Market Perspectives
February 2023

TURTLE CREEK WEALTH ADVISORS

KEY HIGHLIGHTS

- Persistent recession fears dragged cyclical sectors lower.
- Yield curve inversion is flashing a warning signal on the economy.
- Fed Vice Chair Brainard leaving the Fed for the White House.
- Earnings set to post their first year-over-year contraction since Q1 2020.
- 4th Quarter GDP data this week likely to be sluggish.

STOCK RETURNS AND BOND YIELDS

Broad indices finished the month of February slightly lower, dropping between 1% and 3.9%. More tech heavy and growth oriented names held up better in the month as more economic sectors bore the brunt of renewed recession fears. The S&P 500 which is a mix of both cyclical and growth companies was down 2.4%.

The NASDAQ and Emerging Markets stocks moved further into correction territory over the last 12 months down 16.0% and 14.9%, respectively. Generally, both tech and emerging markets stocks react poorly to higher interest rates which have been in ample supply since March of last year when global central banks started increasing interest rates led most notably by the Fed.

Interest rates during the month marched higher with the 10-year U.S. Treasury increasing 0.40% in yield finishing at 3.92%. While current levels on the 10-year bond remain around 0.30-0.40% lower than their October 2022 highs, the recent march higher has the market scared that higher rates may in-fact lead to the hard landing scenario many have feared.

If one is concerned about recession, they need look no further than the yield curve which is still deeply inverted with short rates like the three month and two year (4.88% and 4.81%, respectively) much higher than 10-year yields.

Historically, an inversion of this magnitude between the 10-year and 3-month Treasury has often preceded a recession.

AN INFLUENTIAL DOVE LEAVES THE FOMC NEST

Adding to the Fed and rate drama, Lael Brainard (Fed Board Vice Chair and noted influential dove) is leaving the Fed to head the White's House's National Economic Council. In her new role she will create the president's economic agenda and coordinate economic policy across various agencies. President Biden will appoint her replacement and there is no guarantee the next in line will be a dove. Currently the FOMC

Index	MTD	QTD	YTD	1 Year	2022
S&P 500	-2.44	3.69	3.69	-7.69	-18.11
Dow Jones Industrial Average	-3.94	-1.13	-1.13	-1.59	-6.86
Russell 2000	-1.69	7.89	7.89	-6.01	-20.44
NASDAQ Composite	-1.01	9.61	9.61	-15.96	-32.61
Europe, Australia, & Far East (EAFE)	-2.08	5.87	5.87	-2.64	-14.05
MSCI Emerging Markets	-6.48	0.92	0.92	-14.91	-19.78
Bloomberg Barclays U.S. Aggregate Bond	-2.59	0.41	0.41	-9.72	-13.04

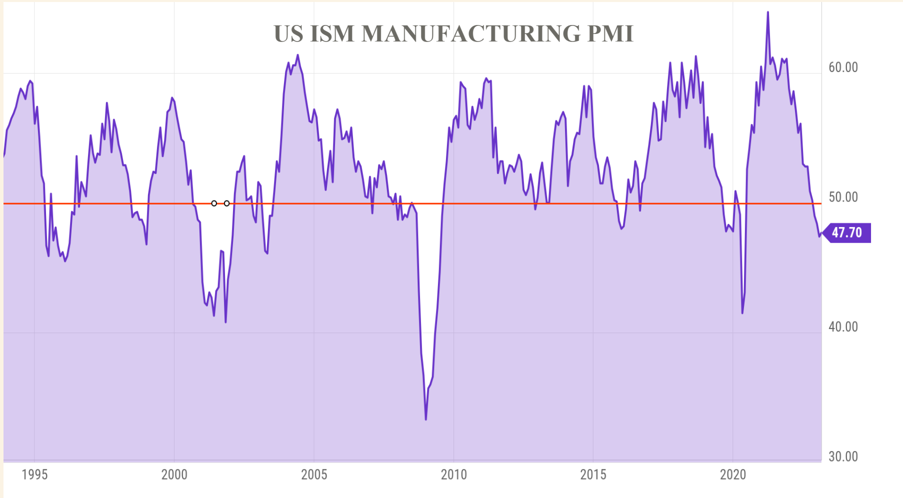
As of 2.28.23; Returns in percent

members collectively lean hawkish and a new member of the same persuasion would further tip the scales for even more restrictive policy. Additionally, next year the voting members change, and another dove is lost with Austan Goolsbee while a few more hawkish members join the voting ranks. Let's hope inflation falls dramatically for the remainder of 2023 (which it should) or get ready for a hard landing with more hawks voting in 2024.

EARNINGS AND UPCOMING ECONOMIC DATA

When in doubt about the future for stock prices good insights are often offered by earnings releases. Taking a look at this earning season one finds 80% of companies having already announced Q4 numbers. Looking back 12 months ago, earnings are set to fall 2.2% which would be the first contraction in annual earnings since Q3 of 2020 when companies were dealing with fallout from the pandemic. Stock analysts' estimates continue to get cut and are down 1.7% since the end of last year. For the full Q1 reporting season analysts are expecting earnings to fall 4.8% and for all of 2023 they are penciling in a drop of 2.9%.

Turning to economic growth we'll get insights into how the year finished in economic terms when Q4 GDP is reported. Recall that consumption is almost 70% of GDP and retail sales rebounded in January so to the extent weaker economic numbers are reported we may be past some of that softness. GDP numbers tend to get a lot of headlines but provide very little with regard to the future trajectory of economic growth. When looking for a better indication of economic activity the US ISM Manufacturing PMI is often referenced. In February the diffusion index dropped to 47.7, notably below the 50 level which indicates manufacturing activity in the month contracted.



Source: YCHARTS