

MARKET VIEW WEEKLY

Philip Blancato, Chief Market Strategist, Advisor Group



ECONOMIC REVIEW¹

- The Federal Reserve (Fed) raised short-term interest rates another quarter percentage point (0.25%) on Wednesday, continuing its monetary tightening regime widely expected by analysts and investors.
 - The central bank's 10th consecutive increase brings the Fed funds target range to 5.00 – 5.25%.
 - Arguably more important was the removal of language on the Fed's statement that previously indicated, "the committee anticipates additional policy firming," suggesting that anticipation may be over.
- Given Chairman Powell's previous remarks stating the Fed's imperative to reign in rising prices, even at the expense of an economic slowdown, the likelihood of another hike in June is still meaningful.
 - But the Committee certainly opened the door to the possibility of a pause next month, and market participants have reacted swiftly.
 - Fed funds futures now indicate a nearly 90% probability of a pause next month and more than a 30% probability of a cut in July.²
- Another strong employment report for April showed nonfarm payrolls increased 253,000, well above the consensus expectation of 185,000.
 - Continued strength from labor markets would likely keep the Fed on track for another rate increase next month.
 - The unemployment rate ticked down to 3.4% from 3.5% in March – its lowest level since the early 1950s.

How do the unemployment rate and Fed decisions impact you?

- Rate decisions made by the Federal Reserve affect many aspects of daily and financial life, from the interest paid on car loans and home mortgages to the prevailing yields on fixed income securities.
- The fact that Chair Powell, at his press conference last week, characterized the central bank's position on a terminal Fed funds rate by saying, "We feel like we're getting closer or maybe even there," is a fairly monumental shift.³
 - The portfolio management implications for a pause in rising interest rates are even more significant.
- Investors should very seriously consider the relative value proposition offered by longer-duration bonds if they have not done so already.
 - These securities now stand to benefit from very elevated yields and future price appreciation coincident with stabilizing and eventually falling interest rates.
- While a robust labor market and historically low unemployment rate are certainly positives for the economy, the situation does make it more likely that the Fed will raise rates again in June.



A LOOK FORWARD¹

- As is the norm following Fed rate decisions, various branch Presidents and Governors will be making the speaking rounds, expressing their individual views on the economy.
- Yet another important Consumer Price Index (CPI) reading is released Wednesday morning – most economists expect a 0.1% increase in prices through April, and a 5.0% headline year-over-year figure, with slightly more elevated Core numbers.
- The Producer Price Index (PPI) immediately follows on Thursday – forecasters see yet another month-over-month decline in this important, upstream measure.

How does inflation data impact you?

- Inflation and labor market data will be extremely important to monitor over the coming weeks.
 - These are the two critical keys the Fed will watch closely in deciding whether to curtail further monetary tightening.



MARKET UPDATE⁴

Market Index Returns as of 05/05/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	-0.78%	0.77%	8.33%	2.05%	15.07%	11.14%
NASDAQ Composite TR USD	0.09%	0.15%	17.22%	1.64%	12.26%	12.16%
DJ Industrial Average TR USD	-1.23%	1.31%	2.25%	4.57%	14.81%	9.13%
Russell Mid Cap TR USD	-1.19%	-1.71%	2.28%	-1.86%	14.36%	7.60%
Russell 2000 TR USD	-0.49%	-2.28%	0.40%	-2.86%	13.11%	3.73%
MSCI EAFE NR USD	0.16%	2.99%	11.70%	11.76%	12.75%	3.77%
MSCI EM NR USD	0.51%	-0.63%	3.30%	-1.99%	5.51%	-0.46%
Bloomberg US Agg Bond TR USD	-0.05%	0.55%	3.53%	0.64%	-2.99%	1.18%
Bloomberg US Corporate High Yield TR USD	-0.38%	0.62%	4.21%	2.05%	4.50%	3.22%
Bloomberg Global Aggregate TR USD	0.15%	0.59%	3.62%	-0.91%	-3.59%	-0.81%



OBSERVATIONS

- Equities generally exhibited lackluster performance recently, with just the NASDAQ (0.09%) and international stocks, both developed (0.16%) and emerging (0.51%), in positive territory over the past week.
 - The biggest laggards were the DJ Industrial Average (-1.23%) and Russell Mid Cap (-1.19%) indices.
 - Value has been a factor negatively affecting performance recently.
- Bonds were slightly negative domestically and slightly more so across corporate credit but remained positive on the week internationally.
 - The Bloomberg US Aggregate Bond Index declined -0.05%, while the US Corporate High Yield Index fell -0.38%.
 - The Bloomberg Global Aggregate Bond Index, however, improved by 0.15%.



BY THE NUMBERS

- Warren Buffet Retains Sense of Optimism at Berkshire's Annual Meeting⁵:** OMAHA, Neb.—It has been a tumultuous year since Warren Buffett last took the stage to talk to his company's shareholders. Markets swooned. Tensions between the U.S. and China rose to new heights. And three U.S. banks toppled in quick succession, raising fears about the potential for wider fallout in the financial system. Through it all, Mr. Buffett retained his sense of optimism. Sure, society has changed significantly since he bought his first stock at age 11 in 1942. But the basic rules of investing have stayed the same, he said. "What gives you opportunities is other people doing dumb things," he said at Berkshire Hathaway's annual shareholder meeting Saturday. "In the 58 years we've been running Berkshire, I'd say there has been a great increase in the number of people doing dumb things."
- It Takes Three Months to Renew a Passport, So Do This to Save Your Summer Trip⁶:** If you haven't yet renewed your passport ahead of international summer travel, prepare to pay plenty to fix the problem. Wait times for passports have increased across the board in recent months. Standard processing times are 10 to 13 weeks, the State Department says. Expedited processing times are seven to nine weeks. Neither estimate includes mailing times, which officials say can tack on two weeks each way. These times are up from five to seven weeks for expedited passport renewals and eight to 11 weeks for routine renewals a few months ago. Given current processing times and international rules, travelers should renew passports nine months to one year before their expiration dates. Many destinations won't admit travelers if their passports expire within six months. Nearly one-third of American travelers expect to travel internationally this year, according to market-research firm Destination Analysts. Even for those behind schedule, addressing renewals immediately could make a big difference at departure time.

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e., prices received by domestic producers for their outputs either on the domestic or foreign market).

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

The statements provided herein are based solely on the opinions of the Advisor Group Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Advisor Group or its affiliates. Certain information may be based on information received from sources the Advisor Group Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute “projections,” “forecasts” and other “forward-looking statements” which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Advisor Group Research Team only as of the date of this document and are subject to change without notice. Advisor Group has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Advisor Group is not soliciting or recommending any action based on any information in this document.

Securities and investment advisory services are offered through the firms: FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Triad Advisors, LLC, Infinex Investments, Inc., and Woodbury Financial Services, Inc., broker-dealers, registered investment advisers, and members of FINRA and SIPC. Securities are offered through Securities America, Inc., American Portfolios Financial Services, Inc., and Ladenburg Thalmann & Co., broker-dealers and member of FINRA and SIPC. Advisory services are offered through Arbor Point Advisors, LLC, American Portfolios Advisors, Inc., Ladenburg Thalmann Asset Management, Inc., Securities America Advisors, Inc., and Triad Hybrid Solutions, LLC, registered investment advisers. Advisory programs offered by FSC Securities Corporation, Royal Alliance Associates, Inc., SagePoint Financial, Inc., Securities America Advisors, Inc., Triad Advisors, LLC., and Woodbury Financial Services, Inc., are sponsored by VISION2020 Wealth Management Corp., an affiliated registered investment adviser. 5673957

¹ Data Obtained from Bloomberg as of 05/05/2023.

² <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

³ <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230503.pdf>

⁴ Data Obtained from Morningstar as of 05/05/2023.

⁵ [Warren Buffett Retains Sense of Optimism at Berkshire's Annual Meeting - WSJ](#)

⁶ [Passports: What to Know About Prices, Wait Times and Global Entry - WSJ](#)