Dreher Investment Services, Inc.
Economic Review: 1st Quarter 2023 — April 13, 2023

Market Review: 1Q-23

Equity markets continued to climb during the 1st quarter with the S&P 500 gaining 7.03%. Markets will likely remain range bound in the first part of this year until fundamentals of the market drive change in investor sentiment. Markets are still down (14.33%) from the all-time high we saw to begin 2022.

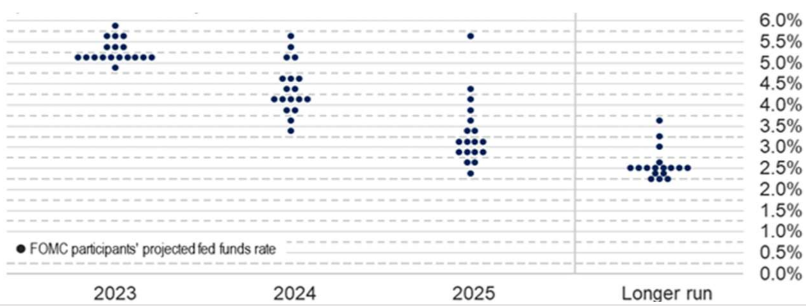
2022 was one of the worst performing years in decades for bond investors. The 10-Year Treasury yield is now showing signs of recovery, moving from 3.88% to 3.48% in the 1st quarter. After peaking at 4.22% in October 2022, the long end of the curve started its descent with traders forecasting the end of tightening.

Market Indices

Index	1Q-23	4Q-22	1-Year
S&P 500 (Large)	7.03%	7.08%	(9.60%)
S&P 400 (Mid)	3.37%	10.29%	(7.31%)
S&P 600 (Small)	2.12%	8.69%	(11.21%)
Barclays Aggregate (Bonds)	2.96%	1.87%	(4.53%)

Fed Funds Futures

After raising the Fed Funds Upper Limit from 0.25% to 4.25% in 2022, the Fed has slowed their pace in 2023. With only two 0.25% hikes this year, some believe that the end of monetary tightening is near and that the Fed has done their job. The current Fed Funds Upper Limit sits at 5.00% and is within the range of what FOMC participants think will be the peak 2023 rate. Long-term expectations show rate cuts could come later this year.



Economic Indicators

Indicator	1Q-23	4Q-22	1-Year
U.S. GDP	~2.2%	2.6%	~6.2%
Non-Farm Payrolls	1.03 M	853 K	4.15 M
Unemployment Rate	3.5%	3.5%	3.6%
Headline Inflation	1.0%	0.4%	5.0%
Core Inflation	1.3%	0.8%	5.6%
Corporate Earnings Y/Y	~(6.6%)	4.6%	-
Corporate Revenues Y/Y	~1.9%	5.3%	-
Federal Funds Upper Limit	5.00%	4.50	0.50%

~ Denotes Future Estimate

Banking Issues

The US regional banks were under pressure during March after the collapse of Silicon Valley Bank. With the FED raising short-term interest rates, depositors are creating liquidity issues by moving money out of banks to find yield in other interest-bearing investment vehicles. Investors worry that banks will have to realize losses on investments in order to create enough liquidity to stay solvent. Many believe that the FED will have to pause hiking rates until the banking system regains its footing.

Soft Landing vs. Recession

At the start of the current rate hiking cycle, catch phrases like “soft landing” and “transitory inflation” kept investors hoping that the FED would not raise too high, too fast. US economic indicators are starting to trend down, but persistent inflation has put the FED in a corner. Markets have priced in a hold or possibly one more 25 basis point rate hike to fight inflation. It remains to be seen if the FED can pull off the difficult soft landing or if previous and/or future hikes will be the catalyst for the next recession.

Strategic Market Outlook

The U.S. equity markets have rallied for two consecutive quarters due to investors hoping that the FED is close to ending rate hikes. Recessionary fears are still prevalent, which may keep trading range bound for the short-term.

We will continue to be patient with any new equity buying and look for support levels in the equity markets.

U.S. fixed income levels spiked in 2022 leading investors to take on duration, dropping the 10-Year US Treasury yield 74 basis points from its recent peak. Most analysts have now priced in future rate cuts to stimulate the economy.

We will continue to use elevated rates to buy high quality fixed income paper with higher yields and longer duration.

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