Weekly Market Update

March 6, 2023

by David A. Smith, CFP®, MSFS, AIF® and Michael Cozad, CFP®, MSFS

"The sun after the rain is much more beautiful than the sun before the rain."

~Mehmet Murat Ildan

Market Watch

Week Ending Mar 3, 2023

(Source: Briefing.com)

• DJIA: *2023 YTD 0.70%*	33,816.90	574.00
• NASDAQ: *2023 YTD 11.700%*	11,689.00	294.10
• S&P 500: *2023 YTD 5.40%*	4,045.64	75.60
• Russell 2000: *2023 YTD 9.50%*	1,928.26	37.77
• 10 Year Treasury:		3.96%

SMITH, MOSES & COZAD

Beavercreek Office:

2149 N. Fairfield Rd., Suite B

Beavercreek, OH 45431

ph: 937.431.8010

smithmosesandcompany.com

Dave's Weekly Commentary

Well, it was quite the week. Between the enormous amount of rain and the tornado warnings, who would have thought it was February in Ohio?

The financial markets were not nearly as stormy as the stock market was able to break its losing streak this week despite ongoing concerns about sticky inflation and the Fed raising rates higher for longer. The upside bias was supported by technical buying interest, along with a drop in market rates by the end of the week. There may have also been a feeling that the market was oversold on a short-term basis driving last week's gains. Entering Monday's session, the S&P 500 had declined 5.0% from its close on February 2nd. Inflation concerns were stoked this week by data releases, including the February ISM Manufacturing Index, the weekly initial jobless claims, and the revised Q4 productivity. Weekly claims remained low, reflecting a tight labor market, while unit labor costs rose 6.3% from the same quarter last year, reflecting high wage-based inflation. The Treasury market responded strongly to this week's data. The 10-yr note yield rose past 4.00%, hitting 4.07% at its high, before pulling back to 3.96% by Friday's close. The 2-yr note yield, which is more sensitive to changes in the Fed funds rate, rose eight basis points this week to 4.86%. Despite the rising market rates, the main indices held up okay thanks to technical support. Buyers stepped in when the S&P 500 moved above its 200-day moving average, and by Friday's close the index was back above its 50-day moving average. Most of the S&P 500 sectors logged a gain this week led by materials (+4.0%), communication services (+3.3%), and industrials (+3.3%). Here is a summary of last week's activity.

Monday Starting the week the S&P 500 closing above its 200-day moving average on Friday, along with the 10-yr note yield staying below 4.00%. A pullback in Treasury yields from overnight highs was another support factor for equities.The main indices exhibited some upside momentum in the early going, that had the S&P 500, Dow, and Nasdaq up 1.2%, 1.1%, and 1.5%, respectively, at their morning highs. That momentum dissipated, but the main indices ultimately settled off their lows for the day thanks to buyers stepping in when the S&P 500 slipped below its 50-day moving average (3,980). The Nasdaq settled with the biggest gain on Monday.

Tuesday The stock market was mixed on the last trading day of the month. The S&P 500 spent a good portion of Tuesday's session above its 50-day moving average. Ultimately, the main indices closed near their lows for the day, but losses were relatively modest.

Wednesday The new month started on a mostly downbeat note. The S&P 500 and Nasdaq closed with losses, weighed down by weakness in the mega cap space, while the Dow managed a slim gain. Downside momentum was somewhat limited, though, thanks to the S&P 500 finding support at its 200-day moving average. Rising market rates, in response to the ISM Manufacturing Index and comments from Fed officials, were a big headwind for stocks on Wednesday. Rate hike concerns were in the news by Minneapolis Fed President Kashkari saying he is leaning toward raising rates further and pushing up his own policy path forecast and Atlanta Fed President Bostic saying he thinks the Fed should get to 5.00-5.25% and hold there well into 2024, according to CNBC.

Thursday The stock market traded lopsided for most of Thursday's session. The Dow Jones Industrial Average was trading up right out of the gate. The S&P 500 and Nasdaq, meanwhile, spent Thursday morning pinned in negative territory, reflecting concerns about rising market rates. The 10-yr note yield, which hit 4.00% overnight after the eurozone reported core CPI was up a record 5.6% year-over-year in February versus 5.3%. Despite interest rates pressuring the stock market, downside moves were somewhat limited thanks to buying interest after the S&P 500 slipped below its 200-day moving average (3,940).

Friday The stock market closed out the week with a decent rally. The main indices moved higher right out of the gate, which had the S&P 500 open above its 50-day moving average. The positive disposition held up throughout the session and the main indices closed near their best levels of the day. The Dow, Nasdaq, and S&P 500 rose 1.2%, 2.0%, and 1.6%, respectively. The Treasury market was an integral support factor for equities Friday. The 10-yr note yield settled back below 4.00%, down 11 basis points to 3.96%. The 2-yr note yield fell five basis points to 4.86%. Source: Briefing.com

Have a great week, Dave

Newsletter continues on the next page.

Get a Jump on Your Taxes Today and Go Paperless!

• Give our office a call, we'll walk you through the short process, OR

• Stop by our Beavercreek office on a Friday, we'll show you how.

Why Go Paperless?

In addition to being environmentally friendly, **electronic delivery (e-delivery)** benefits include:

• No waiting for paper documents to arrive in the mail.

• You can have anywhere, anytime access.

• Save on monthly paper fees.

• Provides you the fastest access to your 1099 forms, as well as other tax documents. (Note: requests must be received by the 15th of the month.)

• An easy way to share with accountants through downloading, then emailing.

Already enrolled in e-delivery of account statements, but not tax documents?

Click the "Go Paperless" icon when you log in and add tax documents.

SMITH, MOSES & COZAD

Beavercreek Office:
2149 N. Fairfield Rd., Suite B
Beavercreek, OH 45431
ph: 937.431.8010

smithmosesandcompany.com

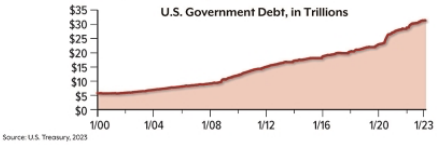
Planning Points, Part 1 of 2 *To read this article in it's entirety, go to https://www.smithmosesandcompany.com/blog*
Source: Broadridge Advisor Solutions. Copyright 2023.

The Debt Ceiling and Deficit Spending

On January 19, 2023, the outstanding debt of the U.S. government reached its statutory limit, commonly called the debt ceiling. The current limit was set by Congress at about $31.4 trillion in December 2021.1

On the day the limit was reached, Treasury Secretary Janet Yellen instituted well-established "extraordinary measures" to allow necessary borrowing for a limited period of time. While Yellen projects the extension will last until early June, the Congressional Budget Office (CBO) estimates it may last until sometime between July and September. However, the CBO cautions that if April tax revenues fall short of its projections, the Treasury could run out of funds earlier.2–3

Rising Debt
The national debt began to grow in 2002 due to tax cuts and increased spending in response to 9/11. It has tripled since 2008, driven by reduced tax revenues and stimulus spending during the Great Recession and the COVID-19 pandemic.



Source: U.S. Treasury, 2023

Flexibility vs. Fiscal Fights A debt ceiling was first established in 1917 to give the federal government more flexibility to borrow during World War I. Before that time, all borrowing had to be authorized by Congress in very specific terms, which made it difficult for the government to respond to changing needs.4

The modern debt ceiling, which aggregates almost all government debt under one limit, was established in 1939. Since 1960, it has been raised, modified, or suspended 78 times, mostly with little fanfare. That changed in 2011, when a political battle over the ceiling pushed the Treasury so close to the edge that Standard & Poor's downgraded the credit rating of the U.S. government.5–6

The debt ceiling limits the amount that the U.S. Treasury can borrow to meet financial obligations already authorized by Congress. It does not authorize future spending. However, beginning with the bitter battle of 2011, it has been used as leverage for partisan negotiations over government spending. With the White House and the House of Representatives — which must authorize spending — held by different parties, this year's negotiations could be particularly difficult.

Potential Consequences If the debt ceiling is not raised in a timely manner, the U.S. government could default on its financial obligations, resulting in unpaid bills, higher interest rates, and a loss of faith in U.S. government securities that would reverberate throughout the global economy. While it's unlikely that the current situation will lead to a default, pushing negotiations close to the edge can be damaging in itself. It was estimated that the 2011 impasse cost U.S. taxpayers $1.3 billion in increased borrowing costs in FY 2011 with additional costs in the following years.7

The Deficit and the Debt Put simply, the federal government runs at a deficit when tax revenues are not sufficient to meet spending obligations. Federal spending has outpaced revenue for the last 50 years, except from 1998 to 2001.8 Annual budget deficits add to the national debt.

The current debt of $31.4 trillion is the highest in U.S. history.9 However, measuring the debt as a percentage of gross domestic product (GDP) provides a better comparison over time. More specifically, economists look at debt held by the public — funds the government has borrowed to meet operational expenses and liabilities, primarily through issuing Treasury securities. Interagency debt — funds borrowed from government accounts such as the Social Security trust funds — is also subject to the limit but does not directly affect the economy or federal budget.

At the end of fiscal year 2022 (September 30, 2022), debt held by the public was equivalent to 97% of GDP. In 2019, before the pandemic, it was 79% of GDP, and in 2007, before the Great Recession, it was 35%. Both of these crises caused explosions of the deficit and debt due to lower tax revenues and high spending on government stimulus programs. The last time the debt exceeded current levels was at the end of World War II.10-11

In a new February 2023 analysis, the CBO projected that the debt will rise steadily over the next decade to 118% of GDP in 2033, which would be the highest percentage in U.S. history. The driving forces behind this increase would be higher spending on Social Security and Medicare, and rising interest costs (due to increasing debt and higher rates). If current laws remain unchanged, the debt is projected to rise even more quickly in the next two decades, reaching 195% of GDP in 2053.12

Article continues next week.