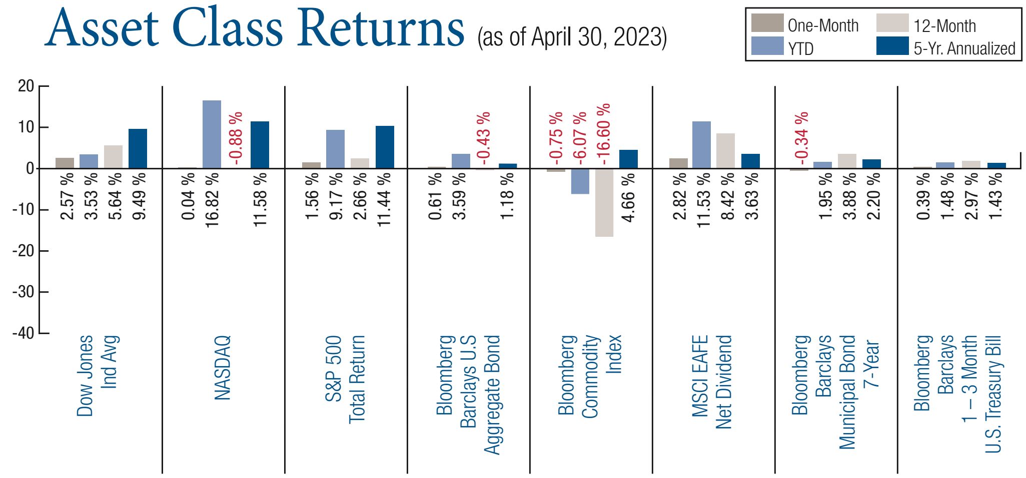
RAYMOND JAMES®

market update

From the Office of Jeff Sgroi, CFP®

"Success consists of going from failure to failure without loss of enthusiasm."
– *Winston Churchill*

Asset Class Returns (as of April 30, 2023)



Material prepared by Raymond James for use by its Financial Advisors

Market & Economic Synopsis

- As U.S. inflation cooled in April, the consumer price index rose by 4.9% year-over-year; the first sub-5% reading in two years.
- The four-week average of jobless claims reached ~242k in April which, excluding COVID, is its highest level since early 2018. Meanwhile, job openings fell below ~10M for the first time since May 2021.
- At the May FOMC meeting, the Fed raised rates by 25 bps, lifting the fed funds rate to a target range of 5.0 to 5.25%.
- While Federal Reserve Chairman Jerome Powell did not officially announce a pause during the FOMC press conference, this rate hike is possibly the last in the cycle provided there are no further inflationary surprises.
- First Republic became the second-largest bank failure in U.S. history on May 1st; most of its business was sold to JPMorgan Chase after the FDIC seized it. The bank suffered a run on deposits following the collapse of Silicon Valley Bank and Signature Bank.
- With the June 1st deadline approaching, the White House and Republicans in Congress are in a standoff over the debt limit.
- With the sharp reversal in index and sector performance from 2022 to the first quarter of 2023, the NASDAQ heavily outperformed and yielded strong returns.

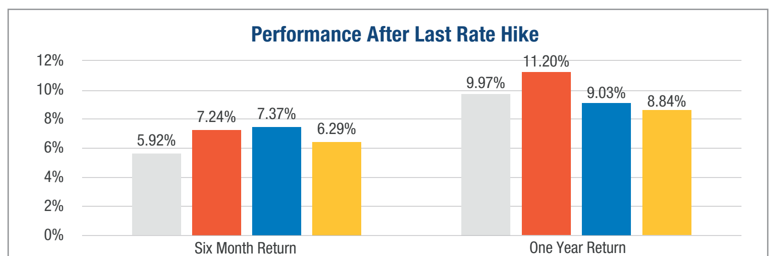
Market Update

At the moment, we have dueling matters captivating investor's attention – the Federal Reserve's next interest rate move, and the U.S. debt ceiling. Both situations could move the markets significantly, undoubtedly in either direction.

Will the Federal Reserve pause (or reverse) rate increases?

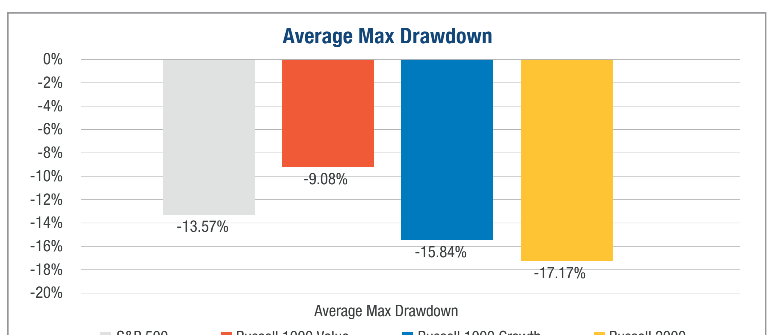
Since inflation began drifting higher in 2021, culminating with a peak year-over-year high of 9.1% in June 2022, the Fed has taken historically aggressive measures to combat rising prices. This headwind for both the equity and fixed-income markets caused investor pain in 2022, as markets reacted to higher rates accordingly. Higher interest rates generally lead to slower economic growth (i.e., recession), higher unemployment, and general market malaise. Eventually, something broke in the U.S. economy; that being three recent regional bank failures – Signature Bank, First Republic Bank and Silicon Valley Bank.

Although the Federal Reserve's mandate is to "promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates," many pundits claim they have a close eye on financial markets as well. We believe that the Fed's conclusion to a higher rate cycle will lead to higher asset prices, albeit with some fireworks in the meantime.



Source: Bloomberg, Putnam

Large cap and small cap stocks, as well as growth and value-oriented companies alike, have, on average, enjoyed consistently higher returns in both six- and twelve-month periods following the end of a Fed tightening (higher interest rate) cycle.



Source: Bloomberg, Putnam

Higher six- and twelve-month average returns do not occur without volatility. It is reasonable to expect a double-digit dip in the year following the final rate hike.

Given the sample set of the above returns being over nine distinct periods since 1980, where the Federal Reserve has raised rates, we believe this to be a compelling reason for optimism leading into the second half of 2023.

The U.S. Debt Ceiling – A Timely Q & A

As some of you may recall, the U.S. government teetered on the brink of default in 2011. To the surprise of many, though, reaching the debt ceiling, and Congressional acts to raise it, are a fairly common occurrence. Since 1960, Congress has raised the debt ceiling 86 times, 18 of those being under President Reagan's command.

What is the "debt ceiling"? It is a legislative limit on the maximum amount of money the U.S. Department of Treasury can issue to the public or other federal agencies. It was created in 1917, when Congress passed the Second Liberty Bond Act and restricted total federal debt.

What happens after we hit the debt ceiling? The government may be required to prioritize its obligations (payments). Since we are running at a deficit level, some obligators may not be paid in a timely manner.

Could the U.S. Treasury's credit rating be downgraded? Yes. In 2011, it dipped from a pristine AAA rating down one notch to a AA+ rating. In doing so, there was no meaningful, sustained price adjustment to Treasuries or similar securities.

What is the most likely outcome? An agreement is reached to raise the debt ceiling. This will take compromise on both sides, and likely be in exchange for future spending cuts. As Sir Winston Churchill famously noted, "The Americans will always do the right thing…after they have exhausted all the alternatives."

We thank our colleagues at Invesco and J.P. Morgan who have provided insightful data and responses to the above common questions regarding the debt ceiling and assure you we are monitoring this critical situation as intently as possible.

From the Officefront

We welcome Clayton Daniel to our office as an intern for the 2023 summer. Clayton is a graduate from Basalt High School ('22) and is attending Texas Tech University. Clayton will be working closely with Zach, Susan, and myself on various special projects and additional financial planning services our office is excited to offer. Please welcome Clayton if you happen to visit the office, or he grabs your phone call!

From the Homefront

We had a quick transition from hockey season to soccer and lacrosse for Lily and Hannah. The Colorado Extreme U10B hockey team completed an unforgettable winter on the ice with some epic games and battles in the Las Vegas Spring Showdown youth hockey tournament. The "Kicks" U10 girls' soccer team, which I am coaching, is on a tear. Once again, they are nearing an undefeated season and have competed in close matches against boys' teams in the same age bracket and U12 girls' teams. This spring the "Swarm" lacrosse team (4th & 5th grade girls) played in weekend-long tournaments in Grand Junction, Vail, and Carbondale, winning the most recent event. It's off to Steamboat, CO for Memorial Day weekend to wrap up the season. On an academic front, the girls will both be graduating from Basalt Elementary School the end of May – a bittersweet milestone to say the least!

Stella recently travelled to New Orleans with the Basalt Middle and High School Bands. In addition to performing at Jackson Square in the French Quarter, the group of 35 students toured The National WWII Museum, enjoyed a riverboat dinner cruise, and chased alligators during a swamp tour! Additionally, her 7th grade class took an outdoor education trip to Moab, hiking through Arches National Park and other nearby areas. I was fortunate to be invited to tag along, and chaperone both trips. Stella's hard work this year with Aspen Santa Fe Ballet will culminate in her spring recital this weekend.