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Quarterly Insights – April 2023

Markets started 2023 with strong gains in January, which were primarily driven by a continued decline in widely followed inflation indicators. That decline in price pressures was coupled with surprisingly resilient economic data, especially in the labor market. Those forces combined to increase investors' hopes that the Fed could deliver an economic soft landing, whereby the economy slows but avoids a painful recession while inflation moves close to the Fed's target. Additionally, corporate earnings for the fourth quarter of 2022, which were reported in January, were "better than feared" and the resilient nature of corporate America contributed to the growing hope that both an economic and earnings recession could be avoided. The S&P 500 posted strong gains in the month of January, rising more than 6%.

In February, growing optimism for an economic soft landing was delivered a setback, however, as economic data implied a still very tight labor market while the decline in inflation stalled. The January jobs report, released in early February, showed a massive gain in jobs, implying that the labor market will remain extremely tight (something the Fed believes is contributing to inflation). Later in the month, widely followed inflation metrics such as CPI and the Core PCE Price Index showed minimal further price declines, implying that the drop in inflation that had powered the gains in stocks was ending. The strong economic data and a leveling off of inflation metrics led investors to price in substantially higher interest rates in the coming months, and that weighed on both stocks and bonds in February. The S&P 500 finished with a modest loss on the month, falling just over 2%.

The final month of the first quarter began with investors still focused on inflation and potential interest rate hikes, but the sudden failure of Silicon Valley Bank, at the time the 16th largest bank in the United States, shifted investor focus to a potentially growing banking crisis. Signature Bank of New York failed just days later, and concerns about a regional banking crisis surged. In response, the Federal Reserve and the Treasury Department created new lending programs aimed at shoring up regional banks and preventing bank runs but concerns about the health of the financial system persisted and those fears weighed on markets through the middle of March. However, while the Federal Reserve hiked interest rates again at the March meeting, policy makers signaled that they are very close to ending the current rate hike campaign. That admission, combined with no additional large bank failures, eased concerns about a growing banking crisis, and the S&P 500 was able to rally during the final two weeks of March to finish the month with a small gain.

US Equity Indexes	Q1 Return	YTD
S&P 500	7.50%	7.50%
DJ Industrial Average	0.93%	0.93%
NASDAQ 100	20.77%	20.77%
S&P MidCap 400	3.81%	3.81%
Russell 2000	2.74%	2.74%

Source: YCharts

US Bonds also had positive returns in the first quarter due to lower inflation expectations and lower bond yields.

US Bond Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	2.96%	2.96%
BBgBarc US T-Bill 1-3 Mon	1.09%	1.09%
ICE US T-Bond 7-10 Year	3.55%	3.55%
BBgBarc US MBS (Mortgage-backed)	2.53%	2.53%
BBgBarc Municipal	2.78%	2.78%
BBgBarc US Corporate Invest Grade	3.50%	3.50%
BBgBarc US Corporate High Yield	3.57%	3.57%

Source: YCharts

Second Quarter Market Outlook

Markets begin the new quarter facing multiple sources of uncertainty including the path of inflation, future economic growth, the number of remaining Fed rate hikes, and whether the regional banking crisis is truly contained. Yet despite all this uncertainty, markets have proven resilient over the past six months since hitting their lows in October of 2022. So, while headwinds remain in place and markets will likely stay volatile, there remains a path for future positive returns.

Starting with the regional banking crisis, despite consistent comparisons in the financial media between what happened in March and the 2007-2008 financial crisis, there are important differences between the two periods and regulators have already demonstrated their commitment to ensuring we do not experience a repeat of those difficult days. As we begin the new quarter, there is reason for hope this crisis has been contained. But regardless of whether that's true, regulators and government officials have proven they are ready to use current tools (or create new ones) to prevent a broader spread of the regional banking crisis, and that's an important, and positive, difference from 2008.

Looking past the regional bank crisis, inflation remains a major longer-term influence on the markets and the economy, and whether inflation resumes its decline this quarter will be very important for investors and the markets. More specifically, the decline in inflation somewhat stalled in February and March but if the decline in inflation resumes in the second quarter that will provide a powerful tailwind for both stocks and bonds.

Regarding economic growth, markets rallied on the hope of an economic soft landing earlier in the first quarter, and while the regional banking crisis complicates that optimistic outlook, it is still possible. To that point, employment, consumer spending and economic growth more broadly have remained impressively resilient, so while we should all expect some slowing in the economy this quarter, a recession is by no means guaranteed. If the economy achieves a soft landing that will be a material positive for risk assets.

Finally, after one of the most intense interest rate hike campaigns in history, the Fed has signaled that it is close to being done with rate increases, and that will remove a material headwind on the economy. As long as that expectation for a looming end to rate hikes does not change, it'll increase the chances that the economy can achieve the desired soft landing.

To be sure, this remains a tumultuous time in the markets. Investors are facing the highest interest rates in decades, the worst geopolitical tensions in years, and a very uncertain economic outlook that deteriorated in the wake of recent bank failures. But while concerning, it's important to realize that underlying U.S. economic fundamentals and U.S. corporate earnings proved incredibly resilient through the first quarter. And those two factors, steady economic growth and strong earnings, are the real long-term drivers of market performance, not the latest disconcerting geopolitical or financial headlines.

As such, we are prepared for continued volatility and are focused on managing both risks and return potential. We understand that a well-planned, long-term-focused, and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including bank failures, multi-decade highs in inflation, high interest rates, geopolitical tensions, and rising recession risks.
At Zick Whitted Taub Investment Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

Allen Zick, CFP®	Brad Whitted, CPFA	Alex Taub, CRPC®
Financial Advisor	Financial Advisor	Financial Advisor

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