

## April 10, 2023 – Investment Commentary

### Macro Matters

Bad news is no longer good news. For the past year, investors have hoped for weakening monthly economic data that would encourage the Federal Reserve to pause its pace of interest rate hikes to tackle inflation. As a result, long duration equities such as the tech heavy Nasdaq have outperformed, pushing valuation multiples further above long-term averages as we enter another earnings season. In essence, whereas softening economic data used to signal good news to investors — that the Fed could potentially stop raising rates and possibly cut — now, weakening economic data makes investors worried that the slowing economy could fall into an economic and/or corporate earnings recession.

Last week, economic reports signaled that the strong labor market is cooling. As a result, investors sold large-cap tech stocks that surged more than 17% during Q1 2023 and began to revisit defensive stocks in industries like health care and consumer staples. Markets were closed in observance of Good Friday, where the Nasdaq Composite declined 1.1%. The broad-based S&P 500 fell 0.1% and the Dow Jones Industrial Average gained 0.6%. The Stoxx Europe 600 rose 0.8%. The U.S. 10-year Treasury yield fell 17bps to 3.31% (price up, yield down).

The Fed holds its next meeting in early May. Before then, it will have to evaluate economic reports, including inflation readings this week to get a sense of how the economy is performing, and the impact of the long and variable lags of monetary policy on corporate earnings, consumer behavior and asset classes such as commercial real estate. Markets currently expect the Fed to raise interest rates by a quarter point. Overall, the Fed and markets are struggling with the battle to solve for sticky inflation while being mindful of growth and financial stability risks.

### Risk and Opportunity

Beyond the issues described above, we are monitoring U.S. regional banks, European systemic banks, contagion risks, geo-political shifts, volatility in rates and FX, corporate earnings and margins, commercial real estate and leverage outside the banking system while the yield curve forecasts a recession. There was a time when bad news was good news in the sense that bad news meant more stimulus, more liquidity and more Fed backstop support. We believe the market is increasingly behaving like bad news may just be that...bad news. We are reminded of a quote from Mr. Buffett where he once said, “Bad news is an investor’s best friend. It lets you buy a slice of America’s future at a marked-down price.”

#### Disclosures

Investment Commentary Sources: Bloomberg and <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312b.htm>

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