

# Aptus Quarterly Market Update – Q1 2023

A decorative graphic element consisting of a thick, wavy line that transitions from a dark blue color on the left to a bright blue color in the middle, and finally to white on the right. This line curves upwards from the bottom left towards the top right, creating a dynamic, modern look.

# A Market in Review – Q1 2023

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500 INDEX	0.33%	4.02%	4.02%	-10.96%	17.96%	10.69%	11.90%
NASDAQ COMPOSITE	2.81%	12.70%	12.70%	-16.17%	17.15%	11.97%	14.97%
DOW JONES INDUS. AVG	-0.50%	-1.62%	-1.62%	-4.96%	16.82%	8.68%	10.90%
RUSSELL 2000 INDEX	-7.42%	-0.12%	-0.12%	-14.37%	17.13%	4.32%	7.73%
MSCI EAFE	-0.68%	5.17%	5.17%	-2.69%	12.80%	3.44%	5.29%
MSCI EM	0.26%	1.17%	1.17%	-11.44%	7.47%	-1.34%	2.11%
U.S. Aggregate	2.03%	2.44%	2.44%	-4.29%	-2.78%	0.86%	1.31%
Liquid Investment Grade TR	2.47%	3.17%	3.17%	-5.94%	-0.74%	1.66%	2.39%
Liquid High Yield TR	-0.59%	1.68%	1.68%	-3.99%	4.67%	2.52%	3.29%

Source: Aptus, Bloomberg, Data as of 3/27/2023

# Composition of Returns

## The Current Situation:

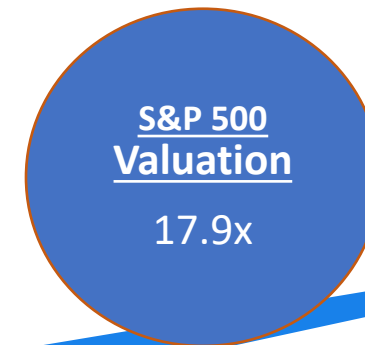
**The Known:** Dividend Yield + **The Unknown:** Growth Rate +/- **Market Sentiment:** Valuation Change = **TOTAL RETURN**



+



+/-



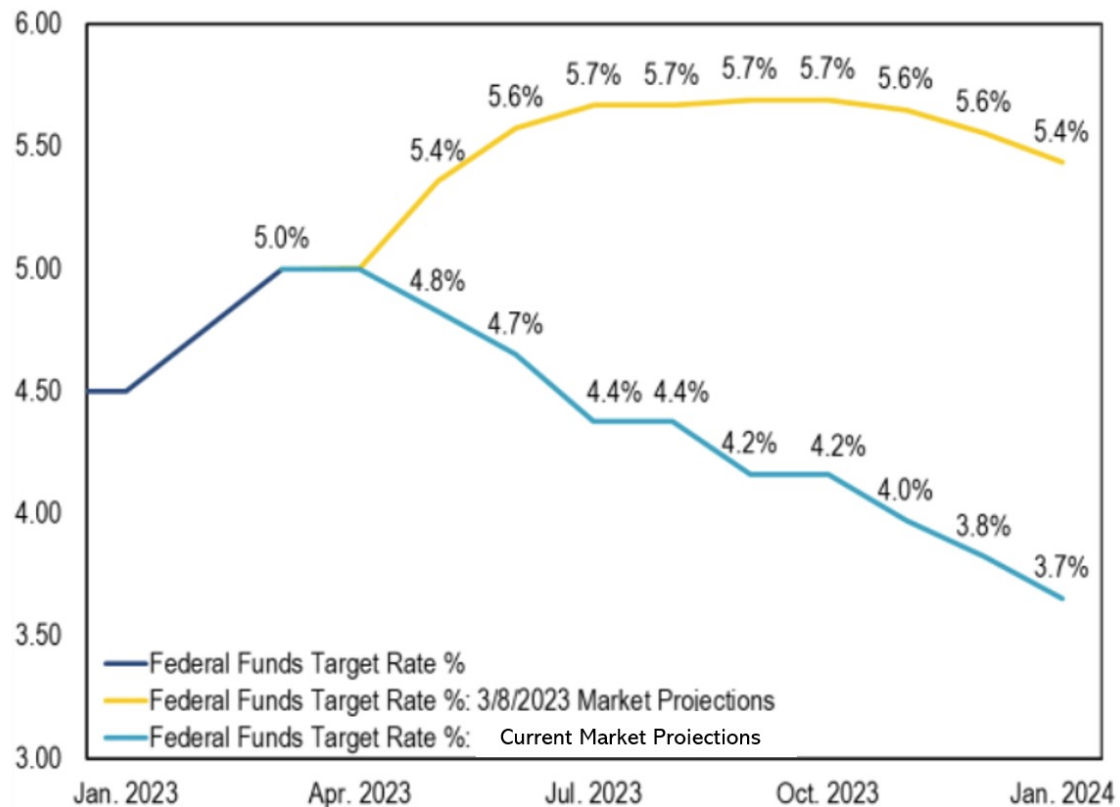
Source: Bloomberg as of 3/28/2023



# What is the Market Telling Investors?

Markets often need the engraved invitation from a higher power to tell them what's really going on. For bond markets, that higher power is the Fed and for stocks it's company earnings guidance.

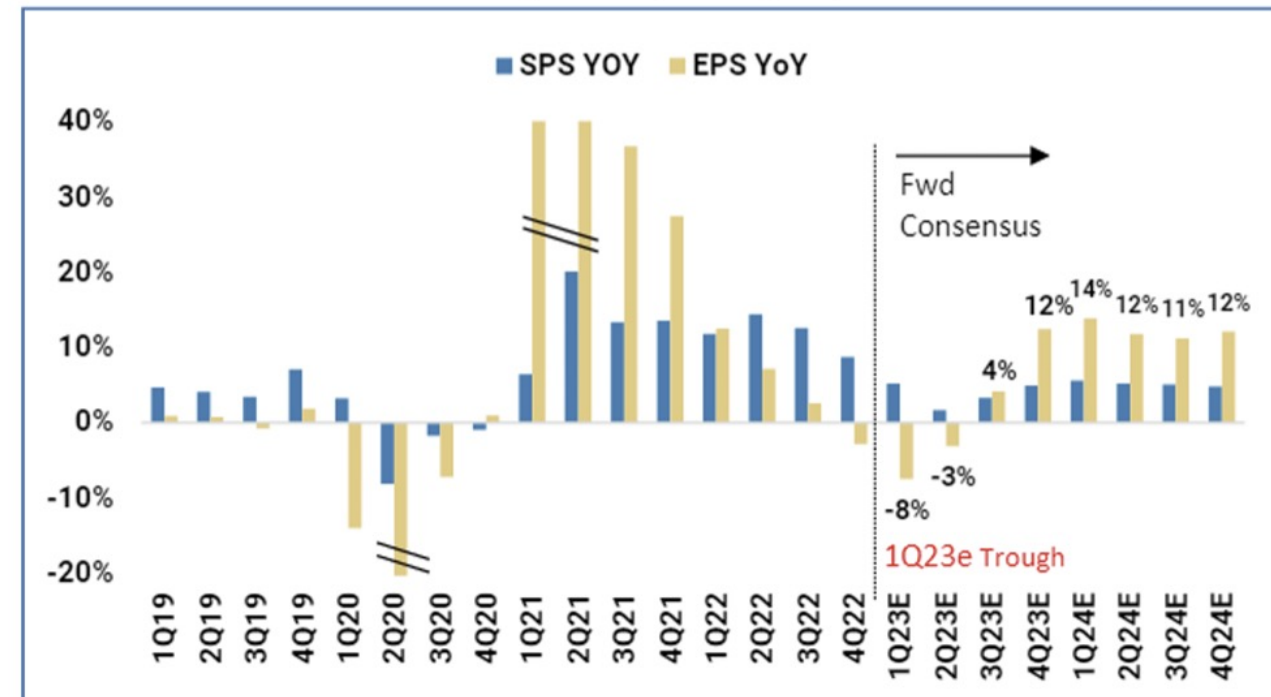
## What is the Bond Market Saying?



Source: Stifel, data as of 3/27/2023

## What is the Equity Market Saying?

### Consensus Expects a Sharp Recovery in Revenue and Earnings, Helped by Operating Leverage



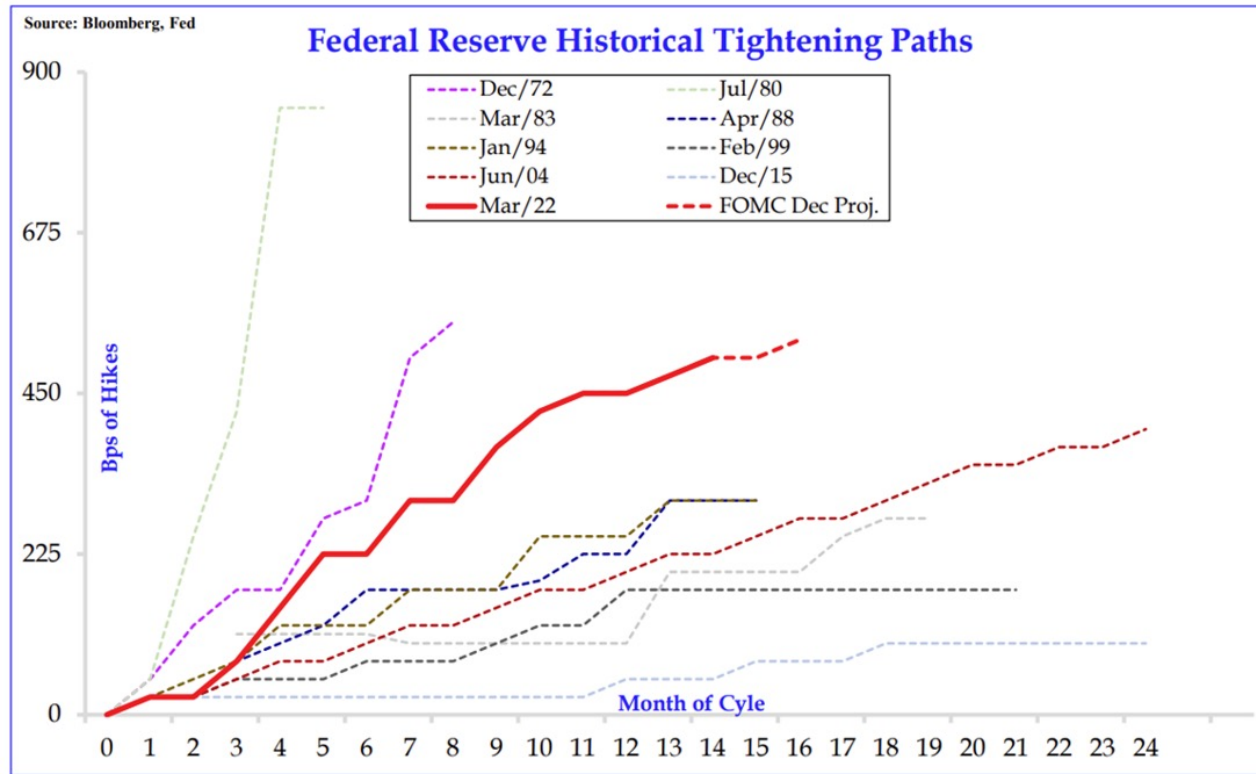
Source: Morgan Stanley, data as of 3/27/2023



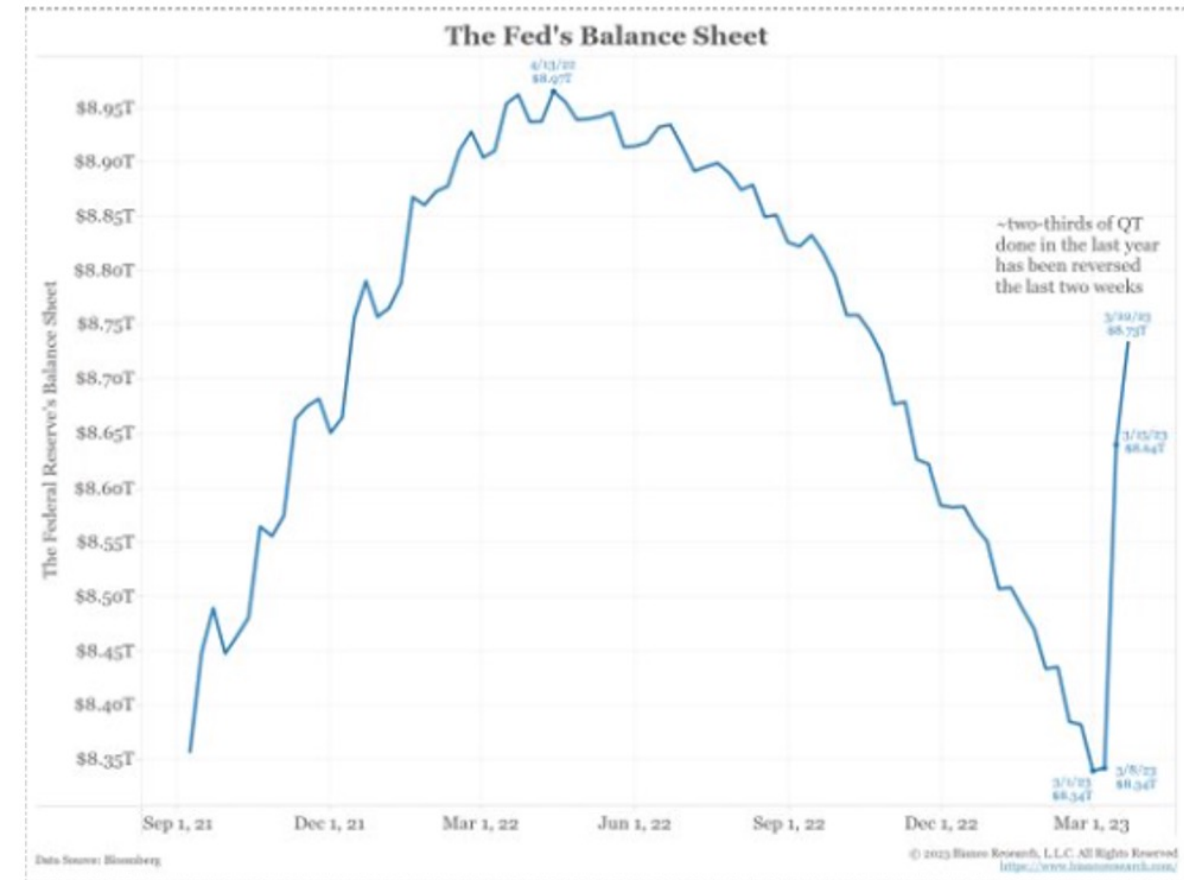
# All Eyes on Fed Policy

Fed Policy Continues to Take Center Stage, as the Market has endured the 3<sup>rd</sup> Fastest Hiking Cycle in Fed History

When Does the Market Feel the Effects of QT?



Source: Bianco, Data as of 3/27/2023

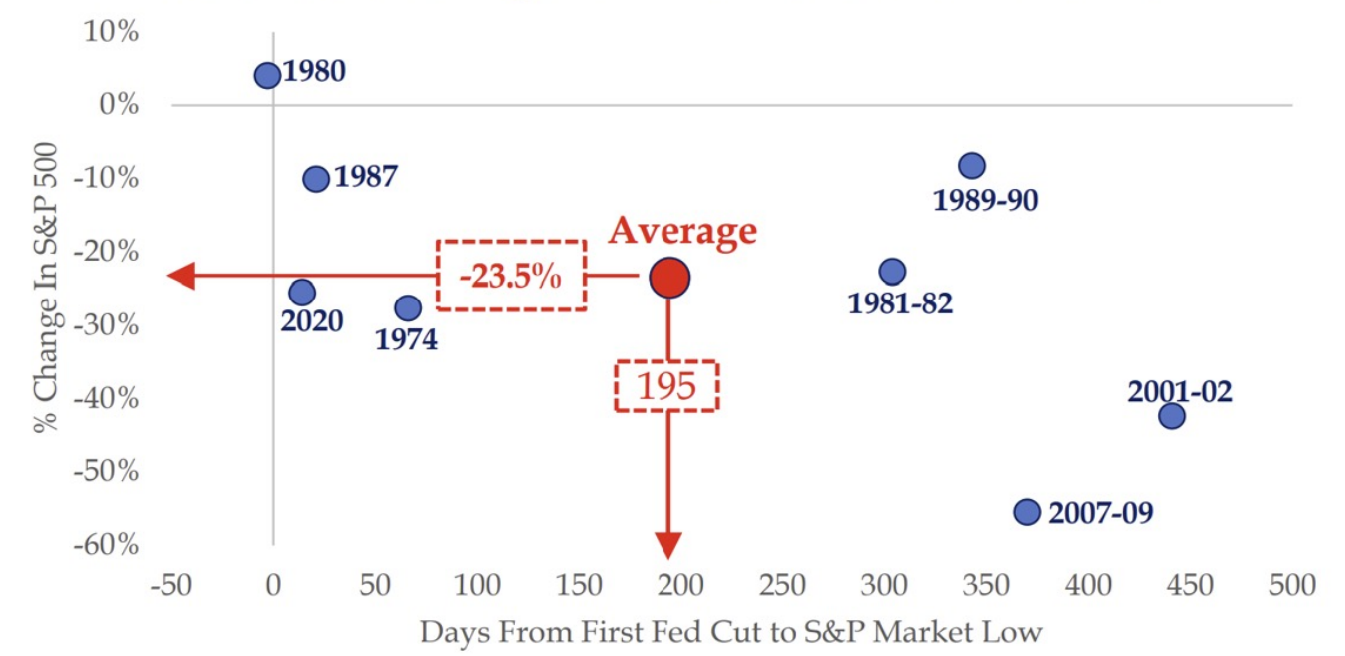


Source: Bianco, Data as of 3/27/2023

# All Eyes on Fed Policy

The Fed is Stuck Between a Pivot (Rock) & a Hard (Place) Landing

Trading Days From First Fed Rate Cut to S&P Market Low  
vs. S&P 500 % Change From First Fed Cut To Market Low



Source: Strategas, Data as of 3/27/2023

## 'For Some Time'

Average rate between peak rate and first cut is 11 months

Peak	Cut	Months	Peak rate	Cut Until
Feb-95	Jul-95	5	6.00%	5.25%
Mar-97	Sep-98	18	5.50%	4.75%
May-00	Jan-01	8	6.50%	1.00%
Jun-06	Sep-07	15	5.25%	0.25%
Dec-18	Jul-19	7	2.50%	0.25%

Source: Bloomberg, Data as of 3/27/2023



# The GOOD / The BAD / The UGLY

## The Good

### ***The U.S. Consumer Continues to be Resilient***

We believe the aggregate consumer is flush with cash, and once pent-up demand can safely be unleashed, the U.S. economy can continue being resilient. The average U.S. Household is worth ~30% more. Consumer balance sheets are well fortified and flush with cash.

## The Bad

### ***Inflation is Persistent, Though Peaking?***

The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations, but it appears that inflation has peaked for now. For markets, how the Fed chooses to address inflation is as important as the inflation itself. The battle isn't over, as services and wage inflation continue to be "sticky".

### ***Fed Policy Collateral Damage***

The yield curve officially inverted in '22 creating speculation of a recession. This means caution in communication by the Fed to avoid the mistakes of the Yellen Fed and the "stop-and-go" policy from the '70s. The Fed's number one goal is to anchor inflation, even if it puts the economy into a recession. With this, there may be some collateral damage in parts of the speculative market.

## The Ugly

### ***Inflation Transitioning to Growth Frustration***

Earnings Expectations for the S&P 500 have only come down 9.1% in '23. Anecdotally, margins continue to compress at the corporate level, but have not yet been represented in overall analyst's earnings expectations. We believe that if earnings were to significantly drop, which they tend to fall ~20% during a recession, the market could follow, as lower inflation could mean lower earnings.

### ***Debt Ceiling***

In the last major debt crisis, the market learned that the process is just as important as the outcome. Yet, during this time period, stocks fell 20% amid political uncertainty. This go-around, the gov'ts budget will be jawboning with increased interest rates that will drive interest expenses higher, as 50% of the U.S. debt comes due in the next three years that are currently financed at much lower rates.

# Asset Allocation Hot Spots

Taking Advantage of the Current Environment

Decade	Yield	+	Earnings Growth	+	Valuation Change	=	Annual Returns
1900s	3.9%		4.7%		0.9%		9.5%
1920s	4.2%		2.0%		-2.9%		3.4%
1920s	3.7%		5.6%		4.6%		13.9%
1930s	3.1%		-5.7%		1.6%		-1.0%
1940s	4.2%		9.9%		-6.4%		7.8%
1950s	4.1%		3.9%		10.1%		18.1%
1960s	3.1%		5.5%		-1.2%		7.3%
1970s	3.4%		9.9%		-8.0%		5.3%
1980s	3.4%		4.4%		8.6%		16.4%
1990s	1.7%		7.7%		8.2%		17.6%
2000s	1.5%		0.6%		-2.9%		-0.8%
2010s	1.9%		10.6%		0.7%		13.3%
2020s	1.5%		11.1%		-5.1%		7.6%
<b>Avg. Contribution to Return</b>	<b>3.1%</b>		<b>5.4%</b>		<b>0.6%</b>		<b>9.1%</b>
<b>% Contribution to Return</b>	<b>33.6%</b>		<b>59.4%</b>		<b>7.0%</b>		<b>100.0%</b>

Source: Aptus Capital, John Bogle & Robert Shiller, Data as of 3/27/2023



# Asset Allocation Hot Spots

There is an Alternative to Stocks & Long Bonds:

Largest Money Market Funds 7-Day Yield Today vs. Start of Current Fed Hiking Cycle vs. 10-Years Ago				
<u>Ticker</u>	<u>Fund Name</u>	<u>Today</u>	<u>Start of Hiking Cycle (3/16/22)</u>	<u>Mar-2013</u>
FGTXX	Goldman Sachs Financial Square Government Fund	4.5%	0.1%	0.0%
SPAXX	Fidelity Government Money Market Fund	4.3%	0.0%	0.0%
VMFXX	Vanguard Federal Money Market Fund	4.6%	0.0%	0.0%
OGVXX	JPMorgan US Government Money Market Fund	4.5%	0.0%	0.0%
FDRXX	Fidelity Government Cash Reserves	4.3%	0.0%	0.0%
SWVXX	Schwab Value Advantage Money Fund	4.5%	0.0%	0.0%
GOSXX	Federated Hermes Government Obligations Fund	4.2%	0.0%	0.0%
FIGXX	Fidelity Government Portfolio	4.5%	0.0%	0.0%
MVRXX	MSILF Government Portfolio	4.5%	0.0%	0.1%
DGCXX	Dreyfus Government Cash Management	4.5%	0.0%	0.0%

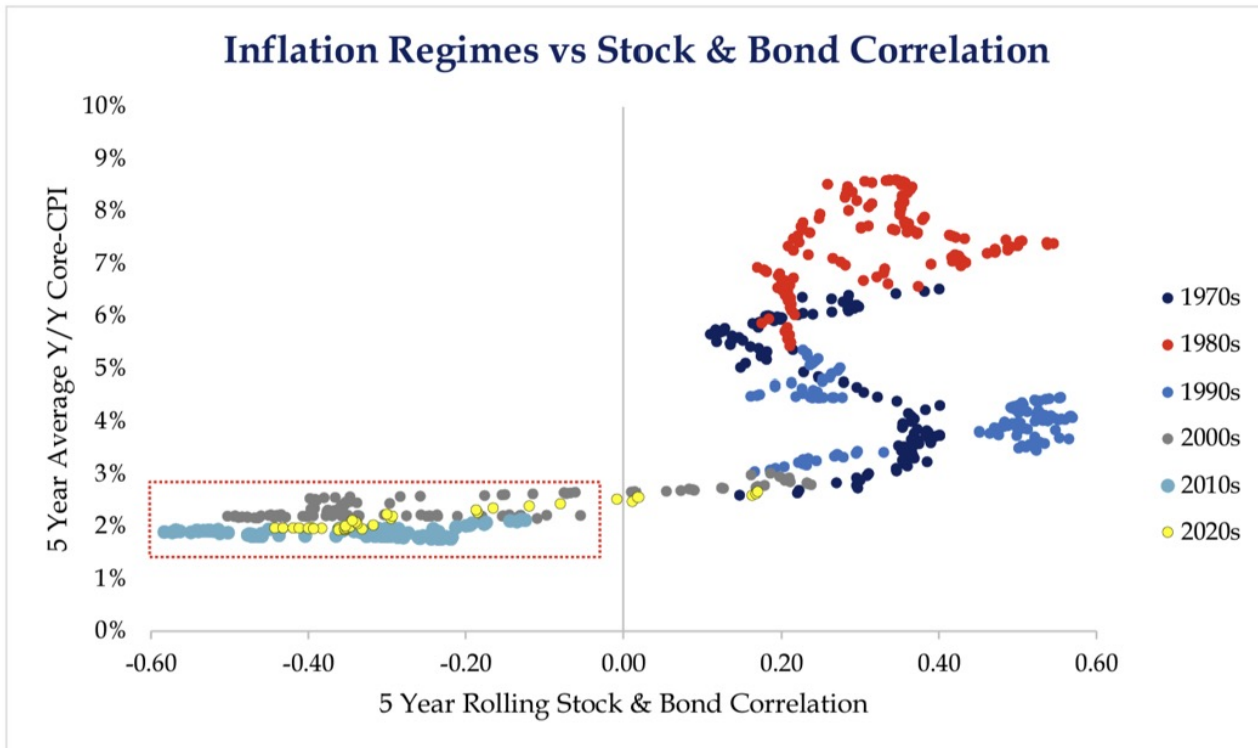
Source: Strategas, Data as of 3/27/2023



# Asset Allocation Woes

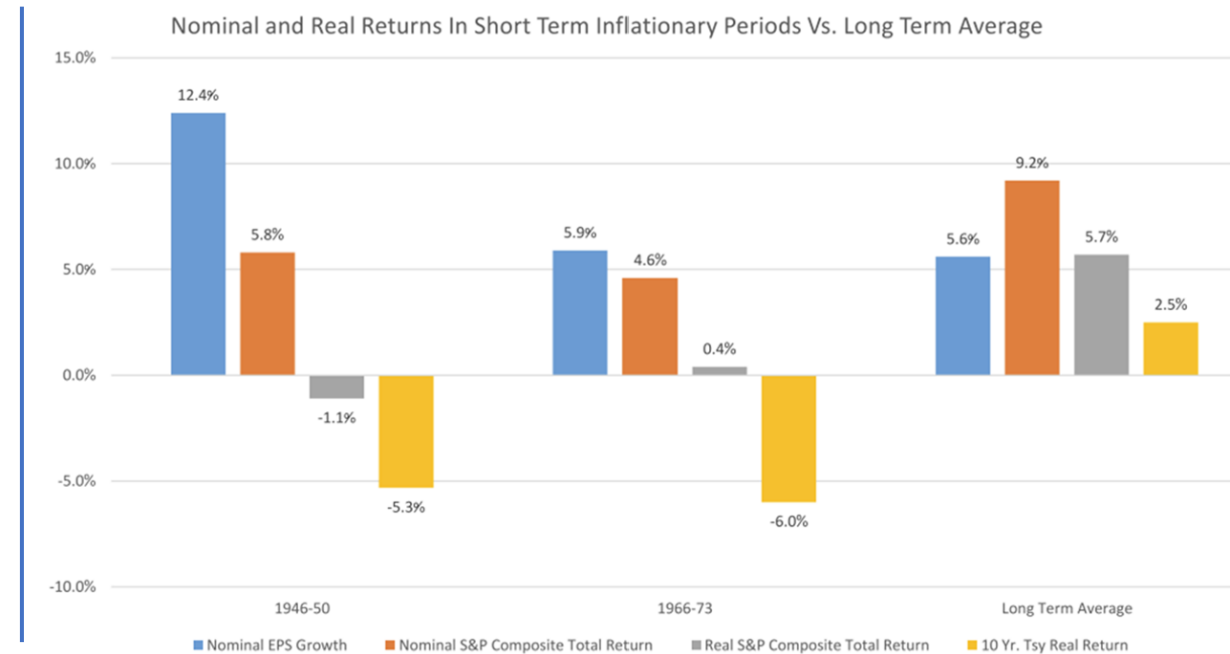
Asset Allocation Decisions Become More Difficult During Periods on Inflation:

Portfolio Volatility as Correlations Rise:



Source: Strategas, Data as of 3/27/2023

Understanding Real v. Nominal Returns:



Source: Raymond James, Data as of 3/27/2023

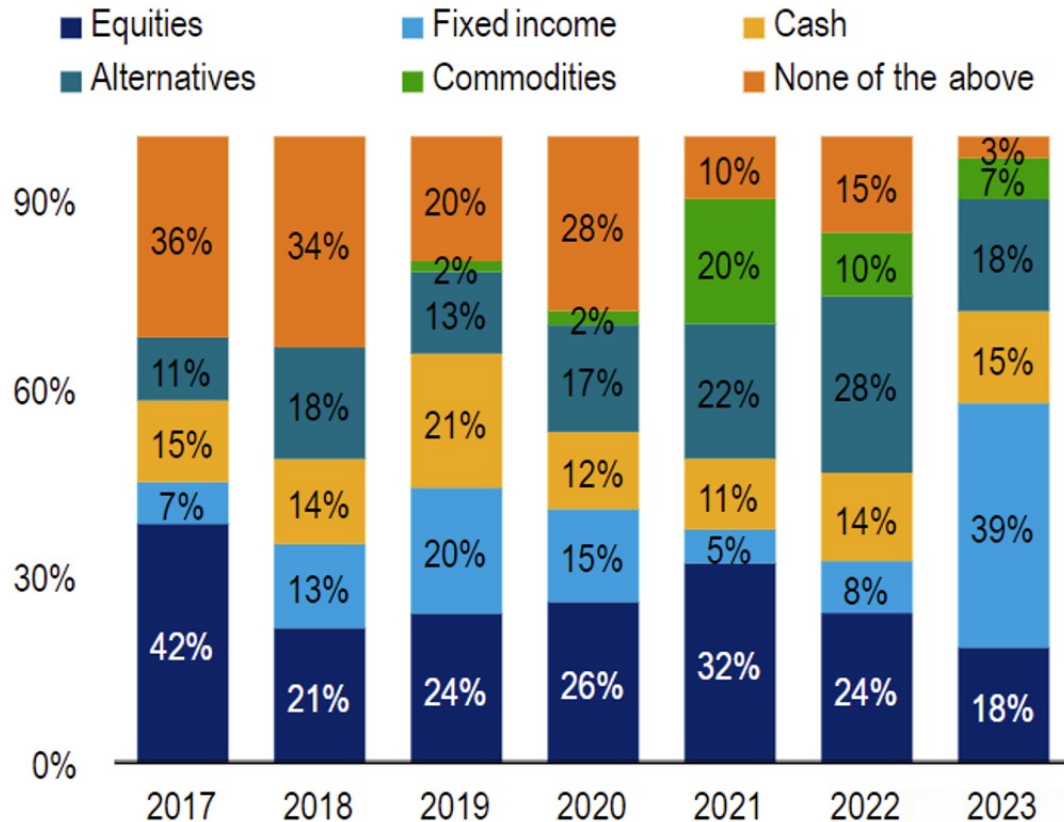


# Is there Certainty in Positioning

There's a Lot of Certainty in an Environment Where There is a Lot of Uncertainty

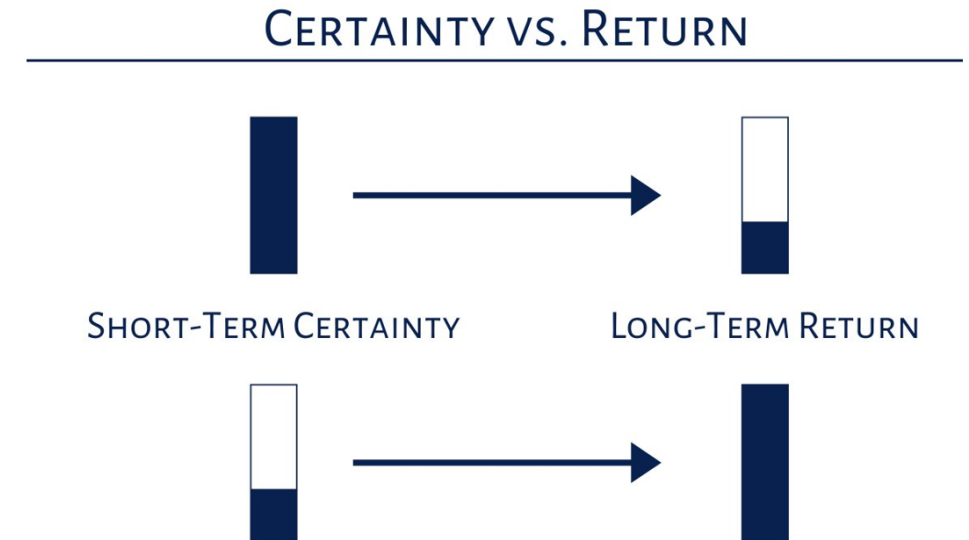
## The Consensus is Long Bonds:

Chart of the Week #1: Bonds over stocks is firmly consensus  
How are you currently changing your **asset allocation**? Moving more into...



Source: BofA, Data as of 3/27/2023

## Invest Unemotionally for Better Long-Term Results:



Source: Money Visuals, Data as of 3/27/2023



# Additional Resources



**Market Updates**

Access the latest monthly and quarterly reports, equity research, and more.

<https://aptuscapitaladvisors.com/contenthub-lp/>



## The Market in Pictures, February 24

[Feb 24, 2023 | Blog, Charts](#)

Our team looks at a lot of research throughout each day. A few charts that caught our eye this week, and the way they fit the unfolding puzzle of evidence: Brad: The...

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## Aptus Musings: Debt Ceiling Part Deux

[Feb 23, 2023 | Blog, Macro Updates](#)

I'm going to cut to the chase here – I've been reading a lot on the debt crisis here recently, especially after the Congressional Budget Office ("CBO") released its...

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## It's Time to Move Cash Out of The Bank

[Feb 22, 2023 | Blog, Financial Planning](#)

Pulling up to the bank in a gold Cadillac with

## The Market in Pictures, February 17

[Feb 17, 2023 | Blog, Charts](#)

Our team looks at a lot of research throughout each day. A few charts that caught our eye this week, and the way they



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The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal (which is published by Dow Jones & Company), a practice that dates back+A70 to the beginning of the century. The Dow is computed using a priceweighted indexing system, rather than the more common market cap-weighted indexing system.

The Russell 2000® Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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).

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The MSCI EAFE Index consists of the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

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Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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The S&P 500® Index is the Standard & Poor's Composite Index and is widely regarded as a single gauge of large cap U.S. equities. It is market cap weighted and includes 500 leading companies, capturing approximately 80% coverage of available market capitalization.

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