MARKET REVIEW & OUTLOOK

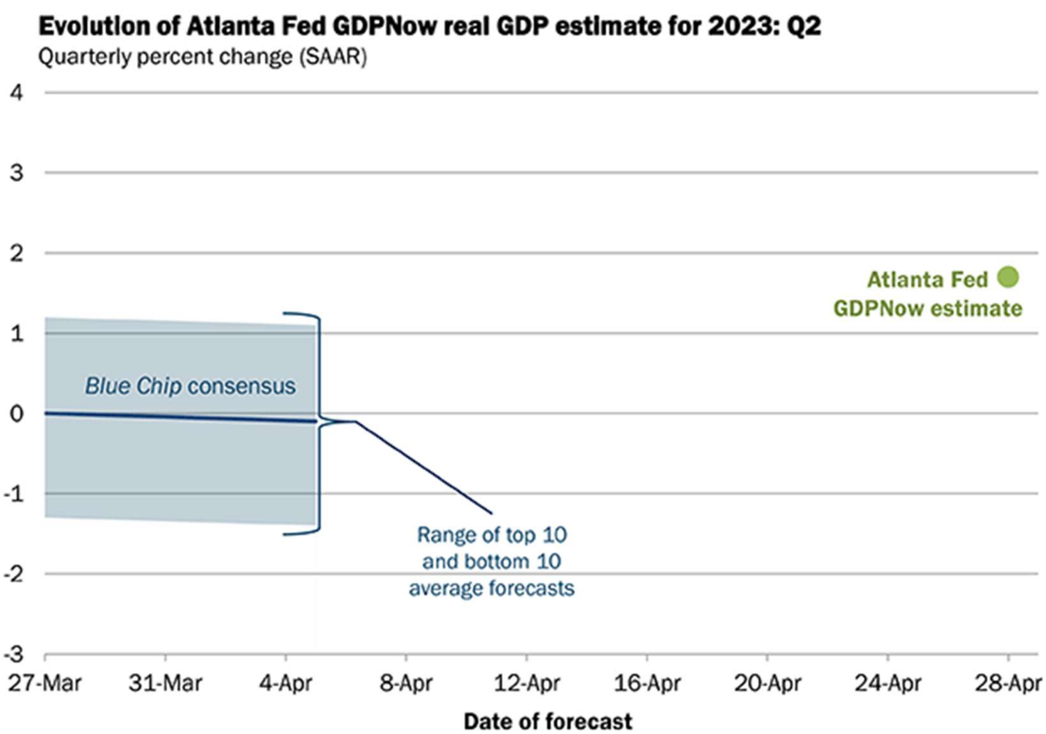
APRIL 2023

KEY TAKEAWAYS

- The markets seemed stuck the first 3 weeks of the month, trading in a very narrow range. Tuesday and Wednesday saw a "big" selloff, that was met with an even "bigger" rally Thursday and Friday.
- The bond market also seemed asleep at the wheel, waiting for the Fed meeting on Wednesday May 3rd?
- Crude oil had the big pop to start the month with OPEC+ cuts and spent the month unwinding those gains.

The U.S. Economy

The first report for 1st quarter GDP came in at just 1.1%, generally matching expectations, but a far cry from the near 3% expectations at the beginning of the month. Further, the core PCE, the imbedded inflation measure, rose again to 4.9% not the combination we were looking for. Now that the 1st quarter is behind us, the first look at the 2nd quarter GDP from GDPNow is for more of the same, in the 1% growth range, while the Blue-Chip consensus is just below 0%, as shown in the chart below. The Fed is facing firming inflation, a "middling" economy. Is this the beginning of stagflation? The Fed's tight rope just keeps getting narrower.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

Interest rates continued lower to start the month on hopes of easing inflationary pressures. However, as the data continued coming in it suggested inflations descent has slowed and the pace of economic growth has also slowed, but still showing growth. This seems to have both the bond and stock markets baffled as to what the Fed will do next. For most of the month we saw prices trade in a tight range with low, summerlike, volume. Volume and volatility picked up near the end of the month as a large number of companies reported earnings, with Mega Tech strong and continuing to drive gains. The 10-year yield again hit its low just under 3.30%, early in the month, before settling into a range of 3.45 – 3.60%. The fear of inflation continues along with some hawkish Fed speeches, but the economic data is generally suggesting the best growth of this cycle is likely behind us. This has seemingly led to a stalemate between bulls and bears, with neither side ready to make a stand of what the Fed will do Wednesday. The modest decrease in yields created a constructive environment for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF gained +1.25% for the month. The U.S. 10-year Treasury bond yield ended the month at 3.45%, nearly unchanged from March's close of 3.49%.

The Dow Jones Industrial Average rallied +2.48%, the S&P 500 rose +1.46%, and the small cap Russell 2000 lost -1.86%. The international markets traded relatively in line with the Large Cap U.S. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +5.58%, and the MSCI Emerging Markets iShares Core ETF Index increased +0.94%.

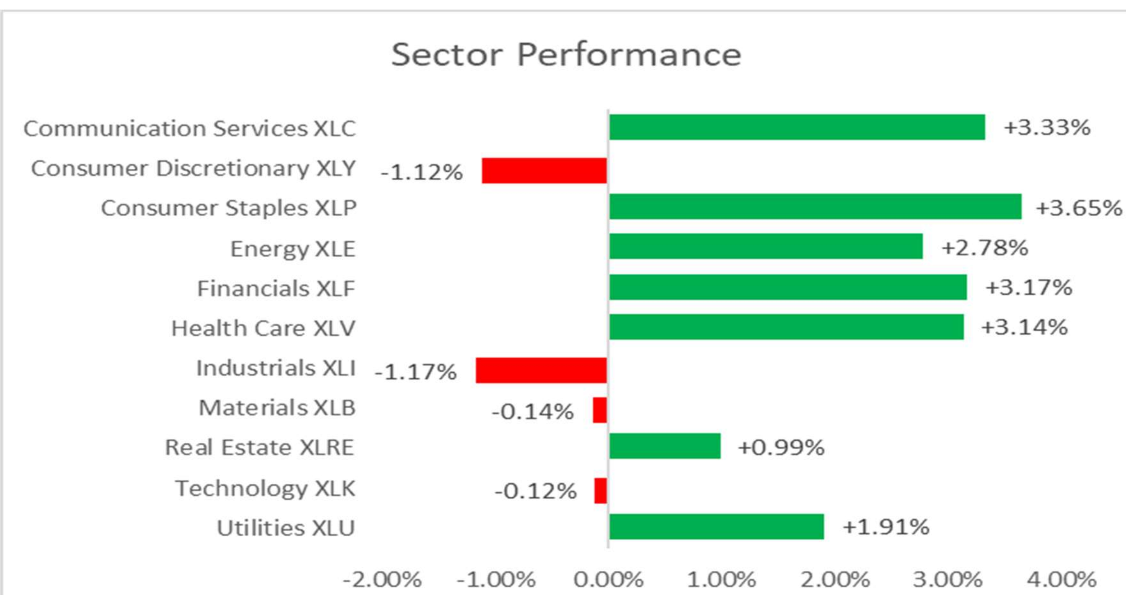
April's performance was tilted positive, but fairly muted.

The best performers were…

- Consumer Staples: +3.65%
- Communication Services: +3.33%
- Financials: +3.17%

The worst performers were…

- Industrials: -1.17%
- Consumer Discretionary: -1.12%
- Materials: -0.14%



Source: https://www.morningstar.com

Oil Report

The oil market started the month with a bang, when the Sunday before the cash markets started trading, OPEC+ announced additional production cuts. The reasons stated were that demand was waning, the not spoken reason was the Biden Administration reneging on the promise to buy back crude when the price was under $72, to replenish the SPR. So far, the response from the Biden Administration has been to sell off more of the SPR. The market spent the month digesting the news, which saw the $5 pop reversed in full by month end. The current NYMEX WTI Crude Oil futures settled at $76.63 posting a gain of just over 1% from the prior month's close of $75.67 a barrel. The rally in crude oil was a tailwind the first half of the month for RBOB gasoline, but demand concerns overwhelmed the optimism and RBOB gasoline finished with a loss of almost 6% vs March's close. The current 5-months of range bound trading, looked like it had an excuse to break out to the top side, but like last months false breakdown, this month lead to a false break out, leaving the market in balance, as we continuing to await a sustained catalyst to keep prices out of the current range.

The Rest of the Data

The March ISM Manufacturing Index decreased to 46.3 from February's reading of 47.7. Additionally, the ISM Services Index dropped to 51.2 in March, from February's print of 55.1. The prices paid component for Services eased further and now is at modestly elevated levels and Manufacturing prices remained neutral. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. Consumer confidence decreased to 101.3 in April, which compares to a downwardly revised figure of 104.0 in March. The unemployment rate declined to 3.5%, and the economy added a solid 236,000 jobs in March, which beat expectations, for the 11th month in a row, of 230,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) eased further from last month's pace to 0.1% in March, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate further eased to +5.0% on a non-seasonally adjusted basis, which matched expectations. The CPI ex Food and Energy, rose modestly to 5.6% over the last year, just above last month's rate of 5.5%. The economy is showing signs of slowing, but so far nothing dramatic. On the other hand, inflation is showing signs of stabilization at a rate far above the Fed's stated target of 2%. We will continue to monitor economic activity along with inflation reports and now bank run concerns and how that may impact Fed policy.

Summary

The markets across many asset classes all seem to be uncertain as to the next move, which is likely largely predicated on Fed announcements. The market participants currently seem to believe there are equal arguments for the Fed to continue to raise interest rates and hold at a higher for longer level against the future concerns about the economy leading to Fed rate cuts. The saying goes, the move out of a long consolidation is often large. Of course, the other saying is that the first move out of a long consolidation is often a false move. So, either way, it seems likely that we will see a lot of price movement once we move. Will Wednesday's Fed meeting be a sustained catalyst, or will it leave market participants still scratching their heads wondering which way it will go in the coming months and quarters? If the best thinkers on Wall Street can't figure it out, I am certainly not going to wager a guess either. 😊 As we pointed out, the month of April had no scheduled Fed meetings, which seemed a good excuse to take the month off and go to the beach. The incoming data largely was uneventful, let’s see if we are still saying that after the May 3rd Fed announcement.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients’ portfolio in concert with the clients’ risk tolerance and long-term goals. The markets will always face different “worries”, today it is inflation/war vs. waning growth expectations, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. The late March market strength carried on long enough into April that the Mid-Cap shifted back to equity. The tactical Fixed Income allocation remains defensively positioned in Intermediate Treasury bonds.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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