Glen Eagle

Faith Family Firm®

April 2023
Investment Commentary

As we enter the second quarter of 2023, we find ourselves navigating uncharted waters. The economic and stock market environments have changed drastically over the past few years, especially in the past few months. As many of our clients already know, we sometimes like to use a familiar narrative to describe what may seem like an unfamiliar scenario. For this newsletter, we have chosen to leverage the well-known tale of Jack and the Beanstalk. Our story choice can be attributed to some of our investment committee members who, in addition to 30 years of experience in the financial industry, now count several grandchildren among their list of greatest achievements and consequently find themselves enjoying such nursery tales.

Part One: Jack's Struggle: The well-infamous story begins with the introduction of young Jack, who finds himself living with his mother in severe poverty as they struggle to make ends meet.

- Our own story began as we faced the horrifying reality of the pandemic, which led to a shocking 14.8% unemployment rate, a 66% drop in the stock market, and the death of over 1 million Americans. [1][2][3]

Part Two: The Magic Seed: Jack, being the naïve boy that he is, trades the only possession of value his family owns, the cow, for magical beans, which grow into an unprecedently large beanstalk reaching up into the clouds.

- Like Jack, the government and the Federal Reserve found their own "magical solutions" to our economic crisis by bringing interest rates down to nearly 0% and printing trillions of dollars. Altogether, the government spent $5.2 trillion to offset the negative impact of COVID, which is more money than we spent during WWII, even after adjusting for today's dollars![4] This unprecedented money-printing, however, did plant the seeds for sky-high growth in the stock market. In fact, the S&P 500 rose 114% in less than two years.

Part Three: The Large Giant: Jack's climb up the beanstalk in search of gold and wealth led to consequences. His adventure into the uncharted clouds wakes a sleeping giant who chases him.

- After being dormant, our own sleeping giant of inflation awoke and started eroding the value of money, leading to higher costs for goods and services. Since 1981 we have not seen inflation levels above 7%.[5]

Part Four: The Fall of the Beanstalk: Aware of the danger he is in, Jack rushes to the bottom of the beanstalk and quickly chops it down, leading to the literal and figurative downfall of the giant chasing him.

- Realizing that their own "magic solution" had unintentionally created the giant problem of inflation, the Federal Reserve began aggressively cutting down their own handiwork. Interest rates, which had previously been reduced, were raised at their fastest pace in history, and the money supply was reduced for the first time since the 1940s.[6]

This, however, is where the children's story and our own story's similarities end. Rather than ending with a "happily ever after," our own story seems to be in the midst of a less enjoyable conclusion. So far in 2023, we have seen the number of job cuts increase 440%, home sales drop 20%, and the second largest bank failure in American history with the implosion of Silicon Valley Bank.

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The recent upheaval in the banking sector in particular has increased the likelihood of a recession in the next year and a half. After the failure of Silicon Valley Bank, investors have withdrawn deposits from banks, particularly smaller banks, at an unprecedented pace. In fact, people have withdrawn over $800 billion from banks as they realize they could receive a higher return without taking more risk by putting money in higher-yielding money market funds or treasuries.(7) This is problematic because small banks are responsible for 40% of all lending, and as their deposits have dropped, so too has their willingness to provide loans to individuals and businesses. (8)

While a recession is now more likely, it is important to remember that the stock market is always “forward-looking;” its movements do not necessarily move with the economy. This is one reason why the stock market fell over 20% last year when the economy was still relatively strong and is now, in fact, higher in 2023, even though unemployment and corporate earnings growth have gotten worse.

In this environment, we believe investors need to once again evaluate their portfolio strategy based on their risk tolerance. Given the current amount of geopolitical and economic uncertainty, we believe the next year will be volatile. Since 1953 there have only been five other years with as much volatility as we have experienced in the beginning of 2023, and we believe these large market swings will continue. As a result, if you will need to withdraw all or a large portion of the funds in your portfolio within the next year or two, it would be wise to shift money into safer treasuries and money market funds that now provide yields of over 4%.

For most investors, however, that will be maintaining the majority of their investments for five years or more, it is critical to maintain exposure to the stock market despite the uncomfortably large stock market swings that will inevitably come over the next few months. This is because being too safe does come at a cost. For example, over the past ten years, bank CDs, bonds, and cash would all have a negative return when adjusting for inflation.(9) Stocks, however, despite their volatility, have been able to consistently outpace inflation over time. For example, looking back to 1926, the stock market has had a negative return in 27% of those years. Yet, the average annual return, despite these losses, was still 10.1%.(10)

As we conclude this newsletter, we are reminded that stock market fluctuations are unpredictable, but our emotional responses to them are not. Like the story of Jack and the Beanstalk, we believe there will be happier times ahead. The most successful investors are usually able to avoid the trap of focusing on their portfolio’s return in any single year and instead focus on their overall portfolio strategy in light of their timeline and life goals. Please do not hesitate to reach out to your Glen Eagle team for any financial planning or investing questions you may have over the next several months.

Wishing you a happy, healthy, and warm spring season,

The Glen Eagle Investment Team

1. Federal Reserve Bank of St. Louis “How COVID-19 Has Impacted Stock Performance by Industry” 2. USA Today “Fact check: Unemployment rate hit historic high, not low, during pandemic” 3. US News & World Report “Three Years of Death – and Finger-Pointing” 4. Nasdaq “Money Printing and Inflation: COVID, Cryptocurrencies and More” 5. The Balance “Money Printing and Inflation: COVID, Cryptocurrencies and More” 6. First Trust “What Happened to the Recession?”, Barron’s “M2 Money Supply Just Dropped the Most Ever. What That Says About the Fed’s 7. Apollo Chief Economist “Outlook for Regional Banks” 8. WSJ - "Local Banks Could Leave Gaps That Will Are Hard to Fill" 8. Source: Apollo Chief Economist 9. BlackRock “Feeling Safe May Be Risky” & Strategies for Volatile Markets” 10. AMG “Feast of Famine”

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