

Beacon Trust Client Webinar: 2023Q1 Market Review and Outlook



Source: www.TheDigeratiLife.com

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Calculation methodologies are available upon request. #111728 #113612
For one on one presentation only.

2023Q1 Market Recap

Equities

- S&P 500: **+7.5%**
- R1000 Growth: **+14.4%**
- R1000 Value: **+1.0%**
- Russell 2000: **+2.2%**
- MSCI Int'l: **+8.0%**
- MSCI EM: **+4.0%**

Fixed Income

- Barclays Agg: **+3.0%**

Alternatives

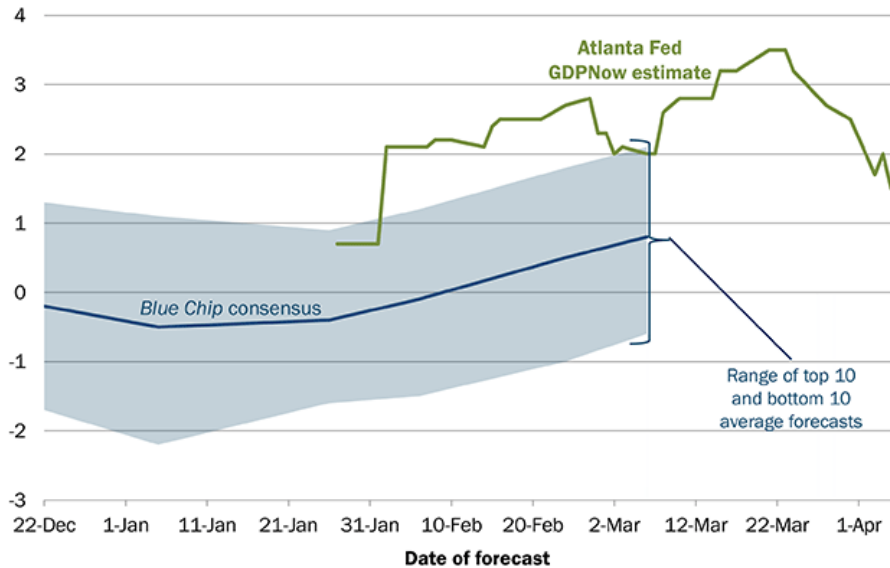
- Gold: **+9.2%**
- HFRX Global HF: **+0.2%**
- U.S. REIT: **+2.7%**
- Bloomberg Commodity: **-5.4%**

Reminder on 2022 (Full Year)

- S&P 500: **-18.1%**
- Barclays Agg: **-12.0%**

GDP Was Sluggish Before The Banking Crisis

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q1
Quarterly percent change (SAAR)



Weekly Economic Index (WEI)

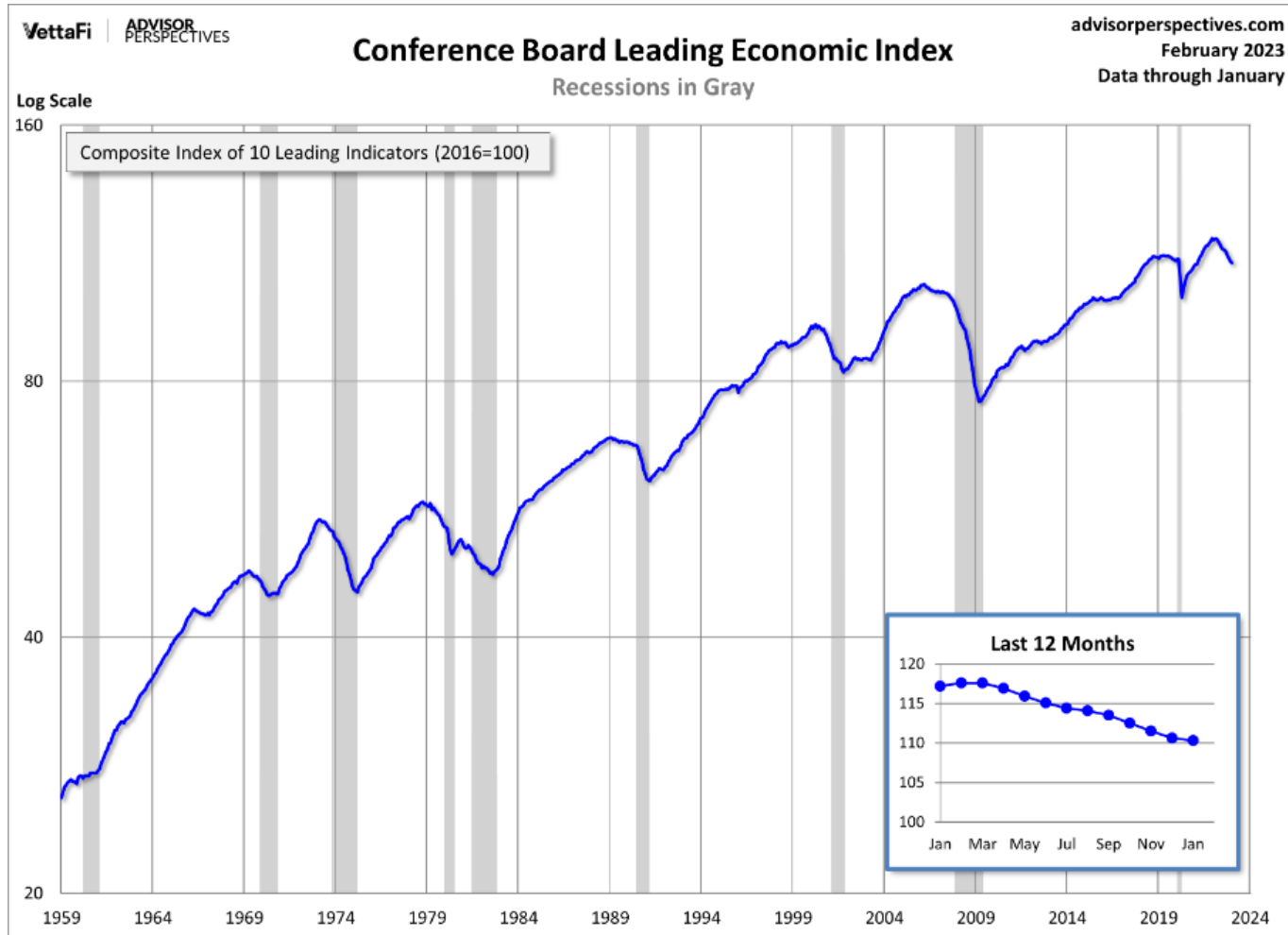
Latest Release 11:30 a.m. March 30, 2023



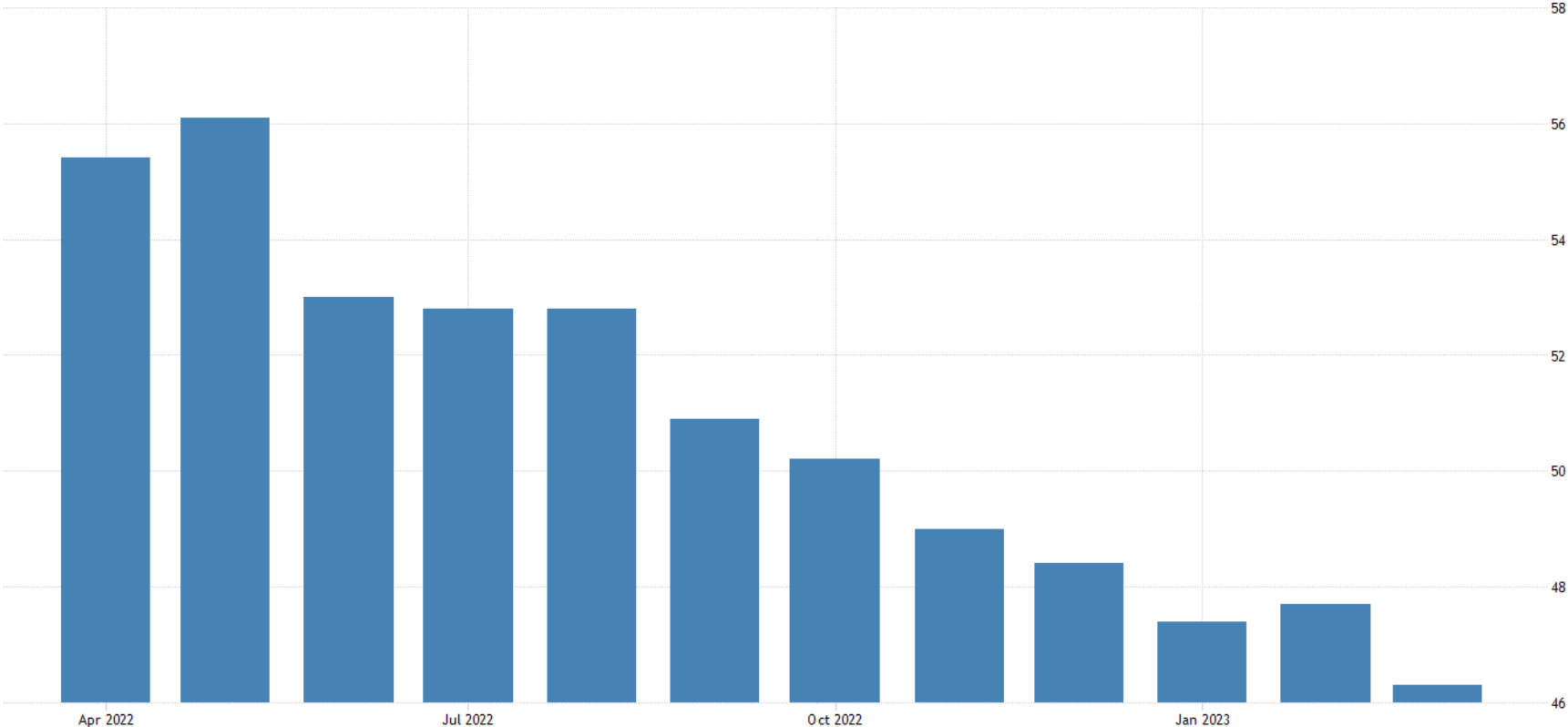
Source: Authors' calculations based on data from Haver Analytics, Redbook Research, Rasmussen Reports, the Association of American Railroads, and Booth Financial Consulting.

Notes: The shaded areas indicate periods designated as recessions by the National Bureau of Economic Research. Annual real GDP growth (four-quarter moving average) is based on the latest quarterly GDP data release from the U.S. Bureau of Economic Analysis. The 13-week moving average of the WEI offers an approximation of the four-quarter annual real GDP growth rate for a hypothetical quarter ending in a given week.

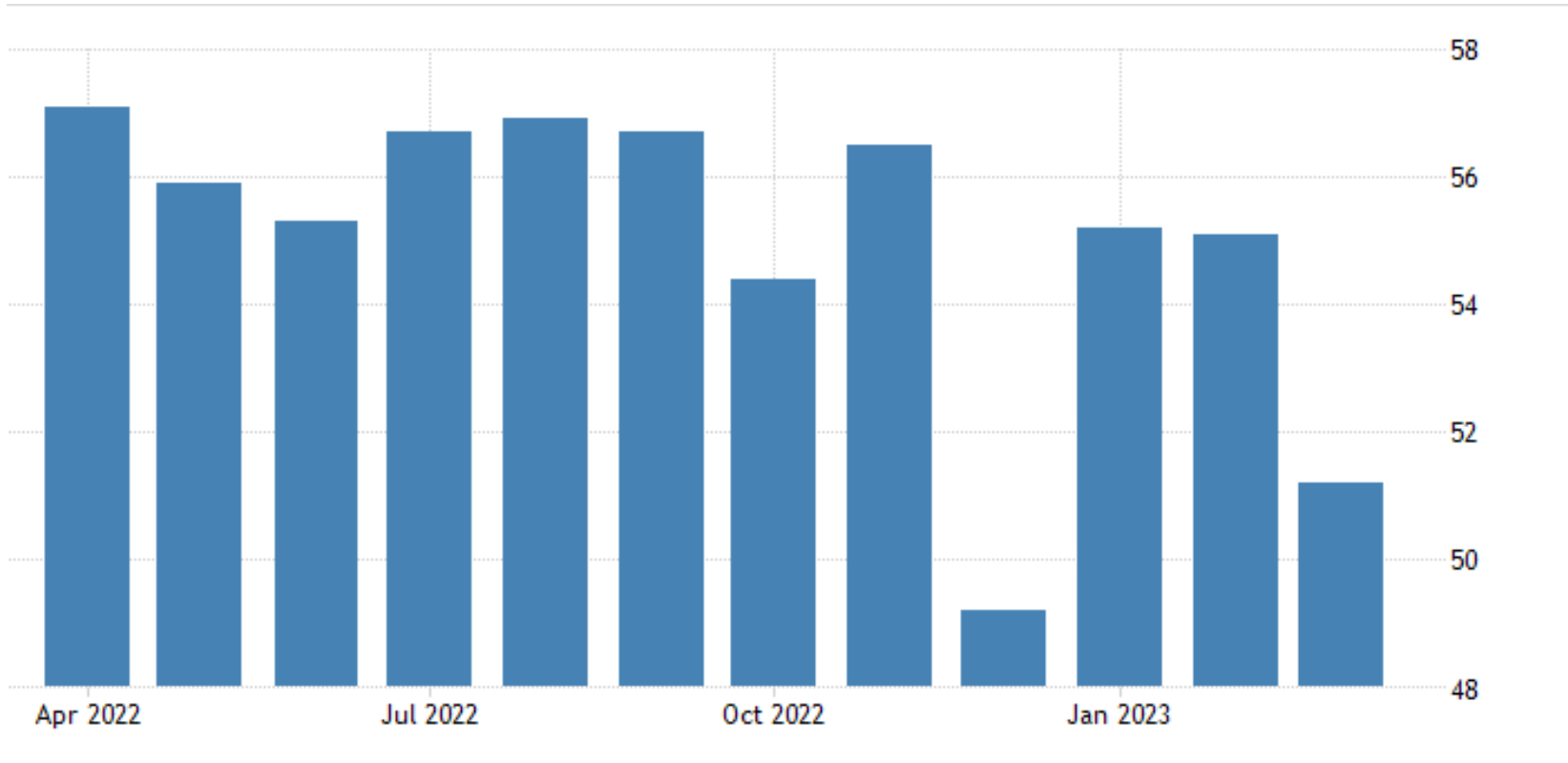
Leading Economic Indicators (LEI) → 11 Mo. Decline



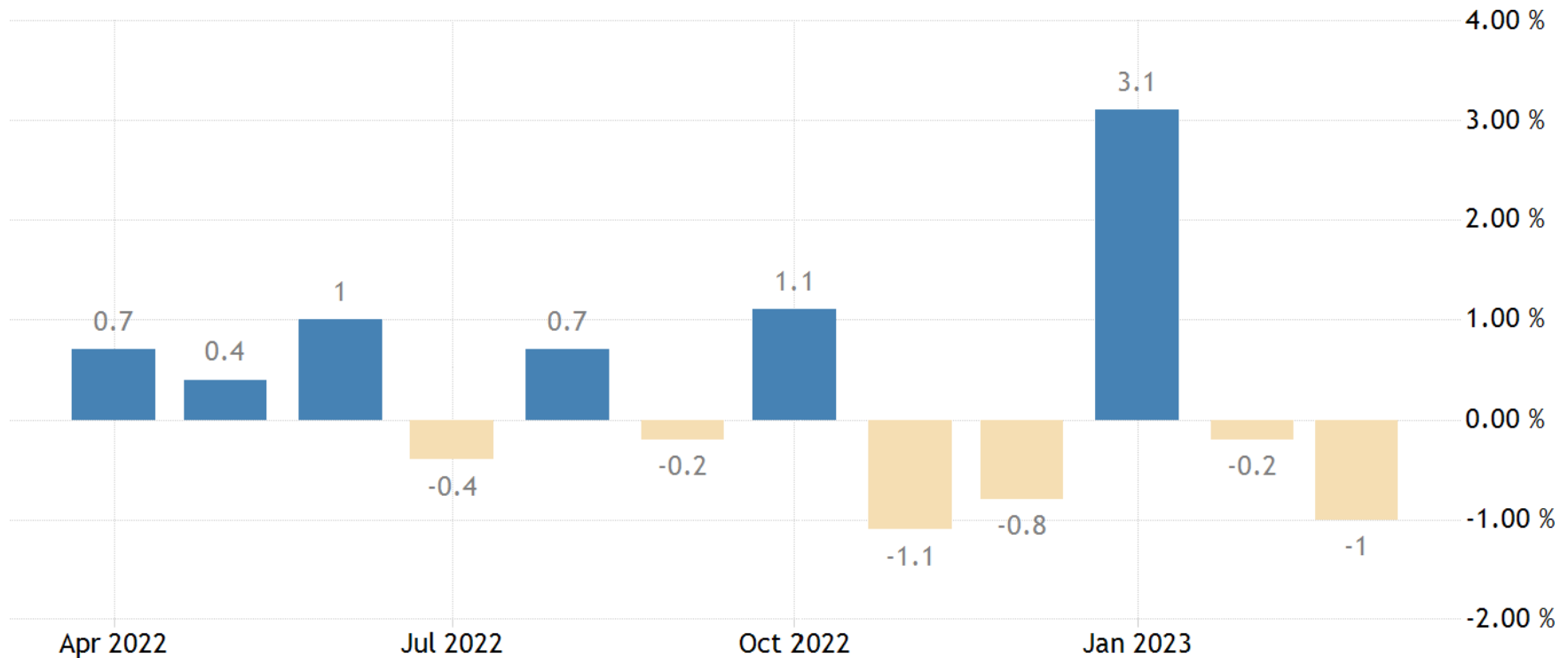
ISM Manufacturing → Expected Contraction



ISM Services → Slowing Down



Retail Sales Dip 1% (Consumer ~ 70% of GDP)



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Factors Used To Determine Recession

Variables used by the NBER in making recession determination*

% change month-over-month

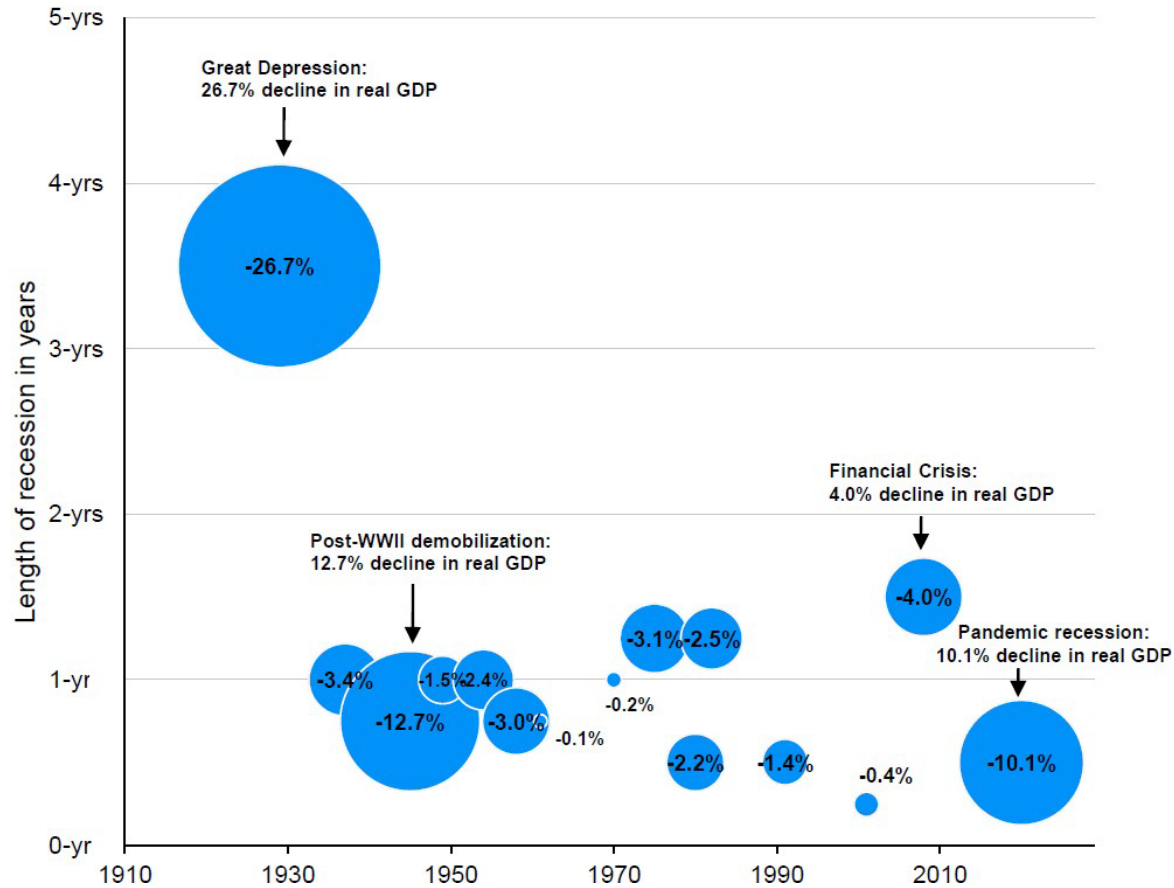


Source: JP Morgan

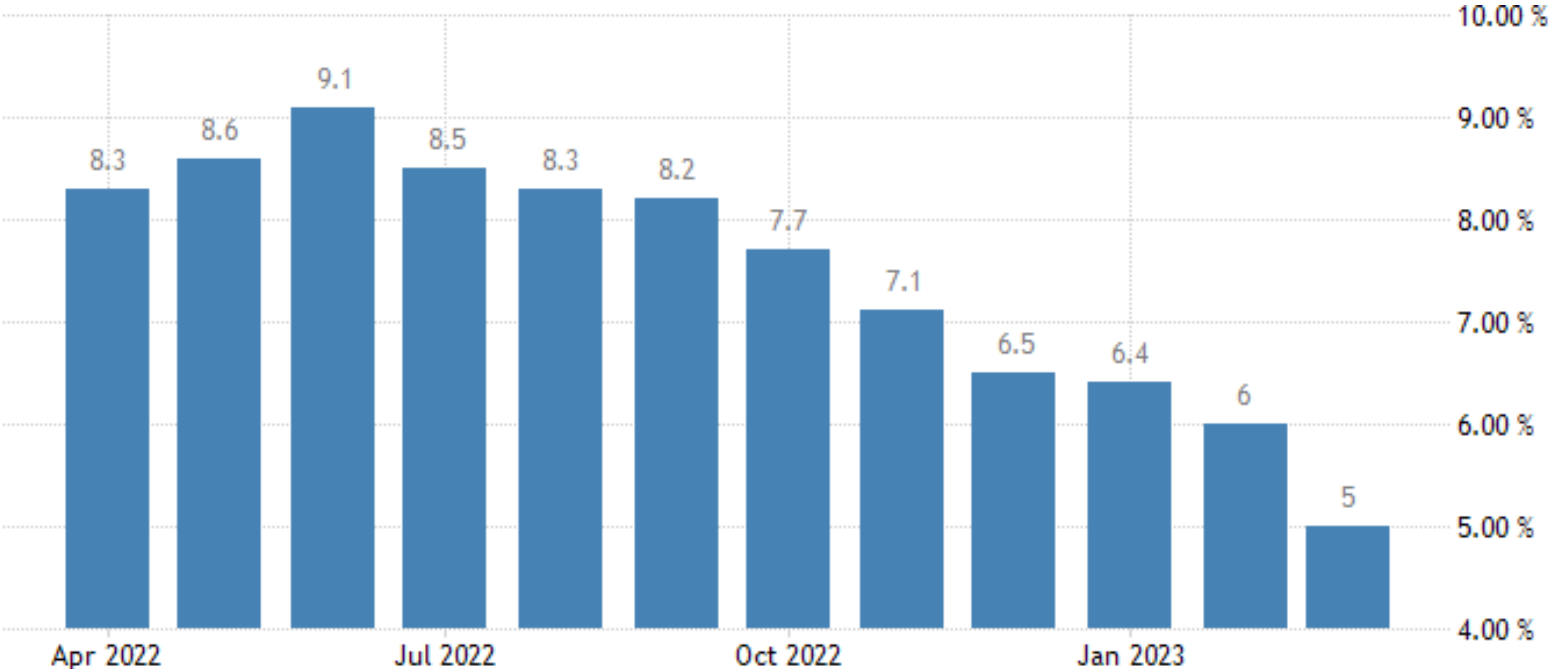
Not All Recessions Are The Same

The Great Depression and post-war recessions

Length and severity of recession



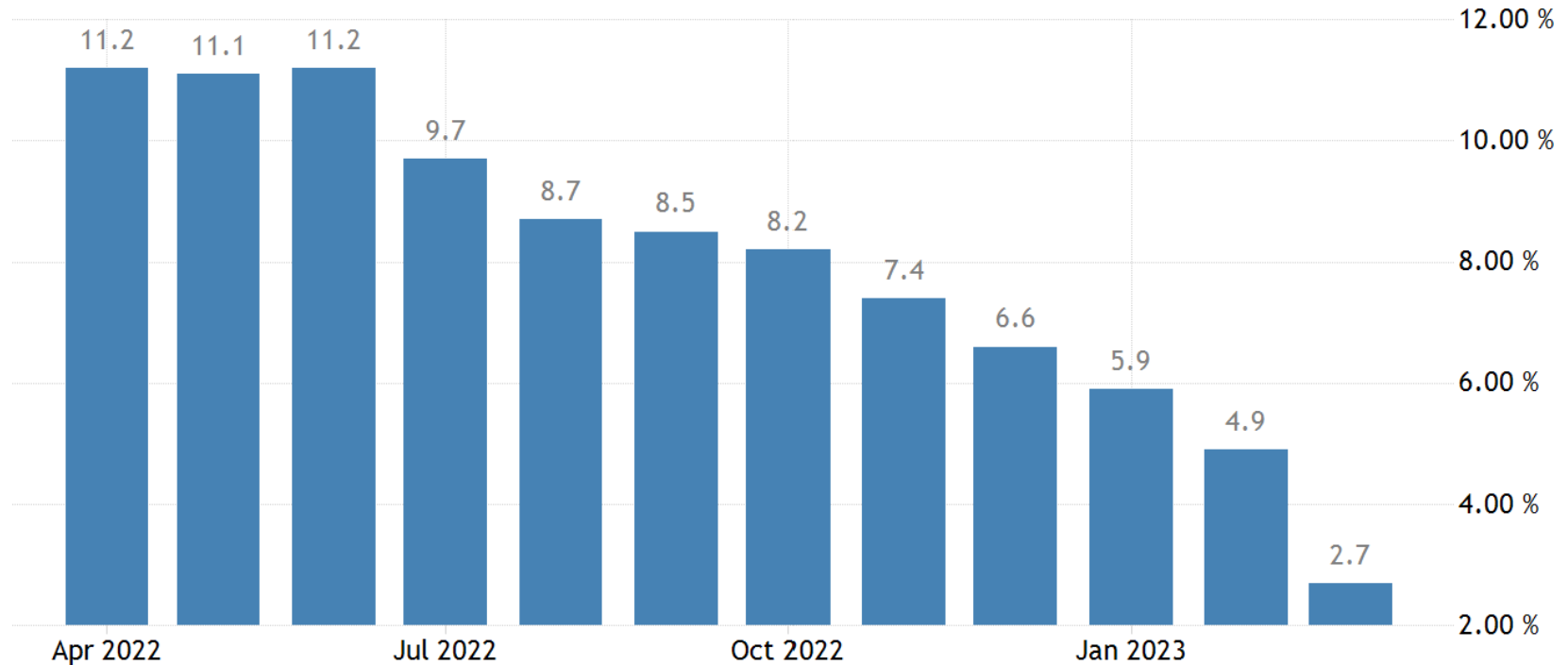
Inflation Continues To Decelerate



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The annual inflation rate in the US slowed for a ninth consecutive period to 5% in March of 2023, the lowest since May of 2021 from 6% in February, and below market forecasts of 5.2%. Food prices grew at a slower rate (8.5% vs 9.5% in February) and energy cost fell (-6.4% vs +5.2%), namely gasoline (-17.4%) and fuel oil (-14.2%). At the same time, prices for used cars and trucks declined once again (-11.6% vs -13.6%). On the other hand, inflation for shelter which accounts for over 30% of the total CPI basket, continued to march higher (8.2% vs 8.1%). Compared to the previous month, the CPI edged 0.1% higher, also below expectations of 0.2%, with higher shelter prices (0.6%) offsetting a 3.5% fall in energy cost. Food prices were unchanged. Core CPI which excludes food and energy, increased 5.6% on the year and 0.4% on the month as expected. source: U.S. Bureau of Labor Statistics

PPI Falls Sharply → Future Inflation Contained

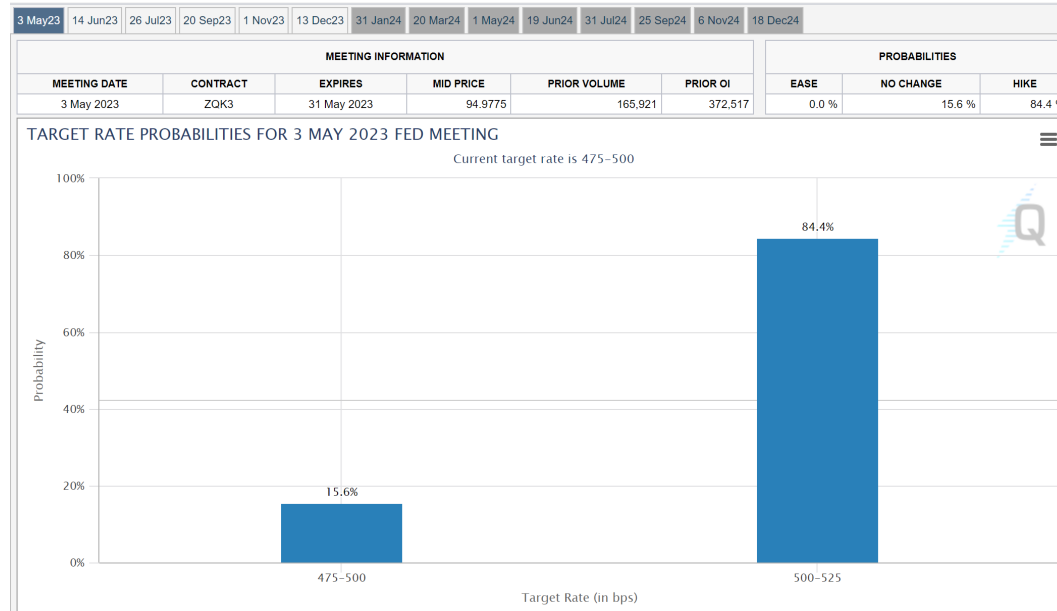


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The Producer Price Index for final demand in the United States increased by 2.7 percent from a year earlier in March 2023, easing from an upwardly revised 4.9 percent rise in the previous month and below market expectations of 3 percent. The rate of inflation was the lowest since January 2021, adding to signs that inflationary pressure in the world's largest economy might be cooling following the policy tightening delivered by the Fed over the past year. source: U.S. Bureau of Labor Statistics

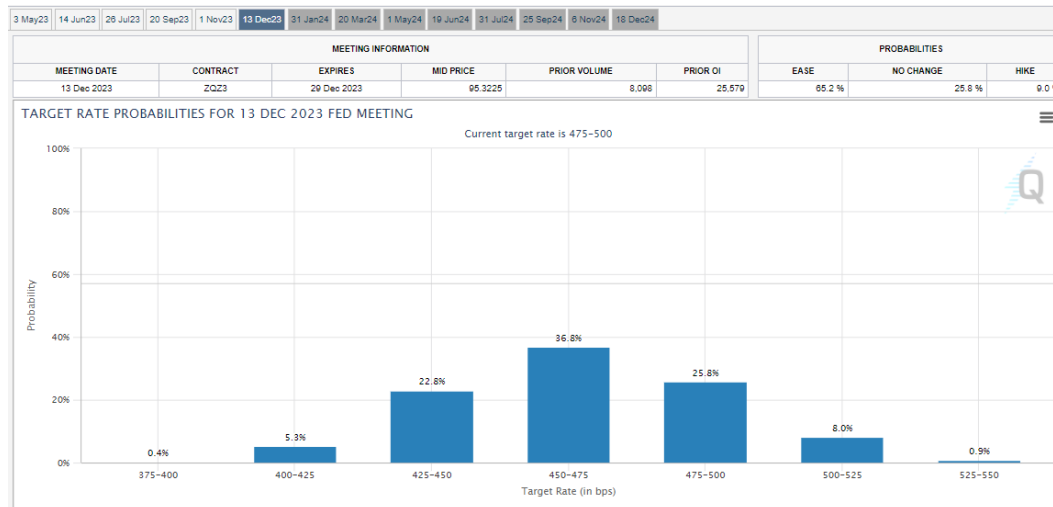
2Q 2023 Fed Outlook

May projection →
85% chance of
25bps rate hike



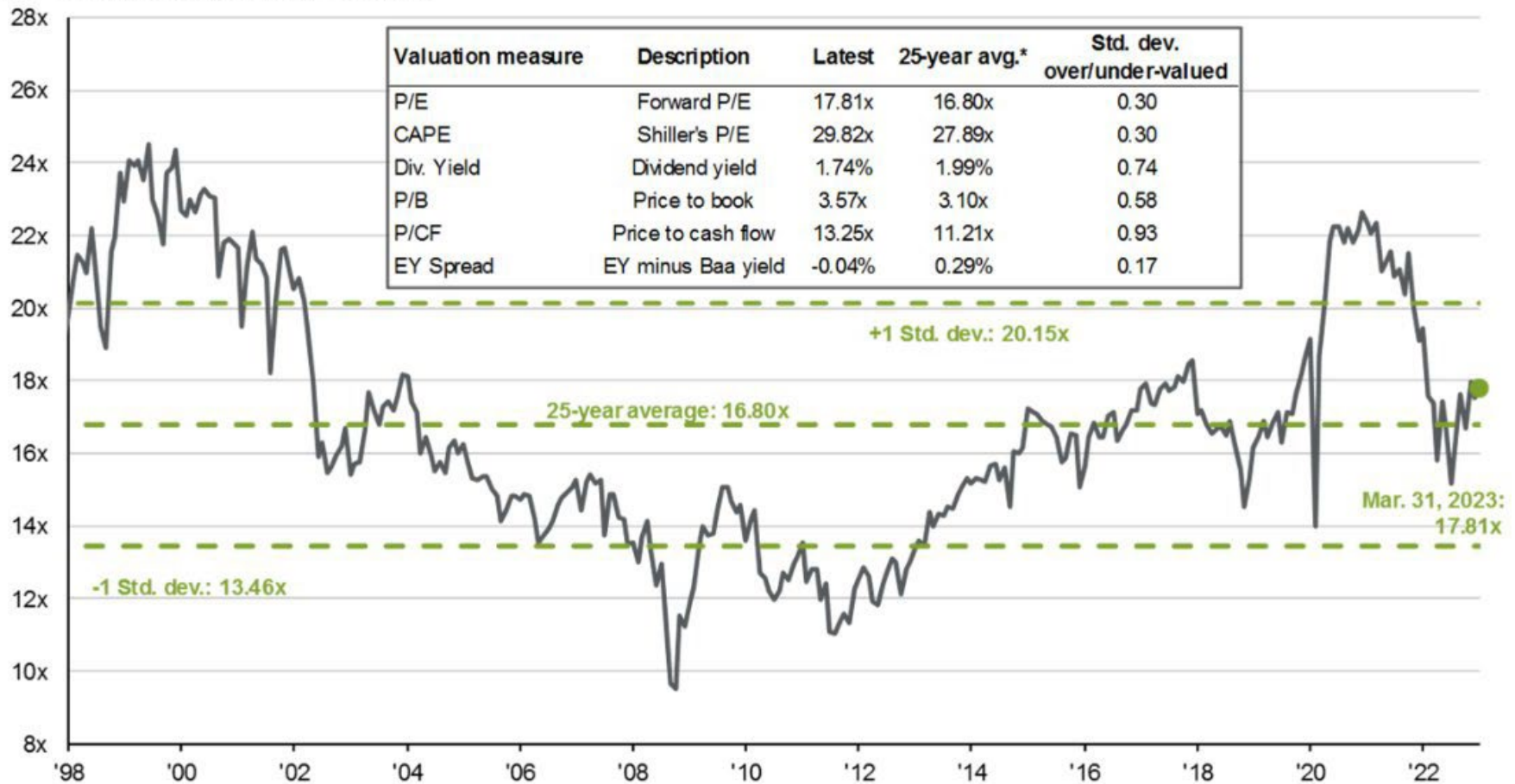
Summary: Fed will likely pause in May or June and cut rates in 2023H2 IF we enter recession.

Dec. projection →
50bps rate cut by
December has
highest probability



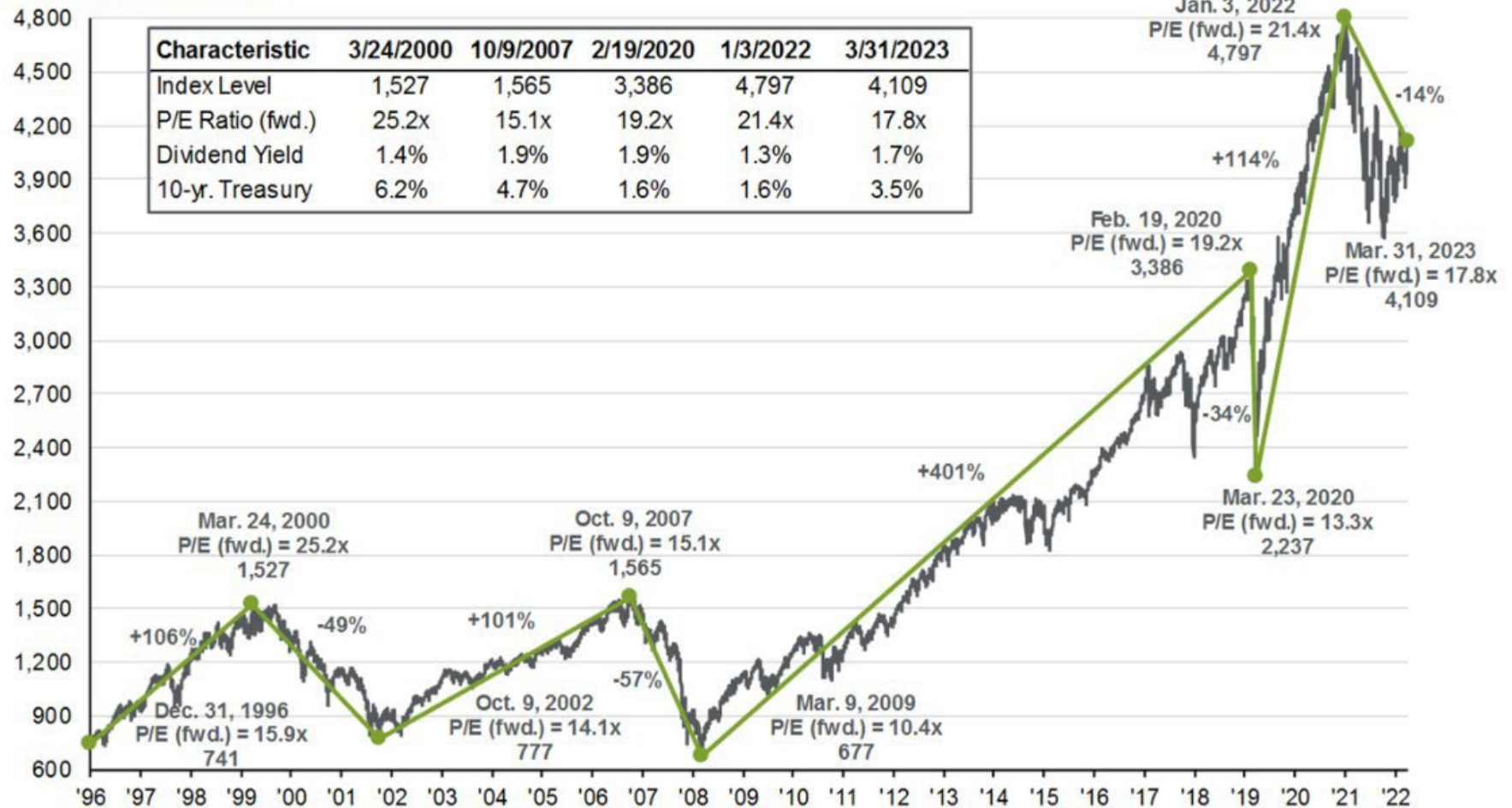
Stocks Gains ~ EPS Growth + Dividends

S&P 500 Index: Forward P/E ratio



Don't Forget Great Returns Since 2008/2009

S&P 500 Price Index



Rally Not Sustainable Until Recession Clarity

S&P 500 Index Never Bottoms Before a Recession

Data going back almost 100 years suggests more downside if economy falters

Recession Start	Market Bottom	Difference in month
Aug-1929	Jun-1932	34
May-1937	Mar-1938	10
Feb-1945	Mar-1945	1
Nov-1948	Jun-1949	7
Jul-1953	Sep-1953	2
Aug-1957	Oct-1957	2
Apr-1960	Oct-1960	6
Dec-1969	May-1970	5
Nov-1973	Oct-1974	11
Jan-1980	Mar-1980	2
Jul-1981	Aug-1982	13
Jul-1990	Oct-1990	3
Mar-2001	Oct-2002	19
Dec-2007	Mar-2009	15
Feb-2020	Mar-2020	1

Source: Bloomberg

Bloomberg

Fear Greed Index Swings To Greed

Fear & Greed Index

What emotion is driving the market now?

[Learn more about the index](#)



7 FEAR & GREED INDICATORS

Fixed Income Outlook

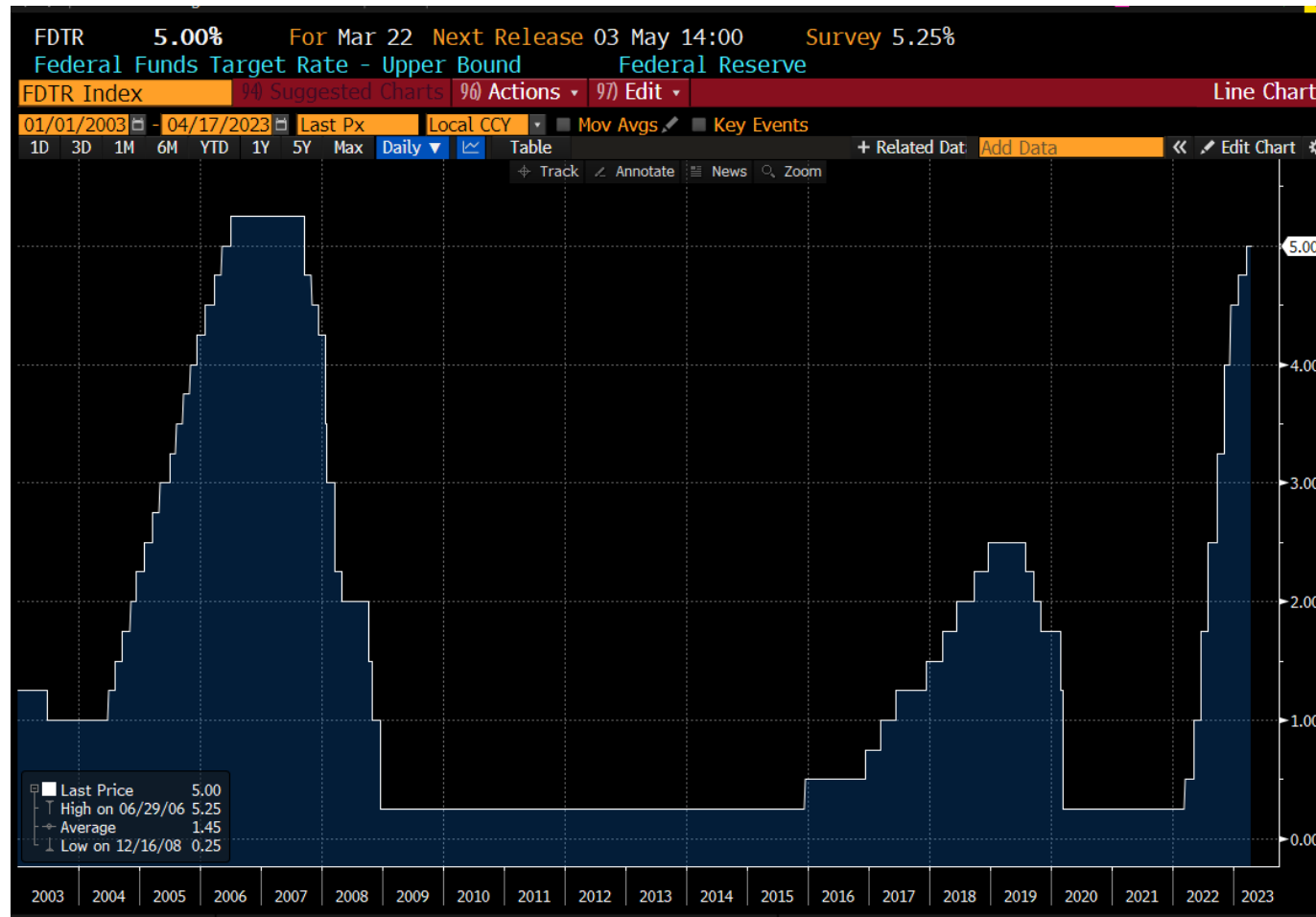
Bonds are Back in 2023!

- Highest Income In More Than A Decade
- Ballast in Uncertain Times
- Predictable Income Stream for Retirement Planning
- Lower Volatility Than Other Parts of Asset Allocation
- Potential for better total returns in 2023



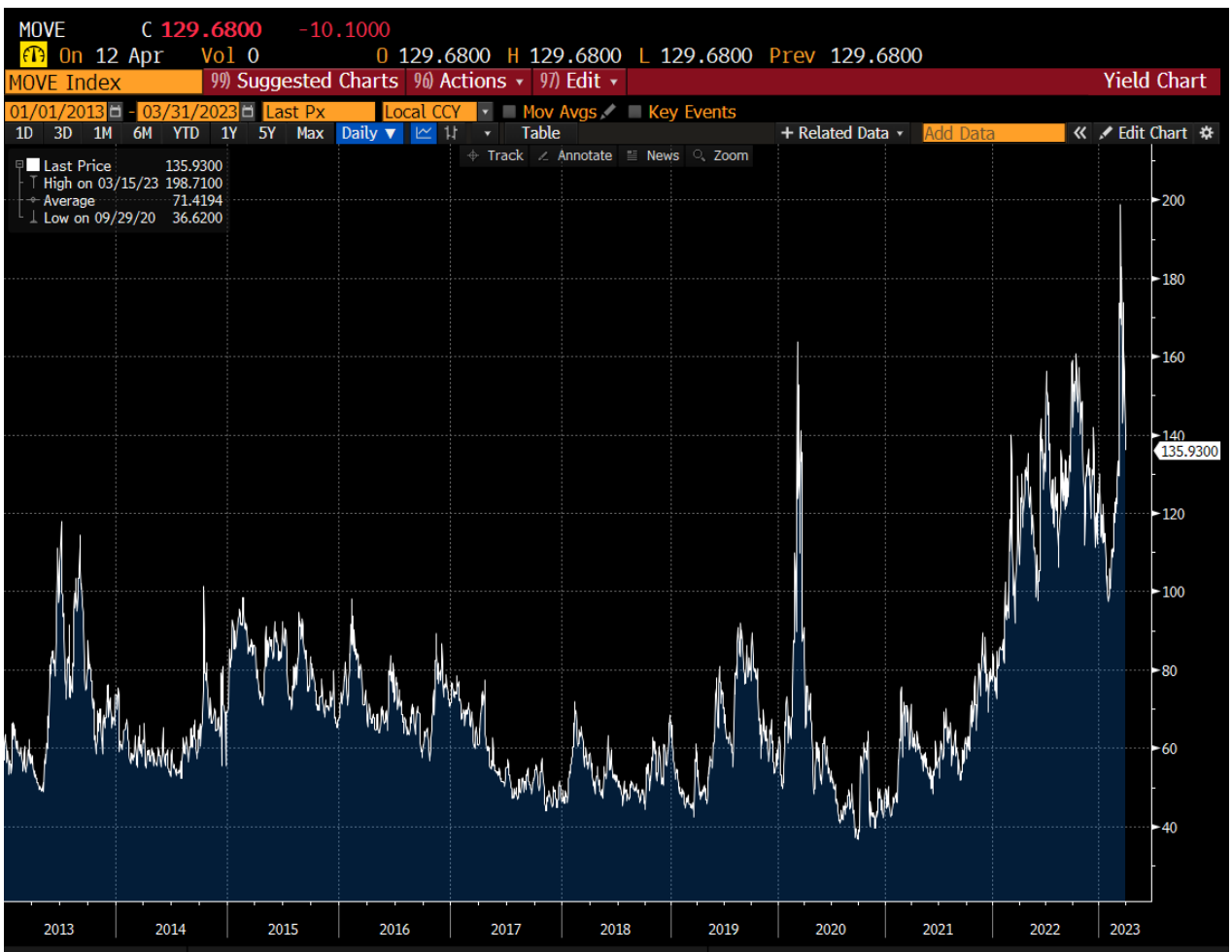
Fed Funds Rate 2003 – 2023

GFC, COVID, 2022-2023 Inflation Time Periods Included



Source: Bloomberg

MOVE Index – Bond Market Volatility



Extremely Elevated in 1Q 2023

Source: Bloomberg

Yield movement 2 year US Treasury Note



Unprecedented
Volatility in 1Q
23

Source: Bloomberg

Federal Reserve

Fed has made clear that they still have more work to do to combat inflation

- Inflation still well above Fed target of 2%
 - Core CPI (ex Food & Energy) = 5.6% March '23
 - Core PCE 4.6% Feb '23 (March release on 4/28)
- Employment picture still VERY good
 - Unemployment rate 3.5%
 - Gives FOMC room to maneuver while job market is strong
- FOMC March 22 meeting – increased rates by 0.25%
 - ‘Additional policy firming may be appropriate’
 - ‘Fed remains highly attentive to inflation risks’
 - FOMC target range now 4.75% - 5.00%one more hike in 2023?



Federal Reserve vs. Bond Market – Who is Right?

- Federal Reserve projecting:
 - Fed Funds Rate 5.1% yr end. 2023 (implies cuts coming in 2024, not 2023)
 - Fed Funds Rate 4.3% yr end. 2024 (implies cuts coming in 2024, not 2023)
- 2024 FOMC projection implies at least one more hike to combat too hot inflation
 - Probability of May hike was 50/50 at end of Q1, now 86% chance of 0.25% hike (4/18/23)

VS.

- Bond Market pricing in ~three 0.25% **CUTS** before the end of 2024
 - Bond mkt pricing in much weaker economy than Fed
 - Two Year Treasury = 4.02% on 3/31/23
 - 5y5y forward has come down – now at 2.29% from recent high 2.48% April '22

Portfolio Structure

- Allocation to **short maturity T-bills**
 - Inverted curve = attractive short rates
 - Reinvestment risk - only a portion of portfolio should be allocated 2 yr & in
 - T-bills good place to wait out volatility and manage cash needs
- **Lengthening duration** – continue to favor intermediate maturity structure
 - Buying some longer bonds to lock in yields for longer time
 - Average 4 year duration
- Favoring **up in quality trade** in our portfolios
 - Increased US Treasury allocation to be more defensive, reduce volatility
 - FDIC insured CDs are attractive
 - Underweighting corporates – spreads vs. UST should widen
 - Essential Revenue and High Quality G.O. Munis
- Moved from **floating rate structure to fixed rate** structure for tactical ETF



Questions?