Monthly Newsletter
March 2023

ARCH GLOBAL ADVISORS

Monthly Market Recap

While January brought renewed hope for market bulls, February saw returned jitters with fears over inflation and the Fed's ability to achieve its 2% inflation target causing equity markets to retreat. The Dow closed the month down 3.9%, with the S&P falling 2.4% and the Nasdaq 1.0%. Since 1950, February is the second worst performing month of the year (September being the worst) with average losses of -.03%. Historically, it's not uncommon for markets to take a breather seasonally, as the prior 4 months return on average 5.2% (1950-2022). With continued strong employment (517,000 jobs added in January versus an expectation of 187,000), consumer savings ticking up (January was the first month since April 2021 that savings returned to positive) and strong retail sales, we are raising our expectation that a 'no landing scenario' is becoming more likely and higher interest rates will remain for the foreseeable future.

January saw CPI climb 0.5%, the most in 3 months, with the headline inflation number falling to 6.4% in January (from December's 6.5%), but below expectations of 6.2%. PCE and PPI also came in slightly hotter than expected. Markets reacted swiftly, with concerns over inflation not falling fast enough resurfacing. Yields also rose accordingly, with the 10-Year Treasury settling above 3.9% for the month and the futures markets pushing up expectations for the Fed Funds terminal rate slightly after inflation reports. Oil traded relatively flat for February, with Gold falling roughly $100 an ounce to $1,845.

However, there were bright spots. Retail Sales were up 3.0% for the month. Consumer spending also saw an increase of 1.8% vs. 1.3% expected. Information Technology was the best performing sector of the year and Mega Caps, Tesla and Nvidia, are up more than 65% and 59% respectively year-to-date.

Despite this, some stickier components of inflation seem to be holding on (and giving investors angst), including services and shelter. Despite not fully showing up in CPI data yet, housing has potentially seen a rebound in the last few weeks, but in our view, this was due to mortgage rates falling to start the year before seeing demand reverse for the last 3 weeks (as rates rose to an average 6.71% for a 30-year fixed-rate mortgage), dropping mortgage demand now to a 28-year low. While this may be indicative of a trend reversal (we put a low confidence estimate on this), up until recently, we have seen significant weakness in housing, with a monthly 0.7% decline in existing home sales in January, marking the twelfth straight month of losses. U.S. home sales have now declined a record 37% year-over-year.

To start the year, we estimated that there was approximately a 50% chance of interest rate cuts toward the back half of 2023. We are now lowering that estimate slightly (because of recent data releases), as we expect the Fed to remain 'higher for longer'. While we assess the overall health of the economy to be strong (forcing the Fed to remain hawkish), there are risks on the horizon that may allow them to cut rates sooner. Credit delinquencies are beginning to rise, industrial production is continuing to show weakness, and layoffs are increasing at a faster pace even compared with the 2008 recession. A deterioration in the economic outlook may give the Fed room to become more dovish.

As we continue to get closer to the end of the Fed's rate hike cycle, we believe markets are starting to discount this inevitability and may allow equities to add on to January's strong start to 2023. We think valuation at these levels is fair, with the potential to see P/E multiples expand once the Fed becomes less restrictive or corporate profit growth can increase again. While we do acknowledge that higher rates for longer is potentially negative for consumer spending, corporate earnings, and credit, something has to give (either the Fed will reset inflation expectations, with deglobalization potentially altering the benchmark, or overtighten and try to break the economy). To date, the economy has powered forward with incredible resiliency. As we saw in February, investor sentiment can quickly reverse on lackluster inflation readings. We continue to maintain a balanced, cautious approach at this time.

	Index Return %	
Equities	**MTD**	**YTD**
S&P 500	-2.4%	3.7%
Russell 3000	-2.3%	4.4%
Nasdaq	-1.0%	9.6%
Dow Jones	-3.9%	-1.1%
Fixed Income		
US Aggregate	-2.6%	0.4%
US Corporate High Yield	-1.3%	2.5%

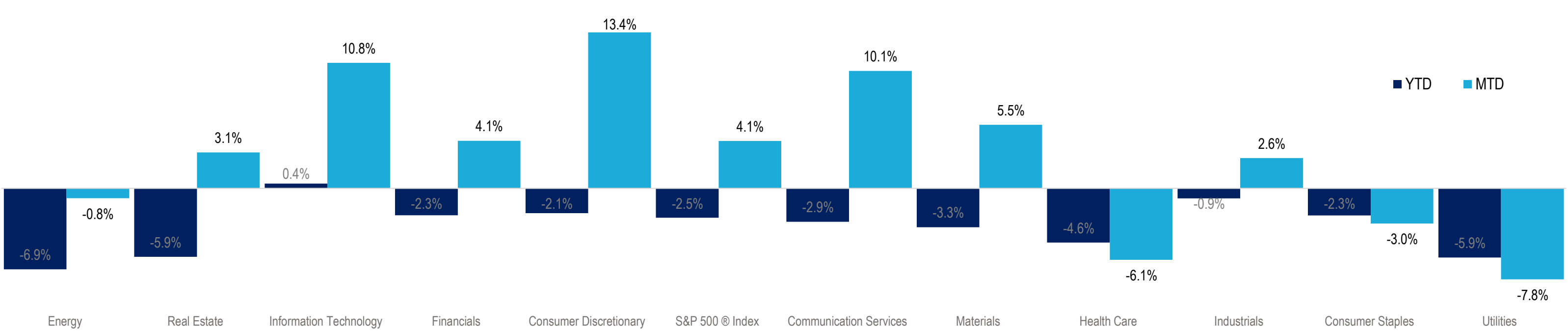
	Rate %
Economic Metrics	**Jan-23**
US Unemployment Rate	3.40%
US Inflation Rate	6.41%

	Levels	
Commodities	**Jan-23**	**Feb-23**
Oil (WTI)	78.95	75.57
Gold	1,923.90	1,811.00
DowJ. Commodity Index	1,050.12	1,006.30

	Rate %	
Interest Rates	**Jan-23**	**Feb-23**
10 Year Treasury Rate	3.52%	3.92%
30 Year Treasury Rate	3.65%	3.93%
30 Year Mortgage Rate	6.13%	6.50%
US Corp. AAA Effective Yield	4.31%	4.77%

All numbers reported are as of February 28, 2023

Major Economic Events	**Date**
Employment Situation	10-Mar
Inflation Rate	14-Mar
FOMC Meeting	22-Mar



Sources

S&P 500 Performance	https://ycharts.com/indices/%5ESPXTR/level
Russell 3000 Performance	https://ycharts.com/indices/%5ERUATR/level
Nasdaq Performance	https://ycharts.com/indices/%5ENA100TR/level
Dow Jones Performance	https://ycharts.com/indices/%5EDJITR
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European Markets Performanc	https://russellinvestments.com/middle-east/global-market-outlook#ColorBoxesRoot_5c2d1932-eb2f-4ad5-a377-5c496b847736
Sectors & Industries Performan	https://ycharts.com
Dow Jones Commodity Index	https://ycharts.com/indices/%5EDJC
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