INVESTMENT OVERVIEW

for the quarter ending March 31, 2023

Equities in Review

The global equity markets gained ground in Q1 despite the volatility and fear caused by the mid-March Silicon Valley Bank failure. Increased expectations that the Federal Reserve may stop hiking rates soon was the primary impetus behind the moves higher. With thoughts switching to interest rates being stable or even dropping by year-end, growth stocks returned to favor, while value stocks lagged. This trend was a reversal of 2022, when growth stocks led the move down to more traditional valuations. The wide differences between the movements in growth and value stocks reinforces why we do not attempt to time the markets.

Foreign stocks also performed well as Eurozone inflation declined to a one-year low in March. Like here in the US, foreign financial stocks were volatile, as troubled banking behemoth Credit Suisse had to be rescued by UBS. However, by the end of the quarter, investors seemed to shrug this off as a contained incident unlikely to ripple through the sector.

Higher yields in the debt market continue to provide investors with alternatives to equities in the form of higher yielding bonds.

Following are the quarterly, year-to-date, and 5-year average returns for the three equity indexes that we track:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
S&P 500	Large cap stocks	+7.5%	+7.5%	+11.2%
Russell 2000	Small cap stocks	+2.7%	+2.7%	+ 4.7%
MSCI World (excluding US)	Foreign stocks	+6.9%	+6.9%	+ 2.5%
Weighted Index Benchmark*	Diversified Equities	+6.4%	+6.4%	+ 8.2%

**The Index weighting is 60% S&P 500 Index, and 20% each Russell 2000 Index and MSCI World (excluding US) Index.*

Other Important Data

For the 12 months ending March 31, 2023, the consumer price index (CPI) inflation measure increased 5.0% compared to the prior 12 months. This increase was the smallest 12-month increase since May 2021. For comparison purposes, the CPI increased 6.5% for the 12 months ending December 31 and 8.5% for the 12 months ending September 30, 2022. This data suggests the Federal Reserve's aggressive rate hiking strategy is having the desired effect of slowing inflation.

The spread on the yield curve (the difference in yield between the 1-Year and 30-Year Treasury bond) has often been a reliable leading indicator of the likelihood of recession. During the first quarter, the spread fell further to -0.97%. This "negative spread" represents an inversion of the yield curve which occurs when shorter-term bonds offer higher yields than longer-term bonds. This phenomenon has frequently preceded a recession, which has led many pundits to predict a recession is coming.

The spread on the yield curve at the end of the past six quarters (as shown in the list below) continues to trend in a negative direction (six straight quarters of steepening inversion). This is the result of investors locking in longer-term bonds at lower yields than shorter-term bonds, while the Fed continues raising rates on the short end. We will continue watching both the Fed and longer-term yields, which are determined by market forces.

- March 31, 2023 (0.97%)
- December 31, 2022 (0.76%)
- September 30, 2022 (0.26%)
- June 30, 2022 0.34%
- March 31, 2022 0.81%
- December 31, 2021 1.51%

Equities Looking Forward

We are bullish on stocks in the long-term and cautiously optimistic in the short-term. The equity gains in the quarter generally outpaced increases in corporate earnings. As a result, average equity P/E ratios are slightly higher than they were three months ago and stocks do not look as fundamentally cheap. However, since we believe in buy-and-hold investing, the short-term recovery in stocks following a nine-month bear market has done nothing to change our long-term positive view of equities in all categories (large caps, mid caps, small caps, foreign established markets, foreign emerging markets, value-oriented, and growth-oriented).

Hybrid and Hedging Assets

We believe that the Managed Allocation Composite Hybrid Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Qtr.	Year-to-Date	5-Year Avg.
Managed Allocation Composite	Hybrid (bonds and stocks)	+4.9%	+4.9%	+5.5%

Since the hybrid assets we own in our portfolios invest in a combination of securities including, but not limited to, bonds and stocks, the hybrid assets typically produce returns close to the average of the bond and stock index returns. This is the case for the quarter and for the annualized returns of the past five years.

Hedging assets like commodities or alternative strategies generally move with little, zero or negative correlation to the bond and stock markets. We believe hedging assets should play a role in diversified portfolios because, over the long-term, their limited or inverse correlation to bonds and stocks should reduce the volatility of overall portfolio returns.

Bonds in Review

During the quarter, inflation continuing to moderate resulted in optimism about future Fed action and resulted in bond prices increasing (and by extension, yields decreasing). Longer-term yields, which are controlled by market forces (and not the Fed), declined as the yield on the 10-year U.S. Treasury dropped to 3.48% by March 31, 2023, after hitting a high of 4.25% on October 24, 2022.

This activity is somewhat concerning as it seems to indicate bond investors are continuing to brace for a recession.

The quarterly and historical results for the bond indexes that we track are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Bloomberg US Universal	US Gov't and Corporate Issues	+2.9%	+2.9%	+1.1%
Bloomberg Municipal Bond	US Municipal Issues	+2.8%	+2.8.%	+2.0%
Bloomberg TIPS (0-5 Years)	Inflation Protected Gov't Issues	+2.2%	+2.2%	+3.0%
Weighted Index Benchmark*	Diversified Fixed Income	+2.7%	+2.7.%	+1.6%

**The Index weighting is 60% US Universal and 20% each Bloomberg Municipal Bond and Bloomberg TIPS (0-5).*

Bonds Looking Forward

As noted above, the 10-Year US Treasury was yielding 3.48% at the end of the quarter, which is 0.4% below the 2022 year-end yield, but 1.6% above the 2021 year-end yield.

The 3.48% yield was less than what both shorter term and longer term bonds were yielding. The March 31 yields were 4.64% on the 1-year treasury and 3.81% on the 20-year treasury. Because of this unique situation in treasury yields, we feel the best value in the bond market is found in shorter term bonds, but investors may also be well served to have some longer term bond exposure to serve as a hedge against rates dropping in the near future.

Our Asset Allocation Philosophy

It is our philosophy that investors with long-term time horizons are best served by using a disciplined, diversified asset allocation approach (investing in bonds, hybrid and other hedging assets and stocks) rather than trying to time the markets. It is important to periodically review your asset allocation and your target allocation and to rebalance your assets among the classes to keep the allocation close to the target. We will address the issues specific to you when we review your situation in the coming months. In the interim, if you would like to discuss these issues, please contact us at howard@kadescheifetz.com or steve@kadescheifetz.com.

Reminders

Please contact Kades & Cheifetz LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Parts 2A and 2B of Form ADV and is available for your review upon request.

Kades & Cheifetz LLC has provided this overview for internal use and for use by our clients. We have prepared it using sources believed to be reliable. We do not guarantee the accuracy of the sources. We reserve the right to change our opinions (expressed above) without notice.

You should be receiving statements at least quarterly from your custodian. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Kades & Cheifetz LLC. If there are any questions or discrepancies, please contact us as soon as possible.

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