

## March 6, 2023 – Investment Commentary

### Macro-Optimism

Year-to-date (as of 03/02/2023), global stocks returned 6.3%, led by international-developed (6.8%), the US (5.7%), and international-emerging (3.4%). By comparison, the US bond market returned 0.3% after being up 4.0% in early February. The US dollar rallied 1.0%, and commodities returned -4.0%. Market psychology and investor expectations shifted from a first-half recession to a second-half recession, then to no recession at all.

Macro-optimism catalyzed a risk asset rally. Almost everything went up, especially securities sponsored by financially weak companies. Last year's losers have turned into this year's darlings (so far). For example, the tech-heavy longer duration NASDAQ and small cap indices returned +11% YTD, and junk bonds (+3%) outperformed investment grade quality (+1%). Bitcoin is +36% YTD compared to last year's return of -43%. Last week, the U.S. 10-year Treasury yield increased by 1bp to 3.96%.

### Questions and Concerns

*Have capital markets already priced in the negative impact of higher Fed policy rates and lower economic growth?*

From a valuation perspective, most equity markets are within  $\pm 1$  standard deviation based on historical forward P/E ratios. The S&P 500 (US Large Cap) and NASDAQ trade above their 20-year averages based on forward P/E ratios, while the Russell Midcap (US Midcap) and Russell 2000 (US Small Cap) trade below, as do the MSCI EAFE (Non-US Developed Market Equities) and MSCI EM (Emerging Market Equities). Credit spreads are broadly in line with their long-term averages since the Great Financial Crisis.

*Are the geopolitical challenges behind us?*

On the first anniversary of Russia's invasion of Ukraine, representatives from China laid out a plan for both sides to agree to a gradual de-escalation. The Kremlin's response was that conditions for a peaceful resolution aren't in place "for now." U.S. House Speaker Kevin McCarthy plans to meet Taiwan's President Tsai Ing-wen in the U.S. in the coming weeks. Last week, China announced it is raising military spending in 2023 by 7.2%.

*What will be the Fed's terminal rate? Will the Fed "move the goalposts" and revise the target inflation to above 2%?*

In September 2022, Fed officials projected a terminal rate of 4.6% in 2023; however, futures markets are currently pricing a peak in the fed funds rate of 5.44%. The 2-year US Treasury note rose to 4.94% last week, a level last achieved in 2007. The CME's FedTracker tool says 28% of investors now predict a half-point hike, up from zero on 2/3/23. The 5-year and 10-year breakeven inflation expectations increased last week and now sit at 2.79% and 2.52%, respectively.

*Is it even possible for inflation to come back down to target without unemployment rising significantly?*

That would be the ideal soft landing. Others are discussing the no-landing hypothesis where growth and inflation stay strong for the foreseeable future. China's reopening is providing a near term lift to global growth, making the job of central bankers more difficult. The recession-watch 3month-10year spread compressed 2bps and closed the week at -90, a level last seen in 2002, signaling a recession in coming months. The 2year-10year spread widened 3bps and is now -91 (levels have not been seen since the early 1980s). Rates were higher in Europe as inflation exceeded expectations. An economic recession is still up in the air, but an earnings recession may already be underway. For the S&P 500 Index, Q4 2022 operating earnings are coming in at -6% year-over-year, with 92% of constituents reporting. Many retailers, including Walmart indicated they expect consumers to be cautious for the remainder of 2023.

### *What to do?*

If we lean on history, value stocks and dividend growing stocks typically outperformed growth stocks when inflation is above 3% and in the 12 months following the final Fed rate hike of a cycle. However, a focus on quality technology businesses with growing market share and a successful track record of smartly allocating capital have a role in a long-term investment portfolio. In fixed income, investment grade total yields are attractive, especially relative to risk adjusted opportunities in other asset classes. In the medium term, monetary policy, central banker commentary and macro data will likely maintain high correlations between public equities and fixed income. This provides opportunities for operationally focused private equity funds, discerning private credit strategies and less correlated hedge solutions to help complement public holdings.

### *Disclosures*

*Investment Commentary Sources: Bloomberg and Morningstar*

*Investment advisory services offered through Robertson Stephens Wealth Management, LLC ("Robertson Stephens"), an SEC-registered investment advisor. Registration does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the Commission. This material is for general informational purposes only and should not be construed as investment, tax or legal advice. It does not constitute a recommendation or offer to buy or sell any security, has not been tailored to the needs of any specific investor, and should not provide the basis for any investment decision. Please consult with your Advisor prior to making any Investment decisions. The information contained herein was carefully compiled from sources believed to be reliable, but Robertson Stephens cannot guarantee its accuracy or completeness. Information, views and opinions are current as of the date of this presentation, are based on the information available at the time, and are subject to change based on market and other conditions. Robertson Stephens assumes no duty to update this information. Unless otherwise noted, any individual opinions presented are those of the author and not necessarily those of Robertson Stephens. Indices are unmanaged and reflect the reinvestment of all income or dividends but do not reflect the deduction of any fees or expenses which would reduce returns. Past performance does not guarantee future results. Forward-looking performance targets or estimates are not guaranteed and may not be achieved. Investing entails risks, including possible loss of principal. Alternative investments are only available to qualified investors and are not suitable for all investors. Alternative investments include risks such as illiquidity, long time horizons, reduced transparency, and significant loss of principal. This material is an investment advisory publication intended for investment advisory clients and prospective clients only. Robertson Stephens only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of Robertson Stephens' current written disclosure brochure filed with the SEC which discusses, among other things, Robertson Stephens' business practices, services and fees, is available through the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). © 2023 Robertson Stephens Wealth Management, LLC. All rights reserved. Robertson Stephens is a registered trademark of Robertson Stephens Wealth Management, LLC in the United States and elsewhere.*