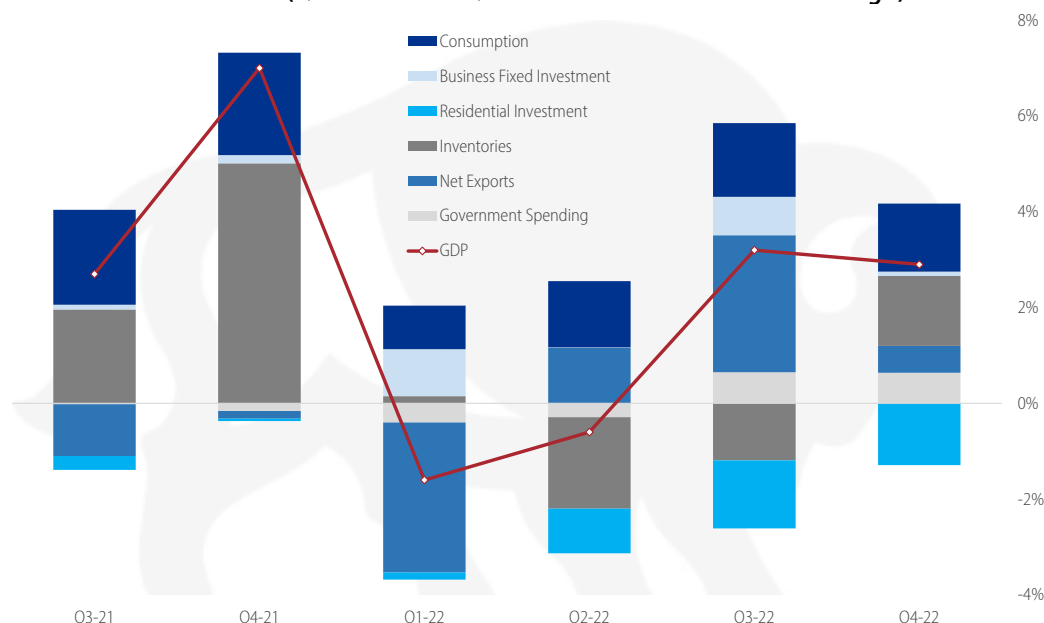


Mixed Data Unlikely to Sway Fed Members

The highlight of this morning's slate of economic data was the initial release of fourth quarter GDP, which grew by +2.9% in the final quarter of 2022 following a +3.2% advance in the previous period. Although the headline was slightly above forecast, it masked quite a bit of underlying softness.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Gross Domestic Product (Quarter-over-Quarter Annualized Percent Change)



Source: Bureau of Economic Analysis

Personal consumption expenditures rose +2.1% during the quarter, contributing 1.4 percentage points to the overall number. This measure of consumer spending was down slightly from +2.3% in Q3.

Business inventories and net exports combined to add *two full percentage points* to the headline. These are both volatile categories that are expected to retreat in subsequent quarters as the global economy slows.

Government spending contributed just over 0.6 percentage points to the overall number, essentially matching the previous quarter's contribution.

A major drag on Q4 GDP was residential fixed investment (housing), which was down -26.7% after posting a -27.1% decline in Q3. *Housing subtracted 1.3 percentage points from the overall number.* The housing sector contracted during the last three quarters of the year and will likely weigh on GDP growth for much of 2023.

Second half GDP growth averaged a surprising +3.1% after contracting by an average of -1.1% in the first half of 2022, *although inventories and net exports have distorted the picture all year.*

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

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65% of U.S. economists (according to the most recent Bloomberg survey) expect a (mild) recession in 2023, but the forward momentum casts a bit of doubt, and will keep the FOMC in tightening mode through the first quarter.

In other news from this morning, the GDP price index fell from a +4.4% annualized rate in Q3 to +3.5% in Q4. This is yet another indication that inflation is receding, although the actual number turned out to be slightly above the +3.2% median forecast. Core PCE, another inflation indicator, slid from +4.7% to +3.9% during the quarter, matching the median forecast. Both price measures support a slower pace of Fed tightening going forward.

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Initial jobless claims (first-time filings for unemployment benefits) unexpectedly dropped to +186k for the week ending Jan 21st, the lowest weekly claims total since last April. Employers may sense an economic slowdown ahead, but are clearly reluctant to lay-off workers given how challenging it's been to find them. Fed officials are probably frustrated by the stubborn labor market resiliency, but this morning's number is unlikely to alter policy.

Durable goods orders for December were deceptively strong, with the headline number up +5.6%, more than double forecast. However, durable goods ex transportation actually fell -0.1%. The difference between the strong headline and weak ex transportation figure is a surge in aircraft orders, which are notoriously volatile.

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The futures market continues to indicate Fed officials will announce a scaled down 25 bp rate hike next Wednesday afternoon. It's unlikely this vote will be unanimous, as a number of committee members have been resolute in their belief that there is still considerable work ahead. The fact that the economy entered the new year on the heels of nearly +3.0% growth doesn't exactly scream recession ahead. However, GDP is inherently stale data and more forward-looking indicators signal an abrupt shift in 2023.

Market Indications as of 9:46 A.M. Central Time

DOW	Up 11 to 33,755 (HIGH: 36,800)
NASDAQ	Up 97 to 11,410 (HIGH: 16,057)
S&P 500	Up 21 to 4,037 (HIGH: 4,797)
1-Yr T-bill	current yield 4.67%; opening yield 4.63%
2-Yr T-note	current yield 4.17%; opening yield 4.12%
3-Yr T-note	current yield 3.88%; opening yield 3.82%
5-Yr T-note	current yield 3.59%; opening yield 3.52%
10-Yr T-note	current yield 3.49%; opening yield 3.44%
30-Yr T-bond	current yield 3.63%; opening yield 3.59%

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