

Monthly Market Commentary

Like the markets, we hope that you are off to a great start in 2023! It has been a mild winter for those residing in the Midwest and it looks like we will scape by without many more frigid days. Spring is right around the corner, which gives us much to look forward to such as baseball games, cookouts, and being outside! We wish you and your family much health and happiness in 2023!

Finally, we saw a sigh of relief in January to start the year on a positive note after one of the most volatile years we have experienced in recent history. Markets globally recouped most losses experienced in December to record one of the best starts to a new year. Markets seem to be taking comfort in the fact that the labor market remains resilient despite aggressive Fed hiking over the last year and now expect a soft landing for the US economy. On the flip side, leading indicators are telling a different story with most trending lower and are consistent with previous signals of recession risk on the horizon. The labor dynamic is one of the key reasons to be cautious as it is one of the most lagging indicators. Tight labor has negative implications for company margins as they try to balance a slowdown in growth while maintaining pricing power. In addition, the Fed needs to remain on its path of policy tightening to contain inflation or risk runaway inflation with a tight labor market.

Considering the various scenarios, post this rally, the risk/reward dynamics have skewed back to the downside once again. The current gains in equities this year can be attributed to a multiple expansion vs growth in revenues and earnings. Unless growth inflects higher, it seems premature to aggressively allocate to risk assets under the current backdrop. We are midway through earnings season for the 4th quarter of 2022 with aggregate S&P 500 companies reporting revenue and earnings growth of 4.6% and -2.8%, respectively compared to 11.7% and 4.4% in the prior quarter. The fundamental picture continues to deteriorate and leads us to maintain a defensive posture while taking advantage of dislocation in certain markets selectively.

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