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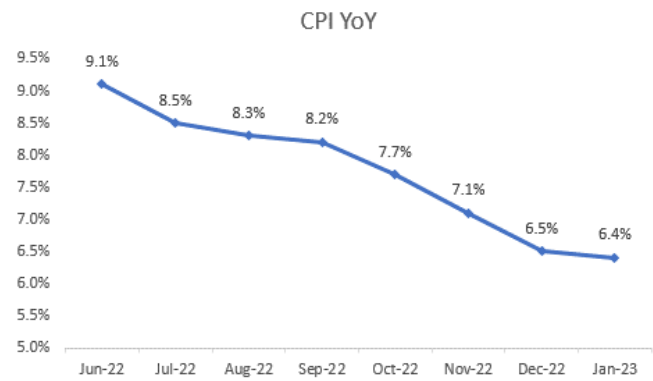
# Highland ReCAP

*A Review of Capital Markets*

## February 2023

### Summary

After kicking off the New Year with sizable gains, markets reversed course in February as inflation fears crept back into view and investor focus remained firmly fixated on the Fed. The January Consumer Price Index (CPI) reported above expectation at 0.5% rate month-over-month, fueled by an increase in shelter costs resulting from 2022's strong home price appreciation. While the 12-month CPI change continued to show a declining trend, the pace slowed from prior months. Paired with a tight employment market, inflation still looks to be a problem for markets battling rising interest rates and recession concerns.



### Equities

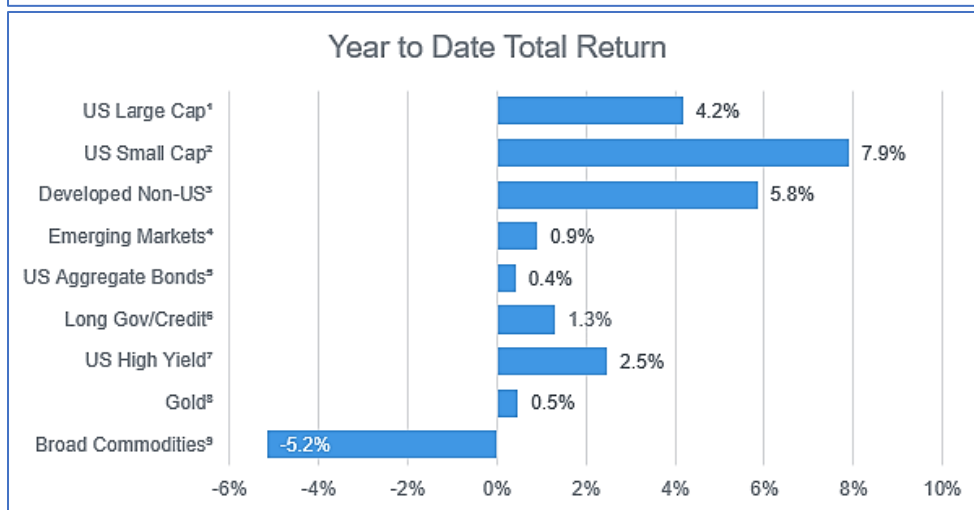
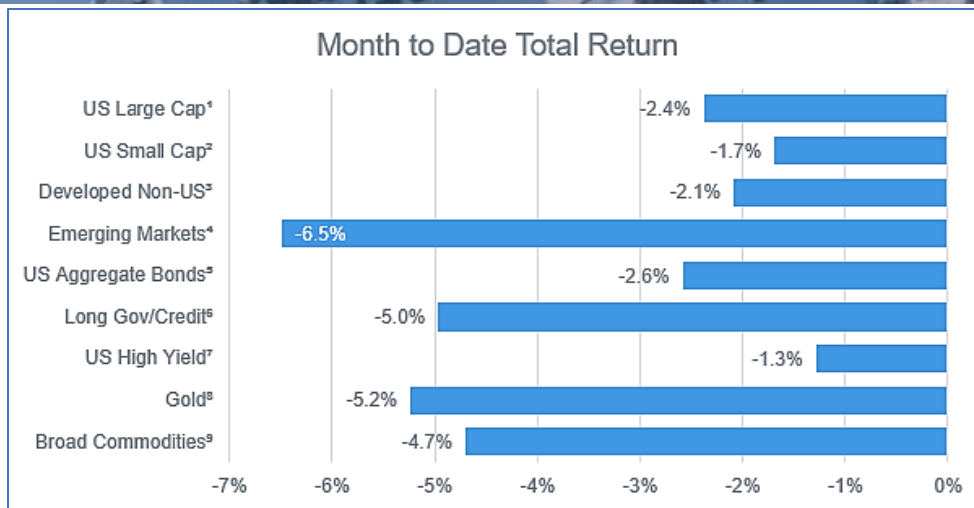
Global stocks fell in February, as equities faced the dual challenge of slowing economic growth and higher interest rates. While consumer spending has remained resilient, and overall earnings have been solid, forward outlooks have become increasingly dour with recession fears continuing to brew in the background. Employment numbers remained red-hot, stoking concern that wage pressure could continue to push inflation higher, dragging interest rates along for the ride. Emerging markets were hit hardest, while developed stocks declined modestly in the month.

### Fixed Income

On February 1st the Fed pushed through a widely anticipated policy rate hike of 25 basis points. At that point, with inflation falling for three consecutive months, and the economy on unsteady ground, forecasters expressed optimism that the current hiking cycle was winding down. Some economists see rate cuts as a possibility during the second half of 2023. January's CPI data bucked the recent trend and put a damper on those optimistic projections, with the year-over-year increase higher than expectations and only modestly lower than December's number. The 10-year Treasury, which traded below 3.5% at the onset of February, was approaching the 4% mark later in the month. Against this backdrop major fixed income indexes moved lower across the board in February, ceding a portion of January's price gains.

# Market Trends

As of February 28, 2023



	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap <sup>1</sup>	-2.4%	-1.9%	4.2%	-8.2%	11.9%	9.7%	12.1%
US Small Cap <sup>2</sup>	-1.7%	0.9%	7.9%	-6.0%	10.1%	6.0%	9.1%
Developed Non-US <sup>3</sup>	-2.1%	5.9%	5.8%	-3.1%	6.8%	2.6%	4.8%
Emerging Markets <sup>4</sup>	-6.5%	-0.5%	0.9%	-15.3%	1.0%	-1.9%	1.5%
US Aggregate Bonds <sup>5</sup>	-2.6%	0.0%	0.4%	-9.7%	-3.8%	0.5%	1.1%
Long Gov/Credit <sup>6</sup>	-5.0%	-0.1%	1.3%	-20.3%	-8.6%	0.1%	1.9%
US High Yield <sup>7</sup>	-1.3%	1.8%	2.5%	-5.5%	1.3%	2.9%	4.1%
Gold <sup>8</sup>	-5.2%	4.6%	0.5%	-4.0%	4.0%	5.7%	0.7%
Broad Commodities <sup>9</sup>	-4.7%	-7.5%	-5.2%	-4.7%	15.5%	5.3%	-1.6%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit  
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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# Disclosure Statements

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