STOCK MARKET INTERNALS

Market Review **APRIL 2023**

The broad equity averages may have started to sense better days ahead following the setbacks experienced in 2022. Judging by equity returns as of late, the broad averages have gained traction since locating a previous bottom sometime late last year. It might seem strange that stocks have performed well in a backdrop of tighter financial conditions, bank failures, and economic activity expected to decelerate or decline. But, as technical traders say, the ongoing price always acts as a source of truth, and today's prices indicate that equities possess more value now than they did six months ago.

So why would equity indexes act more upbeat in a period characterized by examples of economic stress? Maybe a good place to start to answer the question is in the corporate earnings and growth data, making it possible for corporations to distribute residual cash to shareholders. Wall Street is in the middle of an earnings season and many of the largest companies listed on stock exchanges have reported financial results from the first quarter of 2023. Broadly measured, sales and earnings results have finished well ahead of the expectations offered by the analyst community established on Wall Street. The results show that corporate sales haven't slowed to the degree that forecasts previously expected. In addition, companies may be regaining control of their profit margins, given the number of earnings beats that have come across the tape. Maybe consumption will sustain, despite legitimate concerns facing the economy today.

But beyond the nebulous task of putting sales and earnings under a microscope, a more apparent reason that stock averages have regained altitude may lie within bond markets. Namely, government and corporate bond yields are below where they sat six months ago. An easy example draws from the ten-year interest rate quoted on US Treasury debt. Six months ago, the interest rate flirted with four percent because of the elevated inflation but is currently much lower relative to where it last peaked. Bond yields are essential in stock market valuations because they are the opportunity cost of investing in an asset class predicated on growth. Furthermore, many corporations refinanced their debts with record-low interest rates back in the days of the pandemic. However, those debts may start to mature in the next few years, so yields that have gone into retreat as of late are another good thing, helping to keep growth above the costs of deploying new capital.

But not all aspects of the stock market deliver similarly optimistic signs. Divergences among stock market assets possibly indicate where the current economic cycle stands. First, small-cap stocks haven't performed as well as large-cap investments. Logically, small-caps have lagged in performance because of extra exposure to severe regional bank losses. Second, equal-weight large-cap indexes are trailing value-weighted large-cap indexes. That's usually an indication that stocks at the top of the capitalization stack are lifting the market while everything else underneath is not performing as well. Third, foreign stocks deserve mention because these markets have been out of favor for quite some time. However, foreign averages representing developed economies have recently exhibited strong performance due to a weaker US dollar and relative fundamental strength against US stock counterparts. These divergences can suggest that pockets of economic strength are present, but these pockets might remain unevenly spread throughout the economy.

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Regardless of any opinions about the current state of affairs in finance, the recent momentum observed in equity valuations is a welcome change of direction from last year. However, it is important to remain balanced and not over-extrapolate this point because of the divergences that persist inside equity markets. This may suggest that the markets remain in a late-cycle period that hasn't had sufficient time to mature fully. Therefore, preparedness, discipline, and planning are fundamental components that can help counteract the things that investors can't control.

Asset Categories	US STOCKS	FOREIGN STOCKS	US BONDS	FOREIGN BONDS	HARD ASSETS	HYBRIDS
Monthly	-0.51%	1.08%	0.62%	0.40%	1.41%	0.11%
Year to Date	3.59%	7.68%	3.66%	2.61%	5.13%	1.77%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING APRIL 30, 2023

US STOCKS

US Stocks were generally flat in April, primarily due to losses in small-caps. The small-cap category average experienced further declines last month by -2.05%. However, the small-cap average still reports an incremental gain of 1.09% from January through the end of April. Large caps offer a better story as the category average increased by 1.14% in April, which advanced the year-to-date return to 6.87%. Mid-cap performance lies neatly between small- and large-cap performance.

FOREIGN STOCKS

Foreign Stocks recorded another excellent month of performance, continuing the year-to-date trend. Developed markets of large caps finished April with returns of 2.27%. The category average has captured 10.25% year-to-date. Monthly performance from foreign small-caps and emerging markets were less impactful in April. However, average foreign small- and mid-cap returns are up 8.54% since the beginning of the year, and emerging market stocks are up 4.27% over the same time period.

US BONDS

US Bonds earned modest gains in April. Corporate and high-yield bond category averages performed best among the bond sectors. Moreover, investors felt comfortable buying higher risk bond assets throughout April. Year-to-date, bonds of various category types tend to converge on the average return of 3.66%. Nevertheless, it's been a slow and steady year for bonds as rates renormalized to lower levels.

FOREIGN BONDS

Foreign Bonds produced similar returns relative to US Bonds for the month of April. Both the global category and emerging market category provided a return of approximately 0.40% throughout the prior month. The two categories have brought in approximately 2.61% since the beginning of the year. Global bond performance has overtaken emerging market performance so far this year as investors remain hesitant to re-embrace assets sensitive to revaluations from the US dollar.

HARD ASSETS

Hard Assets continued with year-to-date momentum during the month of April. Overall, the various category averages produced a 1.41% monthly return. Monthly relative strength appeared in global real-estate and energy markets. Precious metals offer a significant lead, obtaining an 11.60% return over the first four months of the year. Precious metal returns are another example of key market divergences that exist while disinflation persists and bond yields remain relatively attractive.

HYBRIDS

Hybrid Assets regained some ground in April with a slight 0.11% monthly return. Last month's return increased the year-to-date average to 1.77%. Convertible bonds weighed on last month's performance, as the category average absorbed losses of -1.08% in April. Convertibles have gained 1.55% this year. Preferred stock investments ended April with a 1.31% monthly return, nudging year-to-date performance higher to 1.99%.

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