

# SC Capital Advisors Investor Insights



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**1st Quarter 2023**

## 2023 1st Quarter in Review & Outlook

*“Many an optimist has become rich simply by buying out a pessimist.” —Laurence J. Peter, Maxims of Wall Street*

### Year of opposites

So far, 2023 has turned out to be a year of opposites as compared to 2022.

In our last quarterly newsletter, we discussed how 94% of global asset classes finished 2022 in negative territory; 2022 was the worst year for the bond market since 1926 and the 7<sup>th</sup> worst year for the U.S. stock market since 1926. We also discussed how we thought things would improve in 2023, but not necessarily right away. Broader capital market returns below indicate that investors saw value across the board after last year’s Central Bank-induced selloffs.

#### Asset Class Returns Q1 2023 (03-31-2023)

	US Large	US Mid	US Small	REITs	Intl Large	Intl Small	Em Mkts	Bonds
Q1	7.5%	3.8%	2.7%	1.6%	8.5%	4.9%	4.0%	3.0%
2022	-19.1%	-13.1%	-20.4%	-25.2%	-14.5%	-21.4%	-20.1%	-13.0%

Indexes: US Large, Russell 1000; US Mid, S&P MidCap 400; US Small, Russell 2000; REITs, DJ US Real Estate; Intl Large, MSCI EAFE; US Small, MSCI EAFE SMall Cap; EM, MSCI Emerging Markets; S&P GSCI TR; Bonds, Bloomberg US Agg Bond. Source: Morningstar.

Returns on a sector level paint the same picture: stocks that were down the most in 2022 are up the most in 2023. Below, consumer cyclical stocks, technology, and materials that were down the most in 2022 had the largest return differentials in 2023 through April 18<sup>th</sup> while energy stocks, the best performing sector in 2022, have been flat thus far in 2023. Among our Core Equity portfolios, sector returns paint a similar picture.

#### Sector ETF Returns

Name	Ticker	Total Return 2022	YTD Returns through 4-18-23	Diff
Consumer Discret Sel Sect SPDR® ETF	XLY	-36.27	15.07	51.34
Consumer Staples Select Sector SPDR® ETF	XLP	-0.83	2.28	3.11
Energy Select Sector SPDR® ETF	XLE	64.17	-0.05	-64.22
Financial Select Sector SPDR® ETF	XLF	-10.60	-1.98	8.62
Health Care Select Sector SPDR® ETF	XLV	-2.09	-1.32	0.77
Industrial Select Sector SPDR® ETF	XLI	-5.58	3.36	8.94
iShares MSCI Global Mtls&Mng Prdcrs ETF	PICK	2.67	7.52	4.85
Materials Select Sector SPDR® ETF	XLB	-12.31	5.68	17.99
Technology Select Sector SPDR® ETF	XLK	-27.73	20.52	48.25
Utilities Select Sector SPDR® ETF	XLU	1.42	-1.54	-2.96

Data source: Morningstar

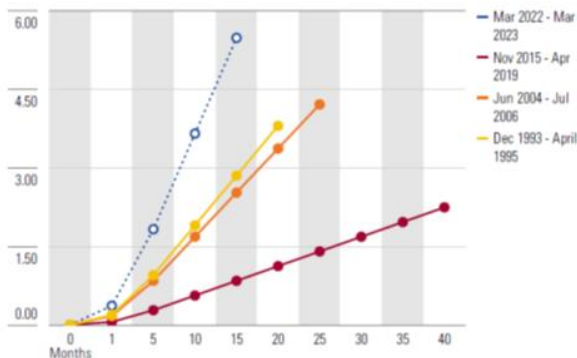
Clearly, during bear markets, high quality issues in the worst performing sectors can be fertile ground for the eventual recovery. On a weighted average basis, our Core U.S. Equities are up 11.9% thus far in 2023 through April 21st with our ADRs (foreign-based stocks) up 9.6%.<sup>1</sup> We still see valuations as largely attractive with few, if any, outright sell candidates within our Core Equity portfolio.

The biggest news of the quarter was the failure of two large regional banks, including Silicon Valley Bank of San Francisco. Two major Exchange Traded Fund (ETF) providers sponsor ETFs that concentrate exposure to U.S. Regional banks. Each ETF is down in excess of 30% over the last 12 months. Some analysts attribute this stress in the banking system to the very rapid monetary tightening initiated by the Federal Reserve. While it has been the fastest tightening cycle in recent history, it is slower and shallower than the tightening cycles of the 1970s and 80s. We believe these failures were more a case of mismanagement of these banks rather than systemic stress as Morningstar reports that bank balance sheets, on average, are in good shape.

#### U.S. EQUITY MARKET VALUATION OVERVIEW Monetary Tightening Coming to an End

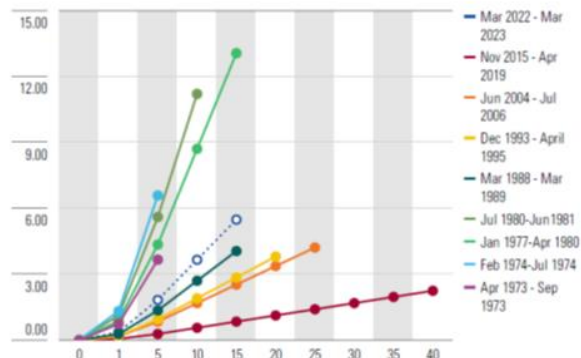
- At, or near, end of current monetary tightening cycle — Fed changed language in its statement to “anticipates that some additional monetary policy may be appropriate.” Additionally, Chair Powell noted regional bank stress will result in tightening credit conditions.

Fastest Monetary Tightening Cycle in Recent History ...



Source: Morningstar. Data as of Mar. 27, 2023.

...But Slower and Shallower Than Those in the 1970s and 1980s



Source: Morningstar. Data as of Mar. 27, 2023.

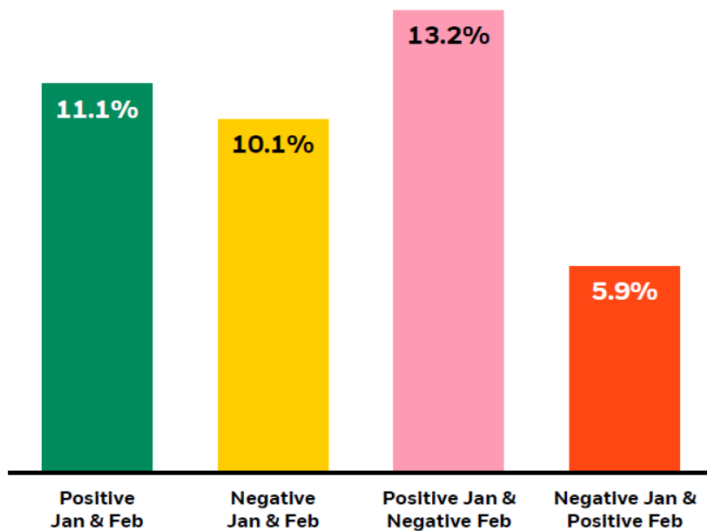
Currently, the consensus is that the Fed will increase the Fed Funds rate one more time by 0.25% and then pause. Certain sectors of the economy have remained resilient while others are softening. We think the economy is on a soft-landing scenario. Many research firms believe the Fed will start easing monetary policy as early as the end of this year. Others say next year is more likely when that will begin. That is when the bond market's currently inverted yield curve will return to normal. We do expect markets to remain choppy over the near term as investors digest corporate earnings and another Federal debt ceiling battle in Congress draws nearer.

#### The January/February effect

After a strong January, the stock market pulled back a bit in February. As you can see in the chart below, that combination of returns has been a common pattern historically. It has also been the pattern of returns that has resulted in the best returns for stocks in the next 10 months, which is an average of 13.2 percent, according to Blackrock.

# So goes a positive January & negative February...?

**Average return following January & February**  
Next 10 months, since 1926

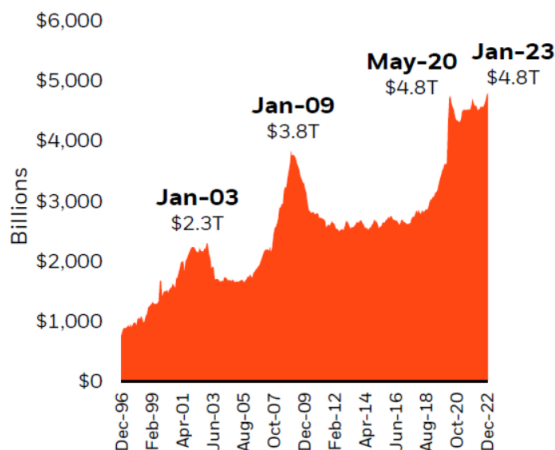


Year	January	February	Next 10 months
1929	5.8	-0.2	-13.3
1933	0.9	-17.7	85.6
1934	10.7	-3.2	-8.0
1942	1.6	-1.6	20.3
1946	7.1	-6.4	-8.3
1947	2.6	-0.8	3.9
1949	0.4	-3.0	21.9
1952	1.8	-2.8	19.6
1958	4.5	-1.4	39.2
1963	5.1	-2.4	19.8
1966	0.6	-1.3	-9.4
1976	12.2	-0.8	11.4
1979	4.4	-3.2	17.3
1980	6.2	-0.0	24.8
1989	7.3	-2.5	25.8
1994	3.4	-2.7	0.7
1999	4.2	-3.1	19.9
2001	3.6	-9.1	-6.4
2007	1.5	-2.0	6.0
2018	5.7	-3.7	-6.1
2023	6.3	-2.4	?
Avg.	4.6	-3.4	13.2

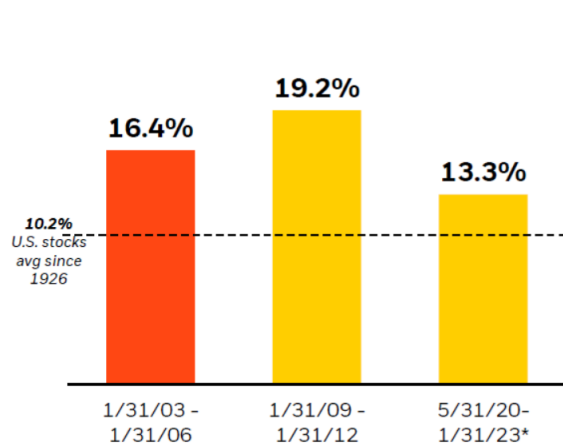
Source: Morningstar as of 2/28/23. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 2/28/23 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index.

We are hearing reports of consumer debt increasing and savings rates decreasing. However, Blackrock is reporting that money market assets hit a new peak at the end of January that has exceeded the prior peak of \$4.8 trillion in May of 2000 when the pandemic downturn and recession occurred. Although money markets yields are quite a bit more robust now than they have been in the past, this will likely be temporary as interest rates eventually return to normal. Historically, the three-year period following prior peaks in money fund assets has been above average for U.S. stock returns, below, according to Blackrock.

**Money market fund assets**  
2/1/96 – 1/31/23



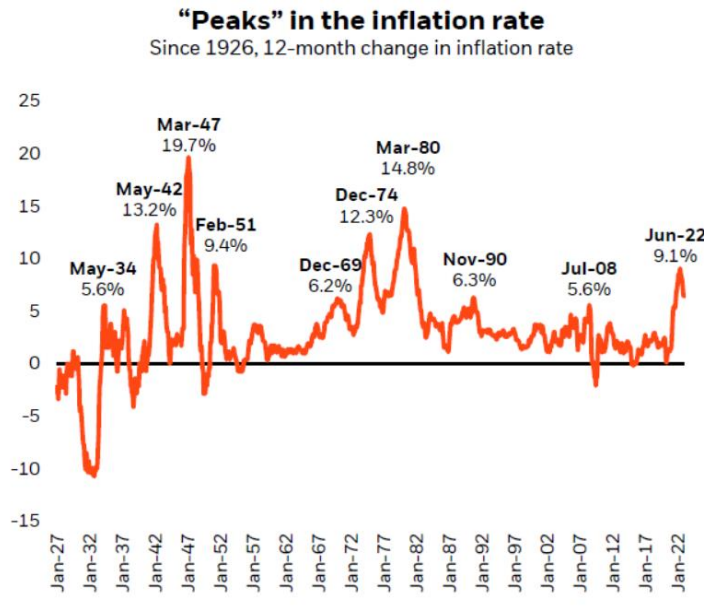
**3-year U.S. stock performance following a peak in money market fund assets**  
Average annual performance



Source: Morningstar as of 1/31/23. U.S. stocks represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index. \*Not a 3 year period but a 2 year and 8 month time period.

**Performance after peak inflation**

In examining inflation cycles since 1926, Blackrock reports that the average inflation cycle historically lasts a little more than 24 months, and the average time it takes for inflation to get below 3 percent—which is the Fed’s specific goal—is 17.6 months. If history is a guide, with inflation peaking in June of last year, inflation would hit the Fed’s goal of 3 percent sometime around the end of 2024. Historically, returns for both stocks and bonds following inflation peaks has been good. Through eight months following this current peak, stocks have followed through while bonds have lagged.



**Returns following “peak” inflation rates**  
Since 1926, returns for the next 12 months

Peak Inflation	Next 12 months	
	Stocks	Bonds
May 1934	4.8%	6.3%
May 1942	57.6%	2.0%
Mar 1947	5.3%	0.9%
February 1951	13.6%	0.3%
December 1969	4.0%	16.9%
December 1974	37.0%	7.8%
March 1980	40.1%	13.1%
November 1990	20.3%	14.4%
July 2008	-20.0%	7.9%
<b>Avg.</b>	<b>18.1%</b>	<b>7.7%</b>
<b>June 2022</b>	<b>6.1% (8 mo.)</b>	<b>-2.6% (8 mo.)</b>

Source: Morningstar, Bureau of Labor Statistics as of 2/28/23. U.S. bonds represented by the IASBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 2/28/23. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 2/28/23 and the IASBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Please let us know if you have any questions. We look forward to talking with you soon.

—Dana L. Crosby, CFA, CFP®

<sup>1</sup>Returns are based on our Core & Factor Composite, an asset-weighted composite of separately managed accounts using the SCCA Core & Factor portfolio philosophy. Allocations to individual U.S. Core stocks, ADRs, ETFs, and Fixed Income investments vary based on individual client goals, objectives, and risk profiles. Core individual stock and ADR criteria focus on companies with sustainable competitive barriers that trade at discounts "fair value" on purchase as determined by independent research providers. Factor-based ETFs select and manage securities based on research "Factor" screens that have historically driven returns across global asset classes. Active Factor screens include Momentum, Quality/Profitability, Low Volatility, Size (Small- and Mid-Cap), and Quantitative Valuation. Past performance is no assurance of future results. As of 04-21-23, Composite consisted of \$58.6 million in assets and 162 accounts. Allocation was 41.3% U.S. Core stocks, 6.7% ADRs, 30.5% Equity Funds and ETFs, 15.5% bonds, and 6% cash.

## ETF Returns

For the period ending 3-31-2023

Name	Ticker	YTD	1 Month	3 Months	12 Months	3 Year	5 Year	10 Year
<b>U.S. Large Cap</b>								
iShares Russell 1000	IWB	7.40	3.17	7.40	-8.51	18.41	10.71	11.88
iShares Edge MSCI USA Momentum Factor	MTUM	-4.15	0.44	-4.15	-15.53	10.63	6.99	-
iShares Edge MSCI USA Quality Factor	QUAL	9.20	4.79	9.20	-6.40	16.93	10.20	-
PowerShares S&P 500 Low Volatility ETF	SPLV	-1.79	1.55	-1.79	-4.92	12.20	8.10	9.62
Vanguard High Dividend Yield ETF	VYM	-1.82	-0.60	-1.82	-2.97	17.95	8.46	10.15
VanEck Vectors Morningstar Wide Moat ETF	MOAT	13.74	4.71	13.74	0.07	20.59	13.79	13.67
<b>U.S. Mid Cap</b>								
SPDR® S&P MidCap 400 ETF	MDY	3.81	-3.18	3.81	-5.20	21.85	7.45	9.54
PowerShares S&P MidCap Low Volatil ETF	XMLV	-1.39	-4.10	-1.39	-3.89	11.54	5.31	9.18
PowerShares DWA Momentum ETF	PDP	7.11	2.52	7.11	-5.65	12.33	7.87	9.76
PowerShares High Yld Eq Div Achiev™ ETF	PEY	-2.74	-2.67	-2.74	-4.85	20.51	7.66	10.75
<b>U.S Small Cap</b>								
iShares Russell 2000	IWM	2.70	-4.85	2.70	-11.67	17.42	4.63	8.01
PowerShares S&P SmallCap Low Volatil ETF	XSLV	-4.39	-8.36	-4.39	-10.85	10.82	1.36	7.28
<b>REITs</b>								
iShares US Real Estate	IYR	1.42	-1.93	1.42	-19.25	9.60	5.33	5.53
<b>International Large Cap</b>								
iShares MSCI EAFE	EFA	8.96	3.13	8.96	-0.24	13.28	3.50	4.96
iShares Edge MSCI Intl Momentum Factor	IMTM	4.83	2.18	4.83	-6.46	10.19	3.87	-
PowerShares DWA Developed Mkts Mom ETF	PIZ	9.84	3.76	9.84	-8.57	11.26	2.84	5.10
iShares Edge MSCI Intl Quality Factor	IQLT	8.98	4.44	8.98	-1.28	13.62	6.35	-
PowerShares S&P Intl Dev Quality ETF	IDHQ	7.94	5.24	7.94	-4.25	10.99	4.79	6.07
iShares Edge MSCI Min Vol EAFE	EFAV	6.39	4.49	6.39	-3.87	5.15	1.06	4.19
iShares International Select Dividend	IDV	2.02	-0.65	2.02	-7.23	12.93	2.47	3.40
<b>International Small Cap</b>								
iShares MSCI EAFE Small-Cap	SCZ	5.36	0.49	5.36	-8.58	12.35	0.73	5.71
WisdomTree International SmallCp Div ETF	DLS	6.23	0.15	6.23	-6.09	12.49	-0.78	4.56
<b>Emerging Markets</b>								
iShares MSCI Emerging Markets	EEM	4.12	3.22	4.12	-10.51	7.05	-1.84	1.35
PowerShares S&P Em Mkts Low Volatil ETF	EELV	1.61	2.06	1.61	-6.93	13.78	1.52	1.12
PowerShares DWA Emerging Markets Mom	PIE	4.52	2.72	4.52	-17.78	10.67	-0.69	0.83

Data source: Morningstar

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