SAM NEWS

1st Quarter 2023 Report
April 2023

# Bank Scare Rattles Markets

## Stocks Log Consecutive Quarterly Gains

***The stock market began 2023 with robust stock gains in January, a down February and a positive March. The early months of this year have seen stronger-than-expected economic data, a modest downtick in inflation and mixed signals on the labor and housing markets. However, the failures of Silicon Valley Bank and Signature Bank have heightened market concerns about the broad impacts of excessive Fed tightening and spillover effects to other sectors of the economy. The Federal Reserve has typically tightened until something breaks- perhaps we have reached that point in this tightening cycle. Please read on for our most recent SAM Outlook and SAM Strategy.***

### 1st Quarter 2023 INVESTMENT REPORT

Despite the volatility during the 1st quarter, the broad S&P 500 ended up 7.5%. The Nasdaq Composite, dominated by technology stocks led the gains for the quarter, up 16.8%. The DOW 30 gained just 0.9%. The Russell 2000 (small company U.S. stocks) has a high exposure to regional banks and ended the quarter up just 2.7%. International stocks as measured by the MSCI EAFE Index rose 7.6%. The Barclays Aggregate U.S. Bond Index returned 3.0%. Bitcoin is up 70% year-to-date after sustaining substantial losses in 2022.

### INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses.

| | 1st Quarter | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Dow 30 | 0.9% | -6.9% | 20.9% | 9.7% |
| S&P 500 | 7.5% | -18.1% | 26.9% | 18.4% |
| Nasdaq Composite | 16.8% | -33.1% | 21.4% | 43.6% |
| Russell 2000 | 2.7% | -20.4% | 14.8% | 20.0% |
| MSCI EAFE (Int'l stocks) | 7.6% | -16.8% | -8.8% | 5.4% |
| Barclays Aggregate (Bonds) | 3.0% | -13.0% | -1.5% | 7.5% |

***These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.***

**SAM Outlook and Strategy on the following page.**

### Last Chance to Fund Retirement Plans For Tax Year 2022

In general, most retirement plans must be funded by April 18th to be considered for the 2022 tax year. This applies to traditional IRAs, ROTH IRAs, SEP IRAs, SIMPLE IRAs, and most formal retirement plans. If you have not funded your retirement account for 2022 and are still planning on contributing, you should do this as soon as possible. If you have specific questions about how to make your contribution, please contact our office toll-free at 877-658-5193 and we will be glad to assist you.

### ANNUAL ADV OFFER

We recently filed our annual updating amendments to our U.S. Securities & SEC Exchange ADV Part I, ADV Part II, and Customer Relationship Summary (CRS). The only material change was to update our regulatory assets under management. Our annual U.S. SEC filings can always be viewed online at

https://adviserinfo.sec.gov/firm/summary/108685 .

### Upcoming Holidays

Good Friday, April 7th
Memorial Day, May 29th
Juneteenth National Independence Day
June 19th
Independence Day, July 4th

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## SAM OUTLOOK

It is early in the analysis of the failure of Silicon Valley Bank, but we believe this is very different from the financial crisis of 2008-2009 and will not cause contagion. This failure was not triggered by a credit crunch, subprime mortgages, housing bubble, or "toxic" assets. Many regional banks, including Silicon Valley Bank, purchased U.S. Treasury Bonds and government-backed mortgage securities using their mandated cash reserves. This is normal practice for banks and these securities are generally considered "risk-free" and among the safest securities in the world.

The failure began when the Fed raised interest rates at the fastest pace in 40 years, which resulted in bonds declining substantially in market value. If Silicon Valley Bank could have held their bond securities to maturity, there would not have been an issue. When Silicon Valley Bank disclosed a $2 billion loss on their reserves, that triggered a run on the bank which was exacerbated by the speed of the internet and Twitter posts by prominent depositors. At Silicon Valley Bank (our country's 16th largest), $151 billion out of $173 billion in total deposits were uninsured. The FDIC, Federal Reserve, and the Biden administration have fully guaranteed all deposits of the recently failed banks and as of this writing this has calmed the markets.

As always, we learn from each of the crises that we face. The current FDIC limit of $250,000 is probably too low this day in age and there are already proposals and recommendations to raise that limit. In addition, the FDIC could establish a tiered fee schedule to cover the premiums at different deposit levels and banks could pass along some of the cost to larger depositors. We are confident of a positive resolution to this situation.

Regarding the broader stock and bond markets, we are still anticipating a positive year for both. Inflation is steadily moderating (now at 6%) and the Federal Reserve is nearing the end of their historic tightening cycle. Corporate earnings are expected to slow in the first half of the year but are projected to rise in the latter half. Many of the broad stock valuation metrics show that stocks are reasonably or slightly undervalued. Stocks have not had back-to-back down years since the dot-com era (2000-2002) and bonds just experienced very rare consecutive annual losses in 2021 and 2022. With stocks trading at levels where they were about two years ago, we anticipate a breakout to the upside going forward.

## SAM STRATEGY

We have been closely monitoring the banking situation and its impact on the overall market as outlined in our outlook. We do have a small allocation in all accounts to diversified financial companies which allows us to invest in the larger banks, credit card issuers, and brokerage firms. These would generally fall in the highly regulated "too big to fail" list of companies, not the small and mid-sized regional banks that have been in the news. With calm and confidence returning to banking and bank stocks, we remain comfortable with our allocation to this sector and see great long-term value.

We are still on recession watch, but so far the data has not confirmed that we are in an economic contraction. While a 2023 recession is quite possible, it should be mild if it does occur. More importantly, with inflation continuing to fade and fiscal policy likely on hold, the Fed may end its tightening cycle and inflation could begin to meaningfully ease before the end of 2023. A slower-growing economy will likely temper wage demands, helping stabilize corporate profit margins. By 2024, the U.S. economy may well be back on a path that looks much like that of the late 2010s – slow growth, low inflation, moderate interest rates and strong corporate profit margins. While this may not represent an exciting prospect for the average American worker or consumer, it is an environment that could be very positive for financial markets and our clients' accounts.

### IMPORTANT TAX NOTICE

Schwab is not mailing 1099 composites for taxable accounts for the 2022 tax year. You have the ability to download your tax documents by logging in to www.SchwabAlliance.com and clicking on the documents tab. Our office can securely email copies to you or directly to your CPA or tax preparer. If you are located in the Oakhurst area, we can also print copies for you to pick up in person. Please call our office at 559-658-5193 if you need any Schwab tax documents.

### Interesting Fact

SAD STATE FOR PENSIONS- Through 2022, only seven US states and the District of Columbia have state pension funds that are 90% or more funded. Of the remaining 43 states, only 21 are more than 75% funded, 20 are funded more than 50%, while Illinois and Kentucky have funded ratios that are 50% or below. (SOURCE: EQUABLE)


*We sincerely appreciate your business. Our team strives to provide excellent customer service to all our valued customers. Sending new clients our way is the best possible compliment we can receive. If you know of someone who may benefit from our service, please do not keep us a secret.*