CWP | PRIVATE WEALTH MANAGEMENT

March 2023

Monthly Market Commentary

Spring is officially right around the corner! Many of us are gearing up for nicer weather and all that comes with it such as baseball games and tailgating, taking a walk in the fresh air, and March Madness! For those of you involved in the March Madness, we wish you all the best of luck! Also, we would like to wish you all a happy St. Patrick's Day! Here is to continued health and happiness in 2023.

Global equity markets consolidated early gains seen in the year and are trying to find a direction as we enter March. International markets have outperformed US markets so far this year and have not shown any signs of exhaustion yet. This dynamic is new despite European economies still lingering on the brink of a recession while inflation remains stubbornly high and has been preceded by a long period of outperformance domestically. It remains a question whether this trend continues going forward or turns out to be a head fake where market participants are taking advantage of positioning dynamics and cheaper relative valuations in the short term. Global yields resumed their ascend higher as expectations for a peak terminal rate are revised higher after a stellar jobs report and an uptick in high frequency inflation data reported in February. Short-term rates are approaching 5%, exceeding the earnings yield of the S&P 500. In other words, investors now have the choice of earning a risk-free rate of about 5% in the short-term vs investing in risk assets like stocks.

Fundamentally, the economy has step functioned lower on growth while inflation is trending lower but still remains very elevated by historical norms. Leading indicators are squarely in decline while lagging indicators like labor remain resilient so far. This keeps further pressure on the FED to remain on a tighter policy path for longer, which does not bode well for both the economy and valuations. We are opportunistically adding exposure to fixed income across the curve to take advantage and lock in these higher yields while we wait for a clear direction on the equites where we continue to favor a defensive positioning in the near future.