



Economic & Market Outlook

March 2023

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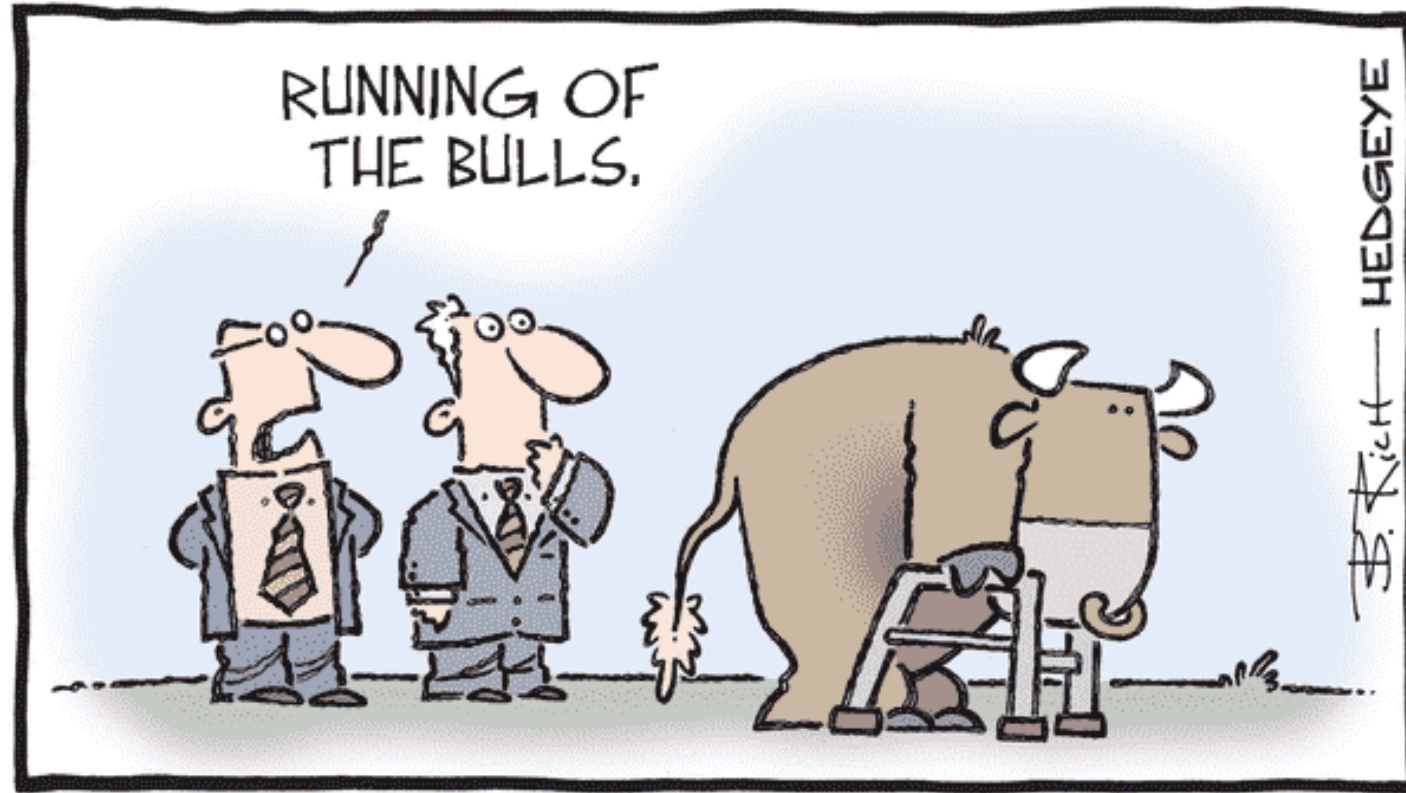
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INVESTMENT
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A city skyline at dusk with a river and bridges in the foreground. The sky is a deep blue, and the city lights are visible. The river is in the foreground, with several bridges crossing it. The city skyline is in the background, with many tall buildings.

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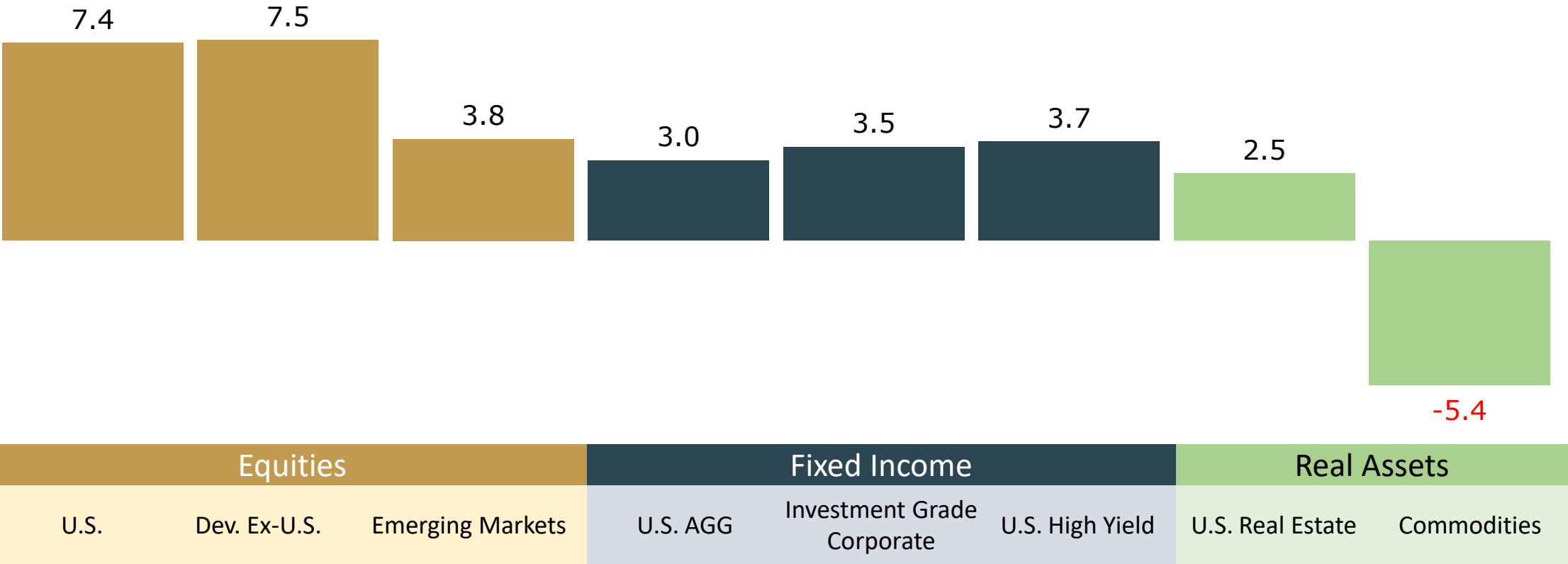




Market Review

Market Review

Q1'23 Returns, %



Landing in Turbulence

March 2023

- The Federal Reserve is nearing the end of its rate hiking spree. We expect rates to hold at that level, even as the lagged effects of previous monetary tightening filter through the economy
- Leading indicators suggest significant economic slowing ahead; we anticipate a recession in 2023
- Earnings estimates for 2023 have declined yet are still likely too optimistic and will have to be revised down
- While the recent banking crisis has largely been addressed, credit is likely to become harder for businesses to find
- Relatively robust consumer and commercial balance sheets will help prevent this downturn from becoming deep
- Heightened sovereign debt around the developed world remains a risk
- With equity and bond markets down significantly from their peaks, much of the damage of this slowing has already occurred
- Any sign of an economic soft landing could prove to be a positive catalyst for markets



An aerial photograph of a city skyline, likely Chicago, featuring a dense cluster of skyscrapers and modern buildings. In the foreground, a river flows through a green park area, with several bridges crossing it. The sky is a clear, deep blue. The text "Economic Overview" is overlaid in the center in a large, white, sans-serif font.

Economic Overview



Economic Dashboard

Driven by progressively tighter monetary policy, many leading economic indicators have decelerated, pointing to tougher economic conditions ahead. Offsetting these pressures are a strong consumer and labor market. We continue to expect a moderate recession.



Monetary Policy



The Federal Reserve is nearing the end of its interest rate increases, though continues to wind down its bond portfolio



Manufacturing



Manufacturing indicators remain in negative territory, signaling likely economic contraction ahead



Consumer



Consumers have spent down savings, yet balance sheets remain relatively healthy and spending continues



Housing



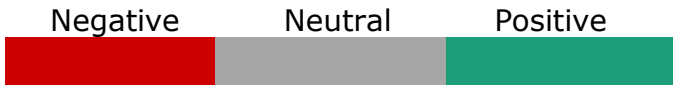
While mortgage rates remain high and affordability low, homebuilder sentiment has rebounded somewhat



Labor

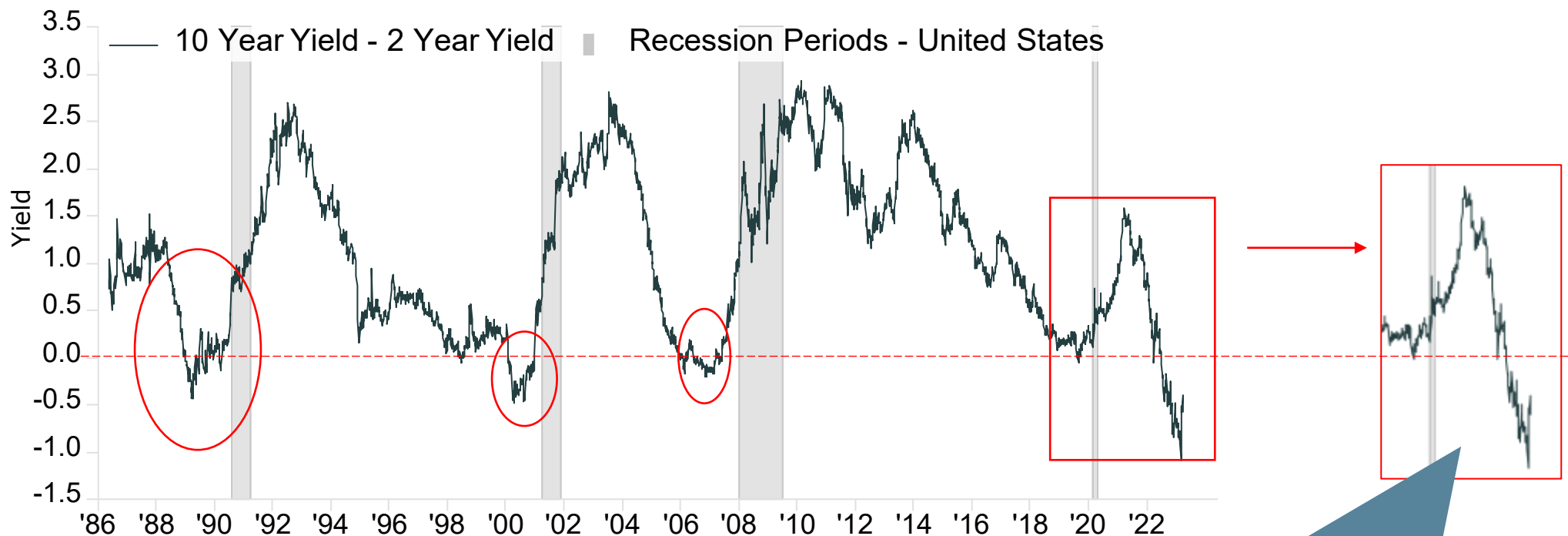


The labor market remains at its tightest levels in decades, though some signs suggest slower wage gains ahead



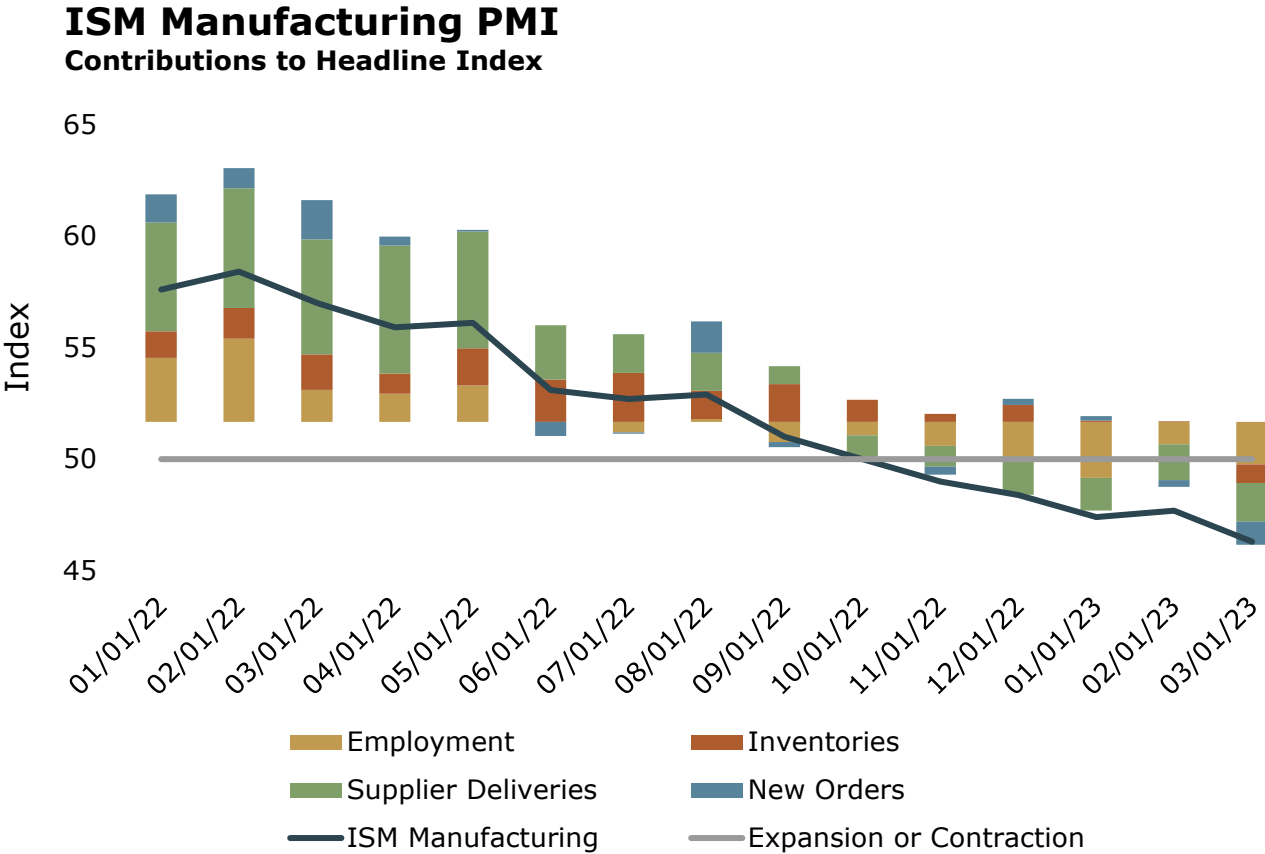
Treasury Yield Curve Flashing a Warning Signal

Yields on the 10-year Treasury bond have dropped well below 2-year yields. In previous periods when this has happened, a recession has typically followed within 6 months to 2 years.



Yield curve has been inverted since May 2022 and is currently inverted by more than 60 basis points

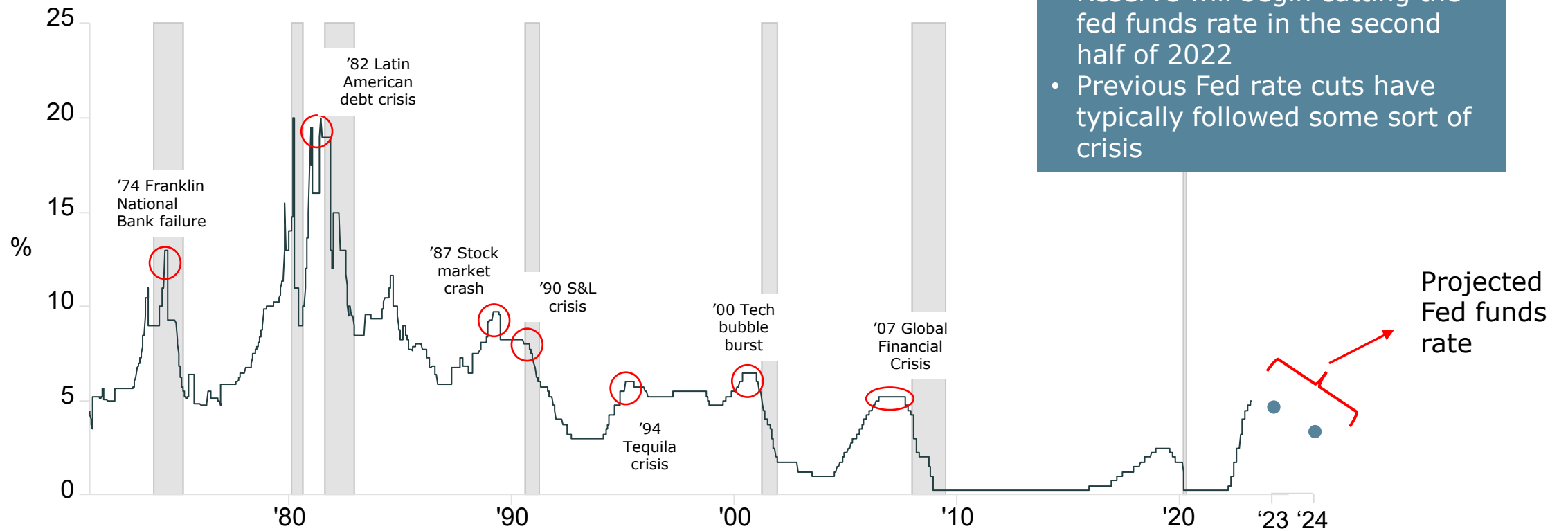
Slowing Manufacturing Activity Points to Likely Recession



ISM Manufacturing Index remains weak, suggesting that the economy is headed toward recession. Its companion index, ISM Services has also weakened, though to a lesser extent.

Fed Rate Hikes – and then Cuts?

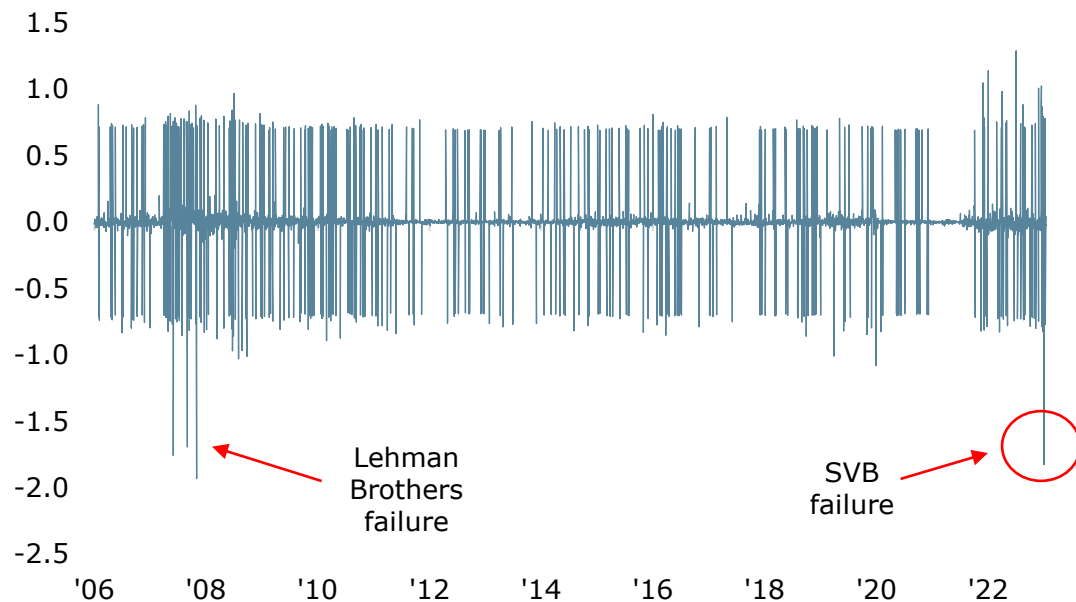
Fed Funds Rate: Current and Projected, Year End



- Futures markets currently predict that the Federal Reserve will begin cutting the fed funds rate in the second half of 2022
- Previous Fed rate cuts have typically followed some sort of crisis

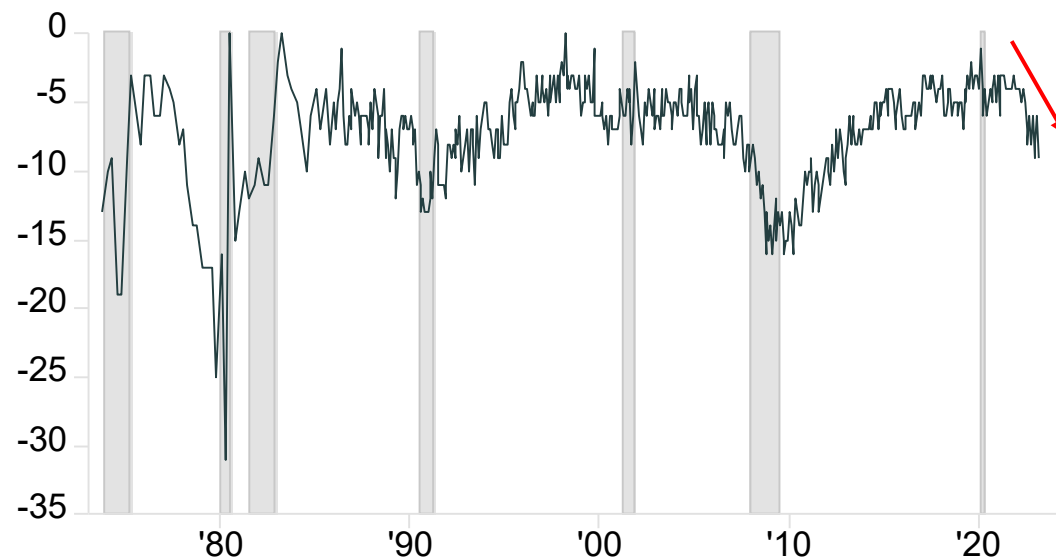
Bank Failures Jolted Financial Markets

U.S. 2-Year Treasury Yield, Daily Change



Treasury yields moved dramatically in the wake of SVB and Signature Bank failures and have since settled down.

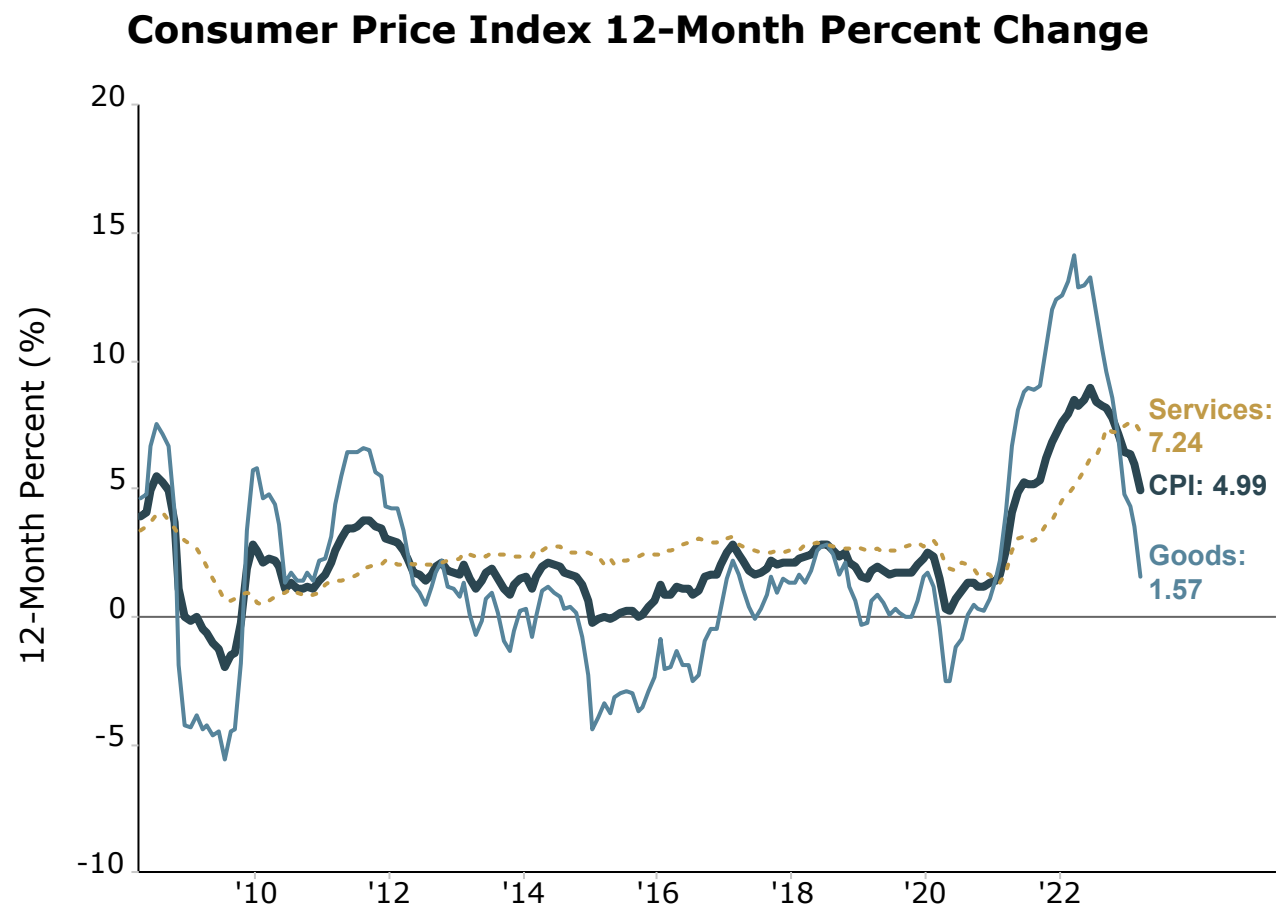
NFIB Small Business Credit Conditions



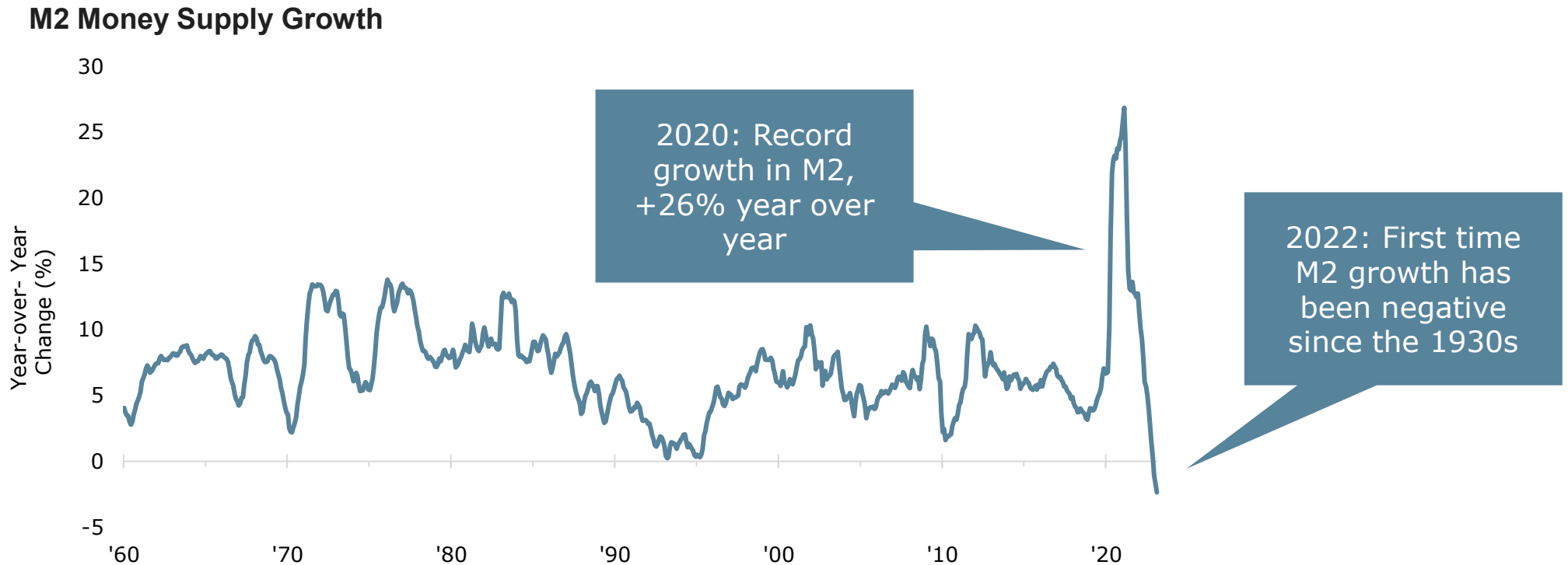
Financial conditions for small businesses have tightened, making credit harder to come by.

Inflation Below Recent Highs

- Broad measures of consumer prices continue to show deceleration in inflation
- Even with that slowing, inflation remains much higher than the Federal Reserve's target of 2%



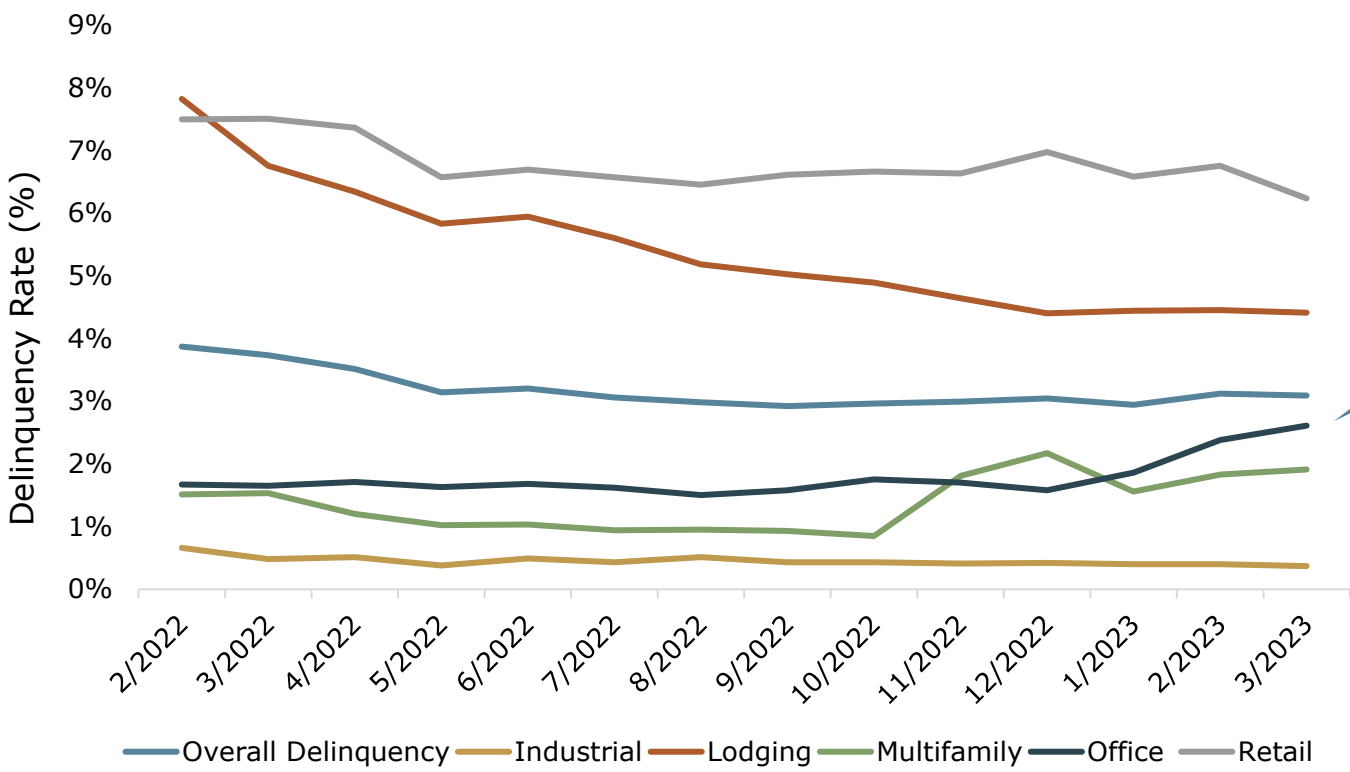
A Monetary Feast Turns To Famine



Growth in the money supply typically predicts inflation two years ahead. Huge growth in M2 during Covid led to very high levels of inflation. Recent declines in M2 suggest significant deceleration in inflation going forward.

Commercial Real Estate Delinquencies Broadly Stable

Delinquency Rates by Major Property Type*

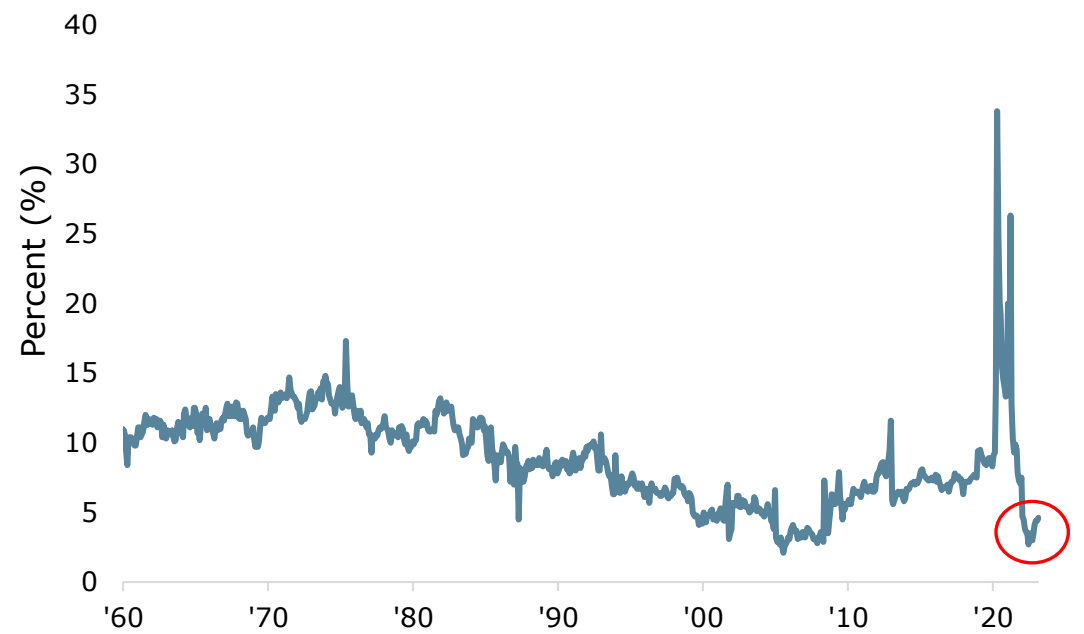


Office delinquency rates remain low, but are increasing

*30 Days or More Delinquent. Source: Kestra Investment Management, Trepp Inc with data from commercial mortgage-backed securities (CMBS).
Data as of April 10, 2023

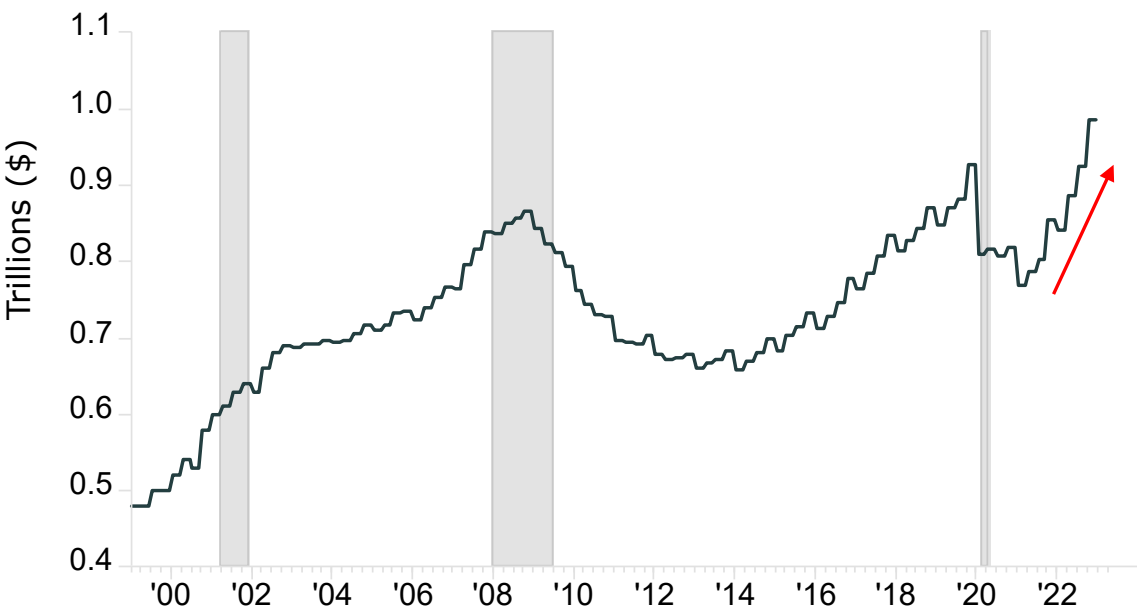
Consumers Continue to Spend

Personal Savings Rate



After soaring in 2020-2021, personal savings rates are near recent lows

Household Debt Balance, Credit Cards

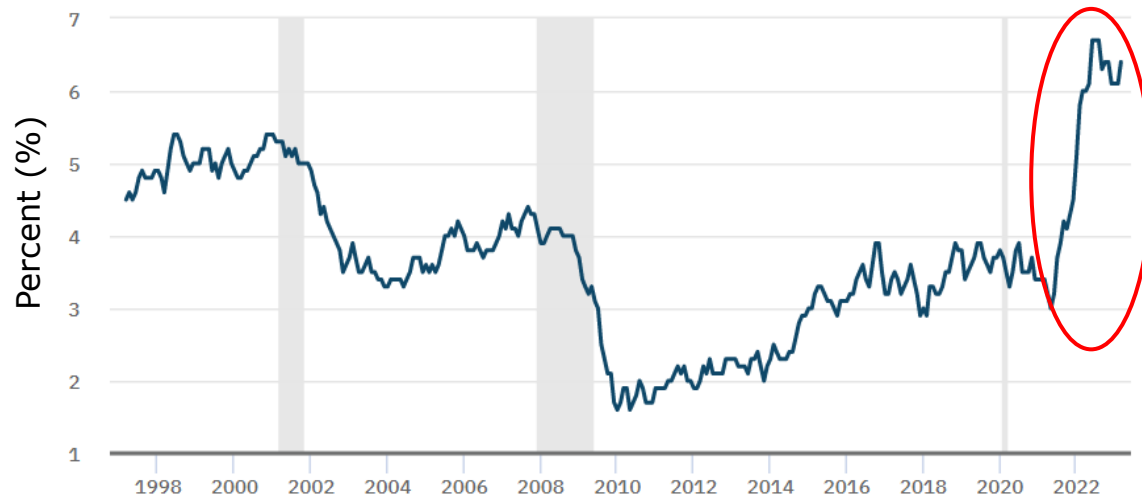


After dropping in 2020 and 2021, credit usage is back to new highs as Americans ramp up spending and cope with higher prices

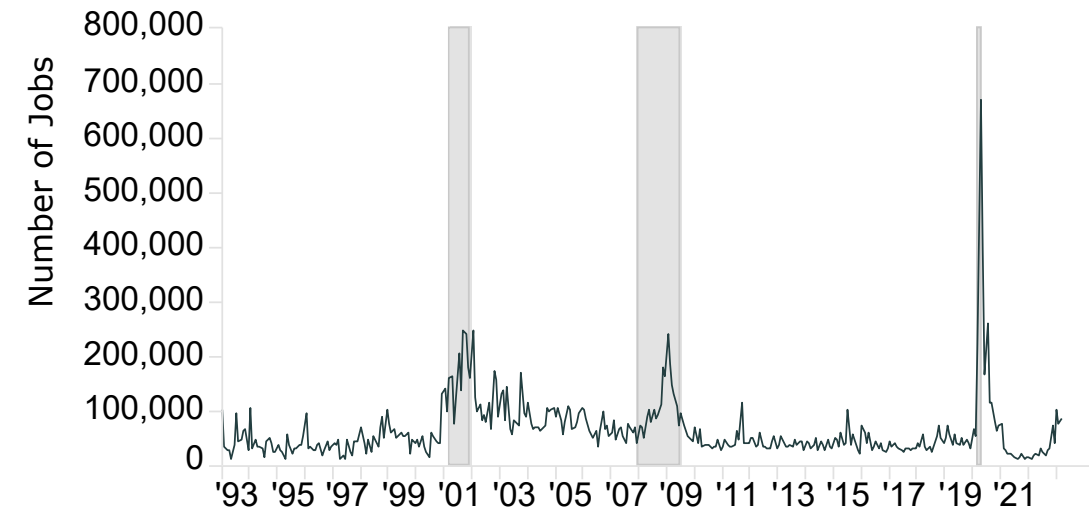
The Fed's Primary Remaining Challenge: Wage Gains

Wage Growth Tracker

Three-month moving average of median wage growth, hourly data



Job Cuts



- The labor market remains very tight with few Americans looking for work
- Recent data suggests that while jobs remain plentiful, wage gains have slowed but remain sticky

A wide-angle photograph of a city skyline at dusk. The sky is a deep, dark blue. In the foreground, a river flows through the city, with several bridges crossing it. The bridges have multiple arches and are surrounded by lush green trees. The city skyline is composed of numerous skyscrapers of varying heights and architectural styles. Some buildings have glass facades that reflect the light from the setting sun, while others are more traditional in design. The overall scene is a vibrant and detailed representation of a modern urban environment.

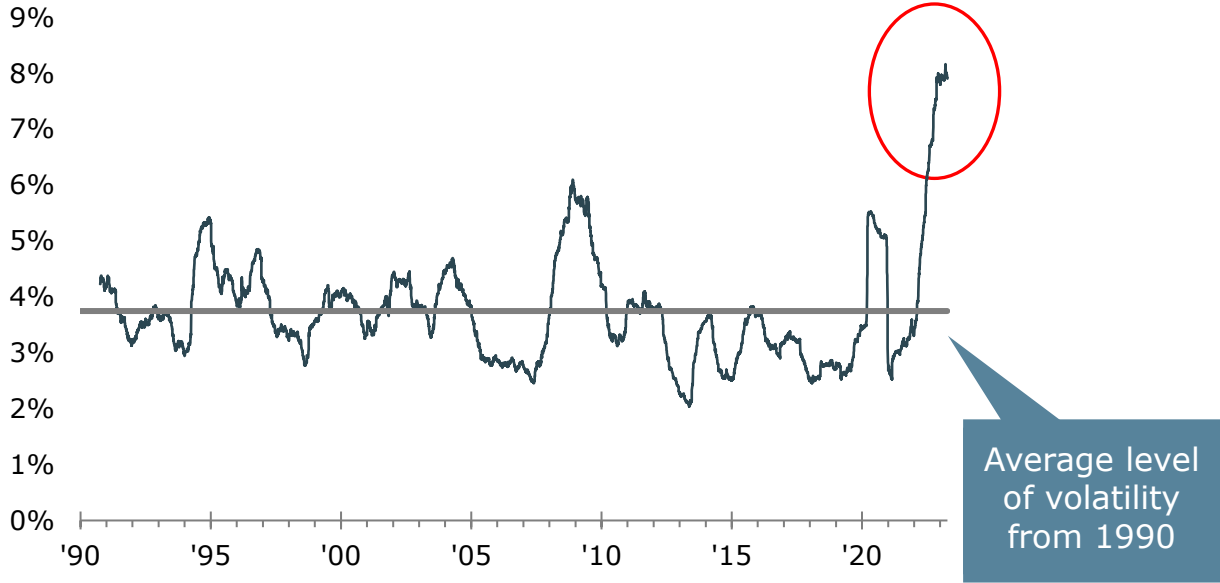
Stocks and Bonds



Bond Volatility at Extremes

Bond Volatility: Bloomberg U.S. Aggregate

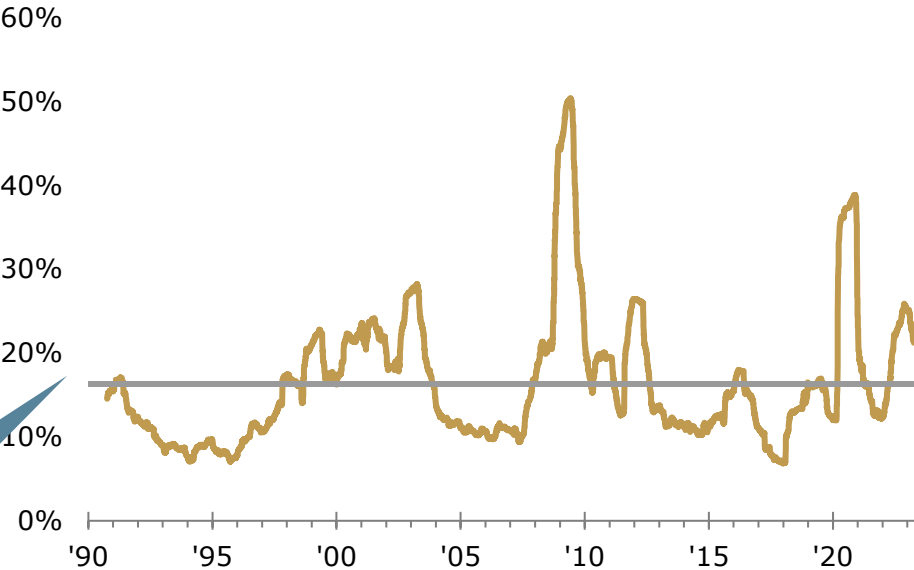
200-Day Rolling Risk



Bond volatility is at extremes relative to historical levels

Stock Volatility: Russell 3000

200-Day Rolling Risk



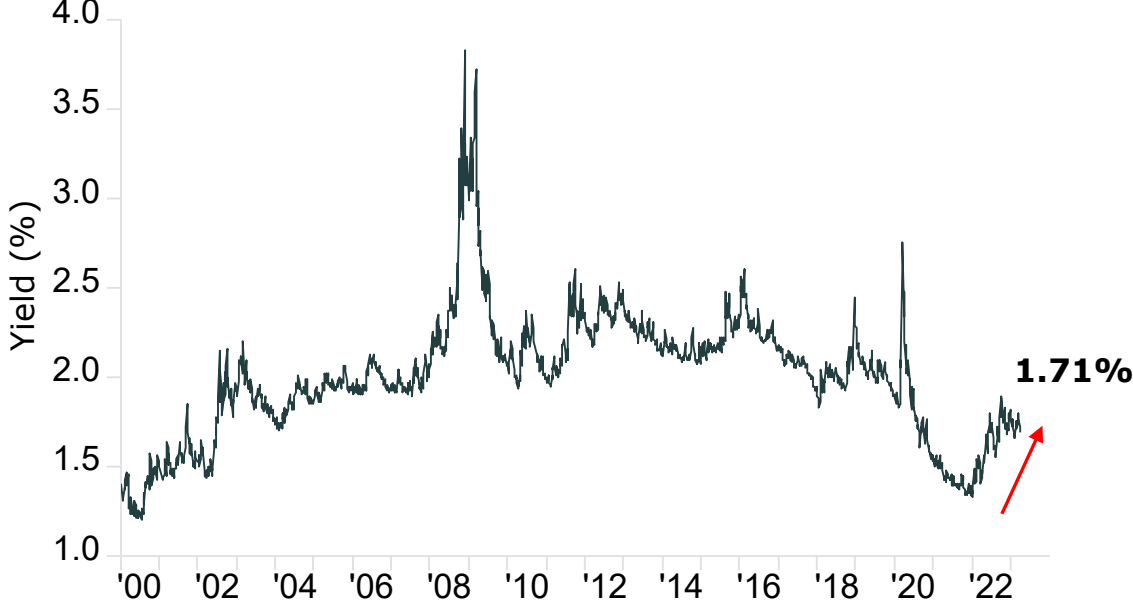
Stock volatility, while high, is not at extreme levels

Poor Performance in 2022 Means Yields More Attractive

Bloomberg U.S. Aggregate Yield to Maturity

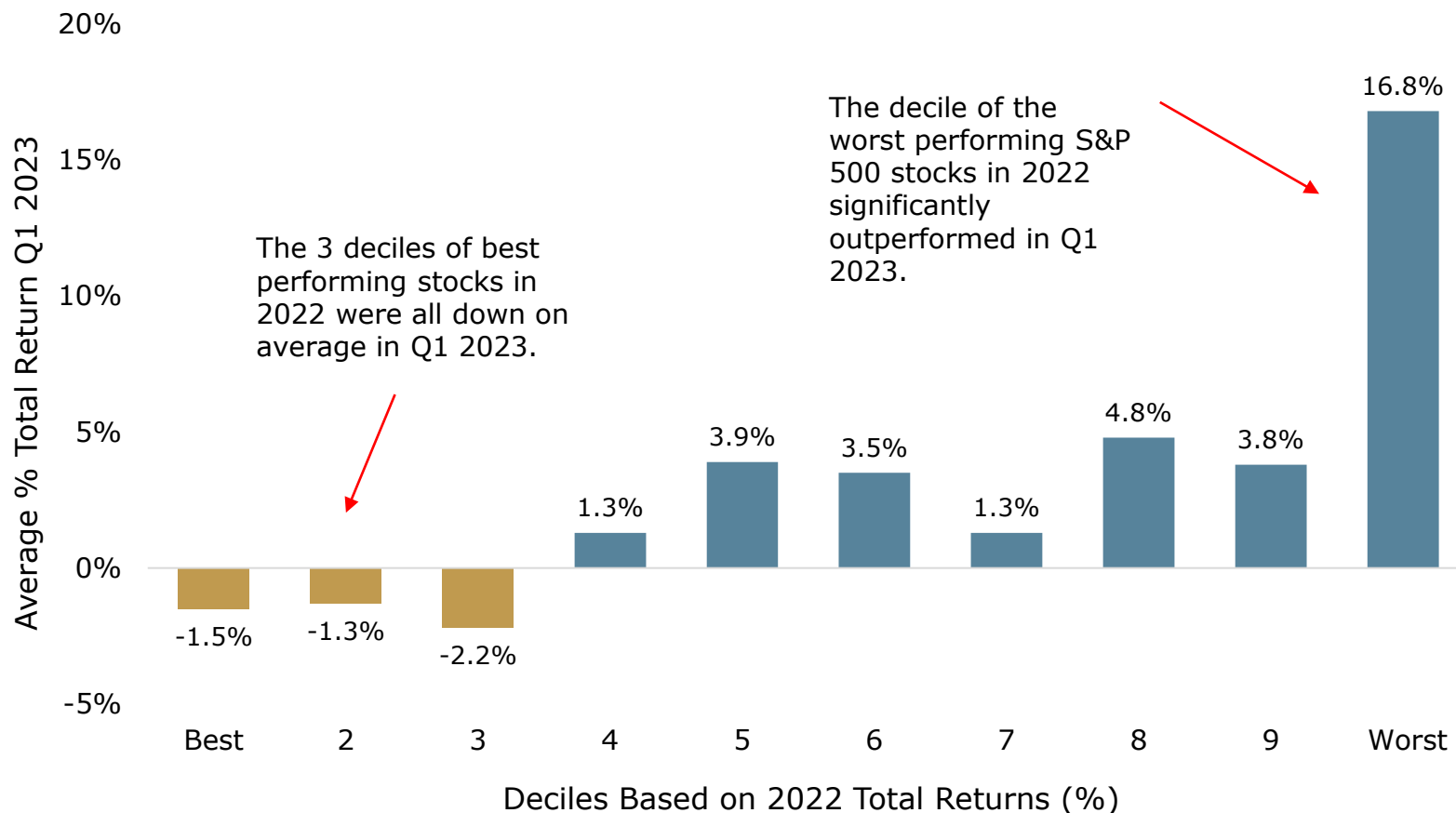


S&P 500 Dividend Yield



Revenge of the Stock Laggards

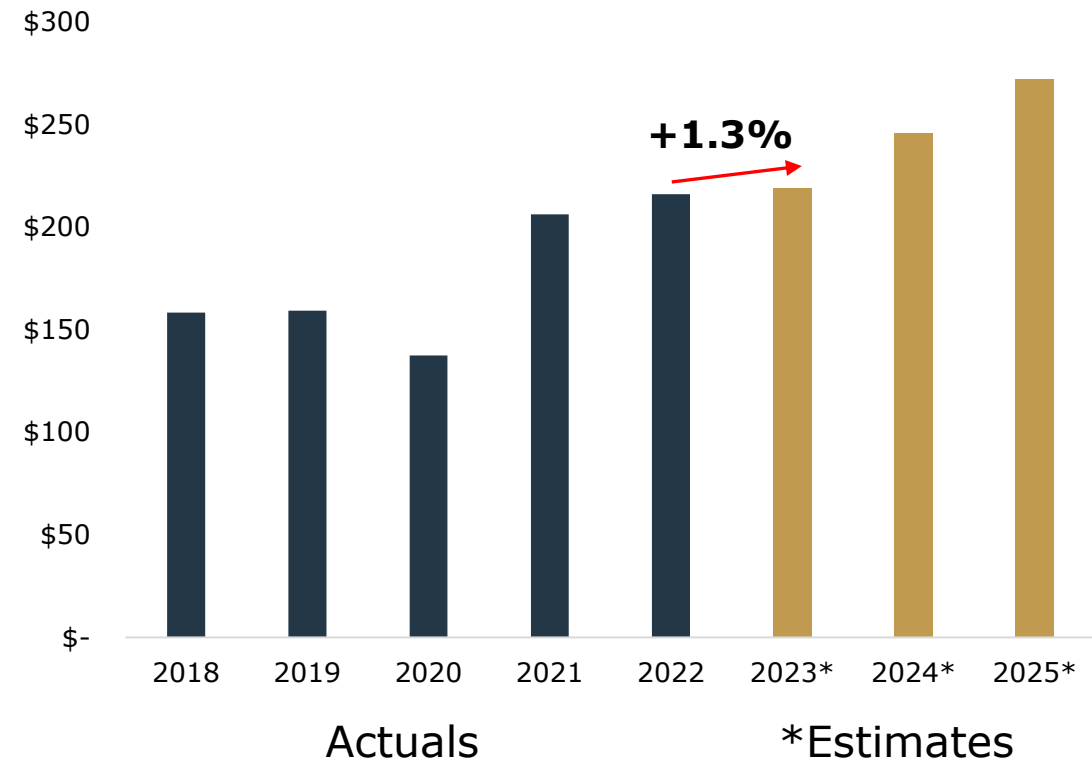
S&P 500 Deciles: Q1 2023 Average Performance Based on 2022 Performance



Corporate Earnings Expectations Have Softened

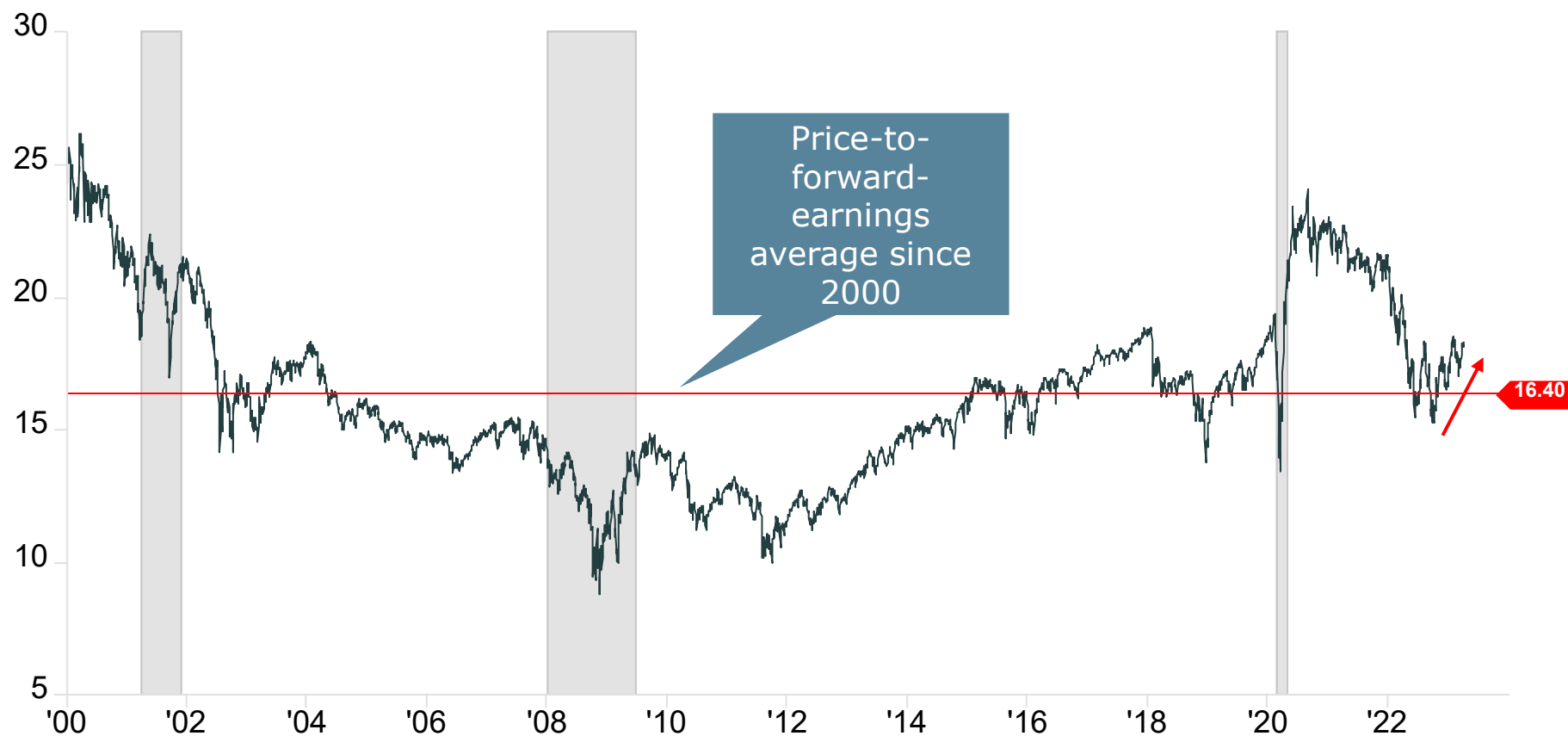
- Earnings estimates for 2023 have moderated over the last six months
- Current estimates represent 1% growth over 2022 earnings levels
- Given the continued tightening in business conditions, we expect earnings estimates to decline somewhat further

S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates



Valuations Rebounded in Early 2023

S&P 500 Price to Forward Earnings (Next Twelve Months)



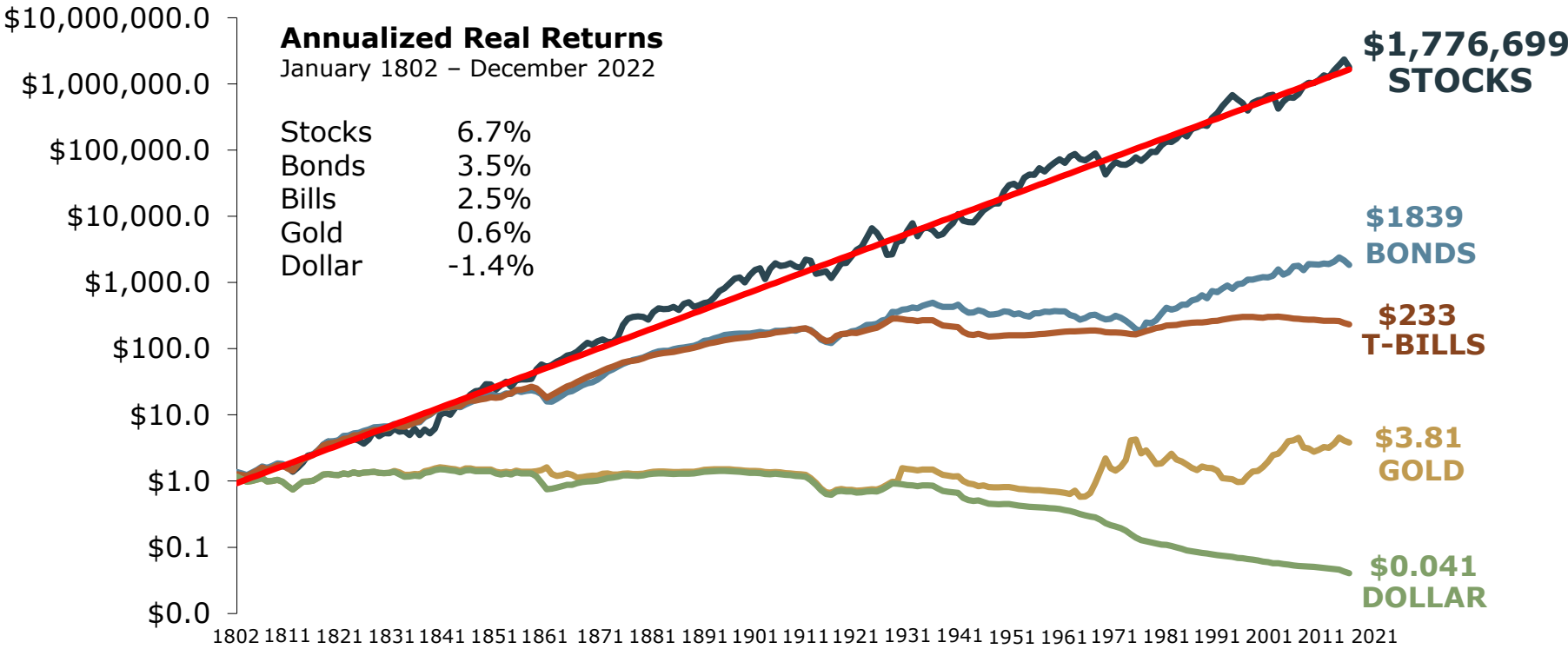
Value Outside the US

US stocks are more expensive and have lower dividend yields than many other countries around the world

Forward Price to Earnings Ratio of Different Countries

Region	Country	Forward Price to Earnings	Dividend Yield
North America	United States	16.7	1.7%
	Canada	12.0	3.2%
Europe	United Kingdom	10.0	3.7%
	France	12.1	2.9%
	Germany	11.0	3.7%
	Russia	4.1	
Asia	India	21.7	1.3%
	China	10.0	2.6%
	Japan	12.0	2.4%
Oceania	Australia	13.9	4.6%

Stocks for the Long Run



“Stocks are the most volatile asset class in the short run,
but the most stable in the long run.”

Professor Jeremy Siegel

An aerial photograph of a city skyline. In the foreground, a river flows through a lush green park area with a stone-lined pond. A bridge crosses the river in the middle ground. The background is dominated by a dense cluster of modern skyscrapers and high-rise buildings, some with glass facades reflecting the sky. The sky is a pale blue with soft, wispy clouds.

**Invest Wisely,
Live Richly**

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