Week in Review

Equity Markets:

Intra-day volatility was a common occurrence last week. On multiple days we saw moves of 3%, swinging very quickly from positive to negative, and on occasion ultimately reversing back to positive. Ultimately, the S&P 500 ended the week up by 1.4% and increased its year-to-date performance to +3.4%. Sentiment has deteriorated since the start of the news regarding the banking sector and this is likely contributing to the tight range the S&P 500 has been trading in over the past few weeks.

Q1 earnings season will begin to be a major focus. Earnings revisions have taken a steep dive over the past few months. Q1 earnings are expected to decline by 4.6% according to data from Refinitiv[1]. Revisions have leveled off over the past few weeks, which is a positive for the markets. When we see a trough in earnings revisions, historically, the markets have begun their ascent.

Fixed Income Markets:

The FOMC increased rates by another 25 basis points last week. Despite the recent weakness in the banking sector, central banks across the globe remained committed to their fight against inflation. Banks across Europe all raised rates alongside the Federal Reserve. The fixed income markets continued their recent bout of volatility with the 10-yr yield starting the week at 3.43%, spiking to 3.6% following the rate hike decision, before ending the week lower at 3.37%. In short order, the yield curve has started to flatten. The spread remains negative but has narrowed from 100+ basis points to 30 basis points. This rapid decrease in the short end usually indicates a near-term deterioration of economic conditions.

Fed Chairman Powell's press conference did little to ease investors' concerns. The projected terminal rate remained the same, 5.1%, which indicates another hike at some point in the future. The markets were hoping for a softer tone, but it appears that FOMC members' concerns remain high that a shift in policy could leave the door open for a prolonged inflationary environment.

Economic:

S&P Global's PMI readings showed that the private sector recorded its second straight month above 50[3]. The composite index increased to 53.3 which is the highest reading since last May. The services sector was especially strong with a reading of 53.8, outpacing economists' expectation of 50.5. The manufacturing sector beat expectations of 47 but still remained in contraction territory with a reading of 49.3. Labor market reports came in near expectations with initial jobless claims of 191,000 vs. the forecast of 198,000; while continuing claims remained at 1.69 million last week.

Looking Ahead

Equity Markets:

Looking at the next four quarters' consensus earnings estimates, the S&P 500 is trading at a forward multiple of 17.9x[2], which is in line with historical averages. We anticipate the pace of earnings revisions to slow, as we have already seen a large downward revision. The peak estimates occurred in June of last year and were $252[5]. This marks a negative 13% adjustment to expected 2023 earnings from analysts. We will likely experience elevated volatility until the earnings environment becomes more stable, and we get more clarity around the banking sector.

The market is a discounting mechanism and often looks past the short-term events that distract investors. This has historically resulted in the market beginning its recovery well before the majority of investors are willing to participate. The market still remains 18% below the all-time high of 4,818. Downside risks still remain, but as we sit over a year into this bear market, history tells us that we are likely closer to the end than the beginning. The last 14 months have been tough and we're sure many investors have been worn down, but remaining committed to your developed investment plan will ensure that you don't miss the rebound.

Fixed Income Markets:

Ultimately, the Fed is very close to ending its rate hiking cycle. Following a historic tightening policy, inflation has come down. It is still above the Fed's target, but multiple data points point to a slowing economy. Fiscal policy takes time to work through the economy and we are just now a year past the first rate hike. We anticipate economic data to continue weakening which should support a policy pivot in the near term. We have already experienced a plunge in rates over the last 6 months. We still have the view that the high rates already occurred and expect rates to continue their descent over the next 6-12 months. Volatility is likely to remain elevated, but we believe the rate trend will move in the direction of lower, not higher.

Economic:

Following the report from the National Association of Realtors showing the median home price declining for the first time in 11 years[4], we will see the Case-Shiller Home Price Index and the FHFA Housing Price Index for January. Consumer Sentiment readings from the University of Michigan and the Conference Board are timely following the events in the banking sector over the past few weeks. To finish the week, PCE will be reported. This is the preferred inflation gauge by the Fed. With the uncertainty of future Fed policy, this will be closely watched by market participants.

**** *See Important Disclosures on following page*

Sources:

1)LipperAlpha/Refinitiv
https://lipperalpha.refinitiv.com/wp-content/uploads/2023/03/TRPR_82221_689.pdf

2)Yardeni Research
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4)CNN
https://www.cnn.com/2023/03/21/homes/existing-home-sales-february/index.html

5)MarketWatch
https://www.marketwatch.com/story/s-p-500-earnings-estimates-for-2023-take-complete-u-turn-as-recession-risks-loom-according-to-bofa-11667843447