March 31, 2023

MONTIS

FINANCIAL, LLC

Independence. Objectivity. Value.

Quarterly

2023 First Quarter Investment Market Report

Heading into this year after a tumultuous 2022, all indications suggested more turmoil was ahead in 2023, and the first quarter certainly met that expectation! Inflation and its implications for the future course of interest rates are still baffling the markets and creating strongly diverging opinions on the appropriate next steps for the Federal Reserve. The stock market came roaring into the New Year, with the S&P 500 climbing ~9% early in the quarter, only to retrace most of its gains in February. March ended with a strong rally after a bank scare, allowing the S&P 500 to post a strong quarter up 7.5%, with the tech-heavy NASDAQ enjoyed a strong bounce back from a dismal 2022, although it is still down substantially from year-ago levels.

INDEX	Q1 2023
S&P 500	7.5%
Dow Jones Industrial Average	0.9%
Nasdaq Composite	17.0%

Source: YCharts; See disclosures for important benchmark information

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After one of the worst prolonged bond market declines in history last year, the first quarter saw a roller coaster for interest rates as bond prices saw similar volatility to stocks. When inflation is the headline, the stock and bond markets both tremble at signs of higher inflation and feel relief from signs of lower inflation, which is why additional diversification strategies have been a high internal focus and priority at Montis this year. The quarter was punctuated by a historically rapid rally in U.S. Treasuries when fear over a new bank crisis briefly gripped the markets in March. On the bright side, we at least saw diversification functioning in a more expected fashion during the short-lived panic of the banking turmoil as bonds rallied to offset the declines in stocks.

INDEX	Q1 2023
Bloomberg Global Aggregate Bond Index	3.0%
Bloomberg US Aggregate Bond Index	3.0%

Source: YCharts; See disclosures for important benchmark information

International markets echoed the U.S. markets for the quarter, experiencing similar volatility, but ultimately finishing the quarter on a strong note. These markets are still trading at significant discounts to U.S. markets from a valuation perspective, which we believe is a long-term opportunity, although near-term we expect the same macro drivers of volatility to dominate the headlines and drive returns.

INDEX	Q1 2023
MSCI EAFE (Developed Markets)	8.6%
MSCI Emerging Markets	4.0%

Source: YCharts; See disclosures for important benchmark information

A BANKING CRISIS?

A few weeks ago, most Americans had never heard of Silicon Valley Bank (SVB), but over the course of 48 hours it experienced the fastest "bank run" in history with $43 billion of withdrawals in a single day, collapsed essentially overnight despite having $16 billion of equity on its balance sheet, and set off a wave of panic that the banking system was on the verge of another 2008-style crisis.

With the domino effect of 2008 still scarring investors, it will likely take a while for the market to trust that contagion is not threatening more banks. Fortunately, the Federal Reserve acted quickly to reassure depositors at all banks by creating a lending facility for banks that essentially guarantees access to unlimited liquidity to prevent another run on any U.S. bank. In addition, SVB was an unfortunate combination of extremely poor risk management of their investment portfolio after a flood of deposits that saw the bank triple in 18 months, magnified by a failure to understand the risks of a very concentrated client base whose deposits were mostly above FDIC insurance limits and were likely to all need to draw on their deposits at the same time. These two issues were compounded by bad luck in the form of a vocal and high-profile depositor with ties to many depositors who expressed doubts about the bank's safety. Regulators had already been working with the bank to remediate the first two issues, but once depositors lose faith in their bank, it is virtually impossible to survive the ensuing "run on the bank." A second bank, Signature Bank, was also closed by regulators, but their issues appear acutely derived from a significant presence in the collapsing world of cryptocurrencies than any systemic bank concerns.

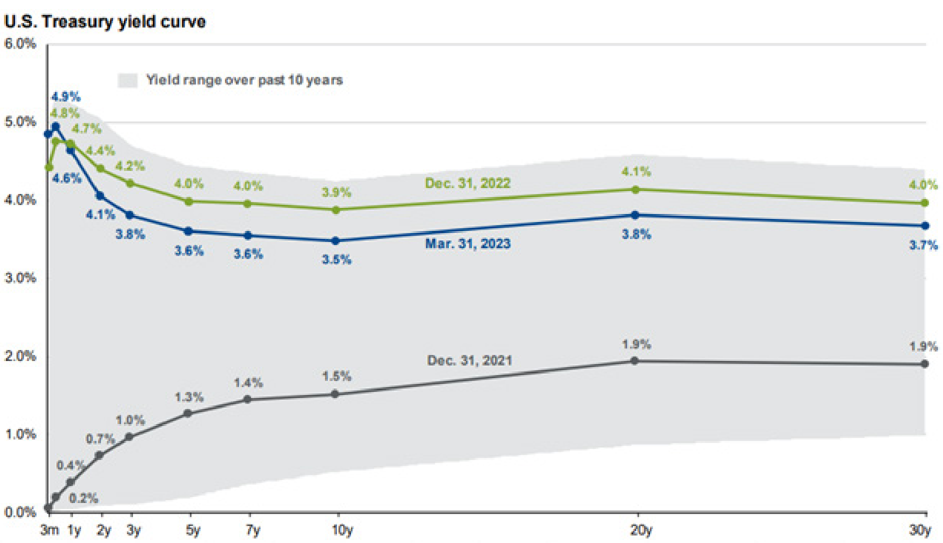
Given the reassurance created by the Federal Reserve, investor confidence in the banking system should gradually return, especially since the bank whose deposit base most closely resembles SVB, First Republic, got a huge vote of confidence from a consortium of U.S. banks that jointly deposited $30 billion of their own cash at the bank.

THE FED AND INFLATION

The Fed's tug-of-war with inflation will likely still be making headlines in 2024, and the first quarter provided little illumination as to which side is winning. Fortunately, markets remain confident that the Fed will eventually succeed in getting inflation back down to its target of 2%, which is reflected in the chart below in that 10-year U.S. Treasuries are only yielding 3.5%, which includes any inflation premium on top of the real return.

OUTLOOK

The first quarter ended with the markets seeming to face even more questions than at the beginning of the year. Last year was all about Inflation, rate hikes by the Federal Reserve, and whether the U.S. economy would be tipped into recession by higher interest rates. Those three questions still dominate headlines, and they have been joined by questions regarding fallout from the banking turmoil, an upcoming political battle over the U.S. debt ceiling, concerns over commercial real estate in a post-pandemic world where demand for office space has plummeted, and whether all these questions combine to push us into a now long-anticipated recession.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management Guide to the Markets, March 31, 2023

With all that in mind, we continue to focus with clients on improving portfolio diversification for the purpose of smoothing out potential 'bumps in the road' ahead. Seeking improved diversification and recognizing that market leadership may change in the next bull market, we have been discussing the risks posed by the concentration of technology exposure in the U.S. large cap market and how owning the market's favorite individual technology stocks can amplify those risks. Continued volatility seems very likely, but good defense through diversification can make a big difference over the long-term for investors.

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Financial Planning News:

The last part of this quarter has been full of stories of struggling banks – SVB, Signature Bank, Credit Suisse, Deutsche Bank, to name a few. Each one has a different story for why they are experiencing trouble, and it's forced us to think about the safety of our deposits far more than anyone would like. At the heart of the protection, is FDIC insurance.

So, what's the story with everyone's most recent favorite acronym? Here's a summary:

Currently, the Federal Deposit Insurance Corp (FDIC) guarantees deposits of up to $250,000. The deposit coverage limit is per bank, per depositor and per "ownership category." Ownership category classes include singly-held and joint accounts, different types of trust accounts, corporation and government accounts, and certain benefit and retirement accounts. That means, for example, that a married couple sharing a savings account would be guaranteed for up to $500,000 in deposits. It also means that $1 million in savings can be insured if the cash is spread across four different accounts at four different banks. Accounts the FDIC guarantees include checking and savings accounts, as well as money market deposit accounts and certificates of deposit (CDs).

Deposit insurance does not cover stocks or bonds (including municipal bonds), mutual funds, life insurance, annuities or crypto assets, although your interests at Montis are covered by a different kind of insurance. FDIC insurance also does not cover U.S. Treasury bills, notes or bonds, although these are backed by the credit of the U.S. government.

Since the FDIC doesn't insure any nonbank assets, cryptocurrency is not covered by the agency's deposit insurance. It also doesn't protect consumers from losses they may incur as the result of fraud or theft.

Some U.S. lawmakers have said Congress should consider a higher federal insurance limit on bank deposits. So far, no bill has been put forth and increasing that limit would require legislation.

You can use the FDIC's Electronic Deposit Insurance Estimator tool online [https://edie.fdic.gov] to check in your specific circumstances and find out how much coverage you have.

MONTIS FINANCIAL NEWS

We are thrilled to announce that Judy Weeden joined Montis Financial as our Director of Operations. Prior to joining Montis she served as Chief of Staff, strategic partner, and trusted advisor to the CEO of Adviser Investments. In her role, Judy oversees the operations function and manages trade execution, reporting, data integration, as well as implementation of our technology. For more information, please see Judy's full bio on our website.
Welcome to the Montis Family, Judy!

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