



MONTH ENDING APRIL 30, 2023

Market Update

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Largely Positive April for Markets

Equity markets experienced continued gains in April, contributing to strong gains to start the year. The S&P 500 gained 1.56 percent, the Dow Jones Industrial Average notched a 2.57 percent return, and the Nasdaq Composite eked out a 0.07 percent increase.

These positive returns were supported by better-than-expected fundamentals. Per Bloomberg Intelligence, as of April 28, 2023, with 53.4 percent of companies having reported actual earnings, the blended earnings decline for the S&P 500 in the first quarter was 4.52 percent. While the overall decline in earnings is worth monitoring, it's still a notably better result than analyst estimates for an 8.06 percent drop at the start of earnings season. If second-quarter earnings end up declining, it would mark two consecutive quarters with

earnings declines, which is a potential sign of fundamental weakness for equities in the months ahead. For now, first-quarter results were a positive sign for investors.

Technical factors were also supportive during the month. All three major U.S. indices finished April above their respective 200-day moving averages, marking four consecutive months where all three indices have finished above trend.

The story was mixed internationally, as developed nations gained while emerging markets fell. The MSCI EAFE Index rose 2.82 percent in April while the MSCI Emerging Markets Index lost 1.11 percent. Despite mixed results, both developed and emerging markets indices finished the month above their respective 200-day moving averages, indicating continued technical support for international markets.



Fixed Income Rally Continues

Fixed income markets also experienced positive returns during the month, as investors benefited from modestly declining long-term rates. The 10-year U.S. Treasury yield fell from 3.48 percent at the end of March to 3.44 percent at the end of April. The Bloomberg Aggregate Bond Index gained 0.61 percent.

High-yield fixed income, which typically tends to follow equity markets, also had a positive month. The Bloomberg U.S. Corporate High Yield Index gained 0.61 percent. High-yield credit spreads ended slightly below where they started, with spreads falling from 4.58 percent to 4.53 percent at month-end. The falling spreads helped support a 1.00 percent gain for the high-yield index in April.

Bloomberg Aggregate Bond Index

↑ **0.61%**
in April 2022

Bloomberg U.S. Corporate High Yield Index

↑ **0.61%**
in April 2022



Bank Stress Impact and Updates

While the high-profile banking failures at Silicon Valley Bank, Signature Bank, and Silvergate Bank in March garnered headlines and led to investor concerns, much of the market impact from these collapses declined throughout April. The announcement at month-end that JP Morgan Chase would be acquiring First Republic Bank with the help of U.S. regulators threatened that calm, but the market impact from the most recent bank collapse was once again muted.

Initial market reaction to the announcement was minimal aside from First Republic and JP Morgan, with the former continuing to slide on the news while the latter's share price rose. Investors and regulators have been concerned about the health of First Republic since the start of the recent banking turmoil, as seen by the firm's notable decline in value and the push from both the FDIC and U.S. Treasury to find a purchaser for the stressed bank. The firm's sale to JP Morgan marks the end of the road for First Republic, but it also signals an end to the uncertainty caused by issues at the publicly scrutinized lender.

Ultimately, banking turmoil in March and April drove uncertainty; however, the issues that led to the collapses appear to have been largely constrained to a handful of banks rather than a sign of systemic weakness in the banking system. This will of course still serve as an area of potential risk for markets and will therefore be closely monitored by investors, economists, and regulators in the months ahead. At this point, however, the largest risks appear to be behind us.

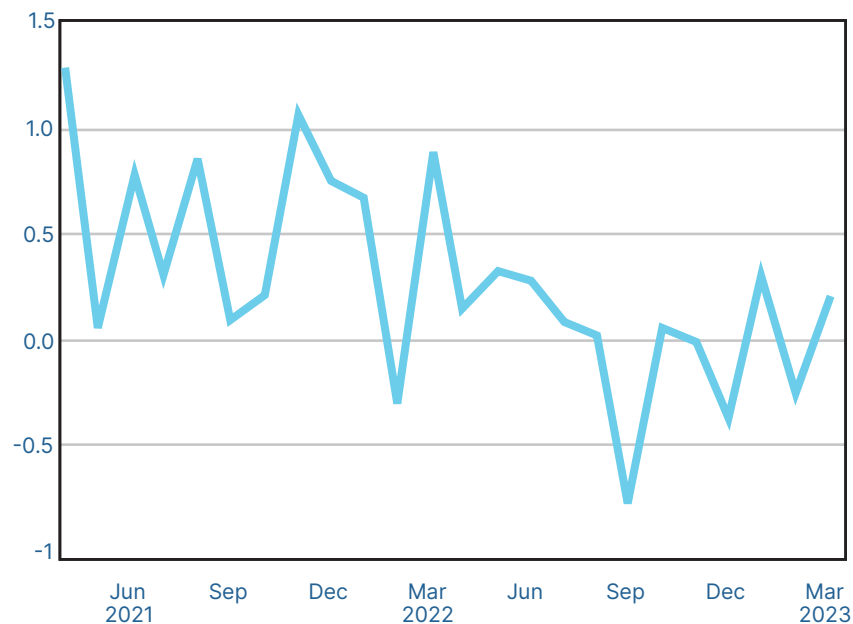
>> The Takeaway

- JP Morgan acquired First Republic Bank at the end of April in a deal that regulators promoted to end uncertainty for the troubled lender
- Market impact from the announcement was largely muted outside of the two banks in question, but this will be an important area to monitor for additional market risks in the months ahead

Economic Updates Show Continued Growth

Economic updates released in April pointed toward ongoing, albeit slowing, growth. The March job report indicated that 236,000 jobs were added, down from the 326,000 that were added in February but still strong on an historical basis. Additionally, the first look at gross domestic product (GDP) growth in the first quarter

Figure 1. U.S. Durable Goods New Orders Ex. Transportation Month-Over-Month Change, April 2021–Present



Source: Bloomberg, U.S. Census Bureau

showed continued economic growth to start the year, supported by a rise in personal consumption expenditures.

We also saw persistent signs of slowing inflation, with consumer and producer inflation still slowing on a year-over-year basis during the month. While absolute levels of inflation remain too high, the progress that we've seen this year in getting inflationary pressure down is encouraging and helped support a modest increase in consumer sentiment in April.

Finally, business confidence and spending also showed signs of continued growth during the month. The ISM Composite index of service sector and manufacturing confidence ended March in expansionary territory and helped support a return to business investment. As you can see in Figure 1, core durable goods orders increased a solid 0.3 percent in March, which is a good sign for business investment.

Risks Are Worth Monitoring

The banking-driven uncertainty in March and April serves as a reminder that very real risks remain for markets and investors, even if initial market reaction to the acquisition of First Republic at month-end was muted. While the worst impact from the stress on the banking industry appears to be behind us at this time, news of additional bank weakness could lead to further sell-offs in the future. The banking system struggles also highlight the risk that the Federal Reserve (Fed)'s tighter monetary policy represents for markets and the economy.

Going forward, the most pressing current concern surrounds the debt ceiling and a potential government default as we head toward the summer months. While investors and economists largely expect a resolution to the debt crisis before a default occurs, the uncertainty created by the situation is still expected to weigh on markets in the meantime.

Looking abroad, China remains a source for uncertainty given the country's importance for global economic expansion. There is also potential for additional conflict from the ongoing Russian invasion of Ukraine, and it's important to remember that unknown risks could also negatively impact investors.

>> The Takeaway

- Bank-driven uncertainty is a reminder that risks remain, as seen by the acquisition of First Republic at the end of April
- Debt ceiling, banking stress, and international risks are key areas to keep an eye on

Outlook Remains Positive

On the whole, economic and market updates in April were positive, with the mix of good news outweighing the bad. Market resilience in the face of the First Republic collapse is a good reminder that investors remain relatively confident in the ongoing economic expansion, and better-than-expected earnings in the first quarter show that businesses continue to outperform expectations.

While there are still very real short-term risks that investors face, lasting economic growth in the long run is likely. The fact that all three major U.S. indices ended the month in positive territory despite the risks is an encouraging sign. Additionally, the positive economic backdrop should help support markets.

With that said, there is potential for further short-term uncertainty and a well-diversified portfolio that matches investor timelines and goals remains the best path forward for most. As always, you should reach out to your financial advisor to discuss your current plan if you have concerns.

>> The Takeaway

- April was a largely positive month for markets despite uncertainty
- Risks for investors remain and should be monitored
- Over the long run, the outlook remains positive, with potential for short-term setbacks



Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a

float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba/BB+/BB+ or below.

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