Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE MARCH 2023

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

MARKET COMMENTARY

The ride wasn't smooth or easy but stocks and bonds both managed to post gains in the first quarter of 2023. Large cap stocks in the S&P 500 rose 7.50% during the quarter. Small cap stocks in the Russell 2000 Index weren't as exuberant but were still up 2.74%. International stocks in developed markets outpaced US stocks and were up 8.47% while emerging market stocks were up 3.96%. The Barclays U.S. Aggregate Bond Index was up 2.96%.

Growth stocks struggled in 2022 but were the leaders this quarter. Large cap growth stocks were up 14.4% according to JPMorgan. Technology, communication services, and consumer discretionary sectors posted returns of 21.8%, 20.5%, and 16.1% respectively. Because these sectors are about 44% of the S&P 500 Index, its performance was much better than the Dow Jones Industrial Average which is more value tilted. Large cap value stocks were only up 1.0%. Financial, energy and healthcare were the worst performers with negative returns of -5.6%, -4.7%, and -4.3% respectively.

GDP growth for fourth quarter 2022 was 2.6% bringing the full year GDP growth to 2.1%. First quarter may also grow around 2.0% according to Brian Wesbury with First Trust. Analysts like Wesbury and David Kelly from JPMorgan are still concerned that the economy could slip into recession partially due to the emerging regional banking commotion. Banks have also tightened credit which could hurt business spending by slowing their hiring and capital spending plans if they can't get reasonable financing. In addition, interest rates are much higher than they were even a year ago which is a headwind to economic growth. Even the Fed seems to be expecting a recession later this year because their full year forecast is for 0.4% growth.

The 3.6% unemployment rate is still near its 50-year low. Consumer spending has held up so far, partly at the cost of savings. Saving rates are much lower. Unfortunately, wage growth has not kept up with inflation signaling that workers may not have much bargaining power.

Corporate earnings are expected to fall in 2023. According to Zacks Research, total S&P 500 earnings for first quarter are expected to be down -9.7%. Rising costs, higher interest rates, and slowing sales growth is causing analysts to reduce their full year earnings estimates. Wesbury continues to be concerned about the effects of a drop in the money supply as fiscal stimulus dries up. David Kelly expects earnings to be flat or slightly negative for the full year 2023.

Inflation has been coming down but is still high. CPI peaked in June last year at 8.9% and in February was measured at 6.0%. Energy prices have declined and supply chains are improved but the housing component is still elevated. Kelly thinks it will continue to fall and be around 4% at year end and 2% at the end of 2024.

The Federal Reserve has been fighting higher inflation by aggressively raising short-term interest rates at each of their meetings in the last 9 months of 2022. The Fed raised rates another 25 basis points in March of 2023 but expectations are that they are nearly done. The Fed Funds rate is now 4.75% to 5.0%. With a recession expected, analysts are projecting that the Fed will have to cut rates significantly in 2024 and maybe even in start in 2023.

The 10-year Treasury bond yield started the year at 3.9% but ended the quarter at 3.5%. This resulted in

2023 BENCHMARK RATES OF RETURN

INDEX	FIRST QUARTER	YTD
S&P 500	7.50%	7.50%
Russell 2000	2.74%	2.74%
International	8.47%	8.47%
Fixed Income	2.96%	2.96%
JPMorgan Diversified*	4.67%	4.67%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
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positive returns for the Aggregate Bond Index. Yields retreated when the banking industry broke down. The failures of Silicon Valley Bank, Signature Bank, and Credit Suisse raised fears that spread to additional banks including regional banks. To lend stability to the banking sector, the Treasury Department, Federal Reserve and FDIC stepped in to protect depositors.

The yield curve is still inverted. Short-term rates are very attractive. We have been moving cash into money markets which are yielding 4.5% or more. These money markets are very liquid and can be easily sold if money is needed for other security purchases or distributions. Even though short term rates are higher, fixed income investors may want to also buy bonds at the longer end of the yield curve to lock in those rates for a longer time, especially if short-term rates fall as expected.

Stocks are likely to remain volatile as recession fears, inflation concerns, and the effects of higher interest rates prevale. If earnings fall, price/earnings (PE) multiples will need to rise or prices will fall. Although PE multiples have come down from highs, they are still above their 20 year averages.

Having an allocation to international stocks can help offset US stock volatility. Unlike US stocks, international stock PE multiples are below their 20 year averages. Their average stock dividend is also higher than US stock dividends. Also, if the dollar weakens as David Kelly expects due to falling trade deficit and foreign central banks who are still raising rates, US investors of international securities can see better returns.

The "target outcome" or "buffer" ETFs can also add protection to portfolios and still provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out of the money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. We use Riskalyze software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. If you would like to check or revisit your risk score, please contact your advisor.

If you have any questions about your account, please do not hesitate to contact your advisor.

Question: Is my money safe at Schwab?

With the spotlight on the banking sector, Schwab has been caught up in the turmoil. Its stock price initially fell more than a third since March 8th and was still down about 29% at the end of the quarter. Any cash deposits at Schwab Bank fall under the FDIC insurance and are protected from loss. In addition, your securities are held at Schwab but Schwab doesn't own them, you do. Schwab is just the custodian. If Schwab were to go bankrupt, the stock price would fall and investors who own Schwab stock would suffer a loss. However, you would still own the securities in your account and a new custodian would takeover. At this time, Schwab is a premier custodian and we are not expecting this to change.

CAMBRIDGE ADVISORS NEWS

We are excited to welcome **John Goolsby** to Cambridge Advisors as our Operations Manager. In this newly created position, John is a key player in our long term growth strategy. John will focus his attention on business management, operations and compliance. Even better, since he will be alleviating many of their pain points, the portfolio managers will be able to spend more time focused on their clients.

John started his career in public accounting and has worked as a senior accountant in the construction and energy industries. John graduated from Midland Lutheran College with a Bachelor of Science in Business Administration with a concentration in accounting. In his free time, he serves as a substitute teaching leader for the Omaha men's Bible Study Fellowship class. He is also an active volunteer in his church where he has known Lori and Justin for over ten years. John spent several years as a TeamMates mentor and now he and his wife, Kristin, are licensed foster parents as well as parents to a teenage son.

At this time, we also say good-bye to **Karen Benefiel** as she has decided to join another firm. We wish her the best as she has been a valued and respected part of our team for more than nineteen years.

As always, we appreciate the trust you place in Cambridge Advisors. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info. We want to help the people who are important to you.