



Q2 Economic & Market Outlook

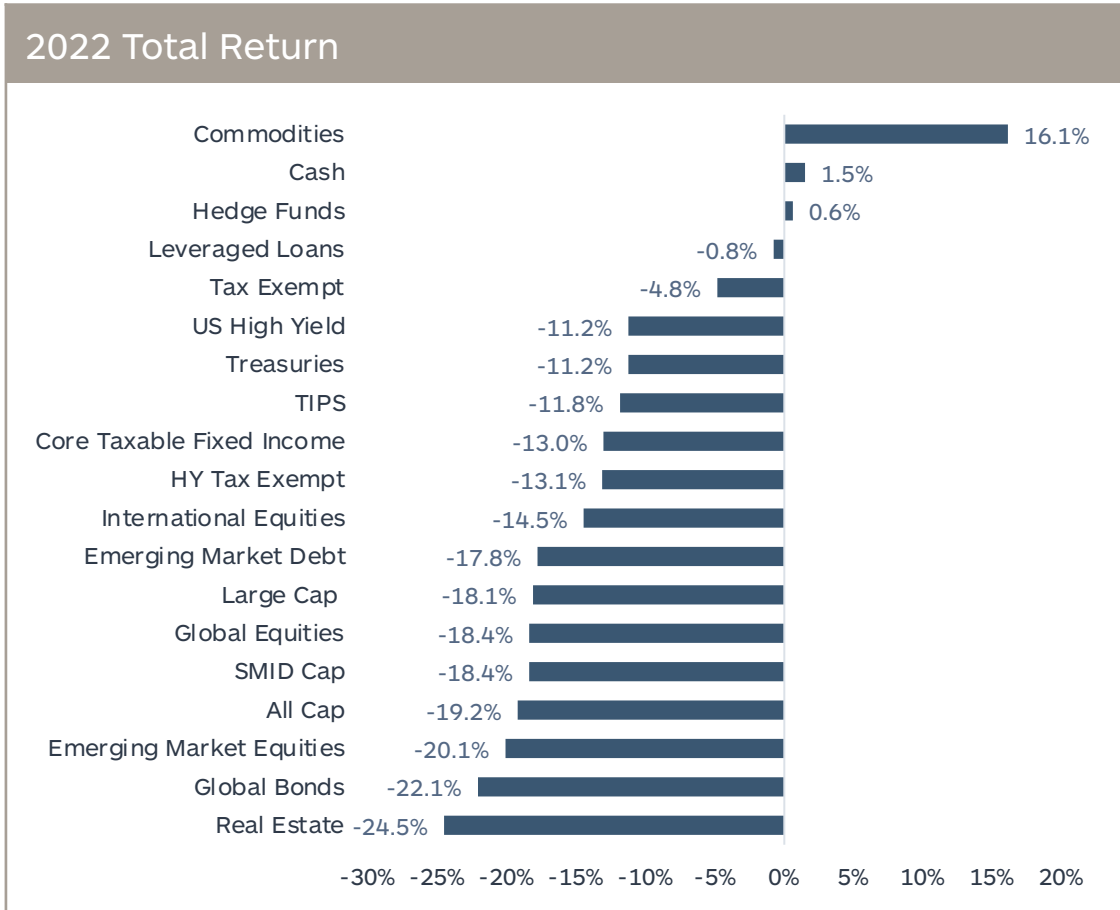
The Highly Anticipated Recession Eludes Us Yet Again.

April 20, 2023

Confidential & Proprietary

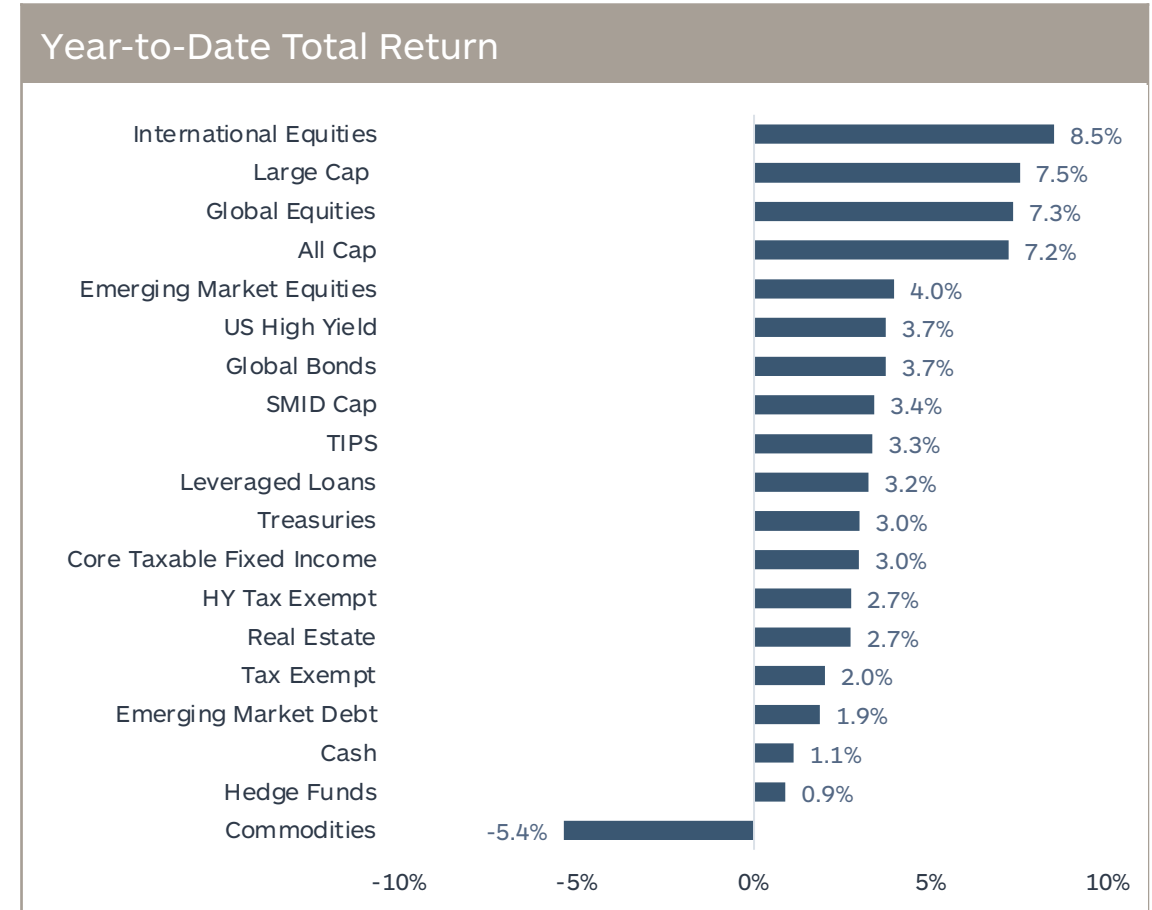
Q1 in Review

So far, what's working this year is whatever didn't work last year.



As of 12/31/2022

Source: Morningstar Direct



As of 3/31/2023

Source: Morningstar Direct

Q1 in Review

Most of the strong performance in Q1 came from large cap tech.

Russell Size and Style Indices: Year to Date

	Value	Blend	Growth
Large	-0.31%	5.86%	12.45%
Mid	-0.30%	2.27%	7.04%
Small	-2.50%	0.79%	4.02%

As of 3/31/2023

Source: Morningstar Direct

Russell 1000 Growth – Russell 1000 Value, One-Year Rolling

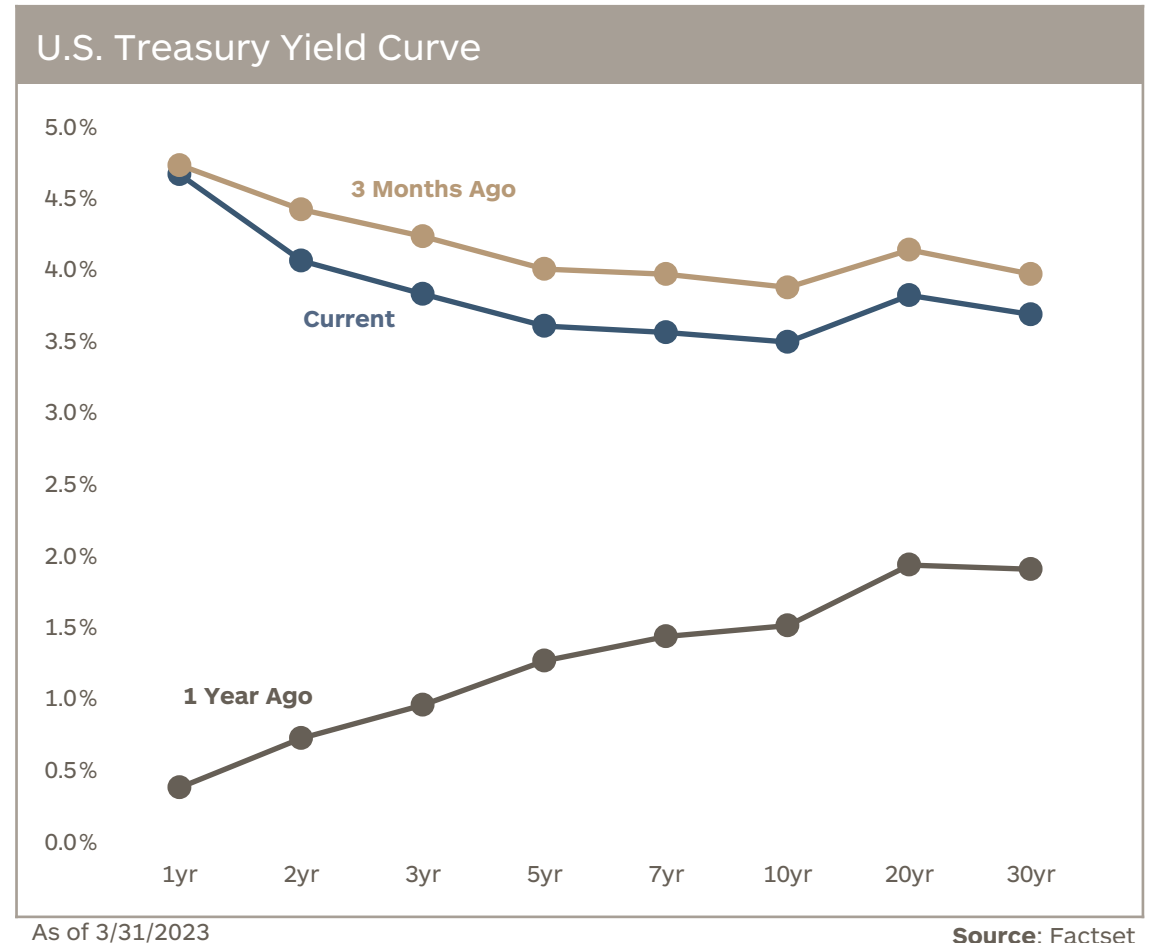
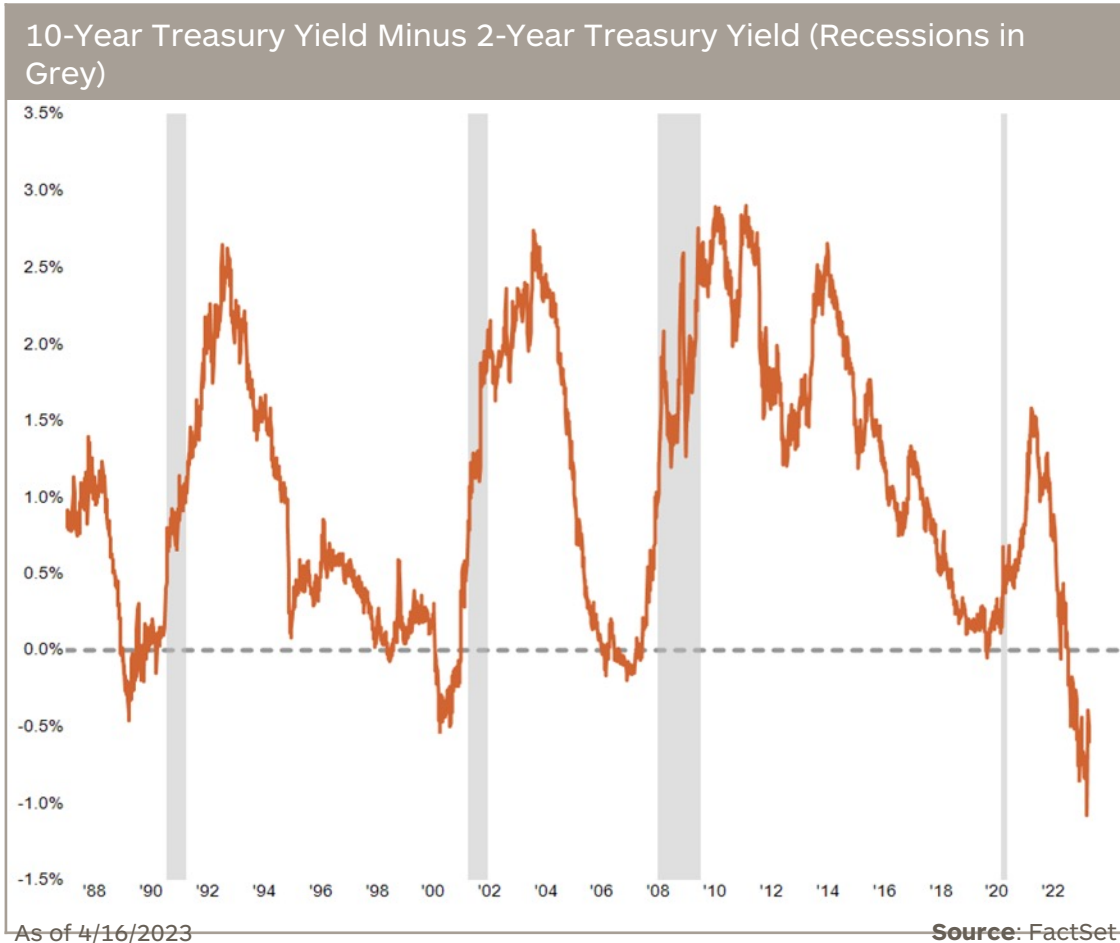


As of 3/31/2023

Source: Morningstar Direct

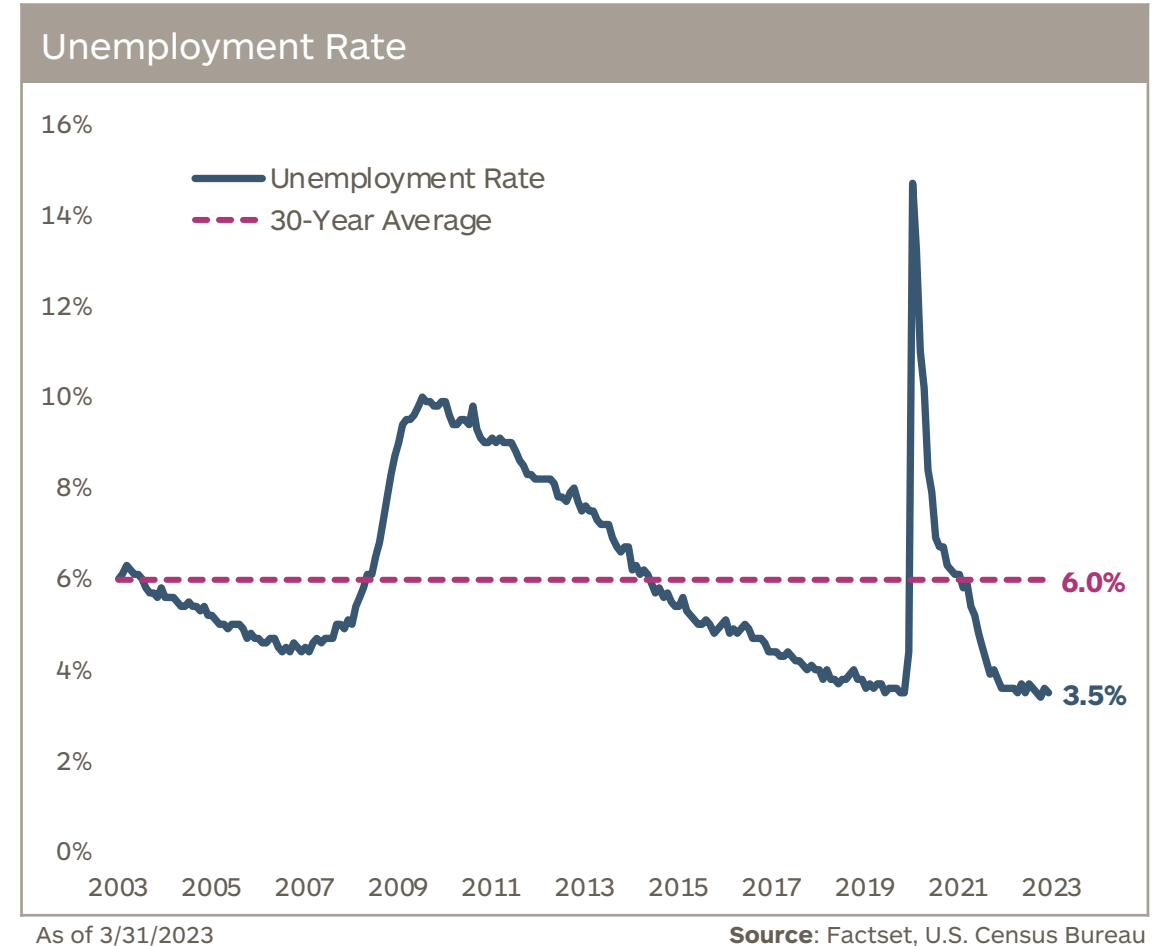
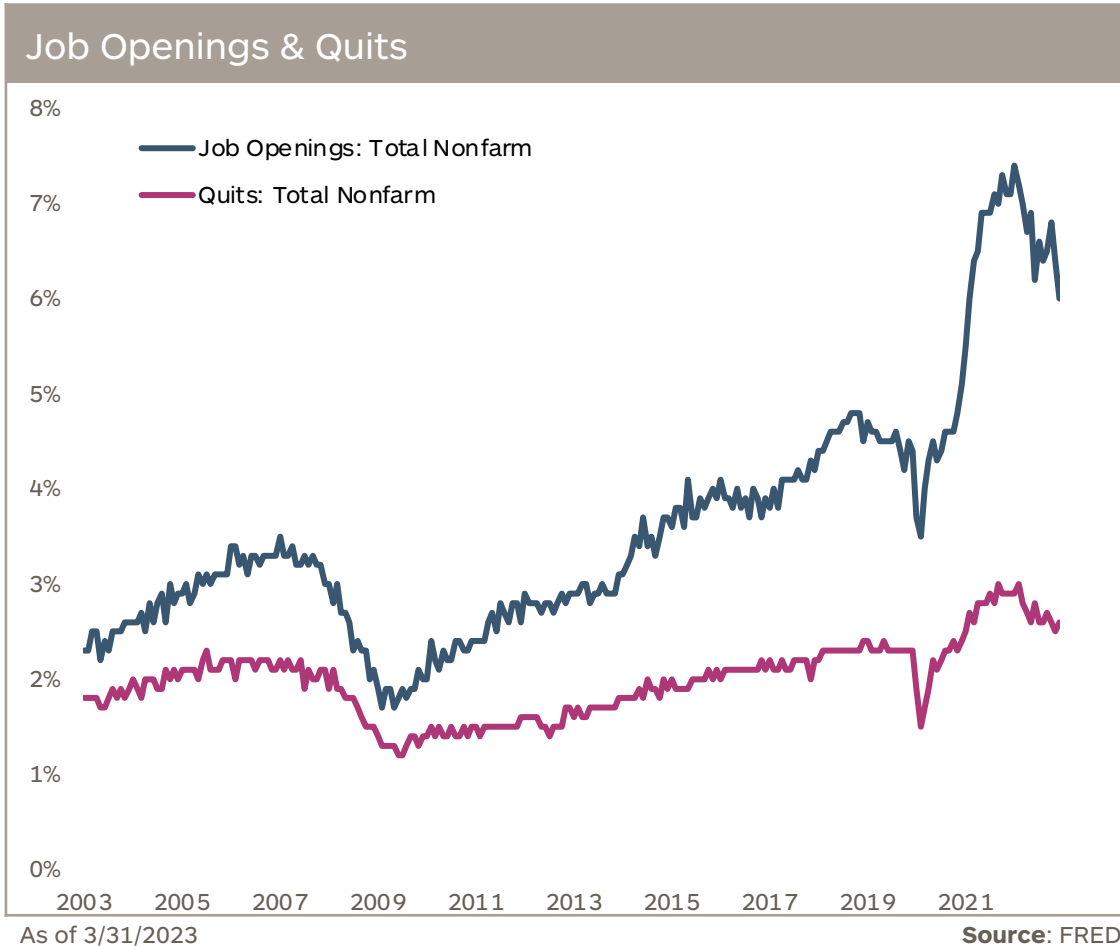
The Yield Curve

Q1 saw continued inversion, with a downward shift.



The Labor Market

Labor markets are holding onto historic strength, to the surprise of many.



The Labor Market

Through one quarter, layoffs are up, but still mostly in technology, and initial claims are still historically low.

Challenger, Gray, and Christmas Job Cuts Report

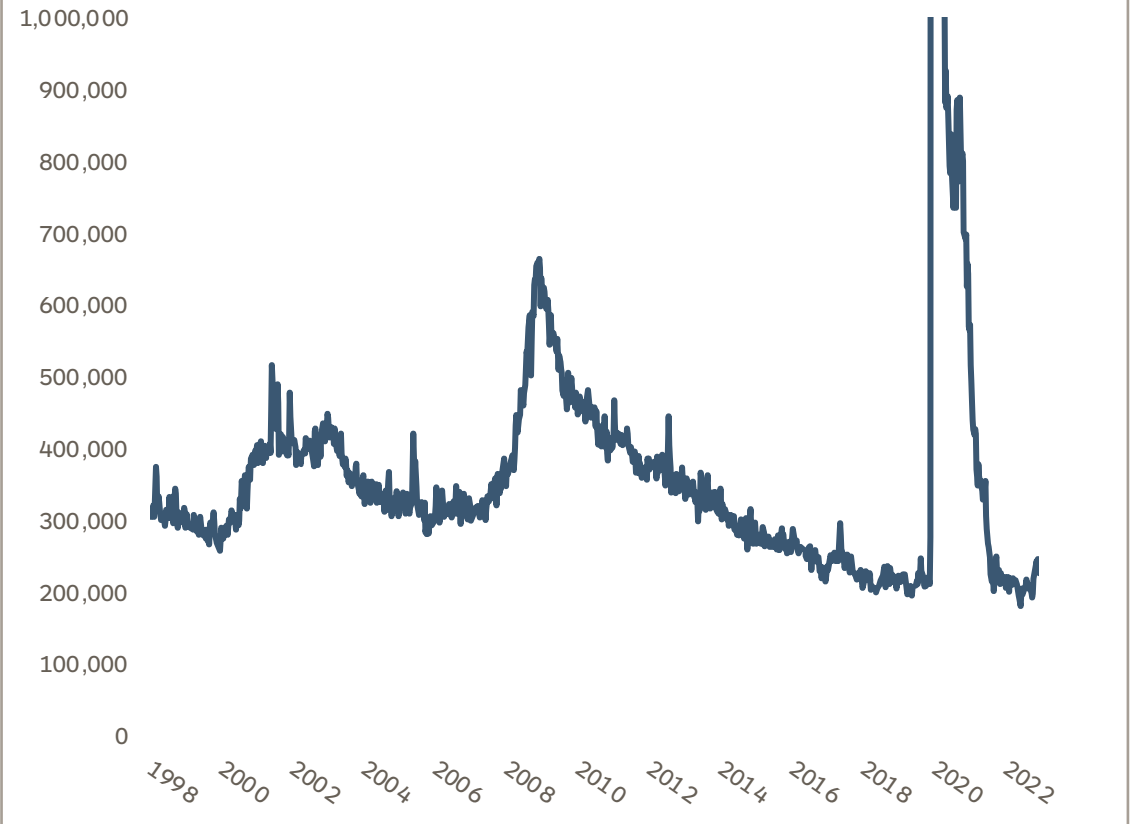
Top 5 Industries: 2022	Job Cuts	% of Total Cuts
Technology	97,171	27%
Automotive	30,912	8%
Health Care/Products	30,626	8%
Financial	24,437	7%
Services	22,405	6%
Total 2022 Job Cuts	363,824	

Top 5 Industries: Q1 2023	Job Cuts	% of Total Cuts
Technology	102,391	38%
Financial	30,635	11%
Health Care/Products	22,950	8%
Retail	21,426	8%
Services	16,612	6%
Total Q1 2023 Job Cuts	270,416	

As of 3/31/2023

Source: Challenger, Gray, and Christmas

Initial Jobless Claims

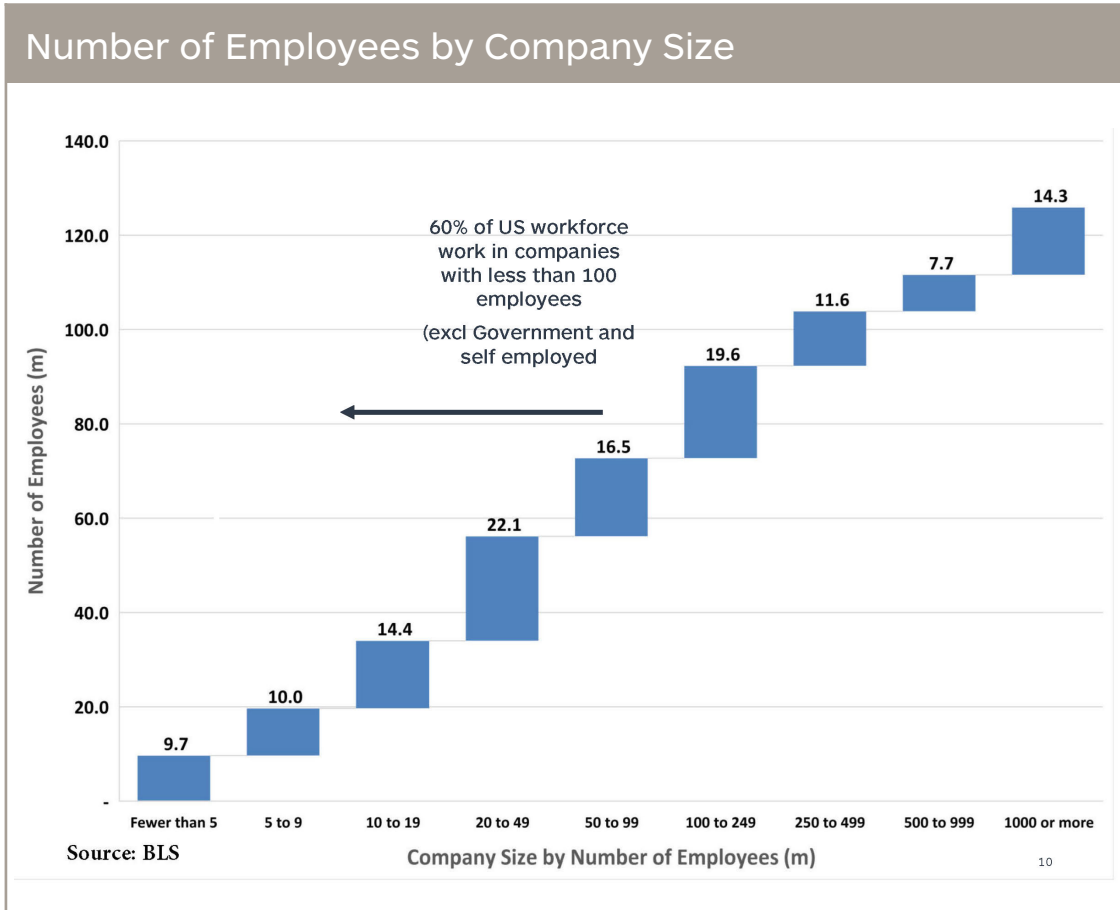


As of 4/1/2023. Claims reached a peak of 6.1 million on 4/4/2020

Source: FRED

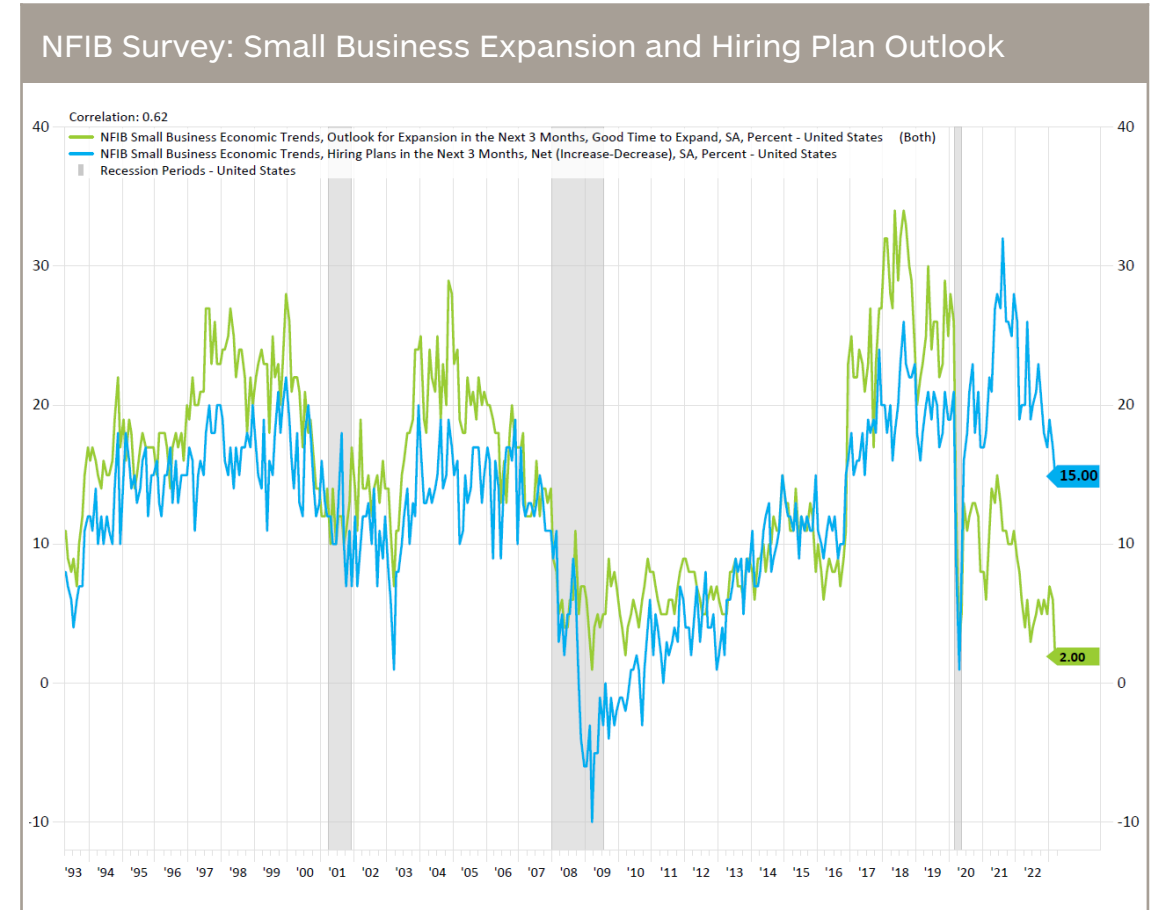
The Labor Market

Small businesses are often overlooked as a driver of labor market forces



As of 3/23/2023

Source: BLS

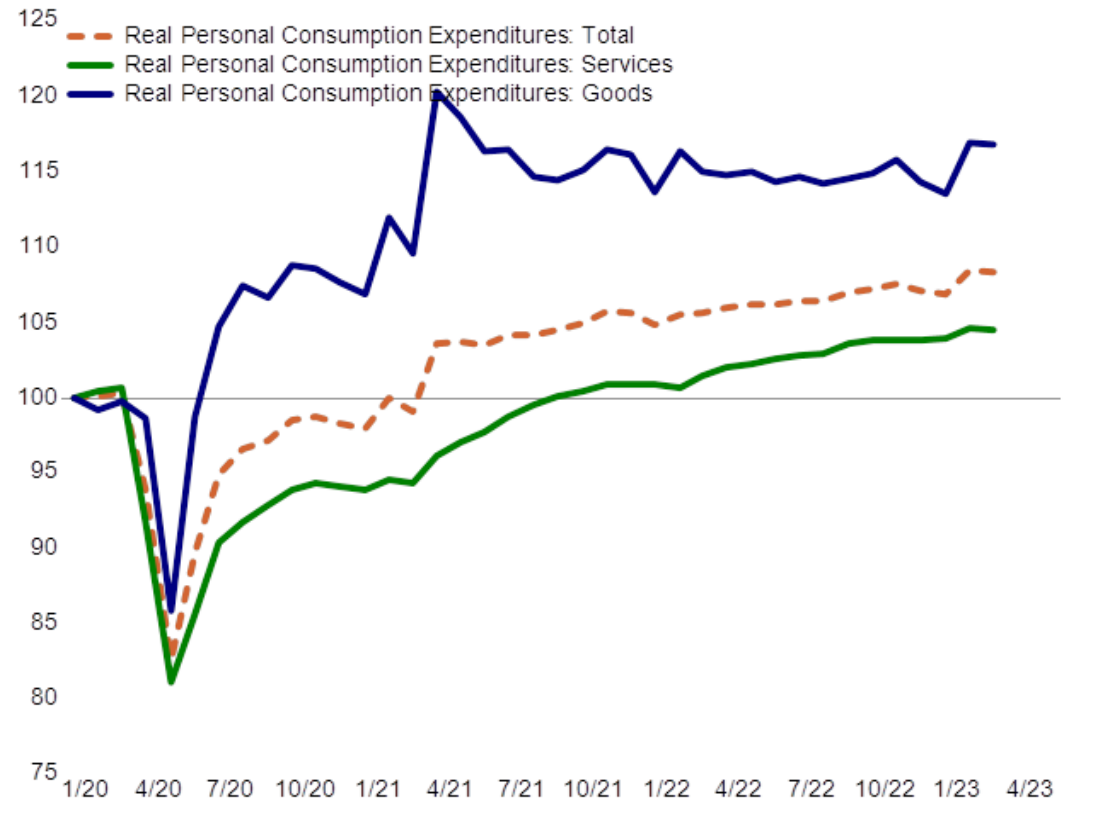


Source: Factset

The U.S. Economy

With jobs still a plenty, the consumer is still spending.

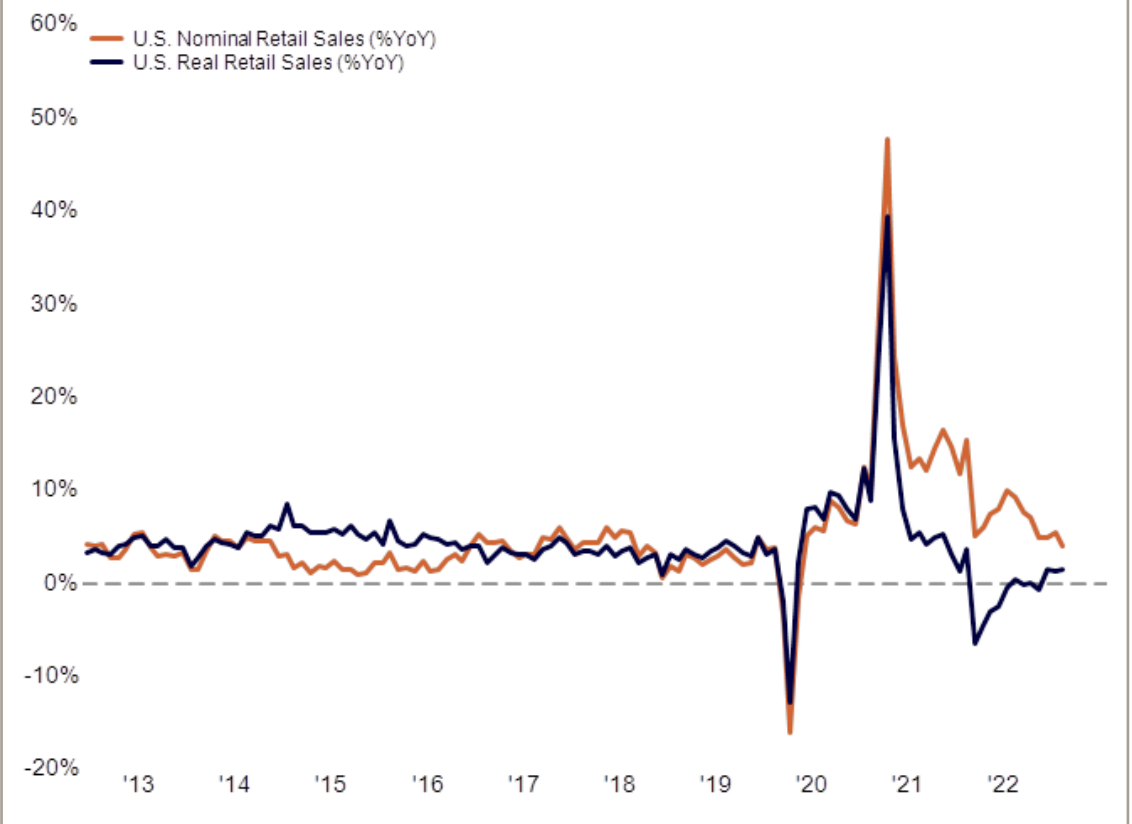
Real Consumer Spending by Type (Indexed to January 2020)



As of 3/31/2023

Source: Factset

Real and Nominal Retail Sales

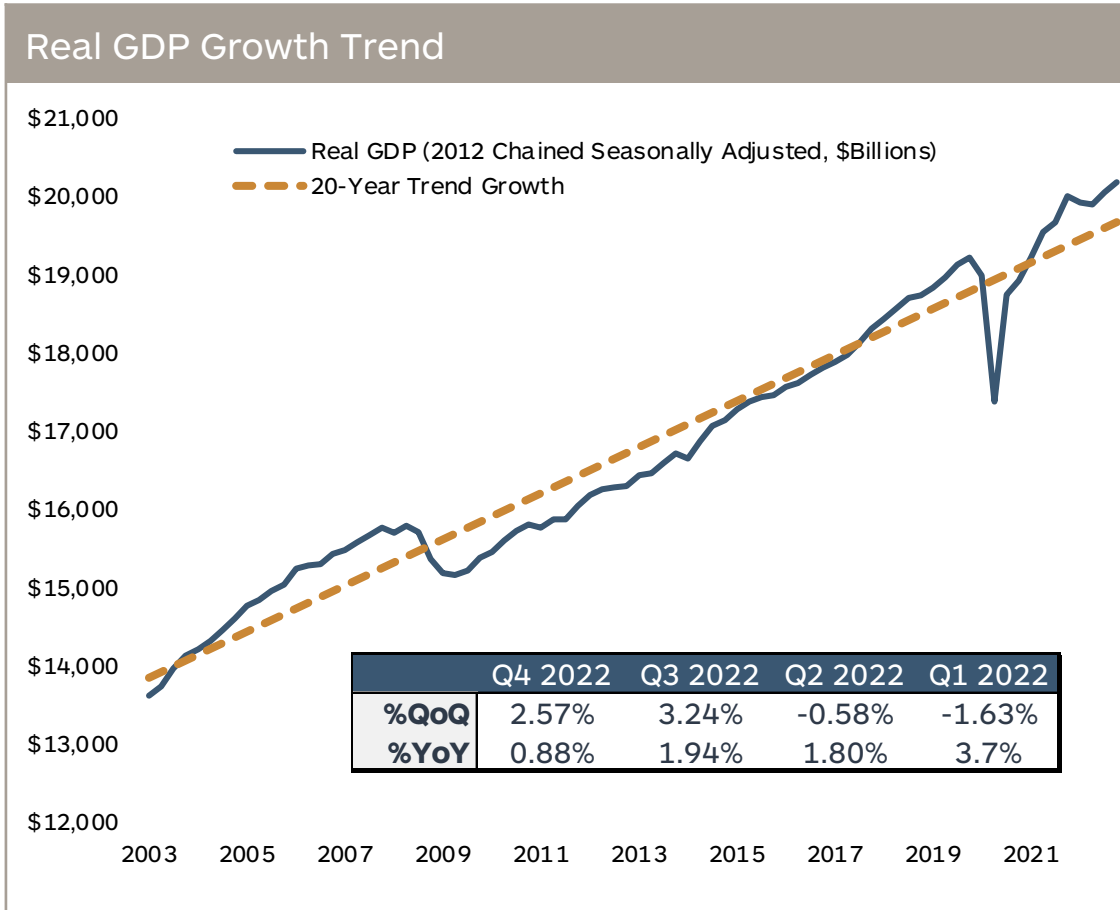


As of 3/31/2023

Source: Factset, U.S. Census Bureau

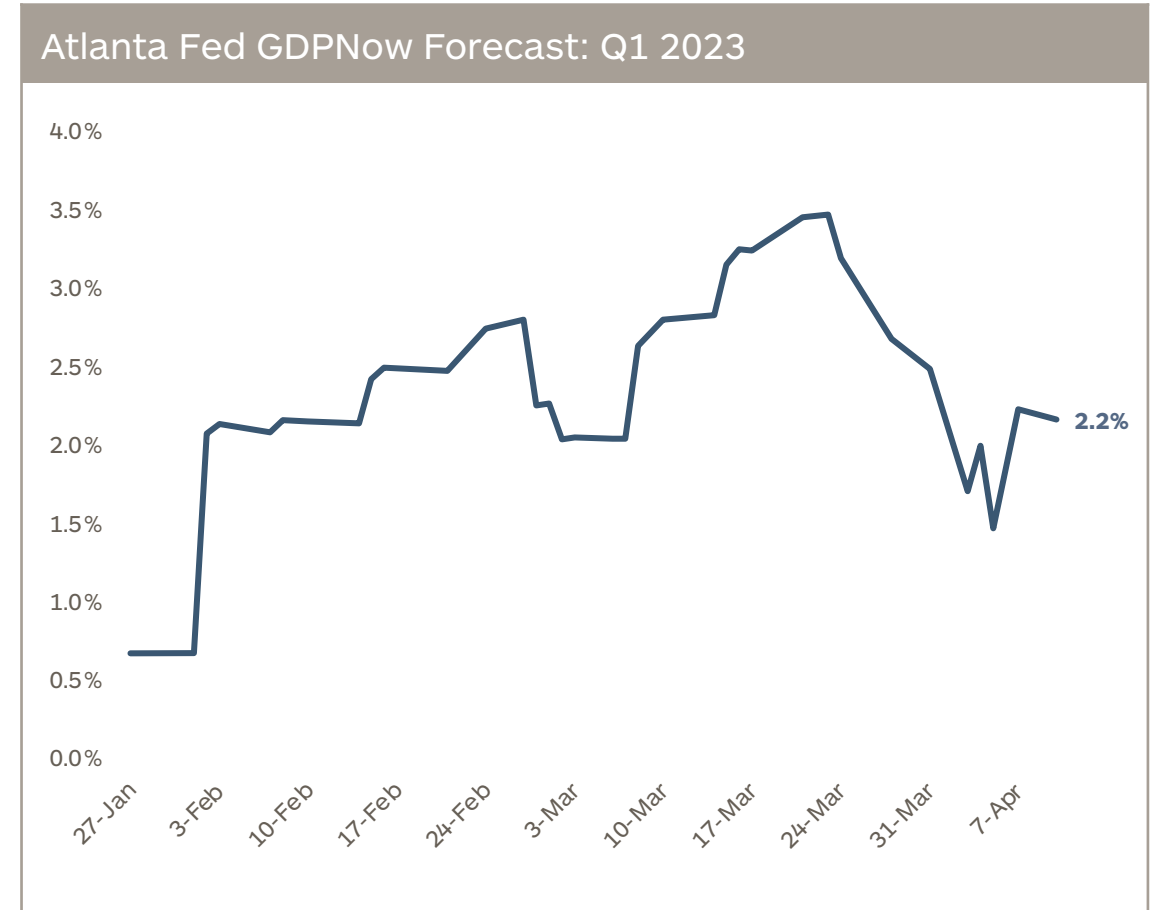
The U.S. Economy

Despite a litany of prognostications, GDP marches upward.



As of Q4 2022. *Annualized

Source: FRED, BEA

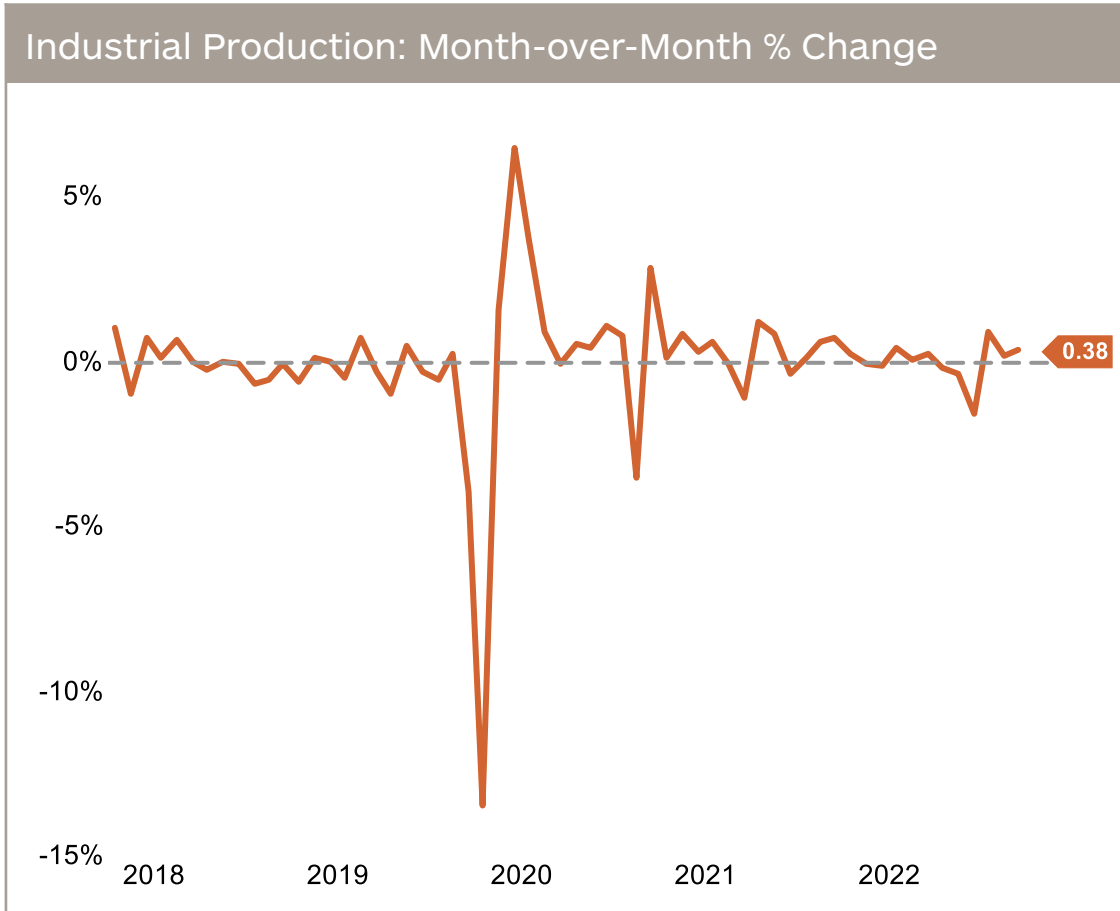


As of 4/11/2023

Source: Federal Reserve Bank of Atlanta

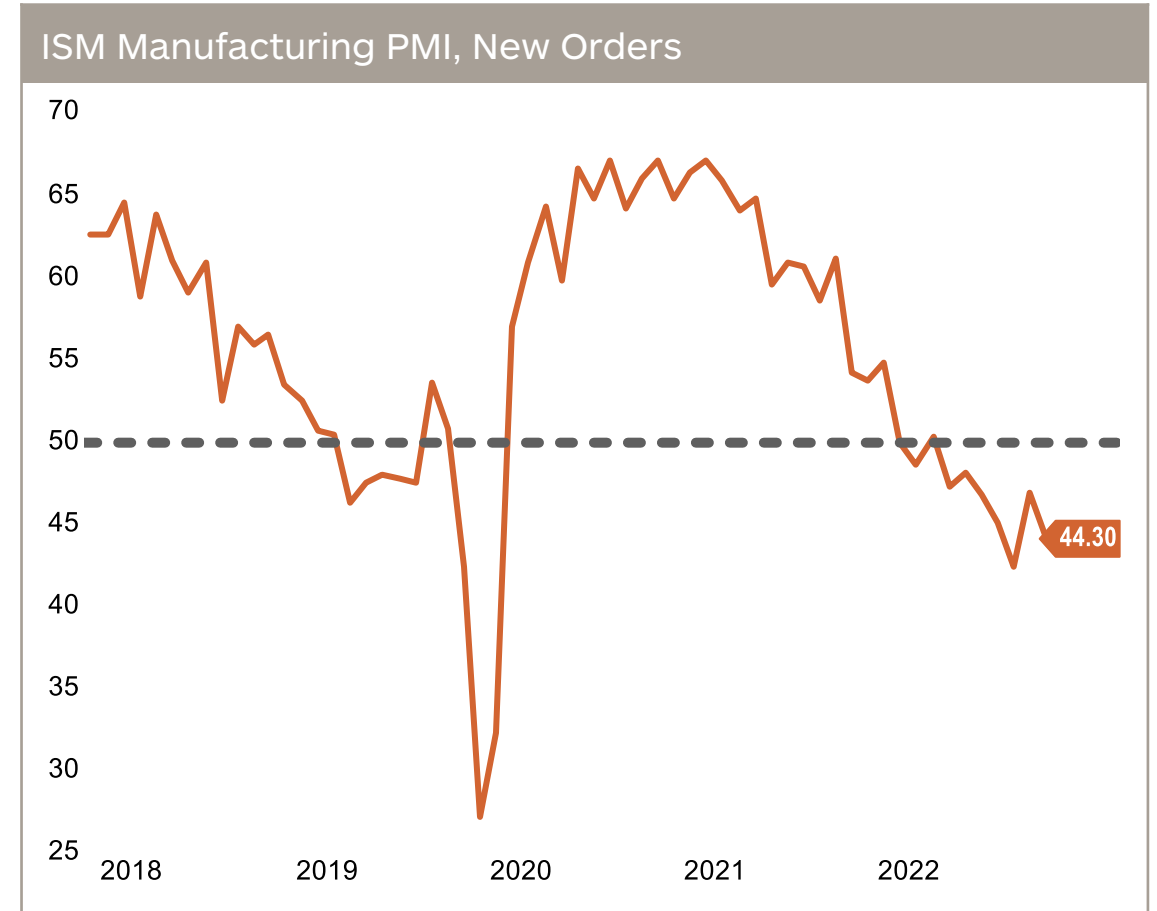
The U.S. Economy

Industrial activity is holding strong so far, but survey data portends a pullback in capital expenditures.



As of 3/31/2023

Source: Factset



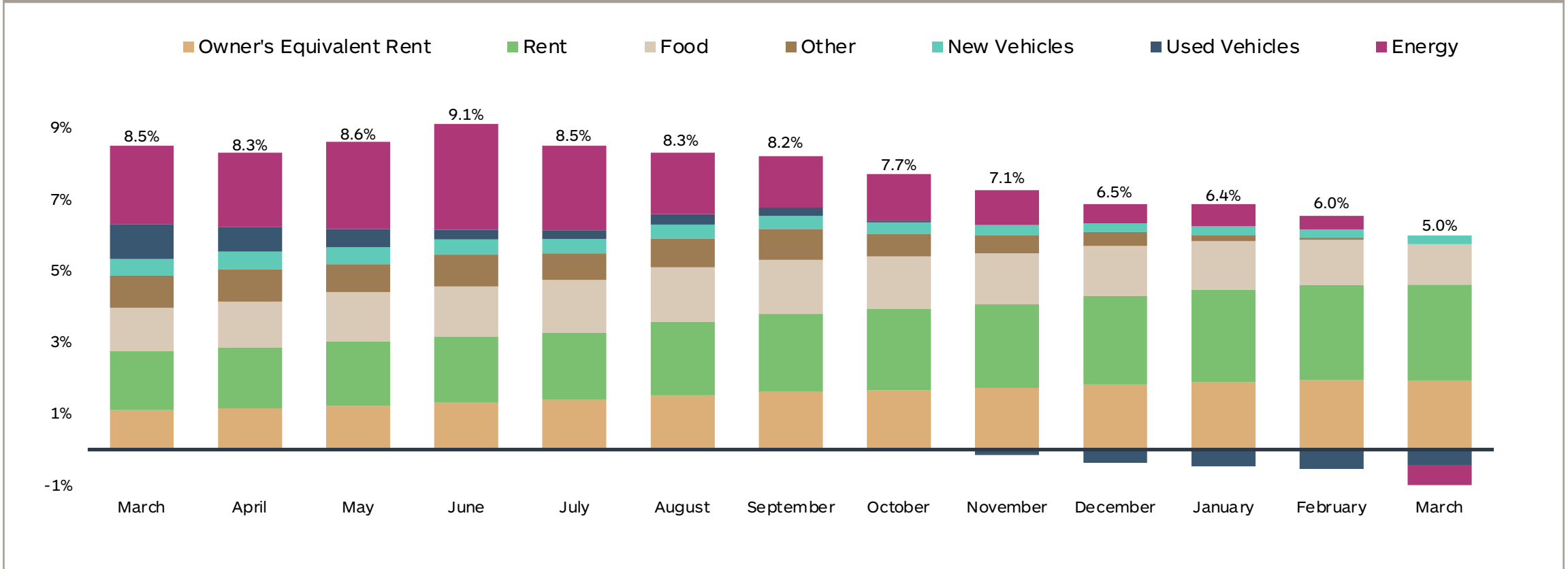
As of 3/31/2023

Source: Factset

Inflation

Energy has rolled over. The weakness in real estate should drag down shelter inflation over time.

Contributions to Year-Over-Year CPI Inflation



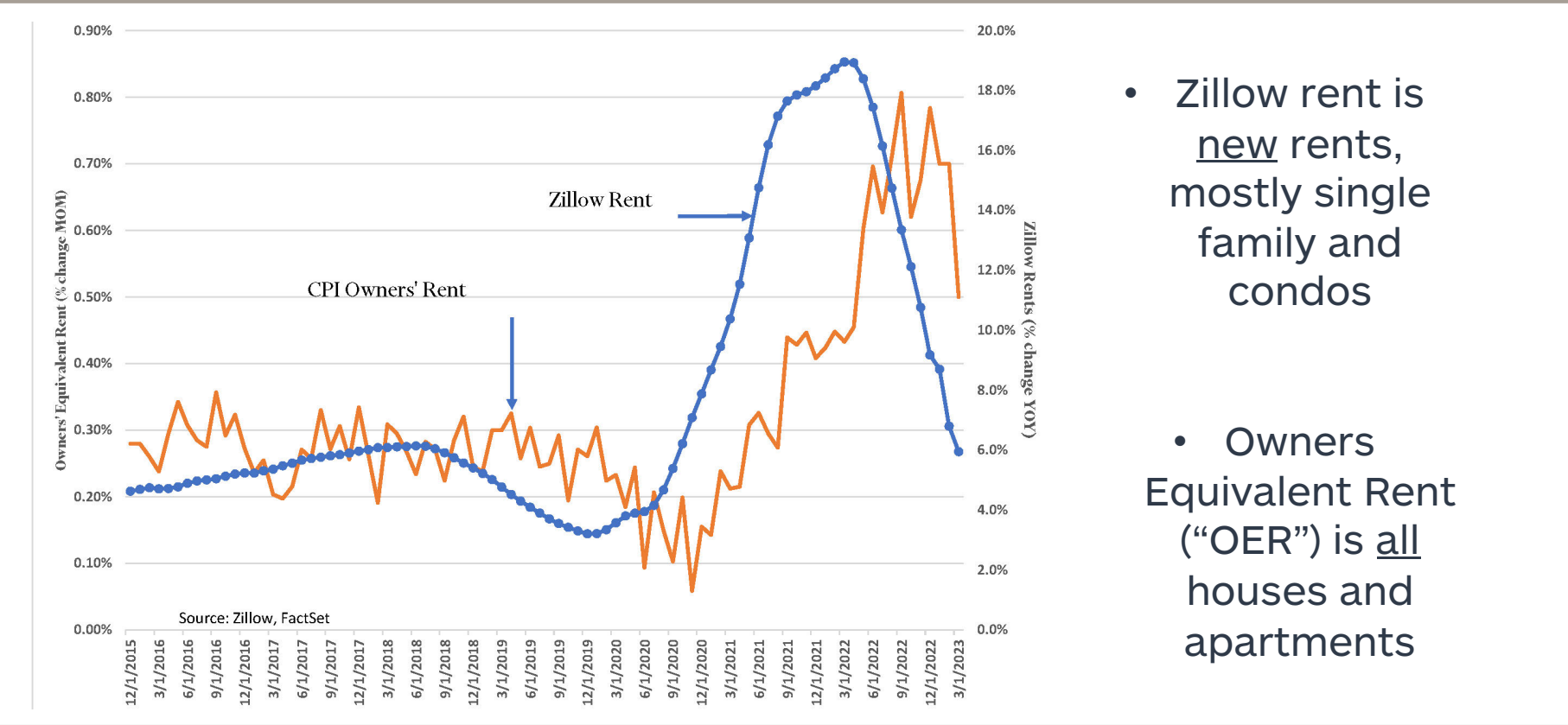
As of 3/31/2023

Source: BLS

Rents and OER Headed Down

Zillow rents lead OER by around 9 months.

Zillow Rent vs CPI Owners Equivalent Rent



- Zillow rent is new rents, mostly single family and condos
- Owners Equivalent Rent (“OER”) is all houses and apartments

As of 3/31/2023

Source: Zillow Factset

Turmoil in the Banking Industry

Bond losses and deposit flights made for a bad combo.

Silicon Valley Bank Fails After Run on Deposits



UBS is buying Credit Suisse in bid to halt banking crisis



Signature Bank becomes next casualty of banking turmoil after SVB



Silicon Valley Bank failure raises fear of broader financial contagion



Big banks create \$30B rescue package for First Republic

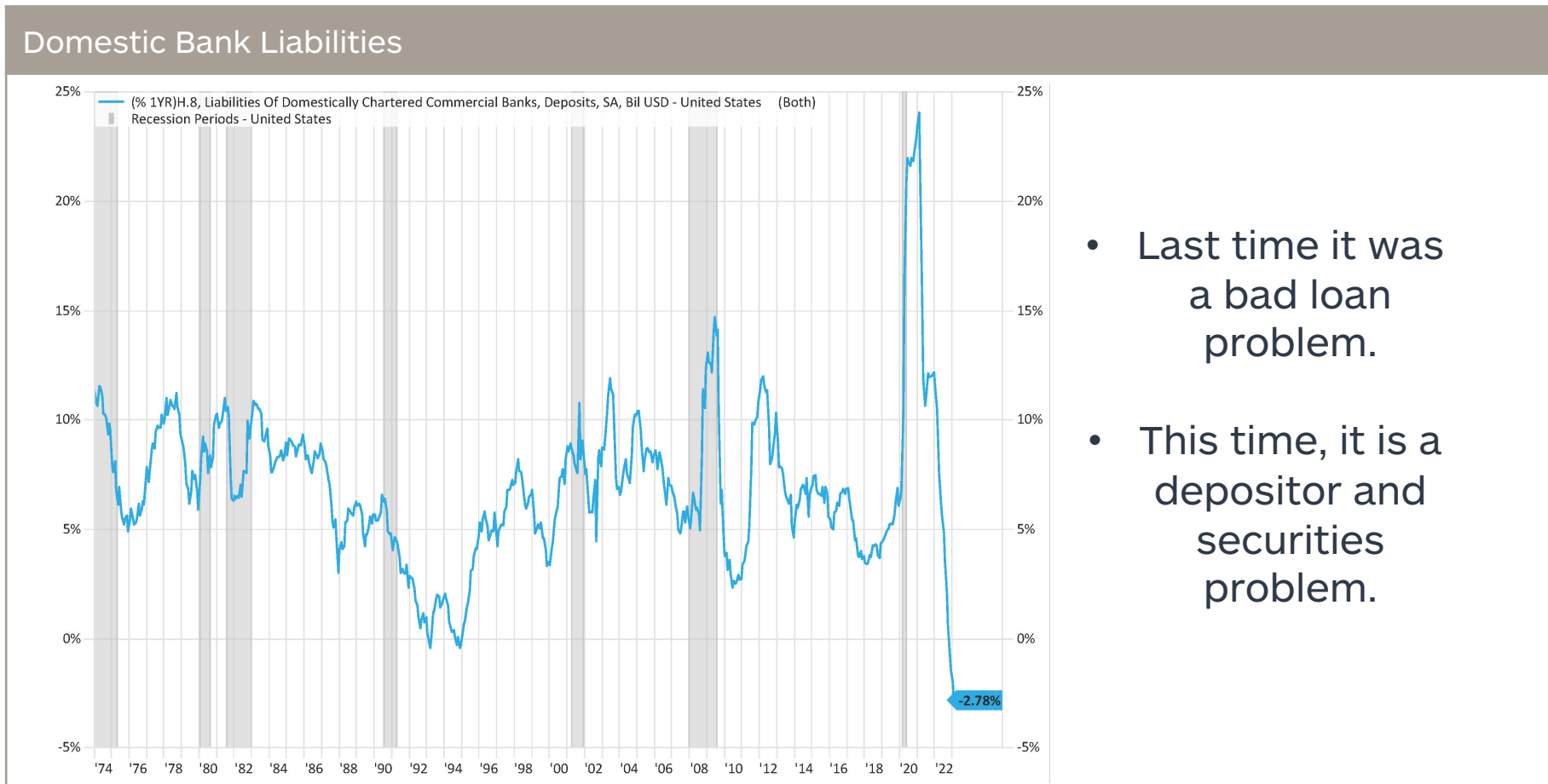


Warren Buffett says we're not through with bank failures



“Growth is Good” ... Unless You’re a Bank

Nearly always the source of risk.



- Last time it was a bad loan problem.
- This time, it is a depositor and securities problem.

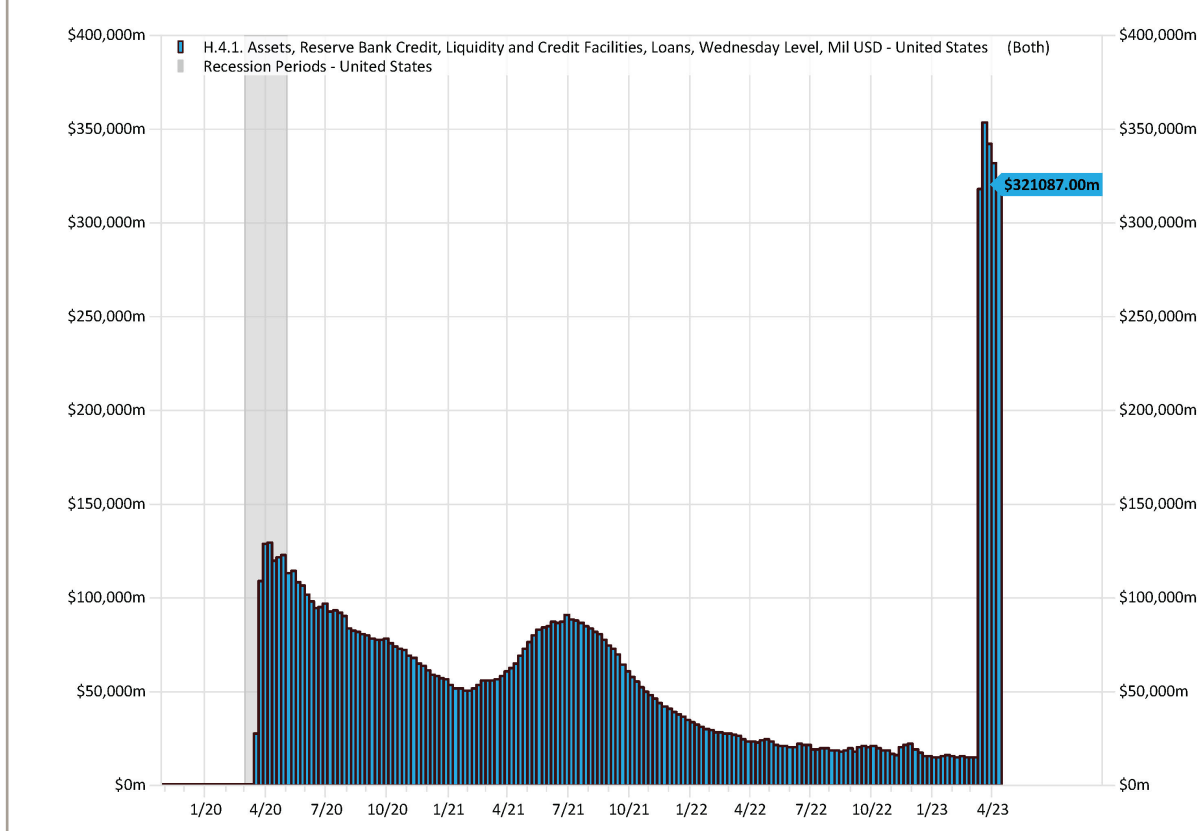
As of 3/31/2023

Source: Factset

Fed Liquidity Lines Down

Peaked at \$354 billion, now \$321 billion

Federal Reserve Liquidity and Credit Facilities



As of 4/12/2023

Sum of:

BTFP:
\$71bn, from peak
of \$79bn)

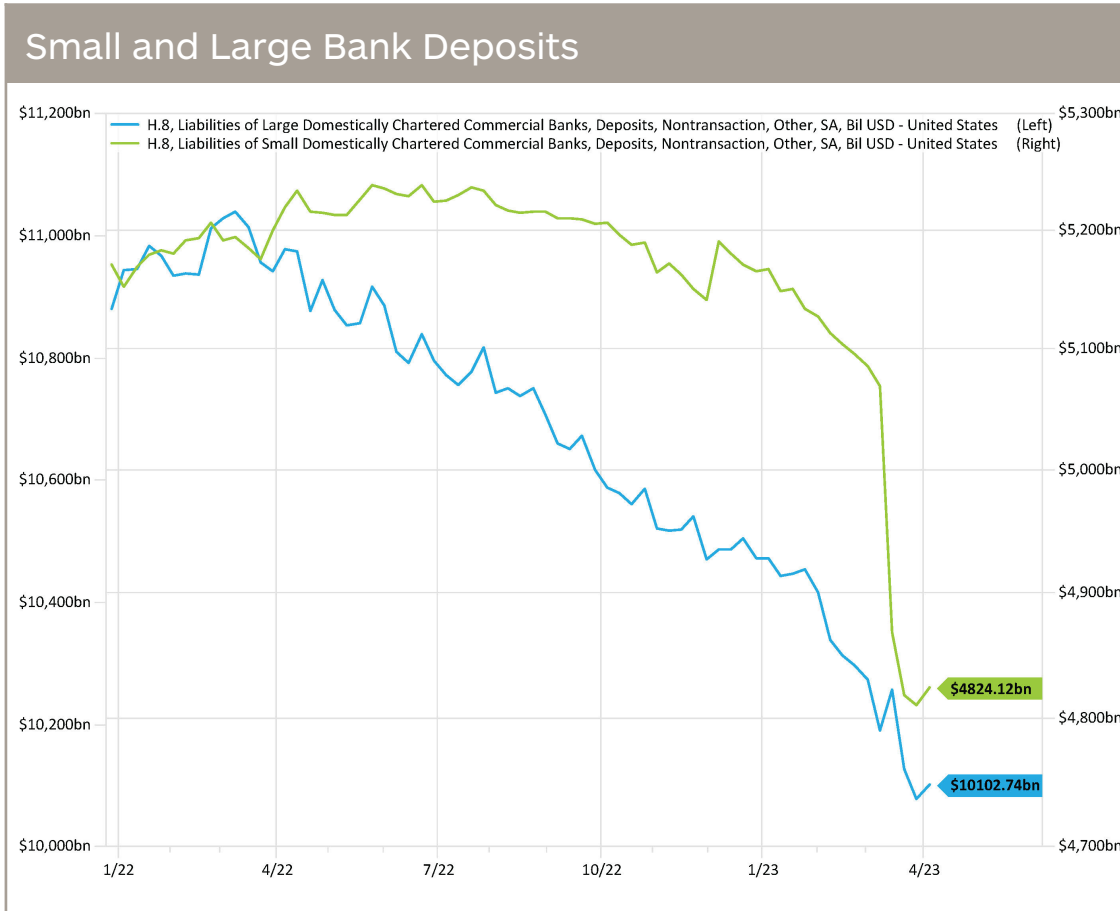
FDIC:
\$172bn, from peak
of \$180bn

Discount Window:
\$67n, from peak of
\$152bn.

Source: Factset

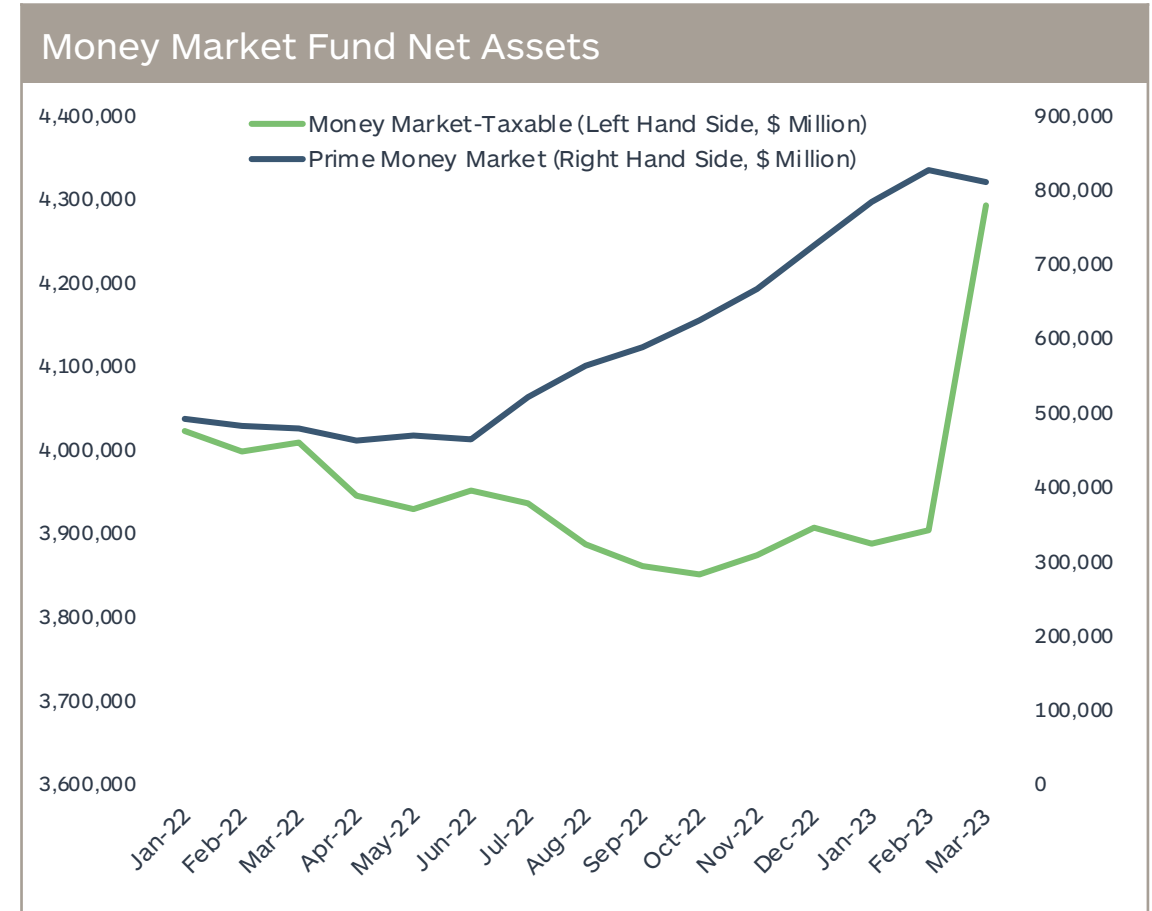
Turmoil in the Banking Industry

Bank depositors went looking for higher yields, mainly in money market funds



As of 4/14/2023

Source: Factset

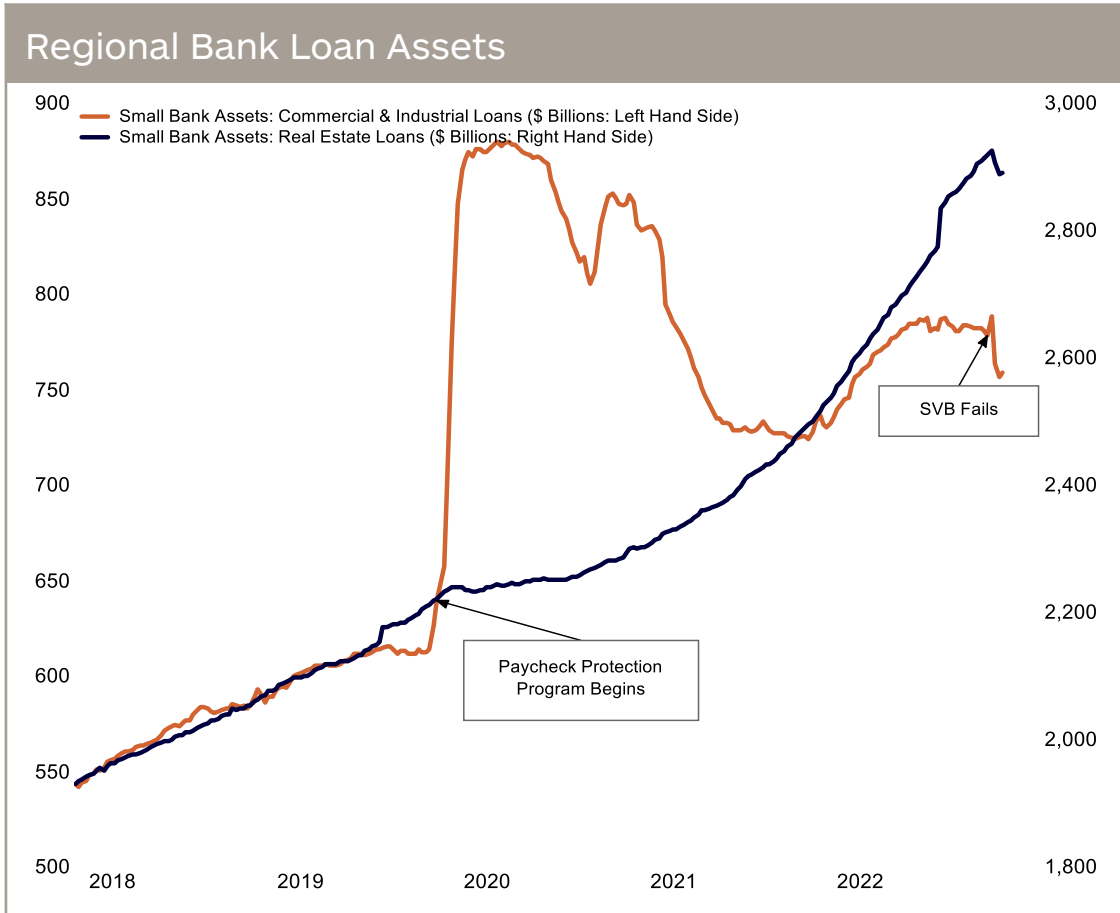


As of 3/31/2023

Source: Morningstar Direct

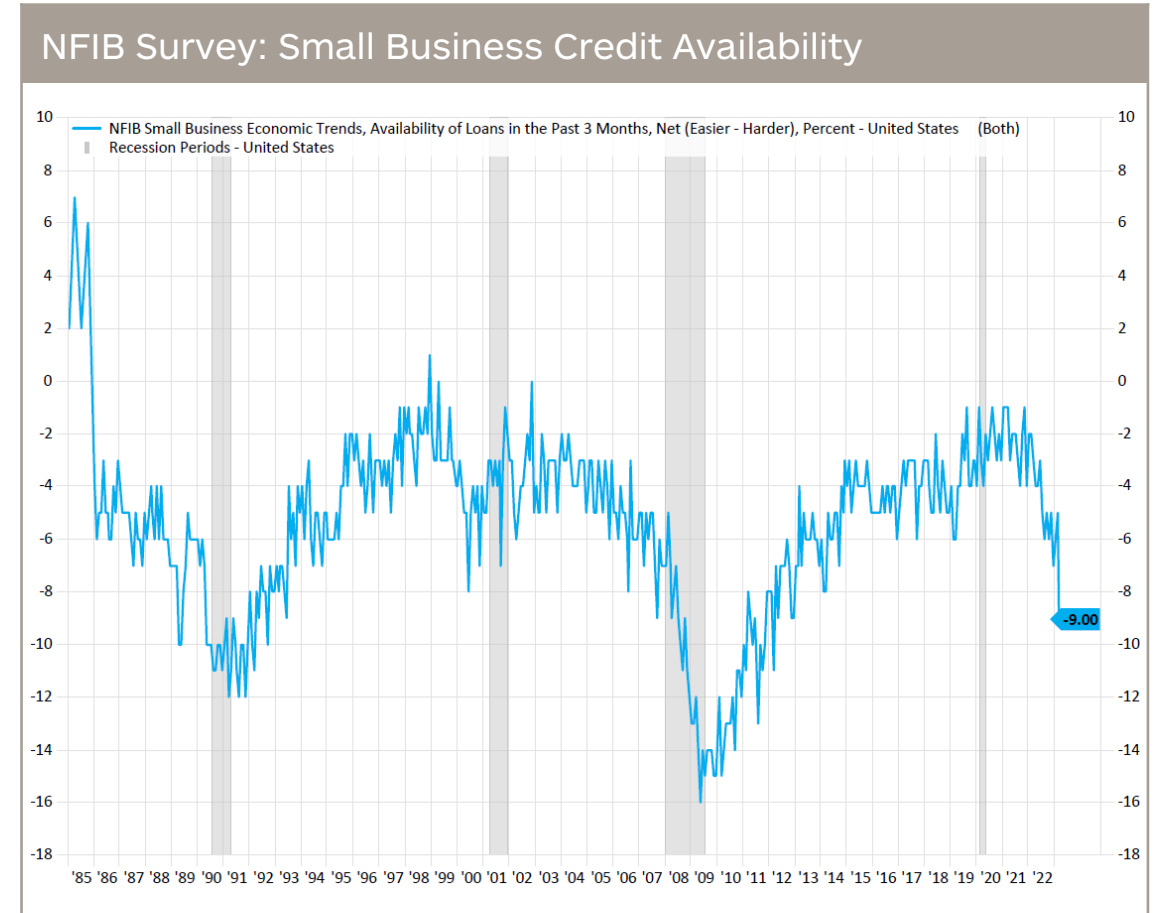
Turmoil in the Banking Industry

Watching for fallout in lending from regional banks that are anxious about liquidity.



As of 4/7/2023

Source: Factset

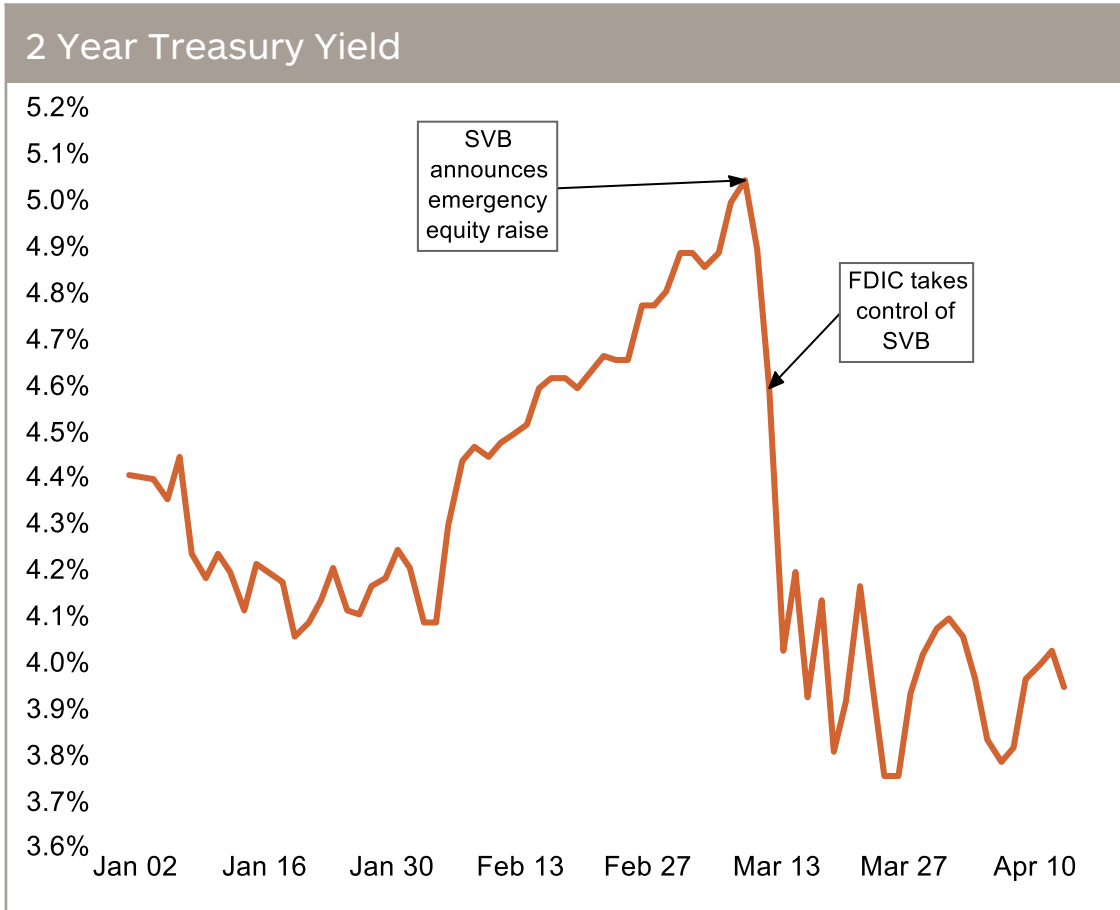


As of 3/31/2023

Source: Factset

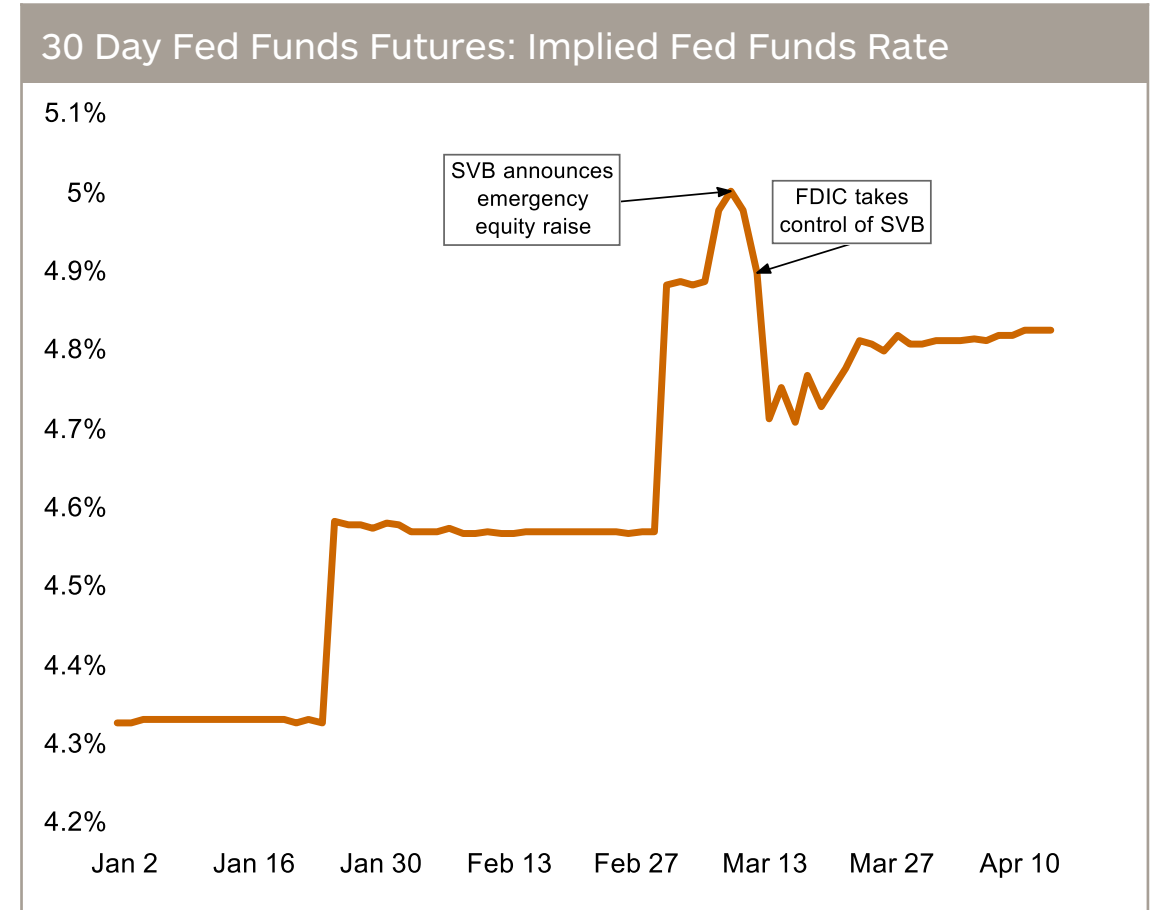
The Fed's Path Forward

The Fed is often said to raise rates “until something breaks.” Markets think the banking turmoil might be just that.



As of 4/11/2023

Source: Factset

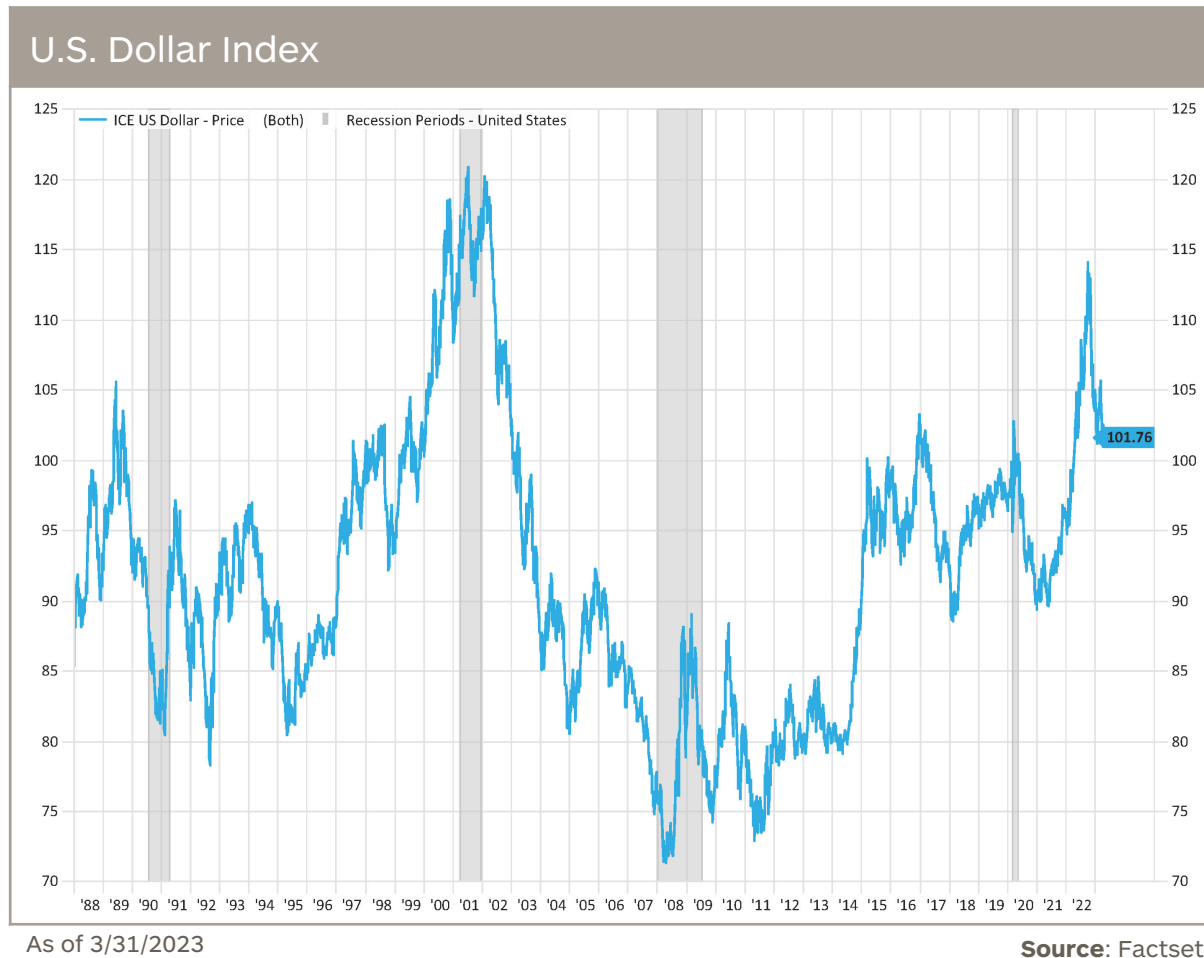


As of 4/11/2023

Source: Factset

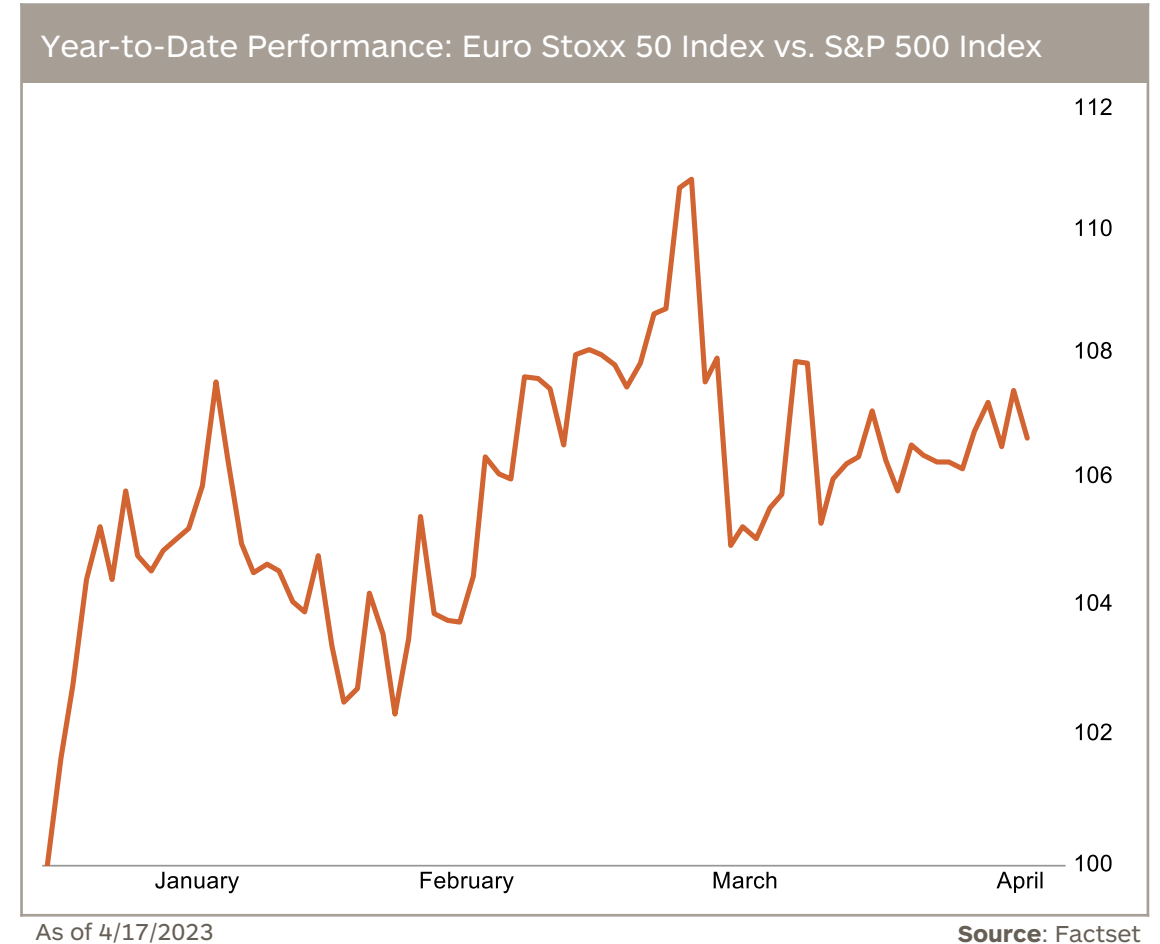
U.S. Dollar: A Matter of Rates

But also growth.



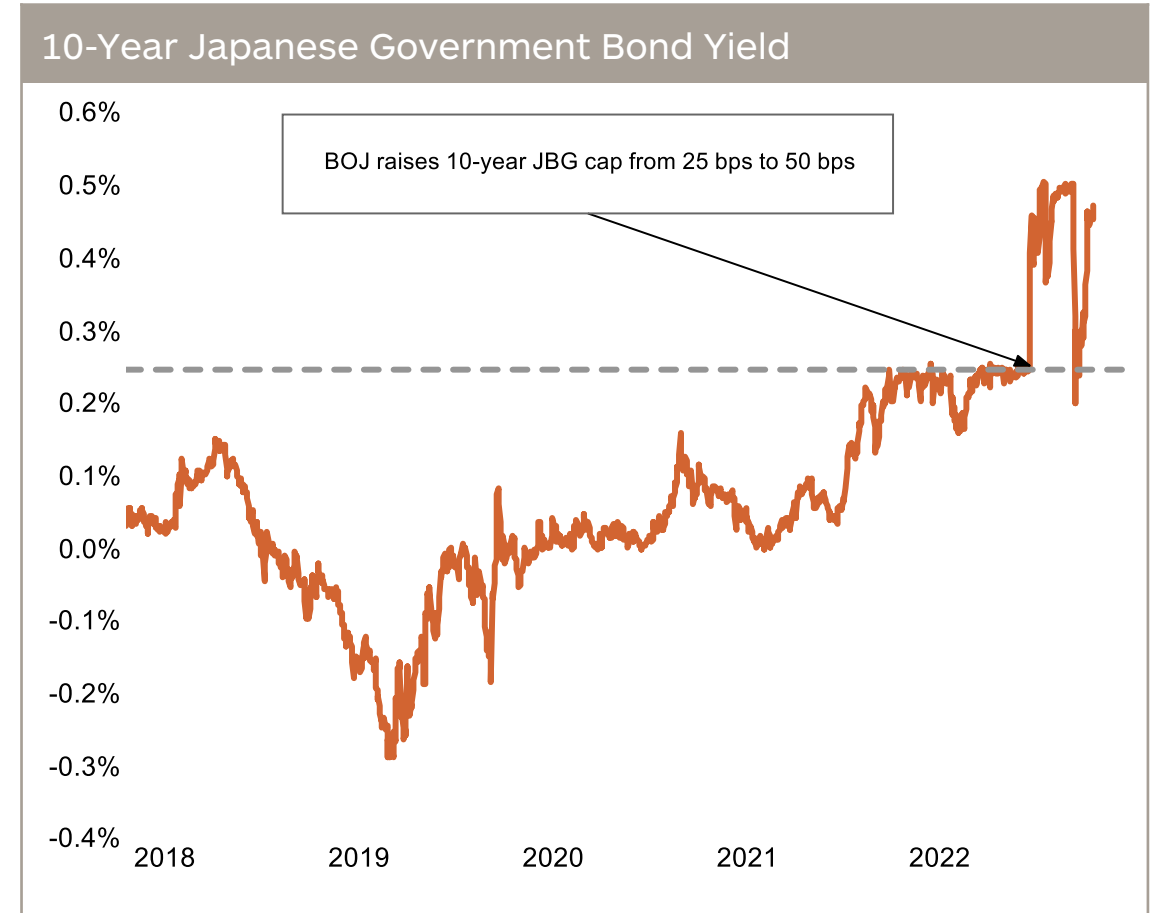
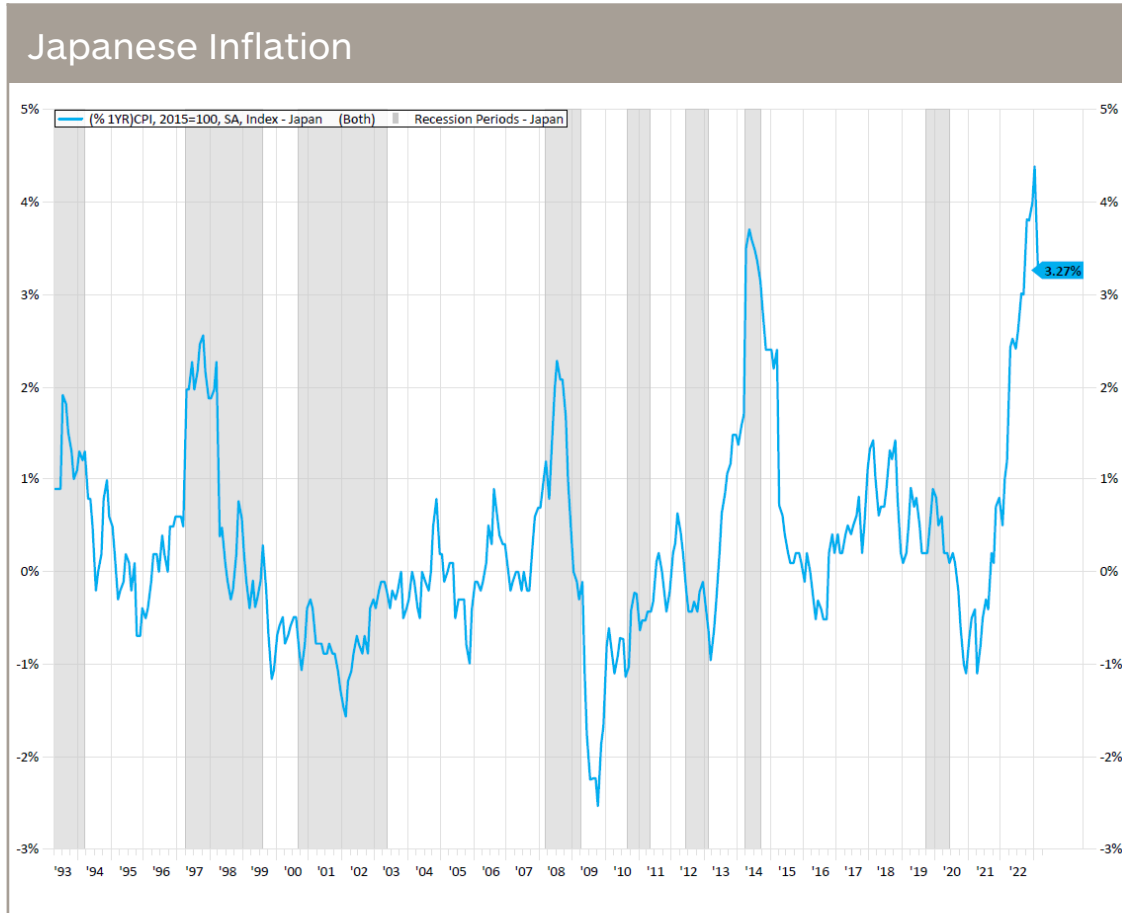
The European Economy

Investors jumped back in after Europe avoided the worst-case scenario over the winter.



The Japanese Economy

Will a changing of the guard at the BOJ mean the end of yield curve control?





U.S. Equities

What a Start to the Year! Where to Next?

Confidential & Proprietary

April 20, 2023

The Set-Up

Quite a torrid start to the year, but the internals of the market look a little uneasy.

S&P 500 (^GSPC) ☆

SNP - SNP Real Time Price. Currency in USD

4,137.64 -8.58 (-0.21%)

At close: April 14 04:58PM EDT



Source: Factset

The Set-Up

The technicals are favorable



Source: Factset

Where We Are

S&P 500 is down over the past 12 months, off 14% from its high in January 2022.

Rolling Total Return Ranges for US Large Cap Stocks Since 1926



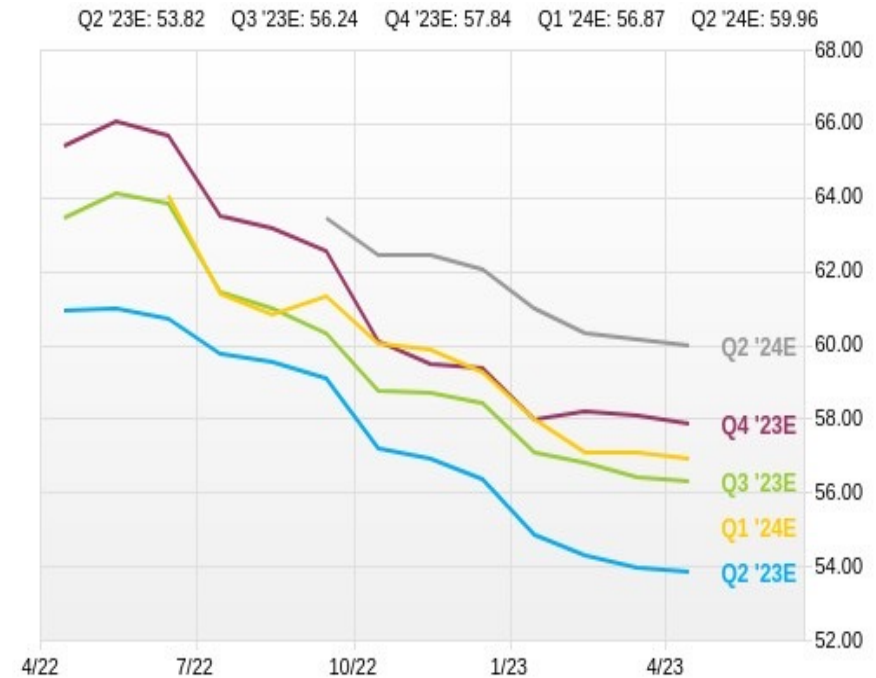
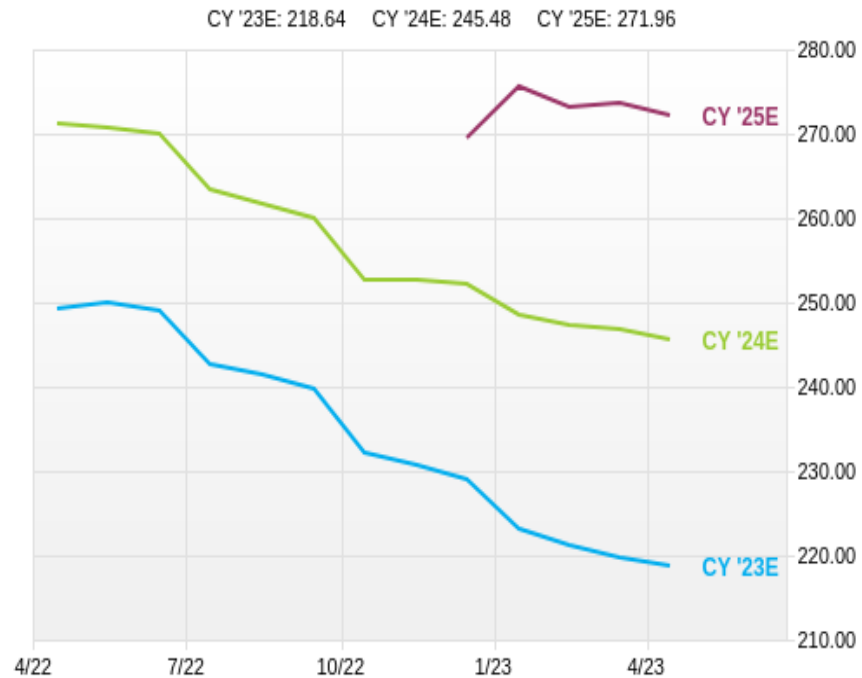
	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years
Maximum	78.6%	43.4%	36.1%	21.4%	18.3%	14.8%
75th Percentile	25.5%	17.2%	16.2%	15.1%	13.6%	12.2%
Average	13.7%	11.5%	11.3%	10.5%	10.8%	11.1%
25th Percentile	2.0%	6.5%	6.3%	7.1%	7.9%	10.2%
Minimum	-50.0%	-16.1%	-9.6%	-4.9%	1.9%	7.8%

As of 12/31/2022. Returns are compounded rolling monthly returns.

Source: Ibbotson Stocks, Bonds, Bills, and Inflation Data

The Next Battleground

Earnings are set to replace inflation and the Fed as most important topic facing the stock market



As of 4/17/2023

Source: Factset

1Q'23 Earnings Season Underway – Not a Bad Start

Very early in earnings season, reports look better than expected

Bloomberg

Earnings Season Is Off to Best Start in a Decade, Bank of America Says

CNN

[Delta Air Lines reports record bookings for summer travel](#)

Bank Of America Earnings Beat Expectations, Continue Banking Bonanza Earnings Season

Forbes

CNBC

[An earnings recession plagues investors' minds as reporting season approaches](#)

Source: Barron's, CNBC, Marketwatch

But Many of the Worst Prognostications Still Look Unlikely

Rapidly approaching one year of highly pessimistic commentary

F Forbes

Jamie Dimon Warns Of A 'Hurricane' Coming Our Way ...

Jamie Dimon, the CEO of JPMorgan and one of the most respected Wall Street leaders, gave a stern warning to investors. He advised people to...

Jun 2, 2022

Morgan Stanley | RESEARCH

July 11, 2022

US Equity Strategy | North America

Weekly Warm-up: Strong Dollar
Just Another Headwind for
Earnings, Leaving Unfinished
Business for the Bear

B Bloomberg.com

JPMorgan Sees Oil at \$380 on Worst-Case Cut by Russia

Global oil prices could reach a "stratospheric" \$380 a barrel if US and European penalties prompt Russia to inflict retaliatory crude-output...

Jul 1, 2022

PIPER | SANDLER

US Economics | Macro Research

July 27, 2022

The Profit/EPS Downturn Is Here.

[Report Link](#)

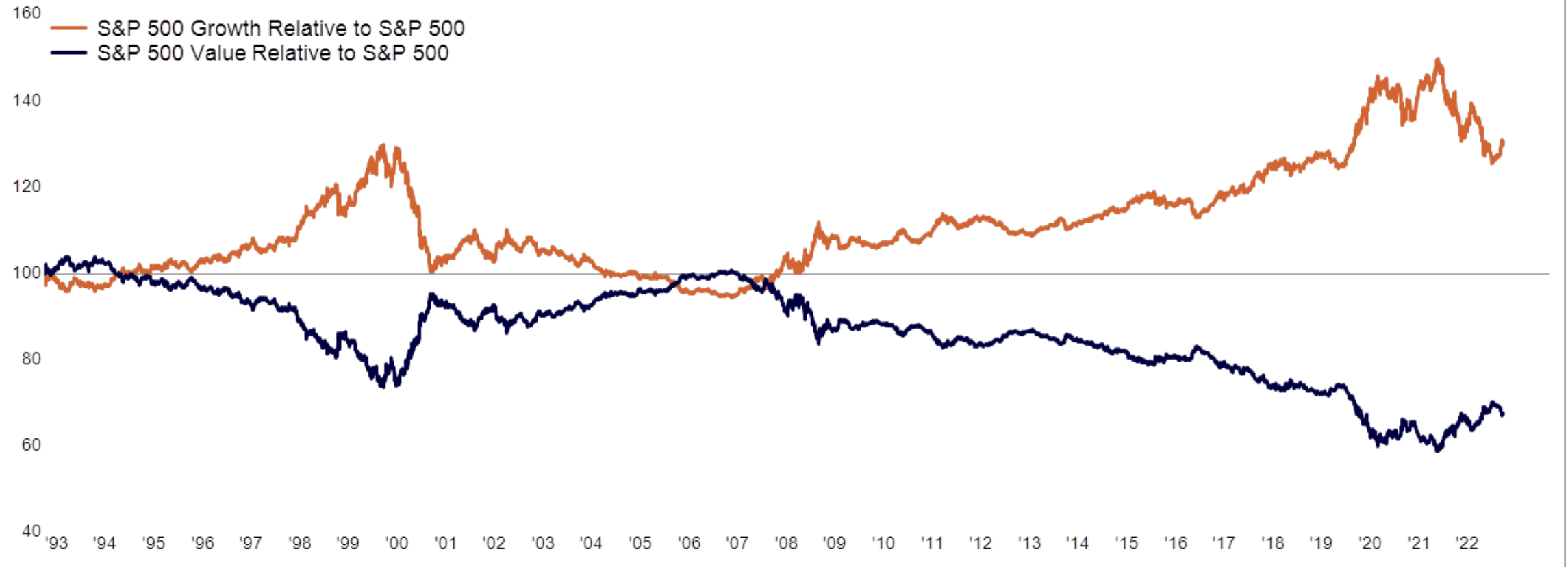
Conclusion: Profits always fall in recessions, and we're moving into one now. On average, in recessions profits & EPS decline -12%, and -24%, respectively. We're now forecasting S&P EPS to decline -8% cumulatively in 2022 & 2023 – to \$200 in 2022, and \$190 in 2023. (pgs 2-4)

Source: Bloomberg, Morgan Stanley, Piper Sandler

Value & Growth

There is still plenty of room before the historical gap is closed.

S&P 500 Growth and Value: Relative Price Performance



As of 3/31/2023

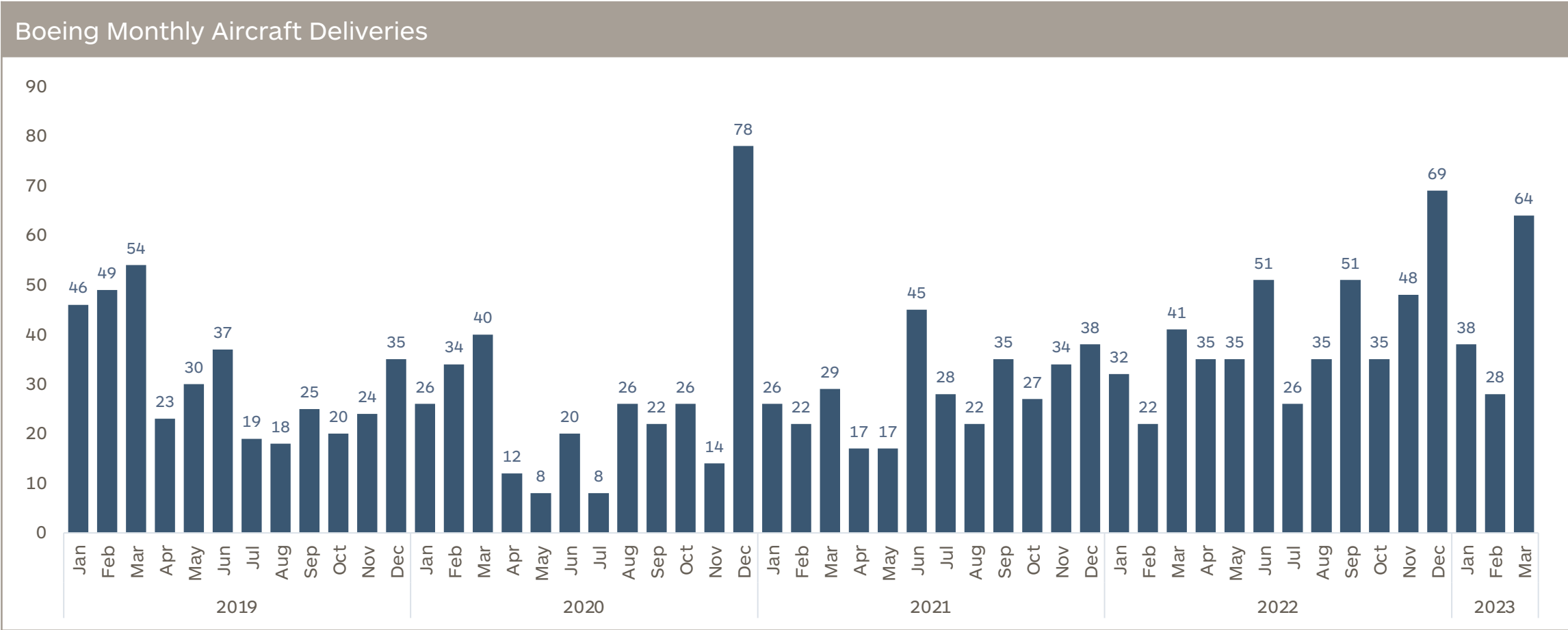
Source: Factset

U.S. Manufacturing is on the Rise



Industrial Tailwinds

Companies like Boeing have plenty to do.



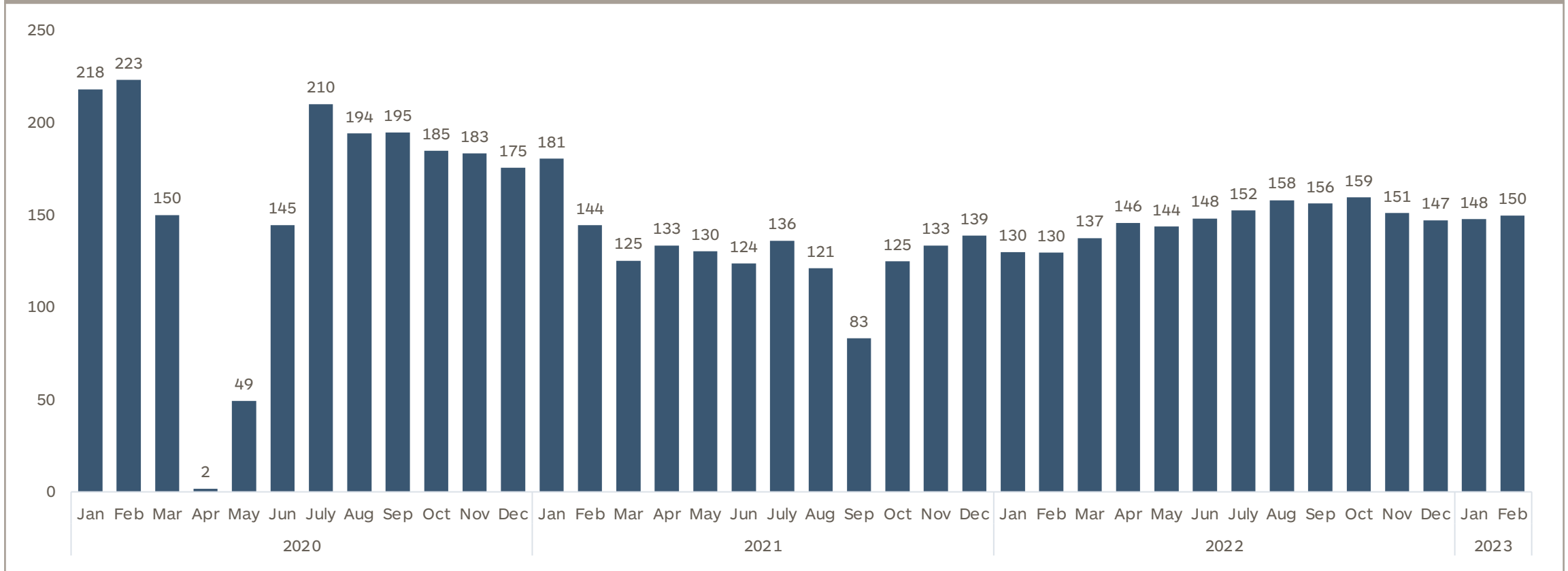
As of 3/31/2023

Source: Boeing website

Industrial Tailwinds

Expect domestic auto production to move higher in time.

Monthly Domestic Automobile Production (Thousands, Seasonally Adjusted)

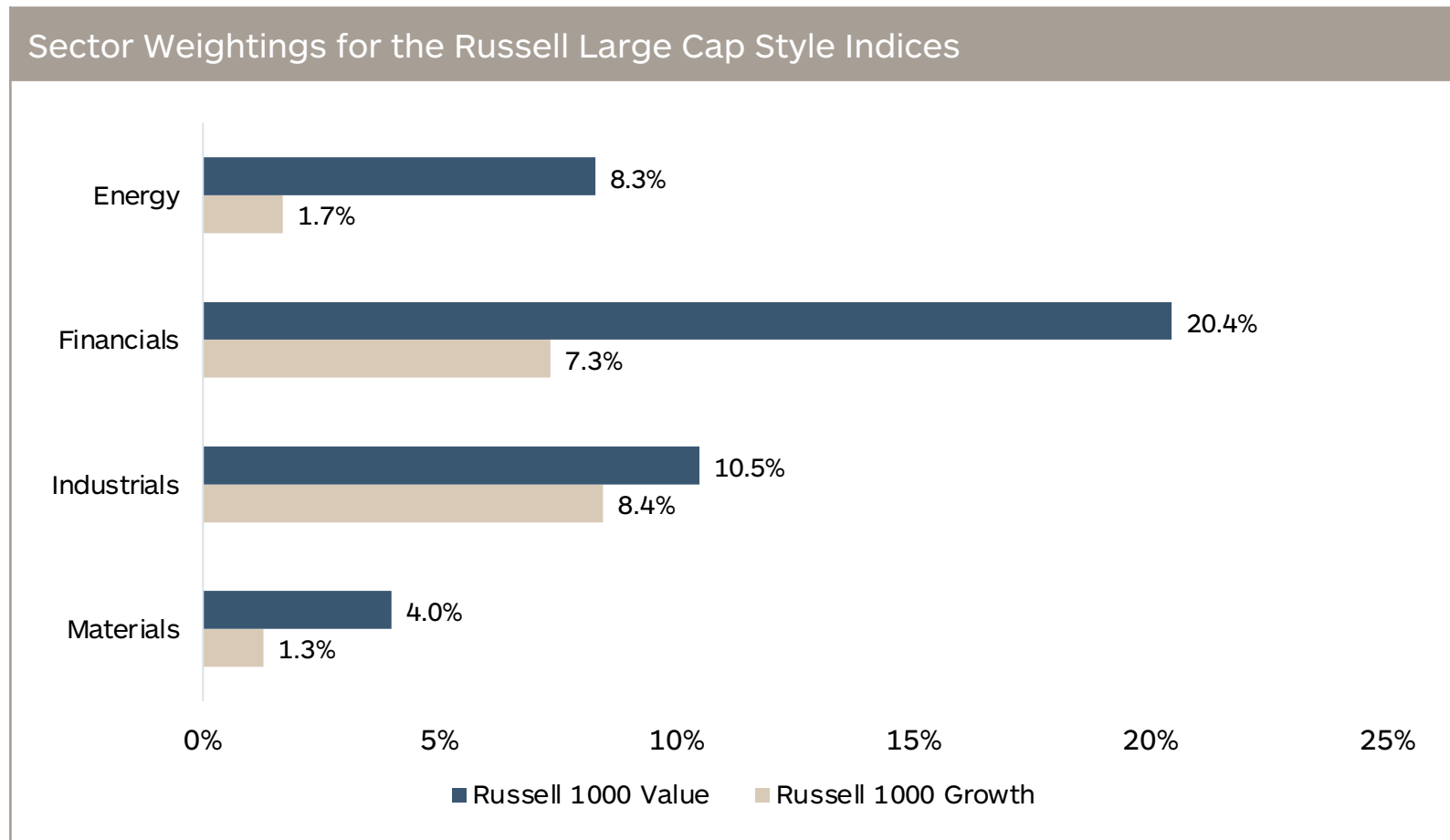


As of 2/28/2023

Source: FRED

What Does Leadership Shift Imply?

Value favors those industries most likely to see impact from supply chain onshoring & infrastructure spending

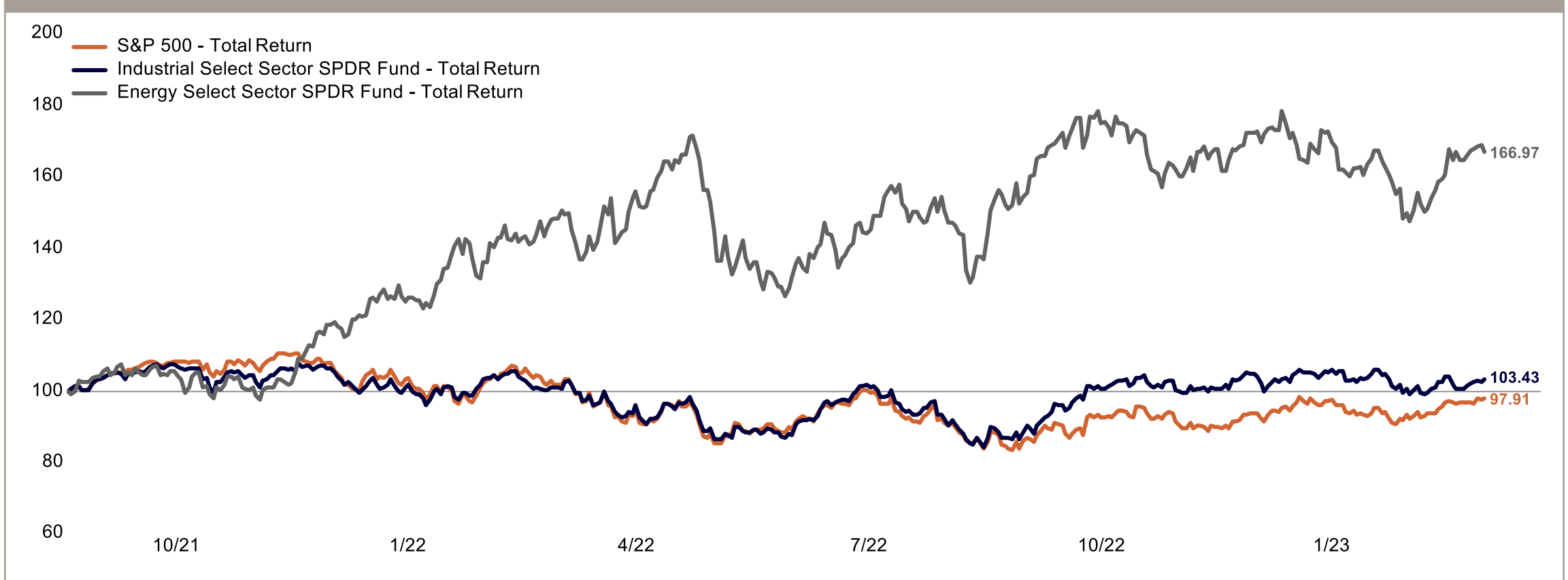


Source: Morningstar Direct as of 1/13/2023

What Does Leadership Shift Imply?

Our tactical allocations currently favor two of the primary value industries

Tactical Allocation Performance Since Initiation



As of 4/17/2023

Source: Factset

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