-over-month basis, [data](#) showed a 0.5% increase in consumer pricing vs. the 0.4% expected.

The usual suspects were the culprits for the rise; necessities like shelter (including rent), energy, and food all saw prices [climb](#) in January.

The mid-month data further strengthened the conviction that more rate hikes would be on the table. The result was softening equity index pricing and [higher government bond yields](#) throughout February.

China Reopening

[Data](#) from China showed that factories had their best month in nearly 11 years after reopening from its zero-covid policy.

China's Purchasing Managers' Index for the manufacturing industry hit 52.6 in February, its highest level since April 2012, according to [data](#) released Wednesday by the National Bureau of Statistics.

This followed the January reading of 50.1, which was a sharp increase from the month before and came as disruptions caused by the abrupt end of pandemic restrictions faded. China scrapped most of its restrictions in early December.

Signs of global growth are encouraging for the economy here at home.

Q4 Earnings

Earnings season for the fourth quarter is winding down, and here is a quick synopsis: For the 489 S&P 500 companies that have reported Q4 results as of the time of writing, total earnings are down -5.8% from the same period last year with +5.8% higher revenues. 70.8% beat earnings per share (EPS) estimates and 70.3% beat revenue estimates, according to [data](#) from Zacks.

There are more Q4 earnings nuggets from Factset [here](#).

Overview and Outlook

February featured a sentiment shift from the rising equity indexes in January. Data from China provides a positive element of support for the broader equity market picture, but the U.S. Fed's focus on bringing inflation back to its target rate remains the front-and-center narrative.

Eventually, the driving force of U.S. equities will revert to earnings and sales growth, as well as positive analyst revisions and strong forward-looking guidance. So, amid this inflation-driven period, it is vital to remain focused on these time-tested data points.

With that said, market attention now turns to the March Fed meeting, where another hike is expected. As of March 6, expectations favor another 25-basis-point hike in March (69.4% probability) and a 50-basis-point hike showing a 30.6% probability, according to data from the [CME FedWatch Tool](#).

The current landscape could provide opportunities for investors seeking to benefit from [dollar cost averaging](#). On that note, if you would like to discuss the market outlook feel free to reach out to your team! We are always here as a resource!