Quarterly Update – March 31, 2023

The new year has been a welcome reprieve for investors that were beaten up in 2022. From a performance standpoint, the 1st quarter of 2023 was a mirror image of the 2022 market. It seems as though everything that was down last year is up this year and vice versa. The market has been rewarded because inflation is trending lower, employment data has been positive, interest rates have leveled off, and investors believe the FED is near the end of the rate hike cycle.

In the 1st quarter of 2023, most stock and bond indices recorded gains. Large cap US stocks outperformed small and midcap stocks as the S&P500 rose +7.5%. Bonds (the Barclay's Aggregate Bond Index) also started to recover from poor performance in 2022 by gaining 2.96%. Growth stocks recovered well also as the NASDAQ gained 16.77%. International stocks finally posted a nice return for investors by increasing 8.47%. Surprisingly, dividend paying stocks represented by the Dow Jones Select Dividend Index underperformed the other major asset classed by falling -1.82%.

Here are the returns of the major asset classes at the end of the 1st quarter 2023:

Asset Class	Index	1st Q	YTD	1yr	3yr*	5yr*
US Large Cap Stocks	S&P500	7.50%	7.50%	-7.73%	18.60%	11.18%
US Mid Cap Stocks	Russell Midcap	4.06%	4.06%	-8.78%	19.20%	8.05%
US Small Cap Stocks	Russell 2000	2.74%	2.74%	-11.61%	17.51%	4.71%
Dow Jones Industrial Avg	DJIA	0.93%	0.93%	-1.98%	17.31%	9.01%
US Dividend Paying Stocks	DJ Select Dividend	-1.82%	-1.82%	-4.58%	21.52%	8.53%
NASDAQ	NASDAQ	16.77%	16.77%	-14.05%	16.65%	11.58%
Int'l Developed Mkt Stocks	MSCI EAFE	8.47%	8.47%	-1.38%	12.99%	3.52%
Int'l Emerging Mkt Stocks	MSCI EM	3.96%	3.96%	-10.70%	7.83%	-0.91%
US Bonds	Bar Aggregate Bond	2.96%	2.96%	-4.78%	-2.77%	0.90%

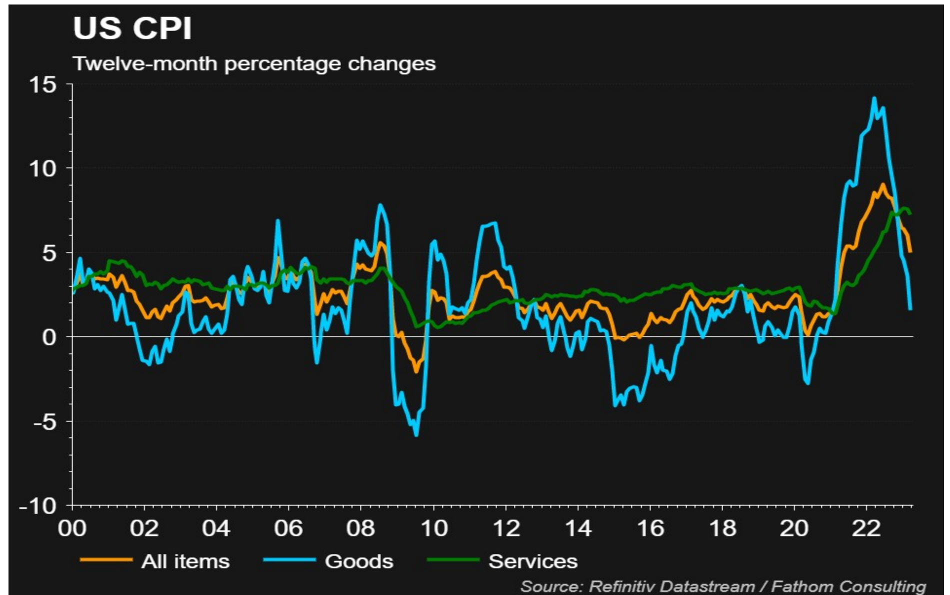
YTD = Year to Date *return is annualized [1]

The FED continued its mission to get inflation under control be raising rates by .25% in February and March. That makes 9 rate increases in 13 months. We are starting to see the desired impact on the inflation numbers. Since last summer, the CPI (Consumer Price Index a measure of inflation) has fallen from over 9% to about 5%. While this is good news, the sharp rate increases have caused pain for the banks. Many banks have not sufficiently raised yields on deposits so customers start to shop for a better rate elsewhere. They are finding better rates in money market mutual funds so depositors have been moving money at a historic rate. A meaningful loss of depositors can causes strain on the bank capital requirements. This is how a "run" on the bank gets started and is exactly what happened to several banks this year. For a moment, it started to bring up memories of troubled banks and mortgage issues during the Great Financial Crisis of 2008.

[1] Source: Raymond James Client Center Reporting

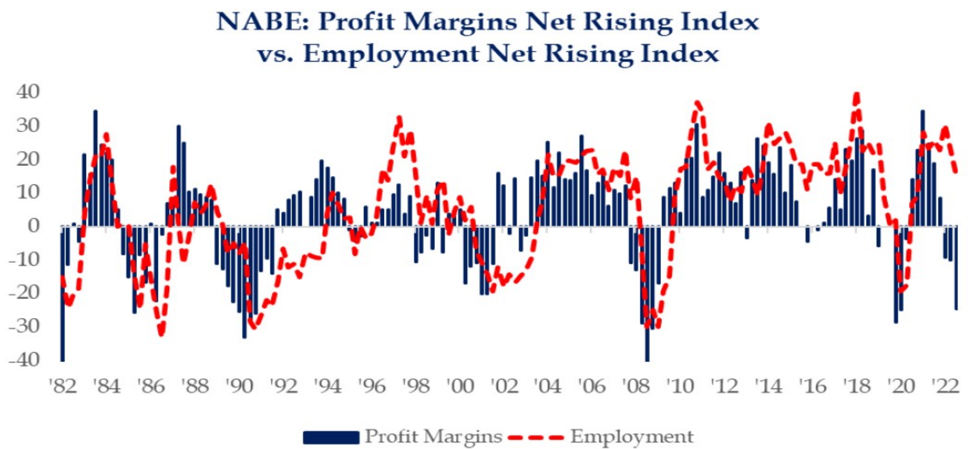
SHAW Investment Management of RAYMOND JAMES®

Inflation had been the primary concern for the FED over the last year. The chart below shows the spike and subsequent fall of CPI over the last 2 years. The FED still has to maintain this tightening stance to continue to get inflation under control. We believe the FED will continue to raise rates over the next few meeting and pause later this summer. They have a stated goal of lowering inflation back to the 2% range before they declare victory.



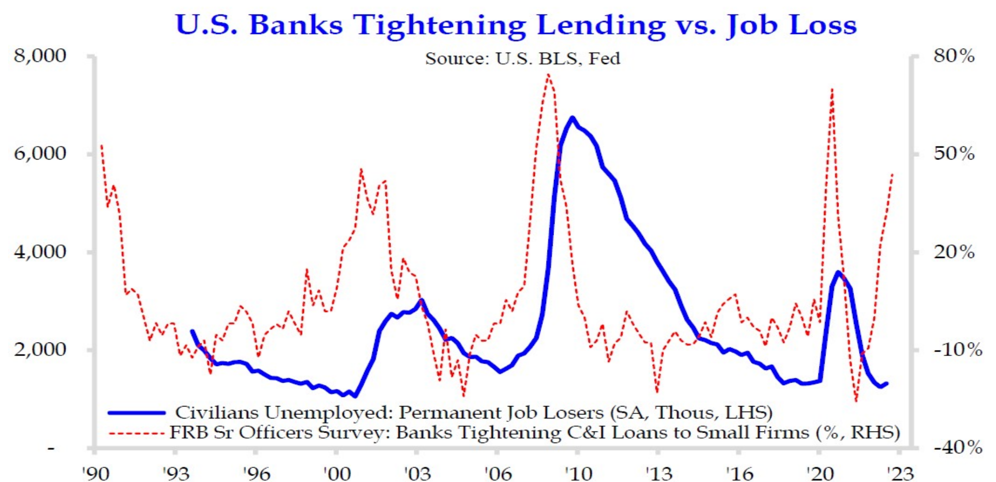
2

In the mean time, we see corporate profit margins in decline, consumer savings rates falling, and banks starting to tighten their lending standards. We expect these impacts will slow consumer spending, lead to increased job losses, and generally contribute to the economic slowdown ahead.



3

The charts to the right show the historical impact of margin compression on employment. There is a bit of a lag effect, but as profit margins fall, companies tend to cut payroll in order to maintain or improve profitability. Bank lending standards also have a meaningful impact on future employment. As banks tighten their lending standards, companies have less resources for expansion projects witch reduces the need for employees.



4

[2] Source: Refinitiv Datastream, Global macro charts

[3] Source: Strategas, "Quarterly Review in Charts, 1/3/23" p. 50

[4] Source: Strategas, "Quarterly Review in Charts, 1/3/23" p. 50

We continue to believe tight monetary policy, falling money supply, an inverted yield curve, and tighter bank lending standards sets the stage for slower economic growth in the US. But the opportunities in the international markets are starting to improve. Many international companies offer investors several interesting qualities relative to large cap US stocks. They currently trade at favorable valuations and many international stocks pay a dividend yield significantly higher than the S&P500. They also benefit if the US dollar is in a peaking cycle and it starts to weaken. Currencies tend to move in cycles, and if the US dollar weakens relative to other currencies, US investors holding international stocks tend to benefit.

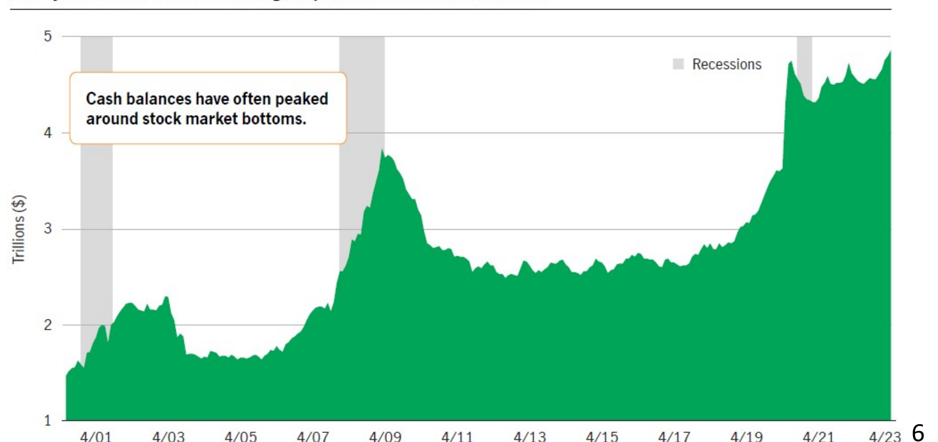
International stocks have been comparatively weak when the USD rises—and comparatively strong when it falls

[5]

In the chart above, you can see a clear trend as the US dollar strengthens/weakens. The green circles highlight periods when US dollar strength led to the S&P500 outperforming the EAFE (international stock market) and red circles show times that US dollar weakness led to EAFE outperforming. The yellow dotted line is a possible inflection point in 2022 that may mark the turning point in US dollar strength. This is a major trend to watch going forward.

Following COVID and the recent rate hikes, cash balances are reaching all time highs. Assets in money market funds continue to grow and now approach $5 trillion. When investor sentiment shifts at some point from bearish to bullish, this tremendous amount of cash may be the next catalyst to drive the market back to all time highs.

Money market assets soared during the pandemic and remain elevated



[6]

[5] Source: John Hancock Investment Management, "1Q23 Outlook-Market Intelligence" p. 8
[6] Source: John Hancock Investment Management, "1Q23 Outlook-Market Intelligence" p. 8

In this current environment, we still think it is prudent to maintain a neutral position in the equity portion of most portfolios. We have outlined many of the headwinds to stocks, but as we have seen this quarter, the stock market can move up at any time. The combination of high levels of cash on the sidelines and steady employment picture allow for a surge in stocks at any moment.

We continue to like dividend paying stocks, dividend growers, US midcap stocks, and international stocks. Each have their own set of favorable characteristics that make them interesting for investors. In addition, we believe most opportunities for investors are in the bond market. We highlighted all the reasons we like investment grade corporates and municipal bonds in the commentary last quarter. They continue to offer a compelling yield and we think bond prices will hold up well as interest rates level off. This should offer investors a decent rate of return without the volatility we expect from the stock market over the coming quarters.

Thank you for the trust you place in our team. Please reach out to us with any questions.

Lynn Shaw
Managing Director

Lynn Shaw II
Managing Director

Kevin Dallas
Sr. Investment Portfolio Analyst

Steve Quach
Financial Advisor

The foregoing represents the opinions of the authors and not necessarily those of Raymond James & Associates, Inc. Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is designed to provide commentary on market strategy and the opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice. Neither the information, nor any opinions expressed, constitute a solicitation for the purchase or sale of any security. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks. The Barclays Capital U.S. Aggregate Bond Index is often used to represent investment grade bonds being traded in United States. The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the US & Canada. MSCI Emerging Markets Index is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks. The Russell Mid-cap Index consists of the bottom 800 securities in the Russell 1000 index as ranked by total capitalization. The Dow Jones US Select Dividend Index aims to represent the US's leading stocks by dividend yield. Dividends are not guaranteed and must be authorized by the company's board of directors. Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

Raymond James is not affiliated with and does not endorse the opinions or services of Strategas Research Partners, LLC. It is not possible to invest directly in an index. Index performance does not transaction costs or other fees, which will affect the actual investment performance. Individual investor results will vary. Investments are subject to market risk, including possible loss of principal. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. Past performance is not a guarantee of future results. Raymond James Financial Advisors do not provide advice on mortgages. Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.