MoneyMatters
MARKET UPDATE

Q2
2023

Unexpected Consequences

ROEHL & YI
INVESTMENT ADVISORS, LLC

Unexpected Consequences

The first quarter of 2023 was a welcome bright spot and relief for many fidgety investors. We saw a solid performance and all major equity and fixed-income sectors yielded positive returns.

US consumer inflation rates continued to slow after reaching a multi-decade peak of 9.1% in 2022. Some of the more transitory inflation pressures such as supply-chain disruptions continued to fade. Even with the Federal Reserve's 25 basis point interest rate increase in both February and March, inflation rose less than expected (0.1%), signaling speculation that further rate hikes may be limited (Source: *Bureau of Labor Statistics*). We believe the moderating trend will continue in 2023, but it may be difficult to return soon to the stable, low-inflation environment of the past two decades.

Nevertheless, headwinds persist. As Roehl & Yi has always cautioned, quickly spiking interest rates have the potential to slow growth. We are seeing increasing and multiple signs of economic stress on the consumer (as discussed in this edition) and corporate earnings – both of which may be further aggravated by the recent bank failures. Although regulators moved quickly to minimize panic following the collapse of both Silicon Valley Bank and Signature Bank, other regional banks saw an upswing in withdrawals, emphasizing a lack of consumer confidence.

Moreover, though banks are in a better capital position than in prior years, lending standards will likely tighten, thus restricting access to capital. A compounding economic effect will likely be felt with significantly higher interest rates. The final impact of the bank dissolutions remains to be seen in the mid- and long-term, but these failures can have a trailing effect on smaller banks and the entrepreneurs and businesses they serve.

Given all of these circumstances, a recession may be difficult to avoid in the coming quarters, particularly with such stubborn inflation.

There has been much talk in the news about the US dollar and its status as the world's major reserve currency. It appears to stem from the news that China is beginning to use the yuan in commodity trades with a handful of trading partners, and Brazil and Argentina are exploring the potential for a common currency. While the dollar has declined over the past six months, it remains close to a 10-year high versus the currencies of countries with which the US trades (Source: *Schwab.com*). A long-term trend toward diversification of currencies in global financial transactions and trade may develop, but it is a huge leap from dollar dominance to de-dollarization.

A highlight of the quarter is the strong US job market with unemployment unchanged at 3.5% by the end of March (Source: *US Bureau of Labor Statistics*). Though some view the recent job creation as *returning jobs* lost during the pandemic and not true *job growth*, employment is a critical measure to watch.

As the markets continue to digest a far more uncertain future, we encourage you to stay vigilant.

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Market Recap
Stock Market

During the first quarter of 2023, we have seen a near reversal of what was experienced in 2022.

The S&P 500 was up 7.5%, the Russell 2000 Small-Cap Value Index was up 2.74%, and US 10-year bonds rallied 4.23% from -16.37% in 2022. The biggest story of Q1 was a move to safety. Russell 1000 Growth stocks outperformed Russell 1000 Value stocks by 14:1. Investors flocked for cover in FAANG* stocks and gold, viewed as the ultimate haven, which had its best quarter on record, up 9.15%. The US dollar weakened -1.58% from its positive 5.3% in 2022. International stocks also fared well over prior negative 2022 returns (Source: *Morningstar*).

**FAANG technology stocks include Meta (formerly known as Facebook); Amazon; Apple; Netflix; and Alphabet (formerly known as Google).*

Q1 2023 Market Returns

Q1 2023 Market Returns (March 31, 2023)

	1Q 2023	TRAILING 1-YEAR	FULL YEAR 2022	CURRENT YIELD	COMMENTS
EQUITIES					
US Large Stocks - S&P 500	7.50	-7.73	-18.11	1.72	Strong quarter led by largest company tech shares in a bounce from poor 2022.
US Large Value - Russell 1000 Value	1.01	-5.91	-7.54	2.27	Value trailed growth during Q1 due partly to higher presence of bank stocks.
US Large Growth - Russell 1000 Growth	14.37	-10.90	-29.14	1.08	Abundance of technology stocks led growth, in a reversal of 2022.
US Small Stocks - Russell 2000	2.74	-11.61	-20.44	1.44	Small company stocks higher but likely to fare worst in a recession.
Int'l Developed Stocks - MSCI EAFE	8.47	-1.38	-14.45	3.22	Foreign large company stocks were best, continuing on from last year.
Emerging Markets Stocks - MSCI EM	3.96	-10.70	-20.09	3.40	Rising in line with other markets.
FIXED INCOME					
Cash - US 3-Month Treasury Bill	1.07	2.50	1.46	4.85	Interest rate on cash now ~ 4.5% for first time in 15 years.
Core Bonds - Bloomberg US Aggregate	2.96	-4.78	-13.01	4.29	Bonds positive with yields falling in advance of possible recession, after a poor 2022.
US 10-Year Treasury Bonds	4.23	-6.68	-16.37	3.48	The 10-year yield fell below 3.5% after reaching a high of 4.25% in October of 2022.
Bloomberg Muncipal Bonds	2.78	0.26	-8.53	3.75	Municipal bonds rose along with other fixed income markets.
Bloomberg US TIPS	3.34	-6.06	-11.85	6.12	Inflation-linked bonds also positive and becoming more popular.
Bloomberg US High Yield	3.57	-3.34	-11.19	8.31	Yields are now comfortably over 8% over dipping below 4% during 2021.
Int'l Bonds - FTSE World Gov't Bond	3.51	-9.55	-18.26	3.50	International bonds were also positive for the quarter. Yield as of Feb. 2023.
ALTERNATIVES/MISCELLANEOUS					
US Public Real Estate - DJ US Select REIT	2.77	-20.98	-25.96	4.00	Positive quarter for real estate despite vacancies for commercial properties.
Bloomberg Commodity	-5.36	-12.49	16.09		Commodities down thus far after strong 2022, led by oil price.
Gold - LBMA Gold Price	9.15	1.93	0.44		Central banks continue to be strong buyers of gold in turbulent times.
Oil - West Texas Crude	-5.59	-24.72	6.41		Oil prices are down below $80 per barrel after peaking above $120 last June.
Bitcoin - S&P Bitcoin	71.89	-37.56	-63.89		Strong rise for all cryptocurrency related assets, after dismal past year.
US Dollar, Change	-1.58	3.68	5.30		The US Dollar weakened in Q1 after a very strong 2022.
Consumer Price Index, 12 Mo Change	6.00				CPI as of Feb. 2023. Inflation is moderating but remains significantly above Fed's target.

Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns. Current yields are based on forward dividend yields for equities and yield to maturity for bonds. Note that the TIPS Index yield is based on the trailing 12-month yield.
Data as of 03/31/2023

Banking Failures and Economic Consequencess

A deposit run that felled Silicon Valley Bank and Signature Bank has hurt small- and mid-size banks much more than large ones, draining low-cost funding that has fueled profits in recent years. The reverberation of these two failures caused nearly $312 billion in deposits to leave the banking system between March 1 and March 29 (Source: *Federal Reserve*).

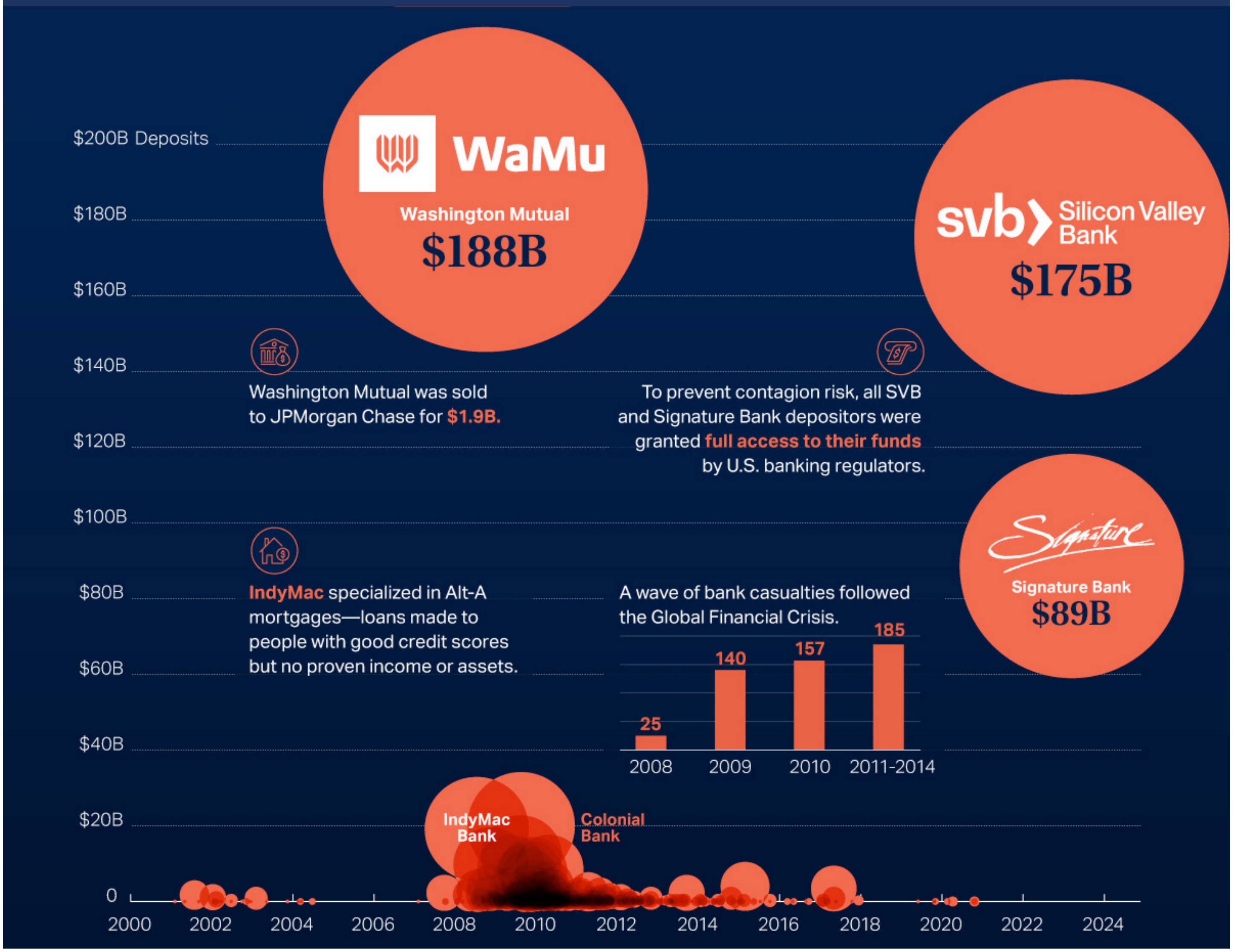
To reduce additional bank withdrawals, many are offering higher yields to account holders. With funding uncertainties, however, bank loan officers will likely need to pull back on new credit offers.

In addition, US banks' lending capacity is expected to decline by 1% in 2023 as the value of bank stocks wobble and investors reassess the health of regional banks (Source: *International Monetary Fund*).

These scenarios have negative implications for the economy and gross domestic product in 2023.

The chart below demonstrates that among the 563 bank failures since 2001, Silicon Valley Bank and Signature Bank were among the top three largest to go under (Source: *Federal Deposit Insurance Corporation*).

The Largest US Bank Failures in Modern History



Source: Visual Capitalist, Federal Deposit Insurance Corporation, CNN, Reuters, Wall Street Journal. Deposits are estimated figures.

US and International Stock Performance

With the recent positive performance of international stocks and speculation about the US dollar, we would like to reiterate that the US dollar remains the primary currency used for trade and financial transactions in the global economy. Further, should there be a move to a less-dominant dollar over time, we do not anticipate the dollar losing its reserve currency status.

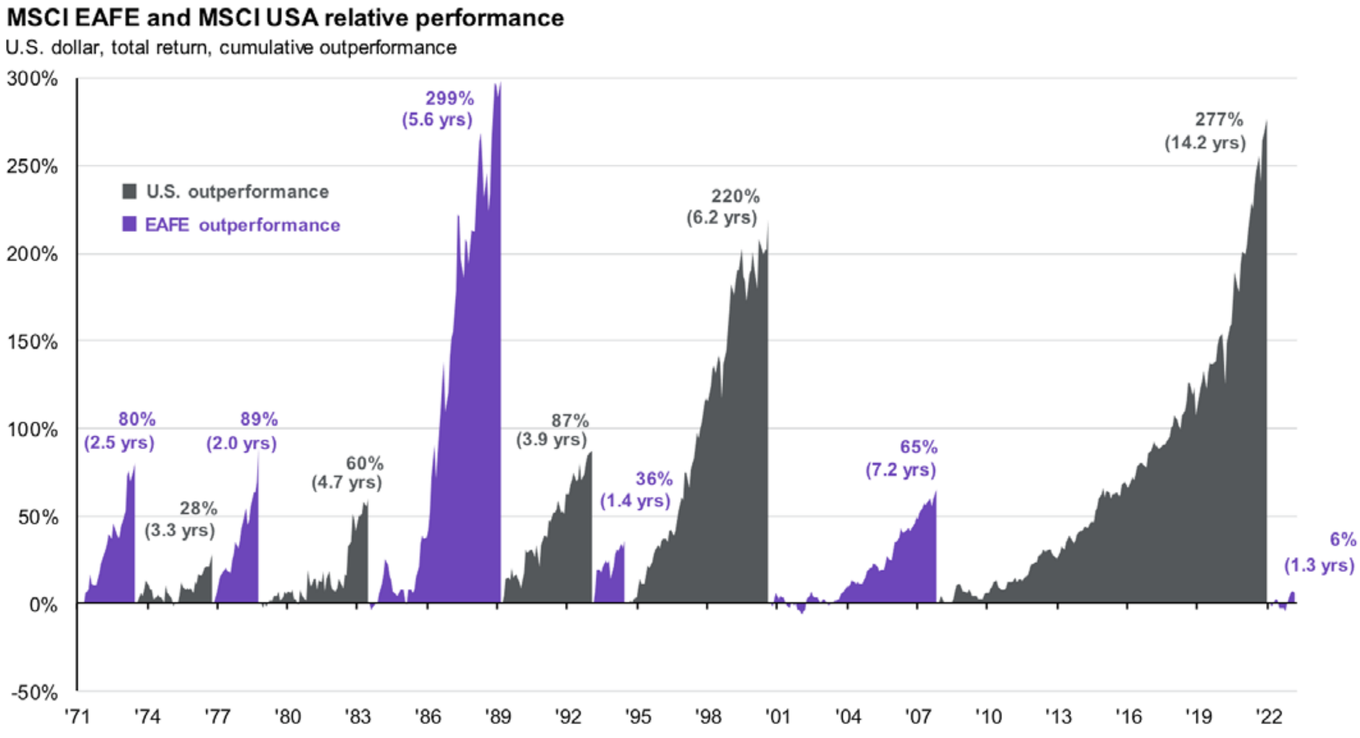
The chart below shows international stock versus US stock performance.

The MSCI EAFE Index represents the performance of large- and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the US and Canada.

The MSCI USA Index measures the performance of large- and mid-cap segments of the US-only market. With 626 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

Over the last 51 years, US dollar stocks outperformed international stocks more than 63% of the time during that period (Source: *J.P. Morgan*).

Cycles of US Equity Outperformance



Source: FactSet, MSCI, J.P. Morgan Asset Management.
Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period.
Guide to the Markets – U.S. Data are as of March 31, 2023.

The Economy

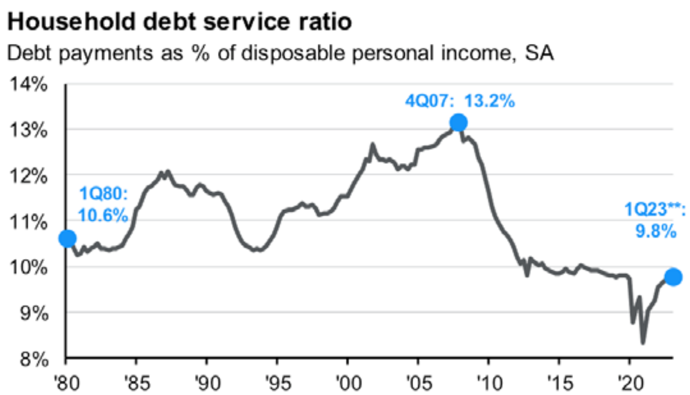
Consumer Financial Strain in a Post-Stimulus Era

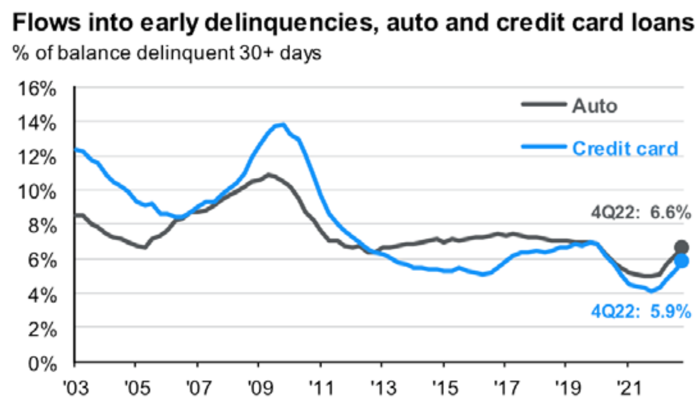
As sticky inflation eats away at consumer spending power, coupled with the end of the global pandemic stimulus checks and child tax credits, credit card debt is at an all-time high. This is putting households in a position to lean on more leverage to afford increasingly expensive necessities such as gas, food, and rent.

As the charts below demonstrate, as of Q1 2023, household debt payments are claiming nearly 10% of disposable personal income compared to 13.2% during the mortgage crisis of 2007 (Source: *J.P. Morgan*). And with the still increasing interest rates by the Federal Reserve in March, credit card annual percentage rates, or APRs, will climb even higher. These rate increases could cost credit card borrowers an extra $3.4 billion in interest charges over the next 12 months (Source: *WalletHub*).

In another development, we are seeing an increase in auto and credit card loan delinquencies. As of Q4 2022, 5.9% of credit card balances, and 6.6% of auto loan holders are over 30 days delinquent (Source: *J.P. Morgan*).

Consumer Finance Trends





Source: FactSet, FRB, J.P. Morgan Asset Management; (Top right) BEA; (Bottom right) Equifax, New York Fed.
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards.
Values may not sum to 100% due to rounding. **1Q23 figures for debt service ratio are J.P. Morgan Asset Management estimates.
Guide to the Markets – U.S. Data are as of March 31, 2023.

Housing

While home prices are moderating in some places, median-priced single-family homes and condos were less affordable in the first quarter of 2023 compared to historical averages in 94% of counties across the nation – far above the 62% of counties that were historically less affordable in the first quarter of 2022 (Source: *Attomdata.com*).

Meanwhile, the commercial real estate market faces a glut of office space to which workers have not fully returned since the pandemic and about $270 billion in commercial real estate loans held by banks will come due in 2023 with roughly $80 billion, nearly a third, being office properties (Source: *Trepp.com*).

Roehl & Yi's Final Thoughts

All signs show that economic challenges lie ahead, and mindfulness is required to navigate the choppy landscape.

Consider these suggestions:

- Move toward diversification and review asset allocation.
- Expect turbulence and stay disciplined.
- Be diligent with cash and take advantage of higher-yielding financial instruments.
- Remain defensive and cautious with your assets and reduce risk.

The Roehl & Yi Promise

Roehl & Yi is committed to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi, and we ask that your first phone call is to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.

ROEHL & YI
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For A Personal Wealth of Reasons

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