April 2023

Summary and Commentary

1ST QUARTER 2023

"A billion here, a billion there, and soon we are talking about real money"

- Republican Senator Everett Dirksen

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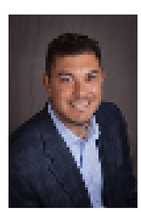

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Webster's Dictionary defines volatility as "a tendency to change quickly and unpredictably". During the first quarter of 2023 there is no better word to describe the financial markets and what has happened.

January saw a bounce in stocks, unlike anything we had seen for quite some time. Stocks that rallied most were those that fell the hardest in 2022. We witnessed a snapback in technology and communication stocks, especially"meme" securities.

In February, on the other hand, we witnessed the market rally stall and top out just two days into the month. At the beginning of the month, Wall Street expected that interest rates would begin to level off as inflation subsided. Unfortunately, this was not completely the case, as the Consumer Price Index proved to be stickier than originally thought and the job market continued to be strong.

The markets tried to make a comeback in March only to be stopped by the issues in the banking sector. As Warren Buffett once said, "Only when the tide goes out do you discover who's been swimming naked." In March, the news was that Silicon Valley Bank (SVB) and several other banks had indeed been naked. Higher interest rates were troublesome for the banks for multiple reasons. First, bank customers realized they could potentially earn more in Treasury Bills (thanks to the Federal Reserve raising interest rates) than in traditional savings accounts, causing bank customers to keep lower levels of cash in their accounts. At the same time, many banks had invested their reserve funds in Treasury Notes. As the Federal Reserve continued to raise interest rates and broad market rates also increased, these Treasury Notes held by the banks declined in value. The forced sales created losses for some banks (like SVB) pushing them into near or actual default.

Despite all this turbulence, the broad stock market had positive returns in the first quarter, with the tech heavy NASDAQ and Large Cap Growth stocks providing the strongest performance. International and Emerging Markets posted positive performance for Q1 as did all sectors of the bond market. A nice reversal from the difficult year we had in 2022.

The National Debt

Going back to the quote from Senator Dirksen.... he said that in 1969. In September 2013, Barron's magazine had a cover story headlined "Budget Disaster" that warned "our children could face an economic calamity as bad as the Great Depression" if the government failed to cut its long-term spending. Now in 2023, the national debt has doubled from its 2013 level to nearly $31.4 trillion. As of mid-January, the U.S Treasury needed more money to pay its bills than federal law allows. So, raising the debt ceiling has taken center stage in Washington. Treasury Secretary Janet Yellen has said the Treasury Department would take "extraordinary measures" to ensure it could keep making required payments to public creditors. These measures would allow the Treasury to continue meeting U.S. debt payments only through early June.

The debt limit routinely gets increased for the Treasury to keep issuing bonds to finance previously authorized government spending. Since 1960, Congress has raised the debt ceiling 78 times. It is important to note that raising the debt ceiling doesn't authorize new government spending. Only Congress can do that through its annual budget process.

The challenge is getting people to agree on how to manage this issue. When asked last month (March 2023) about the level of spending, 60% of US adults say the government spends too much while just 16% say too little. However, when asked about specific areas like education, health care, Social Security and Medicare, at least four times as many adults say the US spends too little as opposed to too much on these programs.

It is no different in the government. In recent years, increasing the debt limit and government spending has ignited partisan fights, leading to congressional standoffs that pushed the Treasury Department closer to exceeding its borrowing capacity. In 2011 Standard & Poor's downgraded the AAA rating that it had given U.S government debt for 70 years to AA+. Since then, Congress has raised the debt ceiling six time. And each time, Congress has waited until a few weeks or even days before the existing ceiling's statutory deadline before raising it. Unfortunately, this time it looks no different as we are rapidly approaching early June. So, should you change your investment portfolios due to a potential debt ceiling fight? We don't think so.

Stay focused on the Long Game

With the NCAA basketball tournament in the books, in many ways the process of filing out a bracket is a lot like successful wealth management and investing. It requires balancing risk and reward, while maintaining discipline.

Winners don't always stay on top

History has shown that no single asset class has been a consistent winner year after year, just as no single asset class remains at the bottom.

Have a balanced offense and defense

Winning any game requires having a balanced offense and defense. Having a mix of both properly executing at the right time in the game is key to a team's success. The same analogy holds true when it comes to wealth management and meeting your long-term goals- some of your portfolio assets need to play defense (and minimize losses), while others can play offense (and maximize returns). This is one of the most basic concepts of asset allocation- using a diversified mix of assets to balance risk and potential returns.

Focus on the long game

Successful teams understand that playing the full 40 minutes of the game is critical to increase their odds of winning. The most successful stick to their game plan and execute their strategy with perhaps a few minor adjustments along the way. This parallels well with successful wealth management and meeting your long-term goals. Staying focused on your long-term goals and well-defined plan and looking beyond the noise of the moment are keys to reaching you and your family's financial goals.

Thank you for your continued trust and confidence and for allowing us to be a meaningful part of you and your family's wealth management team.

All our best!

Your Summit Team

Hal, Rob, Ryan, Scott, Naumy, Jennifer, Geoff, Kevin, Dustin & Maryline.

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Sources:

American Economist

JP Morgan

Goldman Sachs

Charles Schwab

UBS

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MFS

American Century Investments

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