Liberty National Wealth Management Newsletter

Quarterly Market Insights

A review of Q1 2023, Presented by Liberty National Wealth Management

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 ending 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 first quarter 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.

Quarterly 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]

MARKET INDEX	Q1 % CHANGE	March 2023 %
Russell 1000	7.00%	3.00%
NASDAQ	16.77%	6.69%
S&P 500	7.03%	3.51%

BOND YIELD	Q1 % CHANGE	March 2023 %
10 YR TREASURY	-0.39%	3.49%

Sources: 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]

Indicators

Gross Domestic Product (GDP): 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 from 3.4 percent to 3.6 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 (CPI): 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]

L to R: Jordan Hermanson; Jerus Campbell, JD; Leon Rozeboom.

133 S. Main Avenue	324 Dakota Dunes Blvd.
Sioux Falls, SD 57104	Dakota Dunes, SD 57049
Phone: 605-782-4505	Phone: 605-217-4425

If you are interested in learning more about the services Liberty National Bank can provide, please contact us for a free consultation at our wealth management locations in Downtown Sioux Falls or Dakota Dunes.

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.

Please consult your financial professional for additional information.

1. WSJ.com, March 31, 2023

2. FactSet.com, March 2, 2023

3. Reuters.com, March 7, 2023

4. SectorSPDR.com, March 31, 2023

5. FactSet.com, March 3, 2023

6. CNBC.com, March 22, 2023

7. FactSet.com, March 10, 2023

8. MSCI.com, March 31, 2023

9. MSCI.com, March 31, 2023

10. MSCI.com, March 31, 2023

11. BEA.gov, March 30, 2023

12. CNBC.com, March 10, 2023

13. CNBC.com, March 15, 2023

14. Morningstar.com, March 17, 2023

15. Finance.Yahoo.com, March 16, 2023

16. CNBC.com, March 21, 2023

17. CNN.com, March 23, 2023

18. CNBC.com, March 14, 2023

19. Census.gov, March 24, 2023

20. WSJ.com, March 22, 2023

21. Yahoo.com, March 31, 2023

22. Census.gov, March 15, 2023

23. MetLife.com, 2023

24. Deloitte.com, 2023

25. CDC.gov, March 31, 2023

26. Realtor.com, March 2023

27. CNN.com, March 3, 2023

28. Workweek.com, March 1, 2023

29. News.Gallup.com, February 3, 2022

30. NCEI.noaa.gov, 2023