



Quarterly Economic Update First Quarter 2023

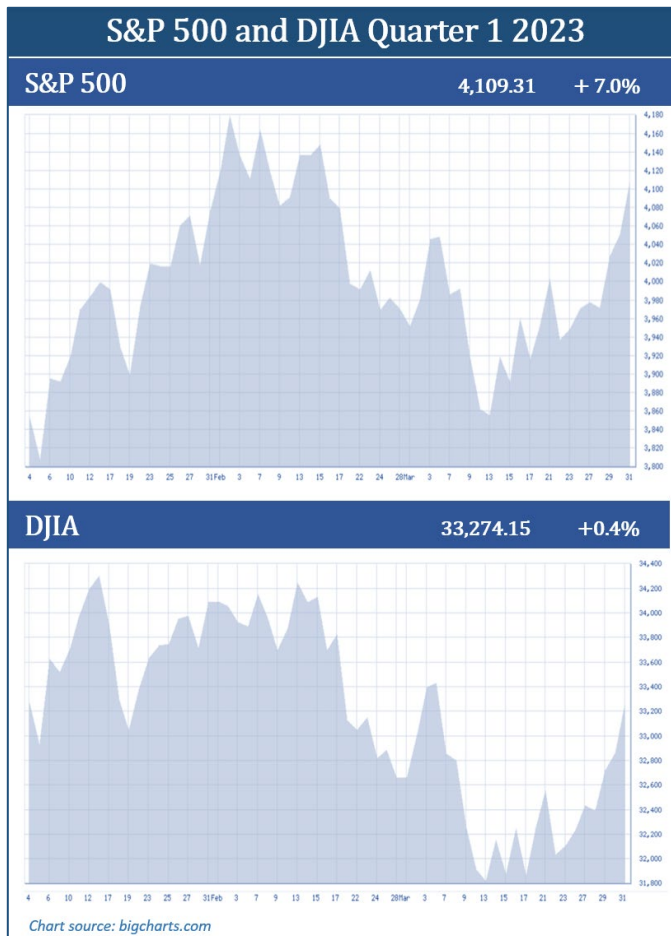
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The first quarter of 2023 had investors sitting on the edge of their seats as the equity markets took them for a bumpy ride. In the end, the quarter did close on a good note, with U.S. stocks having a late quarter comeback following some positive news that the Federal Reserve’s preferred inflation gauge took a dip in February after an uptick in January. The core personal consumption expenditures price index (PCE) (excluding food and energy) increased 4.6% in February from a year earlier, slowing from a 4.7% 12-month annual pace in January. This was a welcome sign that the Fed is gaining traction in its long battle against inflation. *(Source: barrons.com, 3/31/2023)*

The first three months of 2023 were a classic example that volatility can be very prevalent in equity markets. Despite a banking crisis, stubbornly high inflation rates, additional increases in interest rates and economic uncertainty, U.S. equities still managed to end the quarter on a high note.

The Dow Jones Industrial Average (DJIA) ended the quarter up 0.4%, after rising 3.2% in the last week of the quarter, its largest one-week gain since the week ending November 11, 2022. The DJIA closed on March 31, 2023, at 33,274. The S&P 500 rose 7.0% during the first quarter, which is its best three-month performance since the fourth quarter of 2021. The S&P 500 closed the quarter at 4,109. *(Source: cnbc.com, 3/31/23)*

Despite the first quarter’s strong performance, inflation rates remain at levels still well above the Fed’s 2% target range. The U.S. annual inflation rate was 6.0% for the 12 months ending February 2023, following a rise of 6.4% in the previous period, according to U.S. Labor Department data published March 14, 2023. Declaring victory and lowering interest rates now could prove to be too soon. Key indicators for the Fed are still showing strong,



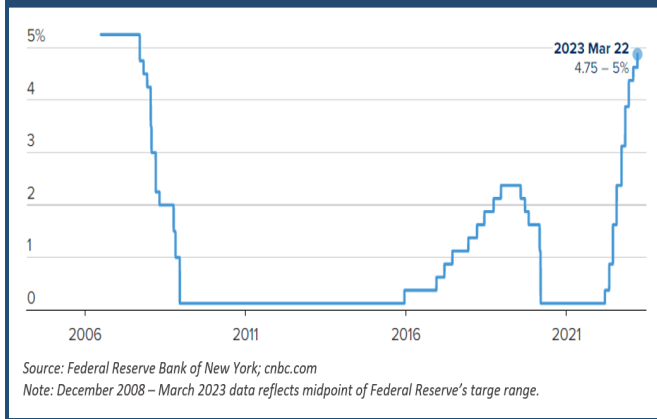
MONEY RATES

(as posted in Barron's 4/3/2023)

	LATEST WEEK	YEAR AGO
Fed Funds Rate*	4.85%	0.34%
Bank Money Market ^z	0.32%	0.07%
12-month Certif ^z	1.61%	0.20%

Z - Bankrate.com (Source: Barron's; bankrate.com)
 * - Average effective offer

Federal Funds Target Rate (July 2006 – March 2023)



including the unemployment rate, which is at a 50-year low of 3.4%.

To sum it up, during the first quarter of 2023, growth was modest, job gains increased at a strong pace, and unemployment remained low. While inflation is showing signs of slowing, it remains elevated and still poses a threat. With monetary policy changes and signs of slowing growth, it is safe to say that volatility should continue into the second quarter.

"Although inflation has been moderating in recent months, the process of getting inflation back down to 2% has a long way to go and is likely to be bumpy," Fed Chair Powell stated during a testimony before the Senate Banking Committee in early March. (Source: npr.org, 3/7/2023)

The next FOMC meeting is set for May 2-3 and another rate hike could be enacted.

Equities are most likely to continue to remain hypersensitive, surging on positive news days, and retreating when negative economic data is released. We continue to abide by our belief that investing is a long-term commitment and can provide a better safety net than short-term trading and investing. **As your financial professionals, we are committed to keeping you apprised of any changes and activity that could directly affect you and your unique situation.**

Inflation & Interest Rates

Inflation peaked in the summer of 2022 and since then, has primarily been on a downward trend but is still not close to the Fed's target rate of 2%. The bad

KEY TAKEAWAYS

- The Fed raised interest rates ending the quarter at target rate range of 4.75 – 5.00%.
- The Fed is positioned to further increase federal interest rates in 2023, if necessary.
- Inflation showed signs of slowing down, with a rate of 6% for the 12-month period ending February.
- Treasury yields are providing favorable returns.
- Volatility will remain in the economic environment as we enter 2023.
- Staying the course and following a well-devised, long-term focused plan has historically served investors well.
- ***We are here for you to discuss any concerns you have.***

news is the Fed continued increasing the federal interest rate range in the first quarter of 2023. The good news is the rate at which they increased the range was not as steep as last year's rate hikes. On February 1, we saw a 0.25% increase, bringing the interest rate range to 4.50 – 4.75%. Then again, in March, the rate was increased by another 0.25%, to a range of 4.75 – 5.00%. The Federal Reserve still expects to bring the interest rates to 5.1% by the end of 2023, which means that they expect one more rate hike before they pause. Today's rates are currently at their highest level since September 2007.

In the Fed's quest for price stability, the March increase represented the ninth-rate hike since March 2022, when the rate range was only 0.25 - 0.50%. The silver lining of these higher interest rates is certificate of deposits and even savings accounts are yielding some of the best returns investors have seen in a long time. It is now not unusual to see some banks offering over 4% with CDs.

We are closer to the end of a Fed hike cycle than the beginning. However, there still could be some tightening in the near future. The Fed will continue to monitor information and key indicators before they stop the cycle. Fed Chair Powell stated that, “rate cuts are not in our base case” for the remainder of 2023. (Source: [cnn.com](https://www.cnn.com/2023/03/22/fed-powell-03-22/index.html), 3/22/2023)

As your financial professionals, we are committed to keeping a vigilant eye on all aspects of financial planning that may affect you, including interest rates and inflation. If you'd like to know how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation.

The Bond Market and Treasury Yields

Treasuries took a hit when the shutdown of Silicon Valley Bank, the biggest bank failure since the financial crisis, triggered many investors to run for cover in safer assets, such as government bonds. The Monday after the Silicon Valley Bank collapse, the 2-year Treasury yield posted its biggest 3-day drop since the aftermath of the 1987 stock crash on October 22, 1987. The benchmark 10-year Treasury note yield fell, settling at 3.543%. (Source: [cnbc.com](https://www.cnbc.com/2023/03/13/10-year-treasury-yield.html), 3/13/23)

Despite all of this, bond prices rose as investors are suspecting the Federal Reserve will not raise rates as high as previously expected due to the banking crisis. Volatility has been very prevalent in what is typically a less volatile sector for investors. Bonds are typically a good option for a conservative, diversified, and well-balanced portfolio as they are usually more stable than stocks. If you'd like to explore how bonds could fit into your retirement income strategy, please contact us so we can help you make the best decision for your portfolio. Please remember, while diversification in your portfolio can help you reach your goals, it does not ensure a profit or guarantee against loss.

We will continue to monitor how the Fed's movements and rising interest rates are affecting bond yields.

Investor's Outlook

It's fair to say that the first quarter of 2023 was filled with ups and downs. In January, we saw a decent

upward trend in equities, but then in February, the Fed raised rates by .25%. Equity markets responded unfavorably to the announcement. Finally, in March, we saw another rate increase and a brand-new surprise when three major financial institutions, Silicon Valley Bank, Signature Bank, and Credit Suisse, collapsed. This triggered more market instability and uncertainty. But somehow, the quarter still ended on a positive note.

What will the next quarter and beyond bring for investors? The past few years have taught us that it's a better practice to expect the unexpected and be prepared for anything the economic environment throws at investors, rather than trying to predict the future of equity markets. No one can predict what the future holds. Our goal as your financial professionals is to not try to predict the future but provide you with a solid financial plan that is designed to best weather any market environment. While past performance is not a guarantee of current or future results, history shows us that returns from equities after a recession have been fruitful.

The Fed still has its eye on their goal of a 2% inflation target and most Fed officials are anticipating one more rate increase in 2023. The collapse of sizable banks has created another concern for the Feds. In response through the FOMC's press release on March 22, 2023, they stated that they believed the, “U.S. banking system is sound and resilient.” (Sources: [bankrate.com](https://www.bankrate.com/2023/03/29/federalreserve-com-3-22-2023/), 3/29/2023, [federalreserve.com](https://www.federalreserve.com/2023/03/22/), 3/22/2023)

We stand by our belief that investing in equities is a long-term commitment. Investors can expect to continue to face a challenging market environment and the need to look at long-term stability and quality, practicing patience, and proceeding with caution are key to your financial savviness. As we move into the second quarter of 2023, we will continue to monitor your advisory portfolios with a special focus on inflation rates, the economic growth rate and a tightening of monetary policy.

We still advise keeping a long-term mindset. The coming months could be filled with uncertainty and more market volatility. Keeping your head down and your eyes and ears away from media magnification can help you as we enter into the next quarter. Smart investing includes having a long-term mindset and staying the course of your well-devised and balanced

financial plan. On troublesome days, it can be helpful to avoid too much exposure to the media.

Our goal as the steward of your wealth is to help you through uncertain times like these. Please

remember that as a valued client, we are accessible to you! Feel free to contact us with any concerns or questions you may have. We appreciate the trust and confidence you place in our firm.

This quarter, Berkshire Hathaway CEO Warren Buffett published his annual letter to shareholders. His letter has been heralded as gospel for decades among investors eager to pick the brain of one of the most successful investors of all-time who sits amongst the richest people in the world. His 2023 letter reinforced his views that investing is long-term and that his secret sauce is time. He says there is a *“lesson for investors: The weeds wither away in significance as the flowers bloom.”*



He quoted his business partner, fellow billionaire Charlie Munger who said on a recent podcast that, *“The world is full of foolish gamblers, and they will not do as well as the patient investor.”*

He specifically shared that after investing for 80 years, *“I have yet to see a time when it made sense to make a long-term bet against America. And I doubt very much that any reader of this letter will have a different experience in the future.”*

When it comes to investing, discipline and patience can be very rewarding.

We want to offer our services to other people just like you!

Many of our best relationships have come from client introductions. Do you know someone who could benefit from our services?

We would be honored if you would:

- 1) add a name to our mailing list;
- 2) invite a guest to a workshop; or
- 3) encourage someone to schedule a complimentary financial checkup.



Please call Junette McCarthy, CFP® Jeorjia Sun, CFP® or Peter M. Rivas, CFP®, AAMS® at (714) 245-1381 and we would be happy to assist you!

Note: The views stated in this letter should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice.

This material contains forward looking statements and projections. There are no guarantees that these results will be achieved. All indices referenced are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. The S&P 500 is an unmanaged index of 500 widely held stocks that is general considered representative of the U.S. Stock market. The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90. Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Past performance is no guarantee of future results. CDs are FDIC Insured and offer a fixed rate of return if held to maturity. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. There is no guarantee that a diversified portfolio will enhance overall returns outperform a non-diversified portfolio. Diversification does not protect against market risk.

Sources: www.cnbc.com; www.barrons.com; www.usinflationcalculator.com; www.blackrock.com; www.bankrate.com; www.schroders.com; www.federalreserve.com; **Contents provided by the Academy of Preferred Financial Advisors, 2023©**