QUARTERLY MARKET COMMENTARY: 2023-Q1

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Despite breaking news during the First Quarter of another possible financial crisis, equity markets remained resilient and closed out the last week of the quarter on a positive note. All three benchmarks, Dow Jones Industrial Average (DJIA), S&P 500 and NASDAQ, crossed the quarterly finish line with positive year-to-date results. Prior to the recent recovery, a steady downturn was driven by fears surrounding the collapse of Silicon Valley Bank (SVB) and other financial institutions. Was this the beginning of a financial “pandemic” or a case of the financial “sniffles”? As we looked deeper into the situation and continued to monitor unfolding details, we believed it was the latter.

Recession fears returned to the forefront when news broke on SVB and Credit Suisse. Understanding the differences between these two scenarios is another discussion but our focus should be on the Federal Reserve (Fed) and the dilemma they are facing in dealing with inflation. We believe it is accurate to say the financial “sniffles” were driven by the Fed and social media. Higher rates led by the Fed’s aggressive attack on inflation have negatively impacted balance sheet valuations relative to liquidity needs. When the public caught wind of this and posts showed up on social media, it was a recipe for an unfavorable result. Proposed resolutions were issued very quickly to re-establish confidence prior to further deterioration in market sentiment.

As we closed out 2022 earnings reports and turned our attention to 2023-2024 projections, our analysis resulted in no changes to our DJIA target range of 33,000 to 34,500 for this year. Projected corporate fundamentals remain flat to soft, but we still believe in the possibility of revisiting all-time highs later this year should economic factors unfold favorably during the year. If not this year, early next year would be our expectation. It should be noted that while we do agree with recent observations shared by our clients and readers that the S&P 500 is a better representation of the overall market than the DJIA; we tend to focus our valuation estimates on the DJIA because of our ability to be more intimate with 30 companies versus 500.

In our analysis of all three benchmarks, we believe that relative to current levels, the S&P 500 has the most upside potential followed by the DJIA. We believe that NASDAQ is fairly valued and has limited upside potential from current levels after an incredible run-up in the First Quarter. The post 2022 recovery in growth stocks, specifically the technology sector, can be attributed to a positive emotional market sentiment versus supporting fundamentals. Should these areas continue their return into overbought territory, downside risk can be gauged by the catch-up rate of fundamentals relative to pricing of such companies.

This week’s friendly inflation figures are a positive for the Fed in making interest rate decisions. However, it remains a delicate balance between fighting inflation, maintaining a healthy financial system and supporting an overall economic landscape. Despite an anticipated hiccup in April’s inflation report due to higher oil prices, we do see a possibility of the Fed “maintaining” rates on the horizon.

Lastly, our Round Table Discussion event, originally scheduled for the spring, has been pushed back into the fall. We apologize for this change. Should you have any immediate questions regarding capital markets, your portfolio and/or your financial plan, please reach out to your consultant.