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In the first three months of 2023, the financial markets have witnessed a multitude of austere headlines not seen in over a decade. Whether it was heightened inflation worries at the US Federal Reserve, fears of a recession by economists, or the failure of two important financial institutions that triggered fears of another 2008-style financial crisis, investors were rocked by shock waves that few anticipated.

Despite the influx of frosty headlines, significant macro-economic headwinds have not thwarted the market rally. All three major US indices were positive in the first quarter, despite turmoil in the banking sector. The Nasdaq Composite topped the performances in the first quarter, gaining 17.0%; the S&P 500 increased 7.5% year to date for its second straight positive quarter. More recently, mega cap technology companies have seen strong investment inflows. These large cap, profitable technology stocks are relatively insulated from the stress in banking, hence are perceived as safe-haven assets among some investors. The strong performances of technology stocks by market cap such as Apple and Microsoft have propelled the Nasdaq sharply higher and provided support for the market-cap weighted S&P 500. The Dow Jones Industrial Average, though lagged the two other major indices, still managed to avoid a loss.

At the end of March, the market got a boost after the release of the latest core Personal Consumption Expenditures index (PCE), which excludes energy and food costs. The core PCE index rose 0.3% in February 2023, lower than the 0.4% expected by economists.

The biggest shock of the quarter came in March, when Silicon Valley Bank and Signature Bank collapsed. Shortly after, Credit Suisse came to the brink of failure, forcing rival bank UBS to arrange a hasty takeover. Bank stocks tumbled amid a flight of deposits from smaller financial institutions. To shore up confidence, the U.S. government plans to unwind two failed regional banks, Silicon Valley Bank and Signature Bank, in a manner that fully protects all depositors, and has established a bank term funding program to help assure American businesses and households that banks can meet the needs of all depositors. Additionally, the largest banks in the U.S. delivered a rescue package to First Republic, another regional bank on the brink of failure. These actions have helped calm the markets.

Turning to the boarder economy, a widely anticipated recession has failed to materialize so far. The labor market has remained strong, even with increased layoffs in the technology sector recently. Inflation, while still high, has continued to ease. Based on the stock market performance year to date, equity investors seem less concerned about an imminent recession. However, gauged by a lower long-term yield and an inverted yield curve, the bond market appears to be pricing in higher odds of a recession.

First Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2023	12/31/2022	% chg	3/31/2022	% chg
DJIA	33,274.15	33,147.25	0.9%	34,678.35	-2.0%
S&P 500	4,109.31	3,839.50	7.5%	4,530.41	-7.7%
NASDAQ Composite	12,221.91	10,466.48	17.0%	14,220.52	-13.3%
Russell 2000	4,479.63	4,377.14	2.7%	5,144.78	-11.6%

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2023	12/31/2022	% chg	3/31/2022	% chg
Japan Nikkei 225	28,041.48	26,094.50	6.5%	27,821.43	-15.7%
MSCI EM (Emerging Markets)	990.28	956.38	4.0%	1,141.79	-10.3%
MSCI EAFE	2,092.60	1,943.93	8.6%	2,181.63	-0.9%
MSCI AC World	646.76	605.38	7.4%	711.56	-7.0%
FTSE 100	7,929.62	7,657.48	6.4%	7,524.08	-1.0%
SSE Composite Index	3,272.86	3,089.26	7.2%	3,252.20	-16.6%

US Equity Sector

	Q1	1-yr ret.
Consumer Discretionary	16.1%	16.1%
Consumer Staples	0.8%	0.8%
Energy	-4.7%	-4.7%
Financials	-5.6%	-5.6%
Health Care	-4.3%	-4.3%
Industrials	3.5%	3.5%
Information Tech	21.8%	21.8%
Materials	4.3%	4.3%
Communication Services	20.5%	20.5%
Utilities	-3.2%	-3.2%

US Equity Sector

	Q1	1-yr ret.
RUSSELL 1000 VALUE	1.0%	-6.1%
RUSSELL 1000 GROWTH	14.4%	-7.5%
RUSSELL 2000 VALUE	-0.7%	-11.4%
RUSSELL 2000 GROWTH	6.1%	-8.2%

Commodity Prices

	Mar 2023	1 Qtr Ago	1 Yr. Ago
Gold	1,986.20	1,826.20	1,954.00
Crude Oil	75.67	80.26	100.28
UD Dollar Index	102.19	103.27	98.36
Commodity Index	105.51	112.81	1,954.00

Furthermore, there are signs of elevated financial stress, besides the afore-mentioned bank failures, the subsequent liquidity crunch, and an erosion of earnings power could overshadow the economy.

Meanwhile, crude oil ended March 2023 at $75 per barrel, a notable decline from around $100 a year ago. Energy stocks, which soared in 2022, fell in the first quarter 2023. Analysts and investors are divided on how long that reversion will last.

It has been said that bear markets end on bad news - that is, when austere headlines no longer scare off investors. However, as mentioned earlier, the current rally has been powered by just a handful of stocks. Apple, Nvidia and Microsoft have led the way across major indices. Facebook's parent company, Meta, also contributed to the gains. Yet despite the market rally, only five of the 11 S&P 500 sectors are positive in the year to date through the end of Q1, despite the significant rally for the index. This lack of breadth has raised the question on whether the gains are sustainable.

The monetary policies will likely continue to dominate the financial markets. The US central bank has raised its benchmark interest rate by a cumulative 4.75% over the past year. Recent projections show that the Fed officials expect the federal funds rate to increase to at least 5.1% from its current range of 4.75% to 5%. This suggests that the central bank could push through one more quarter-point interest-rate increase and then hold rates at that level for the remainder of the year. Yet the market has grown more confident that the Fed will begin cutting rates as soon as the second half of 2023. As such, there has been a disconnect between market expectations for the Fed and Fed's own interest rate trajectory. The anticipation that the Fed soon will pivot to an easing monetary policy partly explains the resiliency of equities. However, such an expectation may turn out to be too optimistic. A more hawkish pivot of the Fed could further squeeze bank lending, while a looser monetary policy might only come if the economy is in serious trouble.

After the unexpected strong start to 2023, the economy and financial markets head into the second quarter facing both headwinds and tailwinds. The economy is expected to book solid gains, with the US GDP expected to increase 2.5%. Meanwhile, inflation is showing signs of easing. However, some risks lie ahead. The Federal Reserve remains committed to fight inflation even as markets expect a pause in interest rating hiking or even some rate cuts in the months ahead. In addition, corporates profits are expected to decelerate from the double-digit growth during the early days of the pandemic. With the first quarter earnings season in full swing, focus is shifting to operating results of corporations. Investors are keenly watching for trends of underlying orders, pricing power, and the supply chain conditions.

As we close a very choppy first quarter, we would remind our clients that investments are not for the faint of heart. Investors who have stayed invested irrespective of periodic market turmoil have been well rewarded over the long term. We are also finding good value in uncorrelated assets such as high quality tax-free bonds and double-digit returns projected in private credit funds. Amidst the heightened uncertainty, we remain prudent in managing your assets and remain highly selective and seek to obtain optimal risk-adjusted returns over the long term.

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Bond Yields

	Mar '23	Dec '22	1 Yr. Ago
Treasury Bill, 90 Day	4.75	4.41	0.52
Treasury Note, 2 Year	4.06	4.42	2.29
Treasury Note, 5 Year	3.61	4.00	2.42
Treasury Bond, 10 Year	3.49	3.88	2.32
Treasury Bond, 30 Year	3.69	3.97	2.45

Interest Rates

	Mar 2023	1 Qtr Ago	1 Yr. Ago
PRIME RATE	8.00	7.50	3.50
FEDERAL FUNDS RATE	4.82	4.34	0.34
US 2Y T-Note Yield	4.06	4.42	2.29
US 10Y T-Note Yield	3.49	3.88	2.32
30YR FIXED MORTGAGE	6.32	6.42	4.67

Exchange Rates

	Mar '23	1 Qtr Ago	1 Year Ago
Euro per U.S. Dollar	0.920	0.937	0.899
British Pounds per U.S. Dollar	0.809	0.831	0.760
China Renminbi per U.S. Dollar	6.872	6.952	6.343
Indian Rupee per U.S. Dollar	82.183	82.730	75.775
Japanese Yen per U.S. Dollar	133.090	131.945	121.375

Economic Sentiment

	Mar '23	Dec '22	Mar '22
Unemployment Rate	3.50	3.50	3.80