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SMART AND STEADY

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Markets Show Resilience to Start 2023

The S&P 500 ended the first quarter of 2023 with a solid gain as hopes for an economic "soft landing" and the Fed signaling that their historic rate hike campaign is coming to an end helped offset two rate increases and the biggest bank failures since the financial crisis.

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.

In sum, markets were impressively resilient in the first quarter as a looming end to rate hikes, further declines in inflation and quick and effective actions by government officials in response to regional bank failures helped shore up confidence in the banking system. Stocks and bonds both logged modest gains in Q1, despite the threat of a regional banking crisis and still-elevated market volatility.

First Quarter Performance Review

The first quarter of 2023 saw a sharp reversal in index and sector performance compared to 2022. On an index level, the Nasdaq (which badly underperformed in 2022) handily outperformed in the first quarter and finished with very impressive returns. That outperformance was driven by a decline in bond yields (which makes growth-oriented tech and consumer companies more attractive to investors) and as mega-cap tech companies such as Apple, Alphabet, Amazon and others were viewed as "safe havens" amidst the late-quarter banking stress. The S&P 500, with its heavy weighting to tech, finished the quarter with a solidly positive return while the Dow Industrials and Russell 2000 logged more modest, but still positive returns through the first three months of the year.

By market capitalization, large caps outperformed small caps, as they did throughout 2022. Concerns about funding sources, should the banking crisis worsen, and higher interest rates weighed on small caps as smaller companies are historically more dependent on financing to maintain operations and fuel growth.
From an investment style standpoint, growth handily outperformed value which is a sharp reversal from 2022. Tech-heavy growth funds benefited from the aforementioned decline in bond yields and a late-quarter "flight to safety" amidst the regional banking crisis. Value funds, which have larger weightings towards financials, were weighed down by concerns about a potential broader banking crisis.

On a sector level, seven of the 11 S&P 500 sectors finished the first quarter with a positive return. Notably, the three top performers from the first quarter were the three worst performing sectors in 2022.

Communication services was one of the best performing sectors in the first quarter thanks to strong gains from internet-focused tech stocks, as lower rates and the rotation to mega-cap tech companies pushed the sector higher. The technology sector also clearly benefitted from those two trends, as it rose slightly more than the communications sector in Q1. Finally, consumer discretionary, which has larger weightings towards tech-based consumer companies such as Amazon and others, also logged a solidly positive gain thanks to the same general tech stock outperformance and as the labor market remained more resilient than expected, improving the prospects for consumer spending in the months ahead.

Turning to the laggards, the financial sector was the worst performer in the first quarter as the regional banking crisis weighed on bank stocks and financials more broadly. Energy also logged solid declines through the first quarter as growing concerns about global economic growth and subsequent weakness in consumer demand weighed on energy stocks. More broadly, the remaining S&P 500 sectors saw small quarterly gains or losses, as there remains a lot of uncertainty about future economic growth and earnings and the banking stresses that emerged in March will only add an additional headwind on economic growth.

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

Internationally, foreign markets largely traded in line with the S&P 500 in the first quarter and realized positive returns. Foreign developed markets outperformed the S&P 500 through the first three months of the year as economic data in Europe was better than expected and European banks were viewed as mostly insulated from the U.S. regional bank crisis. Emerging markets logged slightly positive returns through March but underperformed the S&P 500 thanks to still-elevated geopolitical stress, as U.S.-China tensions rose following the Chinese spy balloon affair.

Commodities saw sharp declines in the first quarter thanks mostly to the notable weakness in oil prices, which hit fresh 52-week lows. Oil fell during the first quarter on rising global recession worries and subsequent reductions in demand expectations, while geopolitical risks didn't rise enough to offset those demand concerns. Gold, however, posted a solidly positive return as investors moved to the yellow metal as a store of value amidst the regional banking stress.

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a positive return for the first quarter of 2023, although bonds were volatile to start the year. The Fed signaling an imminent end to rate hikes combined with concerns that the regional banking crisis would raise the odds of a recession, fueled a broad bond market rally in the first quarter.
Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations in the first quarter, as bond investors welcomed further declines in inflation and reached for long-term yield amidst an uncertain outlook for future economic growth.

Turning to the corporate bond market, higher-quality investment grade bonds and higher-yielding, "junk" rated corporate debt registered similarly positive returns in the first quarter. Investors moved to both types of corporate debt following declines in inflation and as corporate earnings results were largely better than feared.

<u>Second Quarter Market Outlook</u>

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.

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 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.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Our second enclosure is a piece from Brian Wesbury from First Trust Advisors discussing possibility of the dollar losing its status as the primary reserve currency.

Enclosure #3 – Our last enclosure is something a little new. We will be hosting a blog on our website – www.weisswealthmanagement.com – that will be updated regularly. We will be running the occasional blog post as an enclosure to show TWR readers what they can expect to see in the blog. If there's a specific topic you'd like to see us cover, please let us know! Our first post is about the recent changes to Required Minimum Distributions (RMDs).

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

APRIL 2023

THEMES

Lost in the Numbers: Where Did the Workers Go?

Labor force participation refers to the percentage of the population who are either employed or actively seeking employment. Overall, labor force participation has declined in the US over the past several decades. Labor force participation for men has been steadily declining since the 1960s, and only the staggering number of women joining the workforce has allowed labor force participation to increase over the years. Labor force participation peaked at 67.3% in 2000, when women's participation also peaked, and steadily declined until 2015, when real wages and salaries seemed to have worked their magic to bring more individuals into the labor force. That is, higher real wages incentivized workers to join the workforce and brought labor force participation up slightly. The COVID-19 pandemic caused a significant drop in labor force participation, we are still 0.8% lower than what it was pre-pandemic, so where did all these people go?

Competition and Conflict: Market Impacts of Rising Geopolitical Risk

Markets are navigating a new global era. US-China tensions, COVID, and the war in Ukraine have highlighted that geopolitical risks are on the rise and becoming a more prominent part of the macro investment decision-making process. February 24 marked one year since Russia's invasion of Ukraine, prompting policymakers and investors to take stock of how the conflict has progressed, how it could begin to wind down, and what risks remain. The COVID-19 pandemic exposed domestic capability/ production gaps, increasing focus on resiliency (and changing US industrial policy). The US-China relationship has raised concerns about a 'new Cold War' and a decoupling of the world's two largest economies. These national security issues have been increasingly difficult for investors to manage and deserve continued attention.

Debt Ceiling Primer

The debt ceiling is back in the spotlight after the US government hit its statutory borrowing limit earlier this year. While there are steps the government can take to continue paying its obligations, these measures only extend for a limited amount of time. Unless policymakers can agree to raise, suspend, or eliminate the debt limit soon, the government could run out of cash to pay its bills as early as this summer. Failure to reach an agreement would have serious economic consequences, including the risk that the US government defaults on its debt. The stakes are high, and it appears likely that our deeply divided government is headed for another debt-ceiling showdown. Divided governments have typically been good for the markets; however, they often spell trouble when it comes to negotiating fiscal matters.

Q&A: Earnings, And Multiples, and Performance, Oh My

The Price-to-Earnings (P/E) multiple is a key valuation metric in equity market analysis: a company's share price compared to its earnings per share. Despite predicted downside for earnings in the months ahead, we believe the Federal Reserve (Fed) will be successful in its battle against inflation and that P/E multiples will expand by year-end 2023. This will be the driver of higher equity markets. However, much depends on the path of inflation, Fed policy, and the economy.

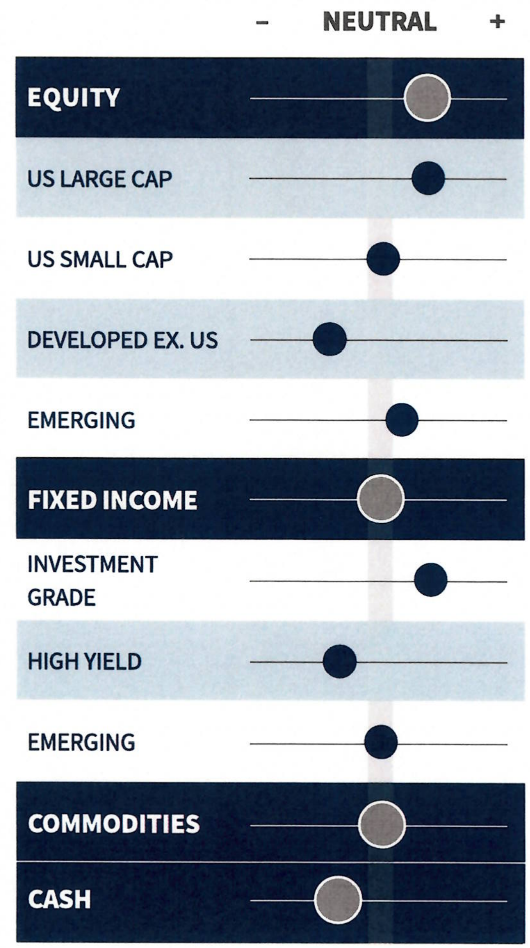
Economic Snapshot

Economic Indicator

NEUTRAL	GROWTH
	EMPLOYMENT
	CONSUMER SPENDING
	BUSINESS INVESTMENT
	INFLATION
	LONG-TERM INTEREST RATES
	FISCAL POLICY
	THE DOLLAR
	REST OF THE WORLD
UNFAVORABLE	MANUFACTURING
	HOUSING AND RESIDENTIAL CONSTRUCTION
	MONETARY POLICY

Eugenio J. Alemán, PhD
Chief Economist, Raymond James

Tactical Outlook



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

For more information, refer to the full Investment Strategy Quarterly.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

APRIL 2023

Capital Markets Snapshot

EQUITY	AS OF 3/31/2023	1Q 2023 RETURN**	12-MONTH RETURN**
DOW JONES INDUSTRIAL AVERAGE	33,274.15	0.38%	-4.05%
S&P 500 INDEX	4,109.31	7.03%	-9.29%
NASDAQ COMPOSITE INDEX	12,221.91	16.77%	-14.05%
MSCI EAFE INDEX	1,314.61	8.62%	-0.86%
RATES	**AS OF 3/31/2023**	**AS OF 12/31/2022**	**AS OF 3/31/2022**
FED FUNDS RATE TARGET RANGE	4.75-5.00	3.75-4.00	0-0.25
3-MONTH LIBOR	4.87	4.30	0.29
2-YEAR TREASURY	4.06	4.42	2.29
10-YEAR TREASURY	3.49	3.88	2.32
30-YEAR MORTGAGE	6.32	6.42	4.67
PRIME RATE	8.00	7.50	3.50
COMMODITIES	**AS OF 12/31/2022**	**4Q 2022 RETURN**	**12-MONTH RETURN**
GOLD	$1,986.20	8.76%	1.65%
CRUDE OIL	$75.67	-5.72%	-24.54%

*Price Level
**Total Return

Sector Snapshot

	SECTOR	S&P WEIGHT
OVERWEIGHT	HEALTH CARE	14.5%
OVERWEIGHT	FINANCIALS	13.0%
OVERWEIGHT	CONSUMER DISCRETIONARY	10.0%
OVERWEIGHT	COMMUNICATION SERVICES	8.1%
EQUAL WEIGHT	INFORMATION TECHNOLOGY	25.8%
EQUAL WEIGHT	INDUSTRIALS	8.7%
EQUAL WEIGHT	ENERGY	4.5%
EQUAL WEIGHT	MATERIALS	2.6%
EQUAL WEIGHT	REAL ESTATE	2.5%
UNDERWEIGHT	CONSUMER STAPLES	7.3%
UNDERWEIGHT	UTILITIES	2.9%

First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist
Bryce Gill – Economist

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How to Lose Reserve Currency Status

History is full of economic and societal collapses. The Incan and Roman societies disappeared, the Ottoman Empire fell apart, the United Kingdom saw the pound lose its reserve currency status. So, anyone who says the US, and the dollar, couldn't face the same fate doesn't pay attention to history.

The question is: will it? Russia, China, Brazil, and others, including Saudi Arabia, all seem to think they can find a way to replace the dollar and undermine US dominance on the world economic stage.

They may try. And they may cause many to fret, but we highly doubt these countries will succeed. In order to understand why we think this, it is important to understand the ascendance of America. In the late 1700s, the US was a patchwork of colonies barely clinging to the Atlantic Seaboard.

But it wasn't victory in the revolutionary war that made America strong, it was the writing of the Constitution and the culture that created that Constitution. The rule of law, private property rights (especially to inventors through patents), democracy (and free elections) made America different and ushered in two centuries of supercharged human progress.

While the US ran up large debts to fight wars, it managed to grow its way out. At the same time, our monetary system kept the value of the dollar fairly strong and stable relative to other currencies. The combination of all of this led to deep and robust capital markets, and a dominant 60% representation by the dollar in foreign currency reserves and nearly 90% of global financial transactions.

If the US reverses course, printing too many dollars, undermining entrepreneurship with high taxes and regulations and growing government too much, then the dollar's standing will diminish. Clearly, we are on that path today. Federal government spending has reached an all-time high of 25% of GDP in the past three years, state and local spending is near 20%...so, combined, government controls 45% of US output.

As Milton Friedman said, the more the government is involved, the higher the price of things and the lower the quality. More importantly, for the dollar, the Federal Reserve has embarked on an experimental "abundant reserve" monetary policy that has flooded the financial system with more liquidity relative to GDP than at any time in US history. In 2007, the Fed's balance sheet was 5% of GDP, today it is more than 30%.

Massive government involvement in the economy, combined with excessive money creation is a perfect recipe for the decline of a currency. But, before you become convinced that this will happen to the US anytime soon, think about what might replace the dollar. It would have to be a currency managed by a country that had better policies.

What made America strong is not its natural resources (which it definitely has), but its human resources and freedom. China, Saudi Arabia, and Russia may have resources, but they are not free. It will not be any of these countries that replaces the dollar and it is highly unlikely to happen in our lifetimes. However, that's not to say it won't happen in our children's lifetimes. Bad policies beget bad outcomes. King Dollar will only stay that way if the US keeps its fiscal and monetary house in order. Limiting government spending, keeping tax rates low, and returning to a "scarce reserve" monetary policy are our suggestions.

The problem we see is that politicians have used the last two "crisis" periods to expand the size and scope of government, not shrink it. With government so big, we are likely to face another crisis. It's past due time to head that off.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-12 / 7:30 am	CPI – Mar	+0.2%	**+0.2%**		+0.4%
7:30 am	"Core" CPI – Mar	+0.4%	**+0.4%**		+0.5%
4-13 / 7:30 am	Initial Claims – Apr 8	235K	**233K**		228K
7:30 am	PPI – Mar	0.0%	**+0.1%**		-0.1%
7:30 am	"Core" PPI – Mar	+0.2%	**+0.3%**		0.0%
4-14 / 7:30 am	Retail Sales – Mar	-0.4%	**-0.4%**		-0.4%
7:30 am	Retail Sales Ex-Auto – Mar	-0.4%	**-0.3%**		-0.1%
7:30 am	Import Prices – Mar	-0.1%	**+0.1%**		-0.1%
7:30 am	Export Prices – Mar	0.0%	**+0.1%**		+0.2%
8:15 am	Industrial Production – Mar	+0.2%	**+0.4%**		0.0%
8:15 am	Capacity Utilization – Mar	79.0%	**79.4%**		79.1%
9:00 am	Business Inventories – Feb	+0.3%	**+0.3%**		-0.1%
9:00 am	U. Mich Consumer Sentiment - Apr	62.2	**62.0**		62.0

How Does the New RMD Rule Affect Retirees?

There's good news for your retirement plan! Starting this year, the age at which you *must* start taking required minimum distributions (RMDs) from your tax-deferred retirement accounts has increased from 72 to 73 years old. In 2033, it will increase again to age 75.

This new rule was passed into law by Congress at the end of 2022 as part of the SECURE Act 2.0. The Act implements several changes to retirement planning for individuals and employers alike, including increased limits on retirement account catch-up contributions for older individuals, as well as minimizing penalties for early withdrawals for people impacted by natural disasters and other emergency expenses.

Congress last raised the RMD in 2019, when SECURE Act 1.0 raised the age to 72, after holding steady at 70½ for more than 40 years.

The RMD rule change means that the savings in your 401(k)s and traditional IRAs can grow longer — giving you more opportunity to take advantage of compounding returns — before you must begin drawing down your account.

Here is a brief introduction on what to expect from RMD policy changes, and how they may impact your retirement plan strategy.

What is an RMD?
Retirement savings in 401(k)s and traditional IRAs grow tax-deferred and are taxed upon withdrawal. The government wants to safeguard against individuals using their retirement plans to avoid taxes, so they require you to withdraw money from your accounts after you reach age 73.

RMDs are determined each year by calculating the value of your retirement account and current life expectancy, and they will vary from person to person. The RMD amount will also vary each year, depending on the size of your account holdings and the most recent life expectancy factor published in the IRS' Uniform Lifetime Table on December 31rst of each year.

Your RMD is the minimum amount you must withdraw each year, but you are able to withdraw more than that if needed. And though your annual RMD can be withdrawn in a lump sum, you can also opt to space out disbursements each month or over quarterly payments.

While the RMD rule change provides an opportunity for you to grow your savings, one potential downside is that larger retirement accounts will lead to higher RMDs and result in greater tax liability. Your financial advisor can help you explore strategies to limit taxes, such as rolling over a traditional IRA to a Roth IRA with tax-free withdrawals.

Why are RMD policies changing?
Average life expectancy in the U.S. is currently 76 years, according to the Centers for Disease Control and Prevention.[1] This is an increase since the 1970s when RMDs were first implemented and life expectancy was 72 years.

Because people are living longer, and in some cases retiring later, a delayed RMD can mean the potential to make your retirement funds last longer.

What happens if I don't take my RMD?
Failure to make your required minimum distribution results in an excise tax on those funds. Until last year, the tax penalty was 50% of that year's RMD. Another provision of the SECURE Act 2.0 reduces that penalty significantly to 25% — and while the penalty reduction is good news for retirees, it's still a steep cost you'll want to avoid.

Regardless of when you're planning to retire, calculating your estimated RMD is a key component of your retirement financial planning strategy. We can help you create a forecast so you will know how much income to expect in your retirement, how to plan for tax efficiency, and how to avoid unnecessary penalties. Please contact the office if you'd like to schedule a conversation on RMDs.

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[1] Centers for Disease Control and Prevention, "Life Expectancy in the U.S. Dropped for the Second Year in a Row in 2021," 2022.