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REGISTERED INVESTMENT ADVISOR

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February Market Recap

By Dan Frost

Highlights

- The S&P 500 gave back some of the gains from January while the NASDAQ and Russell 2000 were flat for the month.
- Rates ticked back up. The 10-year US Treasury yield rose ~40 basis points.
- Fixed income performance was flat to down for February.
- Hotter than expected economic data released during the month caused investors to reassess expectations for inflation and Fed policy.

Economic Update

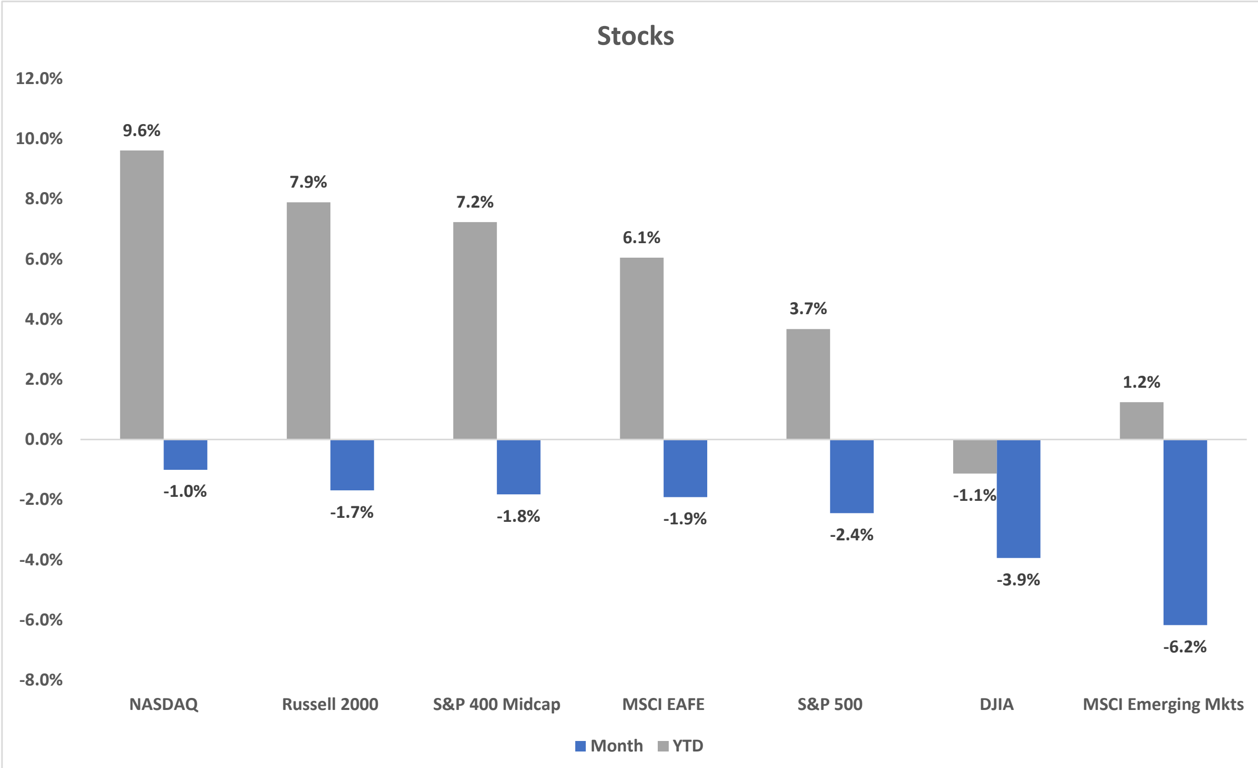
Inflation appears to have accelerated once again with the Federal Reserve's preferred inflation gauge, the personal consumption expenditures (PCE) price index, rising 5.4% in January from a year earlier. The core index, which excludes food and energy prices, was up 4.7% over the past year. Both measures marked a pickup following several months of declines. The higher prices, however, did not appear to slow the consumer. According to the Department of Commerce, consumer spending jumped by 1.8% in January from the prior month, which was the largest increase in nearly two years.

Higher mortgage rates have begun to slow the pace of growth in home prices. According to the S&P CoreLogic Case-Shiller National Home Price Index, home prices fell 0.8% in the month of December (the most recent month available). For the year ending in December, prices rose 5.8%, the lowest yearly growth rate since December 2019.

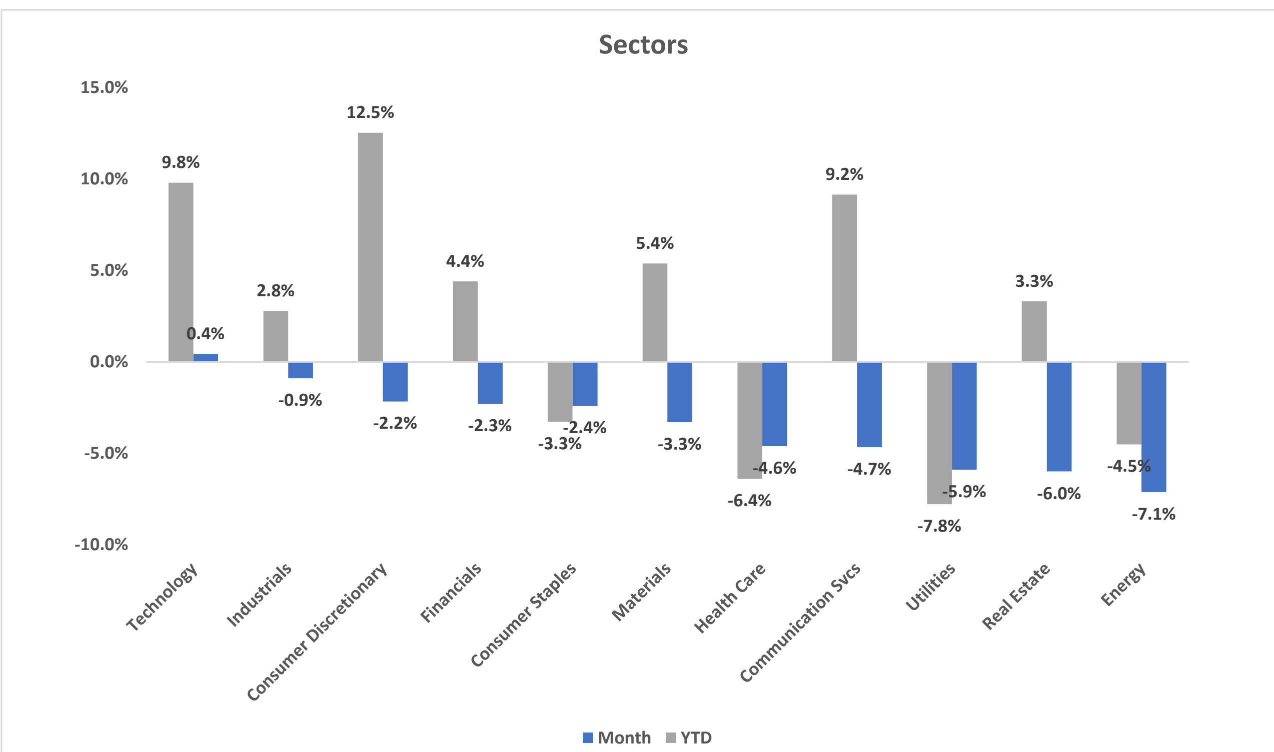
Markets gave back some of January's gains

The hotter than expected inflation reports let to some turbulent action in the stock market during February. Initially, the S&P 500 managed to sustain momentum following January's rally. However, as traders digested stronger than expected inflation data, the index fell by about 4% in the back half of the month. Despite finishing February with a 2.4% decline, the S&P remains up by 3.7% so far this year. The NASDAQ, which is more heavily weighted to the technology sector, held in better than the rest of the major benchmarks, falling by 1% for the month and sustaining a YTD gain of 9.6%.

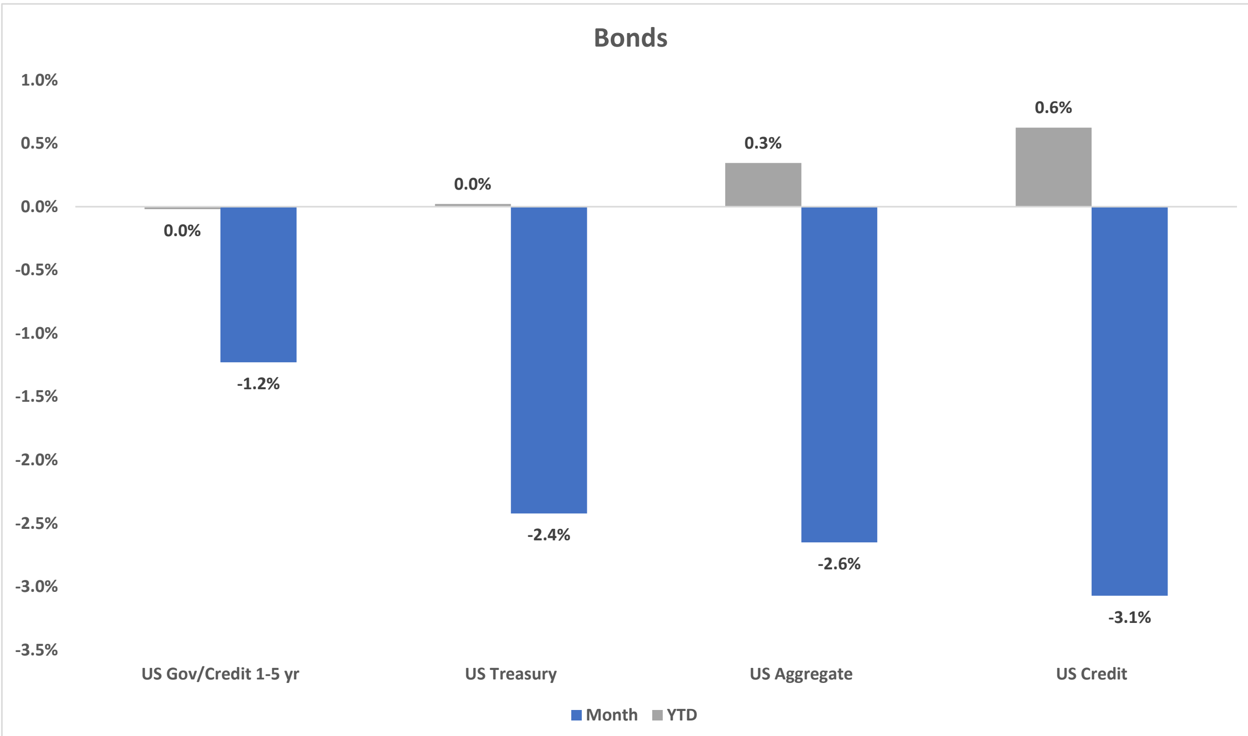
Emerging markets were the biggest laggards in February, losing 6.2% for the month and leaving the index up a little over 1% so far in 2023.



At the sector level, Technology was the only sector to manage a positive return in February. At the opposite end of the spectrum, Energy stocks were down over 7% for the month. On a year-to-date basis, Consumer Discretionary, Tech, and Communication Services all remain solidly in positive territory, while Utilities, Health Care, and Energy are the three worst performers.



Fixed income faced headwinds from stubborn inflation and rising interest rates. With the odds increasing that the Fed will raise rates higher and keep them there longer than what was previously anticipated, interest rates moved up across the yield curve. The yield on the 6-month US Treasury bill rose above 5% for the first time since 2007. As interest rates rise, bond prices fall, which led to declines for the various bond benchmarks in February.



Wisdom from Warren

Every year around this time Berkshire Hathaway releases their annual report, which includes Warren Buffett's annual letter to shareholders. We consider it to be required reading for anyone with an interest in the markets and investing. One of Warren's greatest traits is his ability to simplify the complex in a manner that is easy to read and usually quite memorable. His letter this year is one of the shortest he's written, so it's a quick read, but well worth it. Here are some of his notable quotes to conclude this month's market update. Enjoy!

- "Our goal is to make meaningful investments in *businesses* with both long-lasting favorable economic characteristics and trustworthy managers."
- "Charlie and I are *not* stock-pickers; we are business-pickers."
- "Our satisfactory results have been the product of about a dozen truly good decisions."
- "The weeds wither away in significance as the flowers bloom. Over time, it just takes a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well."
- "When you are told that *all* repurchases are harmful to shareholders *or* to the country, *or* particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are *not* mutually exclusive)."

This year's letter also includes several of Charlie Munger's quotes that Buffett complied from a recent podcast. If you're interested in reading the letter for yourself, you can find a copy at this link: https://www.berkshirehathaway.com/letters/2022ltr.pdf

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