Goodman Financial

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# JANUARY 2023 MARKET COMMENTARY

## EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks rallied hard in January to start off 2023 with a bang. The S&P 500 was up 6.3% and the Blended Equity benchmark was up 7.8% for the month, as the Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index climbed by 9.2% and 9.5%, respectively. The NASDAQ Composite Index rose by 10.7% for the month as growth stocks reigned supreme. International stock indices beat the U.S., with developed markets up 8.1% and emerging markets up 7.9% in January.

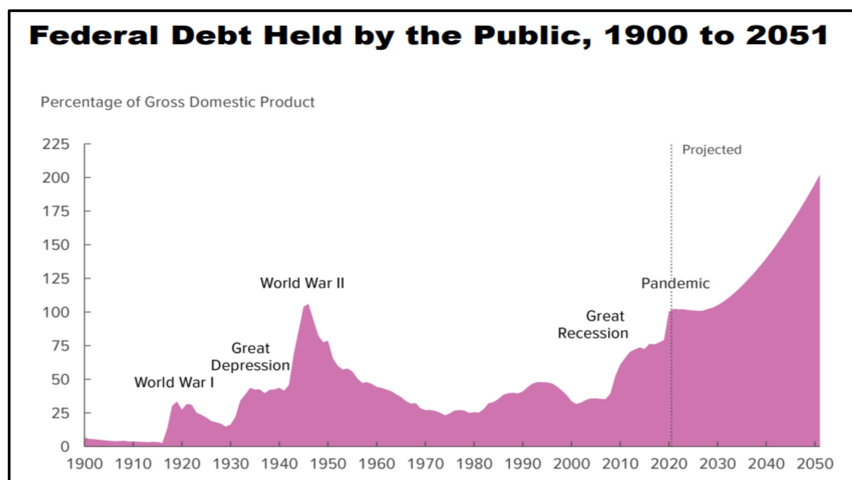
## HERE WE GO AGAIN: DEBT CEILING DRAMA

Chances are you have heard that the U.S. federal government is rapidly approaching its debt ceiling limit and once again needs to raise it. As background, Congress created the debt limit, or celing in 1917 (at $11.5 billion!), setting the maximum amount of outstanding federal debt the U.S. government can incur – much like a credit card limit. Unfortunately, the federal government has run fiscal deficits almost every year since then causing it to reach its debt limit numerous times (more than 100 times since WWII) and thus requiring congressional authorization to raise it – which Congress has done in every instance without fail. Failure to raise the debt limit would result in the eventual and unfathomable event of a debt default.

The reality is that over time, both political parties have played games of chicken during negotiations to raise the debt limit by attempting to extract a pound of political flesh before agreeing to raise the limit. Often times the party in control has a sudden epiphany of fiscal spending restraint, requiring spending cuts before agreeing to raise the limit – never mind these same politicians (of both parties) previously voted to approve fiscal deficits that got us here in the first place! All this would be funny if it weren't so sad.

There are always a number of temporary spending measures the federal government can make in order to push out the time to ultimate default, which only adds to the drama – and the always predictible "countdown to default" hyped by the media. Yet, as the sun rises without fail, so has ultimate congressional approval to raise the debt limit. This is where the drama of the exercise comes into place, inspiring our Commentary title this month. The drama in the meantime can be unsettling to investors, usually resulting in increased market volatility. There is no reason to think this time around will not be full of drama once again. If markets were to react negatively to this, we have some cash dedicated to future equity purchases ("dry powder") that we could utlize to take advantage of such an outcome were it to occur.

Finally, we leave you with the chart below courtesy of the non-partisan Congressional Budget Office (CBO), reflecting the U.S. debt-to-GDP ratio, a measure of a country's fiscal health. We are near ratios of debt-to-GDP approaching the highs post WWII – and getting worse, showing the country's current fiscal path is an unsustainable one. This is a topic of concern we have mentioned before and which we will discuss in more detail in a future Market Commentary or Newsletter.

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S&P 500 – market capitalization weighted index of 500 leading publicly traded companies in the U.S.
S&P Midcap 400 – index of 400 companies that broadly represent companies with a midrange market capitalization between $3.6 billion and $13.1 billion.
S&P Smallcap 600 – index of small-sized companies that meet specific liquidity and stability requirements defined by Standard & Poor's.