MONTHLY MARKET UPDATE

March 2023

OPAL WEALTH ADVISORS

While March was certainly a tale of two halves, the month and first quarter of 2023 are now in the books having delivered nice gains across both stock and bond markets - continuing the comeback for the traditional 60/40 portfolio. Writing that feels very surprising with risk markets seemingly taking the second and third largest banking failures in U.S. history in stride. Anxiety surged mid-month with two high profile banking insolvencies (Silicon Valley Bank, Signature Bank) and an emergency mega-merger in Europe (Credit Suisse/UBS) hitting the headlines. The U.S. bank failures came in the form of old-fashioned George Bailey style bank run fueled in large part by a 'new fashioned' high octane social media panic and enabled by mobile banking. Thanks to another swift policy and governmental response the market narrative seemed to finish the month on solid ground with the VIX back around 18 and a 'bad news is good news' perspective as it lends itself to more dovish monetary policy. The actual and jawboned interventions have seemingly kept the wolves at bay.

Additional market focal points included a highly anticipated FOMC policy meeting where the Fed delivered what might be seen as a dovish 25 bps rate hike in the midst of the banking sector turmoil. Perhaps the most important variable for the Fed (and markets) moving forward will be incorporating the negative economic impact of a tangible tightening of bank lending standards as a result of banking industry liquidity concerns. Adding financial stability concerns to inflation and economic growth considerations effectively makes global central banking that much more complex. The economic calendar continued to paint a relatively resilient portrait with a strong labor market, decent PMIs, and decelerating inflation while negative investor and consumer sentiment illustrated a healthy wall of worry for markets to navigate.

Economic data remained relatively supportive in March with inflation, personal consumption, and job market indicators all 'cooling' on the margin which is what monetary policy makers like to see. Economic survey data including ISM and PMI readings both here and abroad remained fairly constructive. Composite and services sectors in the U.S. and abroad remained healthy while manufacturing sectors lagged as consumption patterns (shift from pandemic era goods consumption to services consumption) continued. The U.S. labor market showed clear signs of slowing with payroll growth slowing alongside weekly and continuing jobless claims trending higher - all likely welcomed signs for the Fed. Investor and consumer sentiment data stayed firmly in the cautious camp with institutional fund manager surveys showing strong overweights to fixed income and underweights to equity and consumer confidence data taking a big hit mid-month in lock step with the banking turmoil. The U.S. housing market continued to reflect the impact of higher interest rates through reduced activity and price headwinds but falling rates in March and supply/demand dynamics both remain favorable as evidenced by homebuilder stocks outpacing the S&P 500 by nearly 30% since the end of Q3 2022.

U.S. equity markets were strong with the S&P 500 delivering healthy gains in January (+6.5%) and March (+3.7%) to bookend a weak February (-2.4%) netting a respectable 7.5% gain for the quarter. March equity markets saw growth (6.84%) stocks continue to outperform value (-0.46%), a mirror image to 2022 while large caps handily outpaced small caps. Non-U.S. developed (+2.5%) and emerging (+3.0%) slightly lagged the U.S. with strong performance from Japan (4%), Germany (4%), China (4.5%), and Korea (4.8%) offset by weakness in Norway (-4.7%), U.K. (-0.6%), Australia (-0.6%), and Latin America (0.8%).

Mid-month banking sector turmoil took risk free interest rates 0.50% to 1% lower leaving 2 year and 10 year yields at 4.06% and 3.48%, respectively, well below levels at the beginning of the year. While high yield credit spreads increased sharply from 4.22% to 5.22% by mid-month, they closed March at 4.58%, below levels seen at the beginning of the year.

Market Anecdotes

- As often said, the Fed will hike until something breaks and it seems banks have emerged as the first of those things with SVB and Signature Bank now occupying the second and third largest failures in U.S. history.

- SVB is in a class by itself from a risk management perspective in that they seemingly had none. A look at the mark to market impact rising rates had on their reserves (bonds) is staggering.

- With a banner Q1 for the Nasdaq, its 19.7% gain is shockingly not even in the top 10 of historical observations.

- Looking back in the annals of time since WWII, when the S&P 500 was down 10%+ and up in Q1, the index posted further gains for the remainder of the year.

- Is the 60/40 portfolio in comeback mode? March delivered gains for a fourth time in the past six months and closed out a second consecutive quarterly gain of approximately 4%.

- The strong rally in technology stocks corresponding to the nosedive in bond yields has brought S&P 500 index concentration issues back to the main stage with AAPL and MSFT representing a record 13% of the index.

- We're at the important doorstep of first quarter earnings season where analysts have been busy lowering EPS estimates (-6.3%) by a larger than normal (3.8%) margin when you compare estimates from December 31st to March 31st.

- Now over one year since the Russian invasion of Ukraine, it is remarkable that natural gas prices in Europe are below pre-invasion levels which can be largely attributed to a relatively mild winter and aggressive efforts to ramp up storage.

- For those unaware, Wall Street did of course pay someone millions of dollars to manufacture a clever alternative to the 'TINA' term, deeming 'TARA' the new world order. The truth is comparing stocks to treasuries is misguided if your return horizon is around 10 years.

- A look at the banking industry reveals several important considerations including that despite significant industry consolidation, small and medium size banks are significant commercial, consumer, and real estate lenders - likely a primary reason why historically banking crises are often intertwined with global recessions.

- The inverted 3mo/10yr yield curve may be the most alarming recession predictor but as Jonathan Golub, US equity strategist at Credit Suisse Group AG, pointed out in every instance the recession didn't start until the slope began to steepen and timing varied widely.

Economic Release Highlights

- The March jobs report revealed 236,000 jobs, in line with the forecast of 240,000. The unemployment rate dropped to 3.5% from 3.6 and average hourly earnings growth registered 0.3% MoM and 4.2% YoY, all relatively inline as well.

- Headline and core CPI measured 6.04% and 5.53% YoY with 0.37% and 0.45% MoM readings. Headline and core PPI measured 4.58% and 4.40% YoY with -0.15% and -0.00% MoM readings.

- The JOLT Survey released in March registered 9.931 million job openings, below consensus 10.4 million forecast, a continued downward trending quit rate, fewer hires, and the ratio of job openings to unemployed dropping from 1.9x to 1.7x.

- February Retail Sales fell 0.4%, just below forecasts for a -0.3% decline.

- U.S. March PMIs (Composite, Mfg, Services) of 53.3, 49.3, 53.8 improved notably, coming in well above the spot estimate and above the high end of the consensus range.

- The March JPM Global PMIs (C,M,S) registered (53.4,49.6,54.4) with Eurozone (53.7,47.3 55.0), U.K. (52.2,47.9,52.9), and India (58.4,56.4,57.8) surveys looking relatively robust.

- March ISM Manufacturing Index registered 46.3, falling short of the spot forecast 47.5 and slightly above the low end of the consensus range. ISM Services came in well below forecast (51.2 vs 54.4) and were also slightly above the low end of the consensus range.

- Durable goods orders (MoM) missed to the downside across New Orders (-1.0% vs 1.5%), Ex-Transportation (0% vs 0.3%), and Core Capital Goods (0.2% vs 0.3% prior month).

- The final revision of 4Q U.S. GDP was revised downward from a 2.7% to 2.6% annual rate driven largely by a downward revision of 4Q PCE from 1.4% to 1.0%.

- The Consumer Confidence Index in March increased unexpectedly to 104.2, well above the spot forecast of 101 and an improvement over

February's reading of 103.4. The final revision of the UofM Consumer Sentiment index came down from 63.4 to 62.0.

- The Case-Shiller Home Price Index saw residential housing prices fall 0.2% MoM with a YoY change of +2.5%, below consensus forecast and in the low end of the range. Month-over-month Housing Starts (+10%) and Permits (+14%) came in significantly above expectations.
- New Home Sales of 640k were relatively in line with the 645k consensus forecast. Existing Home Sales came in above consensus (4.580m vs 4.170m), up 14.5% MoM but down 22.6% YoY. Pending Home Sales increased 0.8% versus expectations for a 1.0% gain.

Outlook

Mid-month banking sector turmoil has thus far failed to materialize into anything resembling systematic risk but there is likely more to the story than what transpired in March, particularly as it pertains to availability of capital (tightening lending standards) and bank earnings headwinds (balance sheet losses & a deeply inverted yield curve). Our view is that this volatility pulled both the end of the hiking cycle AND a potential recessionary outcome both somewhat closer, with a cautionary disconnect of market expectations for a sharp dovish pivot from the Fed at odds with persistently hawkish Fed narratives and stubborn/sticky inflation data. We are chalking this up as a healthy bear market relief rally, not a rally marking the beginning of a new business and market cycle. Furthermore, we expect this 'bad news is good news' narrative to have a pretty short shelf life once the reality of bad news starts to set in.

We see recession risks more prevalent toward the end of 2023 or first half 2024, with healthy consumer balance sheets/consumption, and an expansionary service sector ultimately not enough to offset persistently hawkish policy from central banks and reduced credit availability from the banking sector. Additionally, with the U.S. equity market priced at 18x, it will take a very encouraging earnings season to grow into that number. We expect the start-stop conditions to continue favoring periodic tactical (0-6 months) asset allocation shifts rather than a decided pro-growth or defensive investment posture.

This equity market relief rally may extend into the summer months, but we continue to recommend a tight neutral position toward equities relative to respective benchmarks with routine rebalancing into pockets of strength. We recently downgraded value and small cap both to neutral, reflecting our view that we are nearing the end of an economic cycle. From a geography perspective, we are neutral U.S. to non-U.S. (which was recently upgraded) and will closely monitor China for market relevant policy shifts. Recommended fixed income positioning remains short duration over our forecast horizon with a recent underweight recommendation on bank loans.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	33274	2.08	0.93	0.93	(1.98)	17.31
NASDAQ	12222	6.78	17.05	17.05	(13.28)	17.56
S&P 500	4109	3.67	7.50	7.50	(7.73)	18.60
Russell 1000 Growth		6.84	14.37	14.37	(10.90)	18.58
Russell 1000 Value		(0.46)	1.01	1.01	(5.91)	17.93
Russell 2000		(4.78)	2.74	2.74	(11.61)	17.51
Russell 3000		2.67	7.18	7.18	(8.58)	18.48
MSCI EAFE		2.61	8.62	8.62	(0.86)	13.52
MSCI Emg Mkts		3.07	4.02	4.02	(10.30)	8.23
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.32	0.02	(0.07)	(0.07)	0.65	(0.03)
High Yield	5.66	0.03	(0.40)	(0.40)	1.54	(0.03)
Municipal	1.78	0.01	(0.09)	(0.09)	0.14	(0.19)

Commodities	3/31/23	1/31/23	10/31/22	7/31/22
Oil (WTI)	80.40	78.95	86.54	101.31
Gold	1979.70	1923.90	1639.00	1753.40

Currencies	3/31/23	1/31/23	10/31/22	7/31/22
USD/Euro ($/€)	1.09	1.08	0.99	1.02
USD/GBP ($/£)	1.24	1.23	1.15	1.22
Yen/USD (¥/$)	132.75	130.17	148.63	133.25

Treasury Rates	3/31/23	1/31/23	10/31/22	7/31/22
3 Month	4.85	4.70	4.22	2.41
2 Year	4.06	4.21	4.51	2.89
5 Year	3.60	3.63	4.27	2.70
10 Year	3.48	3.52	4.10	2.67
30 Year	3.67	3.65	4.22	3.00

Style Returns

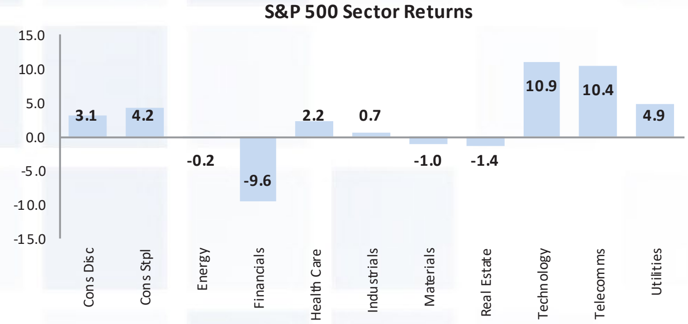
MTD

	V	B	G
L	-0.46	3.16	6.84
M	-3.15	-1.53	1.38
S	-7.17	-4.78	-2.47

YTD

	V	B	G
L	1.01	7.46	14.37
M	1.32	4.06	9.14
S	-0.66	2.74	6.07

S&P 500 Sector Returns



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