A lot is going on. Inflation is still here but moderating slightly. The Federal Reserve increased rates twice during the first quarter and will probably increase again by ¼ percent in May and maybe again later in the year. Although the economy does not seem too bad now, it is beginning to show some weakness. This may cause the Fed to reverse/stop its’ inflation fighting and reduce rates later in the year. It will be difficult to moderate inflation without driving the unemployment rate up. It presents a difficult challenge. How this works out will affect the economy and markets.

There were some problems with banks during the first quarter. Two banks – Silicon Valley Bank in California and Signature Bank in New York failed. A combination of poor regulation, high interest rates and bad management are being blamed. These problems seem to have been contained, so far – it is certainly a problem to watch. A concern is that a flight to quality will drive deposits from smaller, regional banks to larger money center banks and further exacerbate the concentration of deposits and lending leading to a contraction in lending to smaller businesses. Excessive government spending and a contradictory energy policy are also contributing to inflation.

Despite all the doom and gloom news, the market’s performance was not that bad. However, the advance was concentrated in only a few large technology stocks. The DJIA was up +0.9%, the S&P 500 was up +7.5% and the NASDAQ composite was up a strong +16.8%. The Bloomberg Aggregate Bond Index gained +3.0%. Growth and value stocks provided gains with growth recovering more sharply. Corporate and Government bond posted positive returns for short, intermediate, and long maturities. Bond returns turned positive in all categories. The international markets, in general, had strong results with Europe leading the way gaining +18.2%. China, which is opening up after relaxing Covid restrictions, posted a gain of +11.1%.

First quarter and full year results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 3/31/2023** | **12 MONTHS Ending**  **3/31/2023** | **THREE YEARS Ending**  **3/31/2023** | **FIVE YEARS Ending**  **3/31/2023** |
| **DJIA** | 0.9% | -2.0% | 17.3% | 9.0% |
| **S & P 500** | 7.5% | -7.7% | 18.6% | 11.2% |
| **NASDAQ Composite** | 16.8% | -14.5% | 16.7% | 11.6% |
| **Bloomberg Agg. Bond** | 3.0% | -4.8% | -2.8% | 0.9% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
| *Large Cap* |  |  |  |  |
| Growth | 11.6% | -12.7% | 14.8% | 10.2% |
| Value | 0.8% | -5.1% | 18.9% | 7.8% |
| *Small Cap* |  |  |  |  |
| Growth | 6.1% | -12.1% | 16.3% | 7.3% |
| Value | 1.7% | -6.7% | 25.5% | 5.7% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
| Europe | 10.4% | 0.8% | 15.0% | 4.1% |
| Latin America | 0.8% | -16.9% | -13.6% | -3.0% |
| Japan | 6.8% | 0.3% | 8.8% | 1.4% |
| Pacific ex Japan | 4.2% | -7.2% | 9.5% | 1.5% |
| China | 3.4% | -8.1% | 3.2% | -1.2% |
| India | -3.6% | -11.2% | 21.8% | 3.3% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 3/31/2023** | **12 MONTHS Ending**  **3/31/2023** | **THREE YEARS Ending**  **3/31/2023** | **FIVE YEARS Ending**  **3/31/2023** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
| Long | 5.4% | -11.4% | -3.4% | 1.0% |
| Intermediate | 3.0% | -5.1% | -2.3% | 0.8% |
| Short | 1.7% | -0.7% | 0.9% | 1.3% |
| Government Bond |  |  |  |  |
| Long | 6.6% | -17.0% | -11.5% | -0.7% |
| Intermediate | 2.7% | -4.3% | -3.3% | 0.4% |
| Short | 1.6% | -0.9% | -1.3% | 0.7% |
| Municipal Bond |  |  |  |  |
| Long | 2.9% | -2.3% | -0.0% | 1.5% |
| Intermediate | 2.3% | -0.3% | 0.4% | 1.6% |
| Short | 1.2% | 1.1% | 0.5% | 1.1% |

**Market Outlook**

We continue to be very cautious. The risk of a recession is still a concern. The beginnings of the 2024 presidential election process and the current legal maneuverings are adding another degree of uncertainty.

Like last quarter, we recommend no new equity investments at this time. Any new investment funds or funds to be reinvested should be directed to shorter term fixed income vehicles with maturities of up to one year.

**MSM FINANCIAL STRATEGIES**

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