

Quarterly Economic Update

Presented by:  Legacy Group

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U.S Markets

Stocks posted solid gains in the first quarter as investors navigated corporate earnings, shifting monetary signals, and troubles in the banking sector.

For the three months ended March 31, the Dow Jones Industrial Average rose 0.38 percent while the Standard & Poor's 500 Index gained 7.03 percent. The Nasdaq Composite led, picking up 16.77 percent.¹

A January Rally

Stocks rallied in January, propelled by cooling inflation, a better-than-expected start to earnings season, and healthy economic data. Where investor sentiment had been weighed down by concerns over interest rates, a new, more upbeat mood surfaced.

January's positive momentum carried over into February as stocks continued their climb. A 0.25 percent interest rate hike could not derail the upward momentum, as investors rallied around Fed Chair Jerome Powell's constructive comments.

Stocks Stumble in February

However, strong economic data released over the course of February diminished investor hopes of a pause in rate hikes, which dragged stocks lower.

Fourth quarter earnings were a bit underwhelming, though they generally met the market's low expectations. While 68 percent of the companies comprising the S&P 500 exceeded Wall Street's earnings estimates, this was below the five-year average of 77 percent. Moreover, despite the number of positive earnings surprises, earnings declined for the first time since 3Q 2020, falling by 4.9 percent.²

March Twists & Turns

Stocks entered March holding onto modest year-to-date gains, but the final month of the firstquarter would prove to be its most dramatic.

Interest rate fears flared up once again, ignited by congressional testimony by Powell, who suggested that rates may need to be hiked higher and faster than the Fed had anticipated.³

Banking Sector

Selling pressure accelerated after regulators took over two U.S. banks. Fears then rose that the banking sector issues were widening after a Swiss bank was taken over by a competitor.

The difficulties within the banking system also changed market sentiment regarding future rate hikes. While the Fed raised rates 25 basis points in March, Powell hinted that the end of the rate-hike cycle was nearing.

Stocks steadied as banking fears eased, notching gains at the close of the month and leaving stocks higher for the quarter.

Sector Scorecard

For the quarter, big gains were posted in Communications Services (+20.80 percent), Consumer Discretionary (+15.78 percent), and Technology (+21.35 percent), while Industrials (+3.02 percent), Materials (+3.84 percent), Real Estate (+1.22 percent), and Consumer Staples (+0.21 percent) saw modest increases. Energy (-5.30 percent), Financials (-5.99 percent), Health Care (-4.70 percent), and Utilities (-3.99 percent) all experienced losses.⁴

U.S. Market Recap for March 2023		
	March 2023 (%)	Q1 2023
S&P 500	3.51	7.03
Nasdaq	6.69	16.77
Russell 1000	3.00	7.00
10-Year Treasury Notes	3.49	0.38

Yahoo Finance, March 31, 2023. The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

What Investors May Be Talking About in April

In April, companies will start reporting first quarter earnings, but actual financial results may be of only secondary importance.

The market's earnings expectations are actually quite low as Wall Street analysts' earnings estimates have come down by 5.7 percent between the end of December and February. While first quarter estimates tend to be lowered, the average cut in earnings estimates over the past five years was a much more modest 2.3 percent.⁵

Markets may be more interested to hear what corporate leaders have to say about the future, particularly in light of a more uncertain economic landscape created by recent banking issues.

One potential concern is whether a tighter lending environment will emerge as banks look to manage risk. Fed Chair Powell referred to this possibility in his post-Federal Open Market Committee meeting press conference when he suggested that financial conditions may have tightened more than traditional signs are reflecting.⁶

Over the last three quarters, the number of S&P 500 companies citing "recession" on their earnings calls fell from 241 to 148. Investors may look to see whether these diminishing concerns over recession reverse in the weeks ahead.⁷

World Markets

Investor optimism grew overseas as well, as Europe emerged from winter in far better shape than feared, and China continued its reopening progress.

For the quarter, the MSCI-EAFE Index jumped 7.65 percent.⁸

European markets were up strongly for the three-month period. Italy picked up 14.37 percent, France tacked on 13.11 percent, and Germany added 12.25 percent. However, the U.K. lagged, gaining just 2.42 percent for the quarter.⁹

Returns were much more subdued in Pacific Rim markets, with Hong Kong adding 3.13 percent, and Australia rising 1.98 percent. Japan was among the better performers, gaining 7.46 percent.¹⁰

World Market Recap		
Index	March 2023 (%)	Q1 2023 (%)
Emerging		
Hang Seng (China)	3.10	3.13
KOSPI (Korea)	2.65	10.75
Nikkei (Japan)	2.17	7.46
Europe		
Sensex (India)	0.05	-3.04
EGX 30 (Egypt)	-3.43	12.47
Bovespa (Brazil)	-1.88	-5.92
IPC All-Share (Mexico)	2.17	11.23
ASX 200 (Australia)	-1.11	1.98
Europe		
DAX (Germany)	1.72	12.25
CAC 40 (France)	0.75	13.11
IBEX 35 (Spain)	-1.73	12.19
FTSE 100 (United Kingdom)	-3.10	2.42
IT40 (Italy)	-1.33	14.37

Yahoo Finance, March 31, 2023. The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Indicators

Gross Domestic Product: The nation's economy grew at a 2.6 percent annualized rate in the fourth quarter, which was revised from the earlier estimate of 2.7 percent.¹¹

Employment: The unemployment rate rose to 3.6 percent, from 3.4 percent, reflecting a jump in the number of people looking for work. The increase in the number of job seekers helped relieve wage pressures. Wage growth increased a less-than-expected 4.6 percent.¹²

Retail Sales: Retail sales declined 0.4 percent, dragged lower by weak auto sales and food and drink services.¹³

Industrial Production: Industrial output was flat in February, though January's initial flat estimate was revised higher to a 0.3 percent gain.¹⁴

Housing: Housing starts rose 9.8 percent—the first increase in six months. The increase was driven by a 24.0 percent increase in multifamily construction. Single-family home starts were up a more modest 1.1 percent.¹⁵

Sales of existing homes gained 14.5 percent in February, marking the first increase in 12 months and the largest increase since July 2020. The median price decreased slightly (-0.2 percent) from February, to \$363,000.¹⁶

New home sales rose for the third straight month, climbing 1.1 percent in February; however, year-over-year sales declined 19.0 percent.¹⁷

Consumer Price Index: Year-over-year consumer prices rose 6.0 percent in February, down from 6.4 percent the month before—the slowest pace since September 2021. The monthly increase of 0.4 percent was in line with market expectations. Core prices (i.e., excluding energy and food) increased 0.5 percent, a rise that was slightly higher than last month's 0.4 percent rise, though its year-over-year increase of 5.5 percent was in line with the consensus forecast.¹⁸

Durable Goods Orders: Durable goods orders fell 1.0 percent in February, marking the third out of the last four months that new orders for long-lasting manufactured goods have dropped.¹⁹

The Fed

The Fed implemented two rate hikes of 0.25 percent, one each in February and March, in its year-long effort to combat inflation.²⁰

The March increase came after regulators took control of two regional banks, which raised some fears about the banking sector.²⁰

The official announcement accompanying March's rate hike decision hinted that the Fed soon may be done raising rates. The statement also reiterated the Fed's belief in the banking system's soundness, while acknowledging that it was too early to determine how banking issues may impact the economy.²⁰

Fed Chair Powell, in his post-meeting press conference, said that consideration had been given to not hiking rates, but that the Federal Open Market Committee believed that elevated inflation and solid economic activity were reasons to raise rates despite concerns about the banking sector.²⁰

By the Numbers: A Cautiously Hopeful Q1

\$575.1 billion: The mergers and acquisitions volumes in Q1 2023²¹

+3.2%: The percent change in retail sales between December 2022 and January 2023²²

30%: The percentage of U.S. workers who reported feeling burnt out in Q1 2023²³

\$10 billion: The private amount invested in U.S. renewable energy projects in Q1 2022, a record high for the quarter²⁴

173.37 million: The number of doses of flu vaccine distributed in the United States for the 2022-23 flu season²⁵

59.9%: Increase in the number of homes for sale in the U.S. compared with 2022²⁶

1.3%: percentage of S&P 500 companies that beat analysts' earnings estimates for Q4 2022²⁷

\$3.9 billion: The amount invested in U.S. fintech startups in Q4 2022²⁸

41%: The percentage of Americans who are better off financially in 2022 compared with 2021²⁹

168: The number of tornadoes reported in the U.S. in January 2023—nearly five times more than the 10-year average³⁰

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The S&P 500 Composite Index is an unmanaged group of securities considered to be representative of the stock market in general. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a

broad indicator of the performance of stocks of technology and growth companies. The Russell 1000 Index is an index that measures the performance of the highest-ranking 1,000 stocks in the Russell 3000 Index, which is comprised of 3,000 of the largest U.S. stocks. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark for the performance in major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

The Hang Seng Index is a benchmark index for the blue-chip stocks traded on the Hong Kong Stock Exchange. The KOSPI is an index of all stocks traded on the Korean Stock Exchange. The Nikkei 225 is a stock market index for the Tokyo Stock Exchange. The SENSEX is a stock market index of 30 companies listed on the Bombay Stock Exchange. The Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange. The Bovespa Index tracks 50 stocks traded on the Sao Paulo Stock, Mercantile, & Futures Exchange. The IPC Index measures the companies listed on the Mexican Stock Exchange. The MERVAL tracks the performance of large companies based in Argentina. The ASX 200 Index is an index of stocks listed on the Australian Securities Exchange. The DAX is a market index consisting of the 30 German companies trading on the Frankfurt Stock Exchange. The CAC 40 is a benchmark for the 40 most significant companies on the French Stock Market Exchange. The Dow Jones Russia Index measures the performance of leading Russian Global Depositary Receipts (GDRs) that trade on the London Stock Exchange. The FTSE 100 Index is an index of the 100 companies with the highest market capitalization listed on the London Stock Exchange.

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