Q1'2023 Market Review & Outlook

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- **US Equity Markets**: The S&P 500 increased by +7.5% in the first quarter, for the best start to a calendar year since 2019 and the second best overall in the last ten years. The S&P 500 closed the quarter at 4,109 and is now about +15.8% above the 2022 closing low of 3,577 on 10/12/22. Despite the rebound, the S&P 500 is still in bear market territory (a decline of -20% on a closing basis without a subsequent +20% increase) and now sits about -12.6% below the all-time high reached on 1/3/22.

- **US Fixed Income Markets**: The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, increased by +3.0% in the first quarter as the 10-Year Treasury yield declined from 3.87% to 3.47% in the period (bond prices move inversely to interest rates and credit spreads). The bond market is still trying to find its footing after coming off the worst calendar year (2022: -13%) since inception of the index in 1976. We will point out that from June 14, 2022, through the end of the quarter, the 10-Year Treasury yield was flat (start and end at 3.47%), and over the same period the Aggregate Bond index increased by +2.5%. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

- **Treasury Yields**: Treasury yields declined throughout the quarter, but the curve is still inverted with both the 3-Month (4.69%) and 2-Year (4.02%) higher than the 10-Year (3.47%) yield. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon. If the Fed does cut rates as investors expect, the 3-Month and 2-Year yields will fall below the 10-Year and the yield curve will be upward sloping again.

- **Inflation**: Although most readings have decelerated from peak levels over the past few months, inflation is still far too high. The Fed has divided inflation into three buckets: goods (decelerating as supply chains normalize), housing (decelerating under rising mortgage rates but not showing up in inflation data until mid-2023), and non-housing related core services (still elevated due to the strong labor market and robust average hourly earnings).

- **The Fed**: The FOMC raised the federal funds rate 25 basis points (0.25%) at both the February and March meetings. The top end of the federal funds rate now stands at 5.00%. Since March of 2022, the Fed has increased interest rates by 4.75% total for one of the quickest tightening cycles in United States history. The turmoil in the banking industry likely means that the Fed is close to ending their tightening cycle

- **US Economy**: The United States economy is meandering along and sending several mixed signals about the future path. Over the past several weeks manufacturing data, economic indicators, consumer spending, and the housing market have all weakened while inflation has decelerated but remains above the Fed's 2% target. Meanwhile, the strength of the economy currently lies with the labor market. Real GDP estimates are currently +1% for both 2023 and 2024.

- **United Stated Recessions and S&P 500 Performance**: The NBER has stated the current period does not meet their definition of a recession. However, according to the Federal Reserve, the possibility of a recession sometime this year is "plausible." A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that recessions can create buying opportunities for long-term investors. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods.

- **Market Outlook**: The last fifteen months have been one of the most difficult investment environments since the Global Financial Crisis, and we suspect that volatility will continue. In the short-term (months), our view is that the S&P 500 will remain stuck in a trading range from 3,600 to 4,300 for a while longer. Inflation is still the key to the markets in the near term as it will likely determine the Fed's next move and the future state of the economy. Over the long-term (years), we still suspect this difficult economic environment has created a strong opportunity for investors willing to live with some short-term discomfort. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will eventually be rewarded. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon.*

Please see some of our most recent market commentaries:

- **Market Timing Does Not Work**
- **Framework for Navigating Current Conditions**
- **Our Favorite Charts of 2022**
- **The Debt Ceiling**
- **The Silicon Valley Bank Failure**
- **Bond Primer**

US EQUITY MARKETS

The S&P 500 increased by +7.5% in the first quarter, for the best start to a calendar year since 2019 and the second best overall in the last ten years. The S&P 500 closed the quarter at 4,109 and the index is about +15.8% above the 2022 closing low of 3,577 on October 12, 2022. Despite the rebound, the S&P 500 is still in bear market territory (a decline of -20% on a closing basis without a subsequent +20% increase) and now sits about -12.6% below the all-time high reached on January 3, 2022.

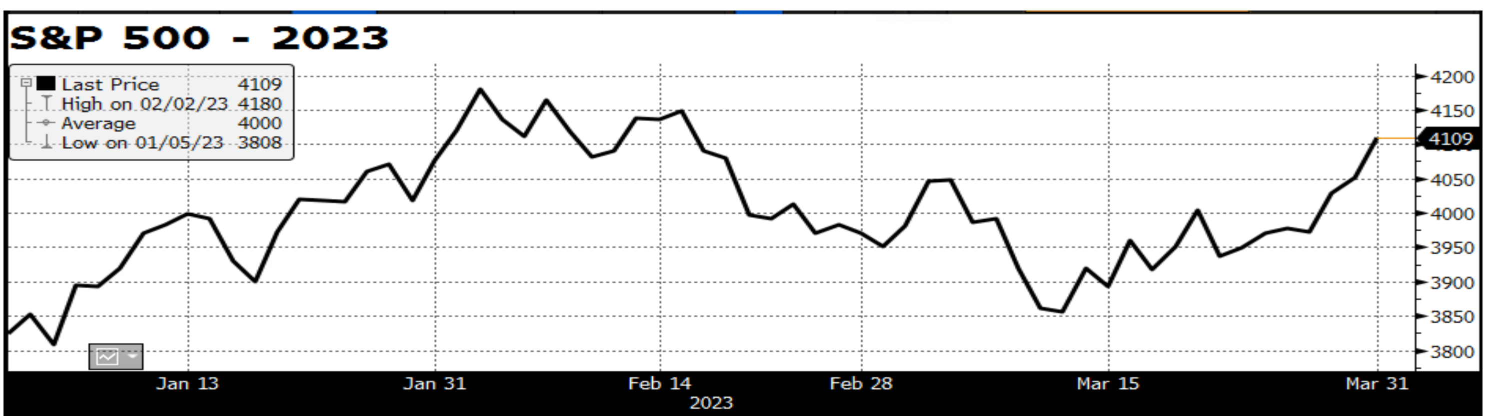
We constantly remind our clients to maintain a long-term viewpoint as markets can be incredibly volatile over the short-term. The stock market has historically gone up over time, but returns are not linear. Since 1928, the S&P 500 has generated a total annualized return of +9.5% despite an average peak-to-trough decline of -15% at some point each year. We will also point out that bear markets, while uncomfortable, occur about once every seven years. There have been 13 bear markets since 1928, with the S&P 500 taking about 17 months to reach a bottom and a median price drop of -34%. As noted in our **S&P 500 Bear Markets** chart, historically they have created strong buying opportunities. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon.*

US Equity Market Performance								
Broad Market	**Q1 2023**	**2022**	**Style**	**Q1 2023**	**2022**	**Sector**	**Q1 2023**	**2022**
S&P 500	7.48%	-18.13%	Russell 1000 Growth	14.36%	-29.14%	Materials	4.29%	-12.28%
Russell 3000	7.17%	-19.22%	Russell 1000 Value	0.99%	-7.56%	Industrials	3.47%	-5.51%
Dow Jones Industrial Average	0.93%	-6.86%				Real Estate	1.88%	-26.21%
Nasdaq	17.05%	-32.51%				Consumer Staples	0.83%	-0.62%
			Sector	**Q1 2023**	**2022**	Utilities	-3.24%	1.56%
Size	**Q1 2023**	**2022**	Technology	21.82%	-28.19%	Health Care	-4.31%	-1.95%
Mid Cap (S&P 400)	3.79%	-13.10%	Communication Services	20.50%	-39.89%	Energy	-4.71%	65.43%
Small Cap (Russell 2000)	2.73%	-20.46%	Consumer Discretionary	16.05%	-37.03%	Financials	-5.56%	-10.57%

Source: Bloomberg

Size / Style / Sector

- **Market Cap**: Mid Caps (-13.1%) outperformed Large (-18.1%) and Small (-20.5%).
- **Style**: Value (Russell 1000 Value: -7.6%) exceeded Growth (Russell 1000 Growth: -29.1%).
- **Sector**: The first quarter displayed a substantial reversal with last year's sector laggards becoming the leaders and vice versa. The three worst performing sectors of 2022 were all up double-digits as a decline in interest rates helped to boost their valuations: Technology (21.8%), Communication Services (20.5%), Consumer Discretionary (16.1%). Please see our **Client Question: Why Interest Rates Impact Stock Prices**. Meanwhile, the best performing sector in 2022, Energy (-4.7%) finished as the second worst in the quarter. The market often undergoes these violent rotations that can make an under-diversified investor feel like a genius one day and a fool the next. Rather than make risky concentrated bets, we prefer to construct diversified portfolios across regions, countries, market caps, factors, styles, sectors, and industries and tilt toward the areas we feel provide the most potential benefit.



Source: Bloomberg

SVB Financial – Silicon Valley Bank Failure

The market volatility due to the collapse of Silicon Valley Bank was caused by an absence of essential risk management and diversification, in our opinion. Please see our client question, **The Silicon Valley Bank Failure**, where we outline how it happened, detail the government's response, and provide information on FDIC insurance and SIPC protection. Going forward, we believe that it makes a lot of sense for individuals and businesses to proactively manage their bank cash reserves. This means structuring accounts so that deposits are insured. Also, we believe now may be a great time to take advantage of the higher interest rate environment by purchasing Treasuries – this diversifies risk by being a creditor to the US Government and provides a return free of state tax. *Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.*

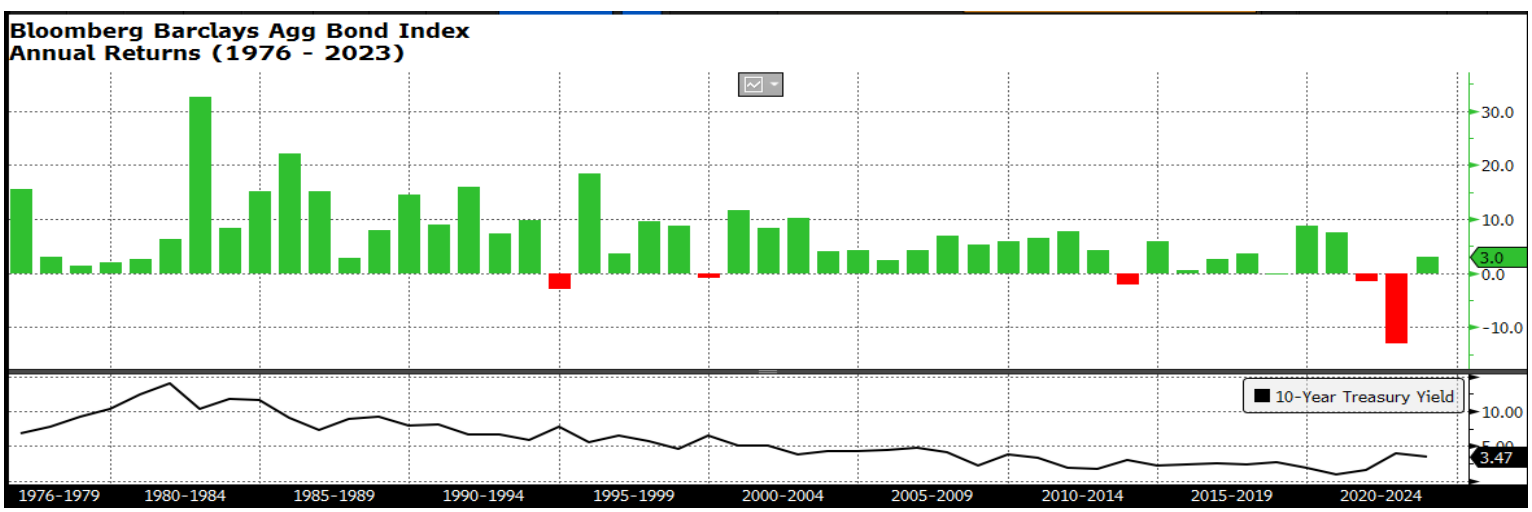
US FIXED INCOME MARKETS

The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, increased by +3.0% in the first quarter as the 10-Year Treasury yield declined from 3.87% to 3.47% in the period (bond prices move inversely to interest rates and credit spreads). The bond market is still trying to find its footing after coming off the worst calendar year (2022: -13%) since inception of the index in 1976. Please see our **Client Question: Bond Primer** where we detail bond mechanics, characteristics, types, risks, and historical returns.

	Returns				Fundamental Estimates		
Bloomberg Barclays Index	Q1 2023	2022	2021	2020	Yield to Maturity	Credit Spread (bps)	Duration
Aggregate	2.96%	-13.01%	-1.54%	7.51%	4.4%	57	6.3
Treasury Bills	1.09%	1.52%	0.04%	0.54%	4.7%		0.1
Corporates	3.50%	-15.76%	-1.04%	9.89%	5.2%	138	7.1
High Yield	3.57%	-11.19%	5.28%	7.11%	8.6%	455	3.6
Securitized MBS/ABS/CMBS	2.47%	-11.67%	-1.04%	4.18%	4.6%	68	5.8
Munis	2.78%	-8.53%	1.52%	5.21%	3.3%		6.1

Source: Bloomberg

Our objective with fixed income is to provide ballast, stability, and income to portfolios. Ballast means that, ideally, the fixed income holdings are increasing when equity markets are declining. Bonds did not provide ballast for most of 2022 as interest rates rapidly increased during the first half of the year. We have continuously stated that we expect the negative correlation between stocks and bonds to return in the future once yields level out and that all else equal the fixed income markets need yields to stabilize rather than decrease to achieve positive returns. We will point out that from June 14, 2022, through the end of the quarter, the 10-Year Treasury yield was flat (start and end at 3.47%), and over the same period the Aggregate Bond index increased by +2.5%. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*



Source: Bloomberg

Treasury Yields

Treasury yields declined throughout the quarter, but the curve is still inverted with both the 3-Month (4.69%) and 2-Year (4.02%) higher than the 10-Year (3.47%) yield. In general, the Fed controls shorter term Treasury yields by setting the federal funds rate while investors control long term rates by varying demand based on future expectations of inflation and economic growth. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon. If the Fed does cut rates as investors expect, the 3-Month and 2-Year yields will fall below the 10-Year and the yield curve will be upward sloping again. Please see our **2019 Client Question where we provide details on a Yield Curve Inversion**.

Yield to Maturity

The yield to maturity of various bond indices remain at their highest levels in years. Yield to maturity is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults). The yield to maturity on the US Aggregate Bond index increased to 4.4% at the end of the month, which is the highest level since 2009. In other words, future returns from the Agg bond index have not been this attractive in 14 years.

INFLATION

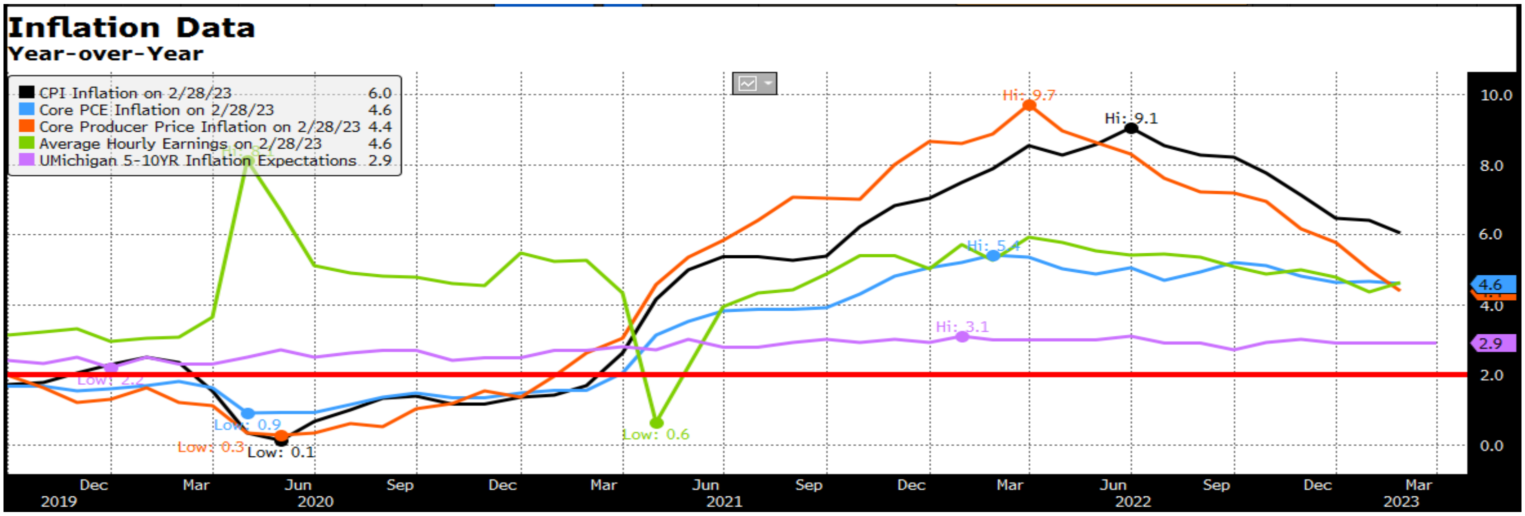
The increase in inflation since early-2021 was driven by supply chain bottlenecks, surging energy prices, strong consumer demand caused by a solid labor market, and massive amounts of stimulus. Although most readings have decelerated from peak levels over the past few months, inflation is still too high. The Fed has divided inflation into three buckets: goods (decelerating as supply chains normalize), housing (decelerating under rising mortgage rates but not showing up in inflation data until mid-2023), and non-housing related core services (still elevated due to the strong labor market and robust average hourly earnings).

The Fed's latest Summary of Economic Projections show the median participant expects Core PCE Inflation to fall to 3.6% in 2023, 2.6% in 2024, and 2.1% in 2025. Note that the Fed still shows inflation above their 2% target by the end of 2025.

We are still trying to combat the current rise in inflation by holding little cash in portfolios, avoiding long-term bonds, and overweighting equities of companies that are able to grow their cash flows, earnings, and dividends.

Here are several key inflation indicators and a chart tracking the data over the last three years:

- **The Bureau of Labor Statistics Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices.
  - Latest Reading: 6.0% (February). Peak: 9.1% (June 2022).
- **The Core Personal Consumption Expenditure (PCE) Index** measures the prices paid by consumers for goods and services based on surveys of what businesses are selling. Core means that the index excludes food and energy prices. This is the Fed's preferred inflation measure, which they target at an average of 2%.
  - Latest Reading: 4.6% (February). Peak: 5.4% (February 2022).
- **The Core Producer Price Index (PPI)** measures the average change in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.
  - Latest Reading: 4.4% (February). Peak: 9.7% (March 2022).
- **The Bureau of Labor Statistics Average Hourly Earnings** tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey.
  - Latest Reading: 4.6% (February). Peak: 81% (April 2020).
- **The University of Michigan Inflation Expectations** data is based on a monthly survey designed to gauge consumer expectations. Participants are asked for their view on annual inflation over the next 5 to 10 years.
  - Latest Reading: 2.9% (March). Peak: 3.1% (January 2022).



Source: Bloomberg

The Federal Reserve serves as the central bank of the United States and performs key functions designed to promote the health of the economy and stability of the financial system. The three key entities include the Board of Governors, twelve Federal Reserve Banks, and the Federal Open Market Committee (FOMC). The FOMC sets monetary policy in accordance with its mandate from Congress: to promote maximum employment, stable prices, and moderate long-term interest rates. According to the Fed, "monetary policy directly affects interest rates; it indirectly affects stock prices, wealth, and currency exchange rates. Through these channels, monetary policy influences spending, investment, production, employment, and inflation in the United States." Please see our **Client Question on The Fed** which details the key entities, and the impact monetary policy has on the economy, interest rates, and stock prices.

Interest Rates: The FOMC raised the federal funds rate 25 basis points (0.25%) at both the February and March meetings. The top end of the federal funds rate now stands at 5.00%. Since March of 2022, the Fed has increased interest rates by 4.75% total for one of the quickest tightening cycles in United States history. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate to peak at 5.1% in 2023 before they cut rates to 4.3% in 2024. The market is currently pricing in about a 50/50 chance that the Fed will not raise interest rates again this period.

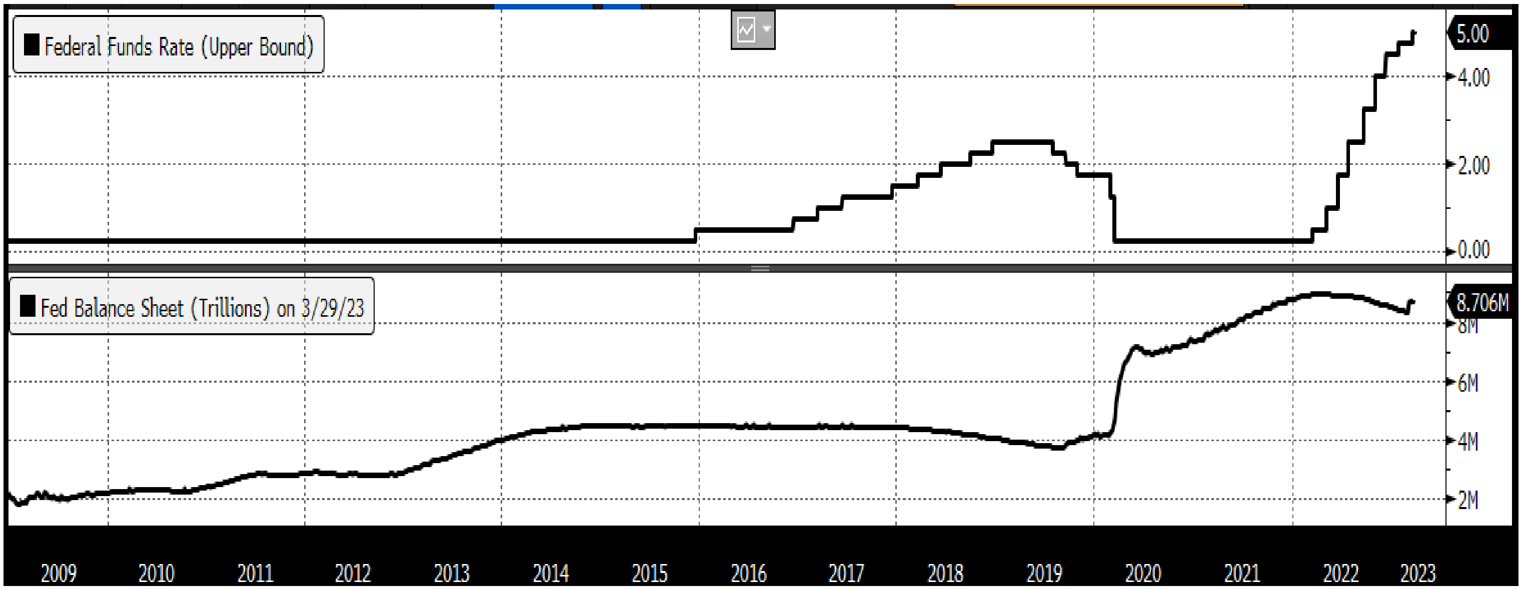
Balance Sheet – Quantitative Tightening: The Fed is also attempting to reduce the size of their nearly $9 trillion balance sheet. However, due to their new lending facility and increased borrowing from the discount window, the balance sheet increased in the first quarter by about $155 billion. Unrelated to the Fed's increased lending, the quantitative tightening program is for monthly caps of about $60 billion for Treasuries and $35 billion for agency mortgage-backed securities. The monthly reduction of about $95 billion is larger than the $50 billion per month pace that was used during the 2017-2019 runoff plan. The Fed will likely stop the quantitative tightening program around the time they decide to cut interest rates. Fed Chair Powell explained that the committee has not discussed changing the balance sheet runoff program yet, but they are prepared to adjust if necessary.

Bank Term Funding Program (BTFP): Under section 13 (3) of the Federal Reserve Act, the Fed has the ability to create lending facilities in times of crisis with the approval of the US Treasury. The Fed launched the BFTP facility after the failure of Silicon Valley Bank. The program will offer loans of up to one year to banks pledging Treasuries, Agency MBS, and other qualifying assets as collateral. An important feature of the lending facility is that the qualifying assets will be valued at par even if their values have declined, which means more liquidity is provided to the banking system.

An old investment adage is that the Fed will raise interest rates until something breaks. Well, something broke in the banking system resulting in two FDIC bank failures in a two-day span. While the Fed's congressional mandate is for maximum employment and stable prices, they will prioritize stability of the financial system above all else. Which means the Fed is likely close to ending their tightening cycle. The Fed acknowledges that tighter financial conditions from the Silicon Valley Bank fallout is the equivalent of interest rate hikes. The market is already anticipating rate cuts soon as evidenced by the 2-Year Treasury yield falling from 5.07% on March 8th to 4.02% at the end of the quarter.

The Fed is stuck between a rock and a hard place. Inflation at present levels would still call for rate increases while turmoil in the banking system would historically necessitate rate cuts. In our opinion, the Fed can't risk raising interest rates much higher without generating more cracks in the economy. The Fed will likely hold off on cutting interest rates until inflation continues its decent or the economy enters an undebatable recession (at which point inflation declining becomes inevitable). This puts the Fed and investors squarely in data dependent wait-and-see mode.

Federal Funds Rate (Upper Bound) and Fed Balance Sheet Size (Trillions)



Source: Bloomberg

US ECONOMY

The United States economy is meandering along and sending several mixed signals about the future path. Over the past several weeks manufacturing data, economic indicators, consumer spending, and the housing market have all weakened while inflation has decelerated but remains above the Fed's 2% target. It's not hard to see signs of a recession in these areas.

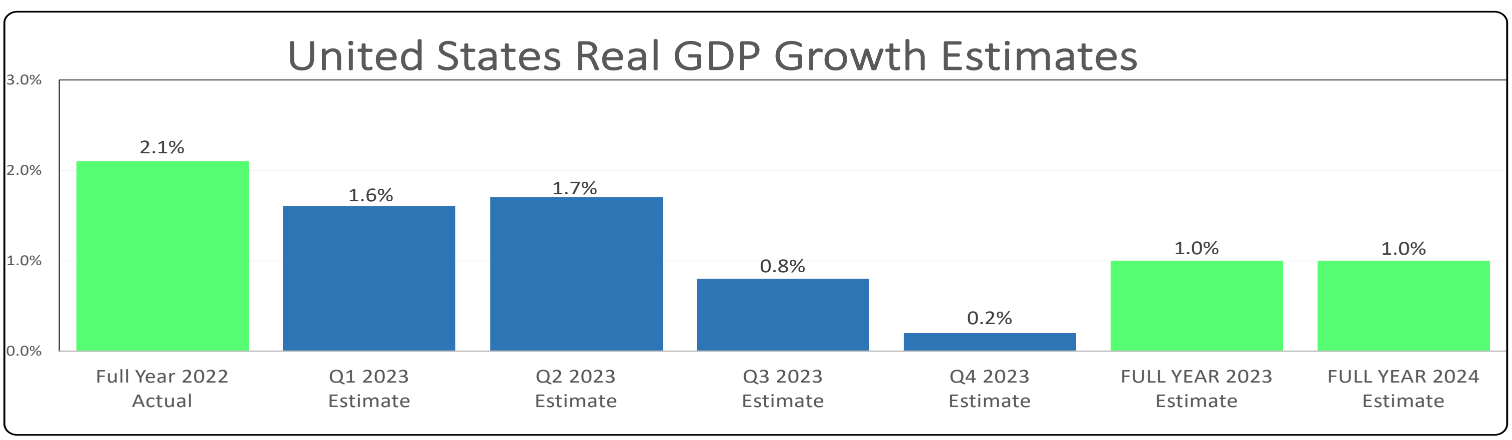
Meanwhile, the strength of the economy currently lies with the labor market as the unemployment rate of 3.6% is close to a 50-year low. While several major companies, especially in the technology sector, have announced hiring freezes or layoffs in recent months, the service sector, including retail, restaurants, hospitality, and health care, continue to add employees and search for new workers. With the Fed actively trying to soften the labor market to bring down inflation by lowering the overall demand for goods and services, we expect the unemployment rate to tick up over the next few months.

The turmoil in the banking sector also points to slower economic growth through a decrease in loan activity and tighter financial conditions. Consumers and businesses are likely to find it more challenging to get a loan as banks tighten their lending standards and probably face increased regulation. Unlike 2008, banks are now facing challenges from outflows from uninsured depositors and interest rate risk on long-term Treasury and Agency Mortgage-Backed Securities purchases rather than credit risk from subprime borrowers. Please see page 7 for our thoughts on a potential US recession.

United States Economic Data

Data Point	Latest Reading	Historical Readings				Historical Averages				Source
		3-Months Ago		12-Months Ago		5-Year Average		10-Year Average		
Economic Indicators										
Leading Economic Indicators (Y/Y)	**-6.5%**	-6.1%	↓	6.0%	↓	1.6%	↓	2.5%	↓	Conference Board
Financial Conditions Index	**-0.37**	-0.27	↓	-0.02	↓	0.19	↓	0.34	↓	Bloomberg
ISM Manufacturing Index	**47.7**	48.4	↓	57.0	↓	54.8	↓	54.5	↓	Institute for Supply Mgmt
ISM Services Index	**55.1**	49.2	↑	58.4	↓	57.3	↓	56.7	↓	Institute for Supply Mgmt
Consumer										
Retail Sales (Y/Y)	**5.4%**	6.2%	↓	7.1%	↓	7.7%	↓	5.6%	↓	US Census Bureau
Michigan Consumer Sentiment	**62.0**	59.7	↑	59.4	↑	80.8	↓	85.4	↓	University of Michigan
Debt-to-Service Ratio	**9.7%**	9.6%	↑	9.1%	↑	9.5%	↑	9.7%	↓	Federal Reserve
Labor Market										
Unemployment Rate	**3.6%**	3.5%	↑	3.6%	↑	4.9%	↓	5.2%	↓	Bureau of Labor Statistics
Change in Nonfarm Payrolls	**311,000**	239,000	↑	414,000	↓	119,814	↑	165,219	↑	Bureau of Labor Statistics
JOLTS Job Openings	**10,824,000**	11,234,000	↓	12,027,000	↓	8,485,828	↑	6,921,551	↑	Bureau of Labor Statistics
Housing Market										
Existing Home Sales (Annual Rate)	**4,580,000**	4,030,000	↑	5,690,000	↓	5,461,200	↓	5,359,900	↓	Ntl Association of Realtors
Case-Shiller Home Price Index (Y/Y)	**2.6%**	4.6%	↓	21.2%	↓	9.1%	↓	8.1%	↓	S&P
30-Year Fixed Rate Mortgage	**6.8%**	6.6%	↑	4.9%	↑	4.2%	↑	4.1%	↑	Bankrate.com
Inflation										
Core PCE Inflation (Y/Y)	**4.6%**	4.6%	↓	5.4%	↓	2.8%	↑	2.2%	↑	Bureau of Econ Analysis
Consumer Price Index (Y/Y)	**6.0%**	6.5%	↓	8.5%	↓	3.8%	↑	2.6%	↑	Bureau of Labor Statistics
Average Hourly Earnings (Y/Y)	**4.6%**	4.8%	↓	5.9%	↓	4.2%	↑	3.3%	↑	Bureau of Labor Statistics

Source: Winthrop Wealth, Bloomberg



Source: Bloomberg

UNITED STATED RECESSIONS AND S&P 500

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is charged with maintaining official records of expansions and recessions in the United States. The NBER defines a recession as a significant decline in economic activity while an expansion is defined as a period where economic activity rises substantially. According to the NBER, since 1929 there have been 15 recessions in the US lasting an average of 13 months each.

The open debate on whether the economy has already fallen into a recession will continue for a while longer. The NBER has stated the current period does not meet their definition of a recession. However, according to the Federal Reserve, the possibility of a recession sometime this year is "plausible."

An over-simplified business cycle historically followed a similar pattern: the economy expands rapidly - unemployment falls - inflation overheats - financial bubbles forms - the Fed responds by raising interest rates – credit tightens - good borrowers struggle to find loans – the economy stumbles - a recession occurs – the economy bottoms - repeat. We've seen the first stages of the business cycle play out starting in mid-2020. At this point, it is unclear whether the turbulence that started with **Silicon Valley Bank** will lead to a full-blown credit crunch, but we do expect that banks will tighten their lending standards which will lead to slower overall economic growth and increased odds of an official recession.

We started writing that a mild US recession felt inevitable last summer, and our view has not changed as several recessionary indicators are still flashing yellow or red, including the **yield curve**, leading economic indicators, and the ISM Manufacturing survey. We continue to believe that a potential recession will be far less severe than previous significant economic declines like the Global Financial Crisis of 2007 – 2009 as consumer leverage and balance sheets are in far better condition.

The good news for long-term investors is that the S&P 500 already priced in an average recession last year when the index fell by -24.5% from January 3rd through October 12th. We are not sure if October 12th marks the ultimate bottom for this period, although unless your view is that this is the start of another Great Depression or Financial Crisis, then a lot of the damage in the equity market may have already occurred at the recent low.

A key tenant to our investment philosophy is to maintain a long-term viewpoint. A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that recessions can create buying opportunities for long-term investors. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods.

United States Recessions			S&P 500 Performance						
Economic Growth Peak	Economic Growth Trough	Peak to Trough (Months)	S&P 500 Peak	S&P 500 Trough	Peak to Trough (Months)	Peak to Trough Decline	1-Year Post Trough	3-Year Post Trough	5-Year Post Trough
August 1929	March 1933	44	September 1929	June 1932	33	-86.2%	121.4%	117.7%	287.9%
May 1937	June 1938	13	March 1937	March 1938	13	-51.3%	34.8%	36.3%	82.8%
February 1945	October 1945	8	January 1945	January 1945	0	-3.5%	42.7%	24.9%	74.6%
November 1948	October 1949	11	June 1948	June 1949	12	-15.5%	59.9%	132.8%	206.8%
July 1953	May 1954	10	January 1953	September 1953	8	-12.4%	45.6%	137.3%	165.0%
August 1957	April 1958	8	July 1957	October 1957	3	-19.8%	36.2%	52.0%	68.9%
April 1960	February 1961	10	January 1960	October 1960	10	-11.1%	34.8%	55.9%	106.0%
December 1969	November 1970	11	May 1969	May 1970	13	-32.2%	48.9%	71.3%	56.1%
November 1973	March 1975	16	January 1973	October 1974	21	-44.8%	44.4%	76.4%	122.9%
January 1980	July 1980	6	February 1980	March 1980	1	-16.7%	44.4%	82.5%	133.5%
July 1981	November 1982	16	January 1981	August 1982	19	-19.1%	66.1%	111.0%	300.3%
July 1990	March 1991	8	July 1990	October 1990	3	-19.2%	33.5%	70.8%	126.4%
March 2001	November 2001	8	January 2001	September 2001	8	-29.1%	-11.1%	22.2%	49.7%
December 2007	June 2009	18	October 2007	March 2009	17	-55.2%	72.3%	115.0%	208.7%
February 2020	April 2020	2	February 2020	March 2020	1	-33.8%	77.8%	85.1%	
Average (15)		13			11	-30.0%	50.1%	79.4%	142.1%
Median (15)		10			10	-19.8%	44.4%	76.4%	124.7%
Average (14. Ex. Great Depression)		11			9	-26.0%	45.0%	76.7%	130.9%
Median (14. Ex Great Depression)		10			9	-19.5%	44.4%	73.8%	122.9%

Source: National Bureau of Economic Research (NBER) and Bloomberg

OUTLOOK

Our market outlook is based on four pillars: Monetary Policy, Economic Growth, Corporate Earnings, and Valuation.

ECONOMIC GROWTH

Economic growth estimates have been decreasing over the past several weeks as The United State economy is meandering along and sending several mixed signals about the future path. Over the past several weeks manufacturing data, economic indicators, consumer spending, and the housing market have all weakened while inflation has decelerated but remains above the Fed's 2% target. Meanwhile, the strength of the economy currently lies with the labor market as the unemployment rate of 3.6% is close to a 50-year low.

The open debate on whether the economy has already fallen into a recession will continue for a while longer. In our opinion, a mild recession is likely inevitable, and it does not really matter when the official start date is. Our view is still that the potential recession would be far less severe than previous economic declines like the Global Financial Crisis of 2007 – 2009.

Real GDP Estimates:

- 2023: +1.0%
- 2024: +1.0%
- 2025: +2.0%

MONETARY POLICY

An old investment adage is that the Fed will raise interest rates until something breaks. Well, something broke in the banking system resulting in two FDIC bank failures in a two-day span. While the Fed's congressional mandate is for maximum employment and stable prices, they will prioritize stability of the financial system above all else. Which means the Fed is likely close to ending their tightening cycle.

- **Interest Rates**: The FOMC raised the federal funds rate 25 basis points (0.25%) at each of the February and March meetings. The top end of the federal funds rate now stands at 5.00%. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate to peak at 5.1% in 2023 before they cut rates to 4.3% in 2024.

- **Balance Sheet Runoff Plan**: TThe Fed is still shrinking their balance sheet by $95 billion per month ($60 billion for Treasuries and $35 billion for agency mortgage-backed securities).

CORPORATE EARNINGS

S&P 500 earnings estimates have stabilized over the past several weeks. First quarter 2023 earnings season, which kicks off in mid-April, will be important to assess how corporations are navigating the current environment and for their outlook on future conditions.

S&P 500 Earnings Estimates

- 2023: $222 (+1%)
- 2024: $248 (+12%)

Over long time periods, earnings drive stock prices.

VALUATION

We Valuations look a bit stretched after the market rebound this quarter. We will caution that if earnings estimates get lowered, the current P/E will look even more stretched. is still inflated.

The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 18.3x.
- 25-Year Average: 16.5x.

Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.

The last fifteen months has been one of the most difficult investment environments since the Global Financial Crisis as investors have dealt with inflation, the Fed aggressively tightening monetary policy, rising interest rates the Russia/Ukrainian War, turmoil in the banking sector, and various other risks. We have separated our outlook into short- (months) and long-term (years) periods.

In the short-term (months), our view is that volatility will remain for a while longer. The S&P 500, currently at 4,109 has been stuck in a trading range from 3,600 to 4,300 for nearly 11 months. Over that period, evidence of disinflation pushed the market toward the top end of the range, while signs of elevated inflation pushed the index toward the bottom. While inflation is still the key to the markets in the short-term as it will likely determine the Fed's next move and the future state of the economy, investors must now also consider potential contagion in the banking industry along with the upcoming debt ceiling debate as significant risks. We expect the S&P 500 to remain rangebound for the time being as the fundamentals of the stock market do not support a rapid recovery back to all-time highs yet. Importantly, as we are actively managing portfolios, a rangebound market does not mean that we are planning to sit on our hands. If the market were to break below this range to a new cycle low, our short-term view would turn more positive and we would look to add to equities. If the S&P were to break above the range and toward all-time highs, our short-term view would turn increasingly cautious, and we would begin trimming equities. *The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.*

Over the long-term (years), we still suspect this difficult economic environment has created a strong opportunity for investors willing to live with some short-term discomfort. The attached chart, **Investing After Market Declines**, utilizes S&P 500 month-end data from 1940 – 2021 and shows that investing when the index is down more than -10% from the all-time high has produced both strong average annualized returns and a high percentage of positive outcomes. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will eventually be rewarded. Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon.

We continue to rely on our time-tested process while looking for opportunities to tax loss harvest, reposition and rebalance portfolios, and selectively put money to work for clients that have recently made contributions to their accounts. On the equity side, we remain tilted toward high quality US stocks. On the fixed income side, we are taking advantage of the highest yields in over a decade while continuing to focus on seeking ballast, stability, and income as well as accounting for short-term cash needs. *Please remember there is no guarantee a diversified portfolio will outperform a non-diversified portfolio and all investing involves risk including loss of principal.*

At Winthrop Wealth, we follow a Total Net Worth Approach and we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide confidence in pursuing your long-term financial goals, especially during times of heightened market volatility. We help our clients navigate challenging markets by seeking to ensure their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. By having two to three years of scheduled cash flows invested in ultra-short fixed income instruments, we seek to decrease the likelihood that we will need to sell out of risk assets after a market decline to fund distributions. *Remember, no strategy assures success or protects against loss.*

US Equity											
Index	**Q1 2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	7.48%	-18.13%	28.68%	18.39%	31.47%	-4.39%	-18.37%	16.59%	10.09%	11.71%	10.09%
Russell 3000	7.17%	-19.22%	25.64%	20.88%	31.01%	-5.25%	-19.05%	16.62%	9.39%	11.23%	10.17%
Dow Jones Industrial Average	0.93%	-6.86%	20.95%	9.72%	25.34%	-3.48%	-3.80%	17.79%	9.28%	11.32%	10.11%
Nasdaq	17.05%	-32.51%	22.21%	45.05%	36.73%	-2.82%	-32.81%	12.29%	9.65%	13.92%	12.16%
S&P 400	3.79%	-13.10%	24.73%	13.65%	26.17%	-11.10%	-11.29%	22.10%	7.21%	9.61%	11.02%
Russell 2000	2.73%	-20.46%	14.78%	19.93%	25.49%	-11.03%	-18.12%	17.82%	4.33%	7.92%	9.71%
Russell 1000 Growth	14.36%	-29.14%	27.59%	38.49%	36.39%	-1.51%	-28.21%	14.09%	11.22%	13.40%	10.95%
Russell 1000 Value	0.99%	-7.56%	25.12%	2.78%	26.52%	-8.28%	-9.02%	18.39%	7.65%	9.24%	9.19%
International Equity											
MSCI Index	**Q1 2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	8.47%	-14.45%	11.26%	7.82%	22.01%	-13.79%	-11.86%	10.92%	1.95%	4.25%	6.97%
Europe	14.23%	-17.86%	13.54%	7.89%	23.20%	-16.90%	-9.91%	12.48%	0.73%	4.68%	6.57%
Japan	6.19%	-16.65%	1.71%	14.48%	19.61%	-12.88%	-14.01%	4.94%	0.06%	4.51%	5.74%
China	4.71%	-21.93%	-21.72%	29.49%	23.46%	-18.88%	-11.79%	-3.82%	-5.13%	2.97%	10.75%
Emerging Markets	3.96%	-20.09%	-2.54%	18.31%	18.42%	-14.57%	-18.27%	7.80%	-1.76%	1.64%	9.16%
ACWI ex US	6.87%	-16.00%	7.82%	10.65%	21.51%	-14.20%	-14.55%	10.51%	1.18%	3.56%	7.23%
US Fixed Income											
Bloomberg Barclays Index	**Q1 2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	2.96%	-13.01%	-1.54%	7.51%	8.72%	0.01%	-9.86%	-4.07%	0.33%	1.09%	3.06%
Treasury Bills	1.09%	1.52%	0.04%	0.54%	2.21%	1.83%	1.98%	0.59%	1.22%	0.74%	1.21%
Corporates	3.50%	-15.76%	-1.04%	9.89%	14.54%	-2.51%	-11.44%	-1.64%	0.97%	2.02%	4.04%
Securitized MBS/ABS/CMBS	2.47%	-11.67%	-1.04%	4.18%	6.44%	0.99%	-9.22%	-4.37%	-0.20%	0.82%	
High Yield	3.57%	-11.19%	5.28%	7.11%	14.32%	-2.08%	-8.76%	5.34%	2.62%	3.83%	6.96%
Munis	2.78%	-8.53%	1.52%	5.21%	7.54%	1.28%	-3.24%	-0.77%	1.55%	2.15%	3.59%
US Equity Sectors											
Index	**Q1 2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	21.82%	-28.19%	34.52%	43.88%	50.27%	-0.30%	-27.66%	17.19%	15.83%	18.26%	13.56%
Real Estate	1.88%	-26.21%	46.14%	-2.17%	29.00%	-2.23%	-27.15%	8.87%	7.35%	6.09%	
Industrials	3.47%	-5.51%	21.10%	11.05%	29.32%	-13.32%	-4.26%	21.74%	8.08%	11.06%	10.29%
Energy	-4.71%	65.43%	54.39%	-33.68%	11.81%	-18.10%	25.96%	57.13%	11.08%	5.03%	9.76%
Consumer Discretionary	16.05%	-37.03%	24.43%	33.30%	27.94%	0.82%	-38.63%	9.09%	5.79%	10.74%	10.57%
Communication Services	20.50%	-39.89%	21.57%	23.61%	32.69%	-12.53%	-39.77%	2.92%	2.66%	3.41%	6.87%
Consumer Staples	0.83%	-0.62%	18.63%	10.75%	27.61%	-8.39%	0.52%	14.92%	11.01%	9.77%	10.31%
Utilities	-3.24%	1.56%	17.67%	0.52%	26.35%	4.11%	-4.04%	11.00%	10.88%	9.99%	11.07%
Materials	4.29%	-12.28%	27.28%	20.73%	24.58%	-14.70%	-13.22%	23.77%	9.14%	9.52%	10.05%
Financials	-5.56%	-10.57%	34.87%	-1.76%	32.09%	-13.04%	-12.05%	20.95%	6.91%	11.19%	5.91%
Health Care	-4.31%	-1.95%	26.13%	13.45%	20.82%	6.47%	0.85%	18.60%	13.51%	13.72%	10.56%
	Calendar Year Returns						**Annualized Returns**				

Source: Bloomberg

Leading Economic Indicators
The Conference Board US Leading Economic Indicators Index (LEI) is designed to forecast future activity based on economic variables that tend to move before changes in the overall economy. The index contains 10 data points. Updated monthly. Data goes back to 1960.

Financial Conditions Index
The Bloomberg US Financial Conditions Index tracks the overall level of financial stress in the money market, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions. The number is a Z-Score that indicates the number of standard deviations by which current conditions deviate from normal levels. Updated daily. Data goes back to 1990.

ISM Manufacturing Index
The ISM Manufacturing PMI Index is based on a survey of more than 300 manufacturing firms - the index monitors employment, production, inventories, new orders, and supplier deliveries. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. Updated monthly. Data goes back to 1948.

ISM Services Index
The ISM Non-Manufacturing PMI Index is based on a survey of more than 300 non-manufacturing firms. The index is a composite of four indicators with equal weights: Business Activity, New Orders, Employment, and Supplier Deliveries. A reading above 50 percent indicates that the non-manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. Updated monthly. Data goes back to 1997.

Retail Sales
The US Census Bureau Retail Sales data tracks the resale of new and used goods to the general public for personal or household consumption. Data is adjusted for seasonal variation and holiday and trading-day differences and calculated from a survey of approximately 5,500 retail and food services firms. Updated monthly. Data goes back to 1992.

Michigan Consumer Sentiment
The University of Michigan collects data on consumer attitudes and expectations. The index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Updated monthly. Data goes back to 1966.

Debt-to-Service Ratio
The Federal Reserve Household Debt Service and Financial Obligations. Also known as Household Debt Service Ratio (DSR). Calculated as Household debt service payments and financial obligations as a percentage of disposable personal income; seasonally adjusted. Updated quarterly. Data goes back to 1979.

Unemployment Rate
The Bureau of Labor Statistics Unemployment Rate tracks the number of unemployment persons as a percentage of the labor force. The labor force is calculated as the total number of employed plus unemployed. The unemployment rate is calculated from the Current Population Survey (CPS). Updated monthly. Data goes back to 1948.

Change in Nonfarm Payrolls
The Bureau of Labor Statistics Nonfarm Payrolls measures the monthly change in the number of employees on business payrolls. Approximately 140k businesses and government agencies representing 690k individual worksites are surveyed each month. Data is from the Current Employment Statistics (CES) survey. Updated monthly. Data goes back to 1939.

JOLTS Job Openings
The Job Openings and Labor Turnover Survey (JOLTS) is conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. The program involves the monthly collection, processing, and dissemination of job openings and labor turnover data. The data, collected from sampled establishments on a voluntary basis, include employment, job openings, hires, quits, layoffs and discharges, and other separations. Updated monthly. Data goes back to 2000.

Existing Home Sales
The National Association of Realtors Existing Home Sales SAAR tracks total existing home sales including single family homes, townhomes, condominiums, and co-ops. All sales are based on closings from Multiple Listing Services. Updated monthly. Data goes back to 1999.

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Case-Shiller Home Price Index
The S&P Case-Shiller US National Home Price Index tracks the value of single-family housing within the United States. The index is a value-weighted average of 20 metro areas. Updated monthly. Data goes back to 2001.

30-Year Fixed Rate Mortgage
Bankrate.com calculates the national average 30-year Fixed Rate Mortgage. Updated daily. Data goes back to 1998.

Core PCE Inflation
The Core Personal Consumption Expenditure (PCE) index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. The FOMC targets an average of +2.0% Y/Y growth in Core PCE Inflation. Updated monthly. Data goes back to 1960.

Consumer Price Index
The Bureau of Labor Statistics Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices. Updated monthly. Data goes back to 1914.

Average Hourly Earnings
The Bureau of Labor Statistics Average Hourly Earnings tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey. Updated monthly. Data goes back to 2007.

DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All indexes mentioned are unmanaged indexes which 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. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.
The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approxi¬mately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered In-

DISCLOSURES

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Bloomberg Barclays U.S. Government/Credit Index is an unmanaged market value weighted index composed of all U.S. Government and government agency securities (other than mortgage backed) that are of investment grade with maturities of one year or more.

The Bloomberg Barclays U.S Corporate High-Yield Bond Index is an unmanaged market value weighted index composed of fixed-rate, publicly issued, non-investment grade debt.

The Bloomberg Barclays U.S. Intermediate Government/Corporate Bond Index is a market value weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and 10 years.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays U.S. Mortgage Backed Securities Index is an unmanaged market value weighted performance benchmark that tracks mortgage-backed securities issued by Ginnie Mae, Freddie Mac, and Fannie Mae with 15-year and 30-year maturities. It is a subset of the Barclays Aggregate Bond Index.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.