

ECONOMIC & MARKET INSIGHTS

An Executive Summary for April 2023

Markets and the economy remained on a better-than-expected trajectory so far in 2023. Inflation is higher than desired but has likely peaked, the labor market is still robust with around 3.5% unemployment, and corporate earnings have surpassed low expectations. Even residential housing, which many called for a swift decline in 2023, has defied consensus reflecting a slight reduction in mortgage rates paired with still low levels of supply. Markets reflected this 'better than expected' mentality with positive results across most core areas in April. This brought year-to-date gains to levels that most investors would be happy with for the full year despite being only four months into the year.

Against the Fed's best efforts, the economy remains on solid footing except for a few notable cracks – the most evident of which is the current regional banking crisis. Underpinning core areas is a still strong labor market with low unemployment and supportive wage growth. Although jobless claims are rising in line with prominent large-scale layoff headlines, there is likely a lot of room down from here before easing would enter the conversation. This was reinforced by the most recent FOMC meeting where the Fed raised policy rates by another 25 basis points (0.25%) defying earlier expectations for a pause. With Fed Funds now above 5%, there should be less upward momentum to hikes going forward, although policy rates may not decline as fast as the market currently expects.

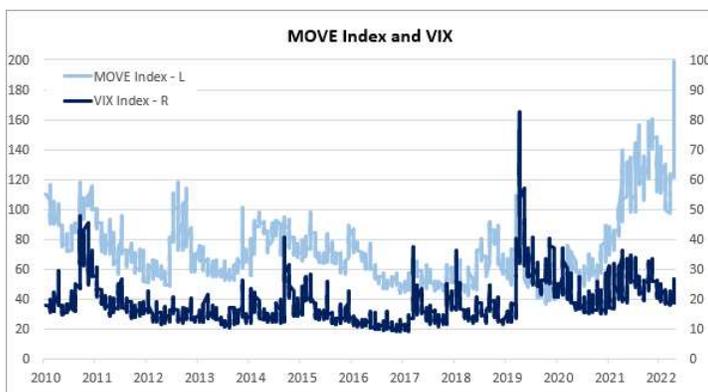
Entering May, many asset class valuations are moderately elevated while the wall of worry builds. Following the failure of several high-profile regional banks (Signature, Silicon Valley Bank), First Republic Bank was the latest casualty after being acquired by JPMorgan following regulatory intervention. Also on the horizon is the looming debt ceiling, which could be reached as soon as early June. Although a temporary solution is likely to be reached, political rhetoric and a standoff until the last minute could introduce significant volatility into financial markets. As it stands, the 1-month Treasury yield fell to its lowest level since late last year demonstrating the premium investors are willing to pay to avoid the impending uncertainty.

As we enter the heart of earnings season, many companies have benefited from a dramatic lowering of expectations in 2022. Revenues often surprised to the upside although earnings and profits were more mixed. A greater focus on efficiency and costs, especially within the tech sector, was supportive and boosted the returns of many of the tech platform companies. Management teams appear cautious in their outlooks reflecting the heightened level of uncertainty in the economy. Within the broad equity market, the equity risk premium is compressed resulting in valuation susceptibility. This is more acute in U.S. markets as many international equity benchmarks are trading near or below long-term historical averages.

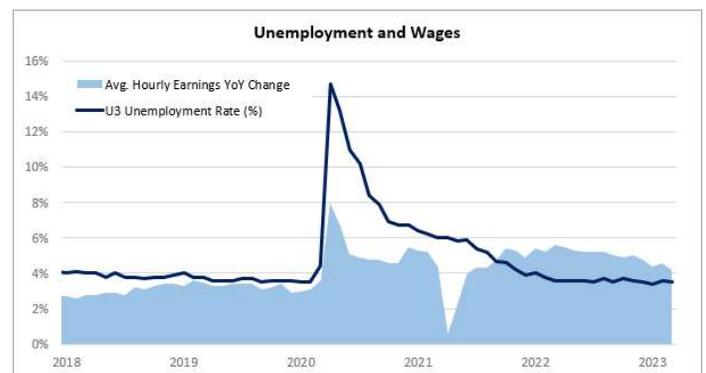
Having taken much of the pain last year, most fixed income asset classes were positive for the month and year-to-date. Fixed income benefited from a reset in yields in 2022 which brought income levels to the highest points in nearly a decade. Duration sensitive assets also received a boost from a falling middle and long portion of the curve. Corporate spreads have widened relative to historically tight levels last year but are far from levels reached during past periods of distress. On the margin, many short and intermediate duration fixed income assets offer compelling entry points and unlike last year, should now provide a buffer to volatility.

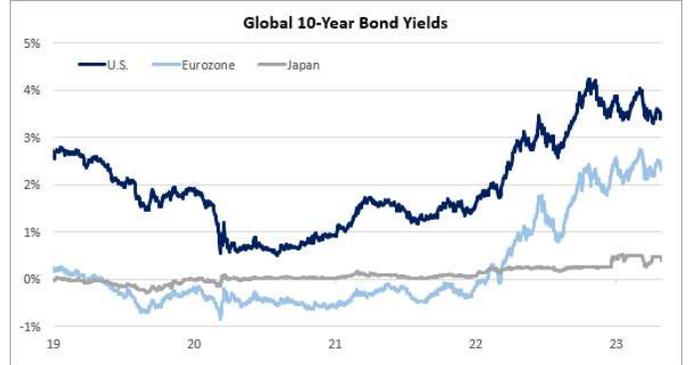
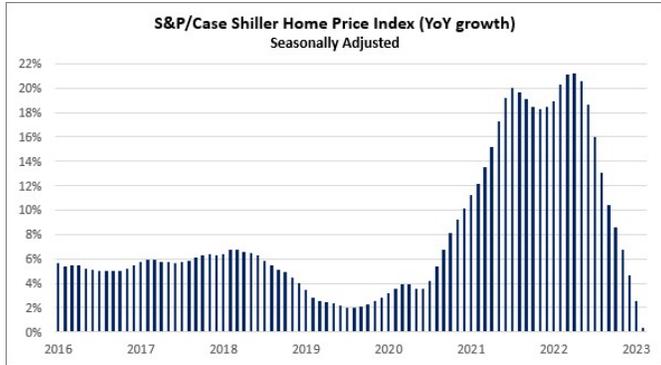
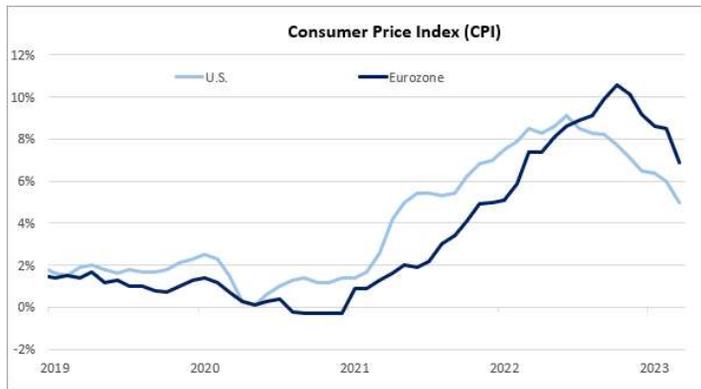
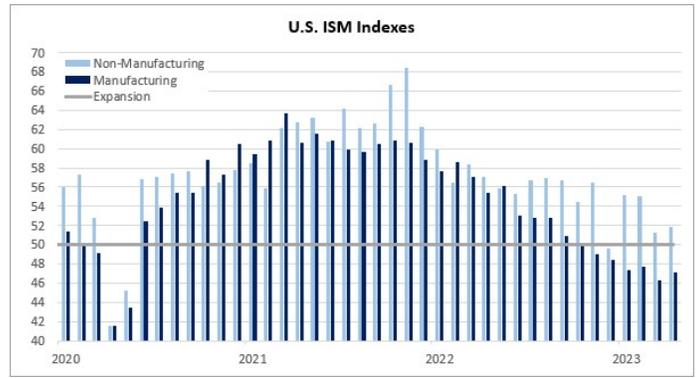
2023 has so far been a view into a new regime with structurally higher inflation and volatility levels more reminiscent of a time prior to extensive central bank intervention. Throughout these environments, it's important to ensure portfolios have ample near-term liquidity and are rebalanced close to target levels. Future volatility, while uncomfortable, can be looked to as compelling entry points into many long-term asset classes.

Bloomberg



Bloomberg; U.S. indices from Russell and world indices from MSCI





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