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March 2023 Market Recap

By Dan Frost

Highlights

- Mega-cap stocks carried the major benchmarks during the month.
- Smaller stocks have lagged in recent months.
- While the Fed was expected to raise rates at their May meeting, longer-term rates continue to portend cuts in the back half of 2023.
- Company earnings reports have broadly exceeded analyst expectations for the most recent quarter.

Economic Update

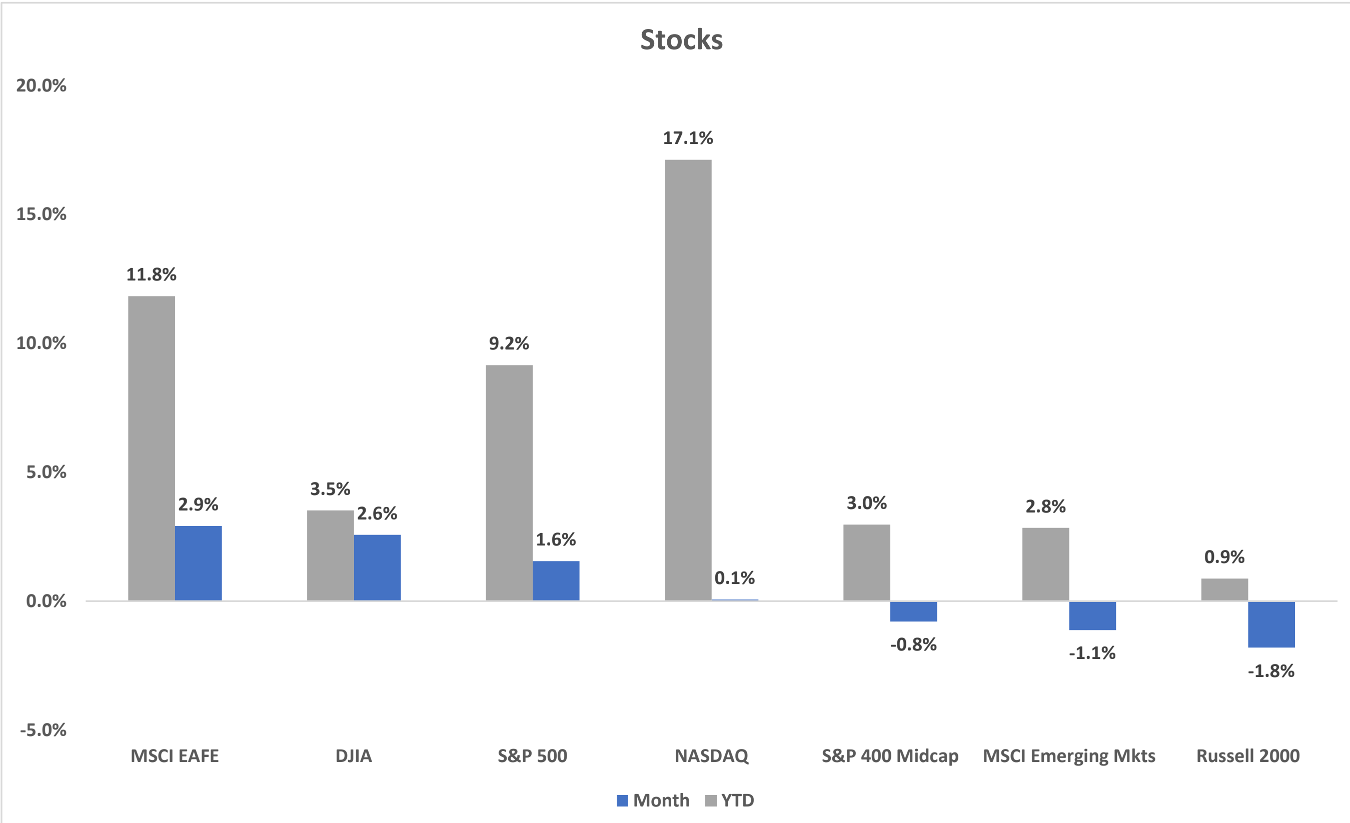
U.S. Real Gross Domestic Product (GDP), the broadest measure of the total value of goods and services produced in an economy over a certain time period, grew at a 1.1% annualized rate during the first quarter of 2023. This was a deceleration from the 2.6% pace of the previous quarter and lagged the consensus expectations. The two strongest areas of growth were consumer spending and government expenditures. Consumer spending grew at an annualized rate of 3.7% and was led by a 45.3% annualized surge in purchases of motor vehicles and parts. Government spending rose at a 4.7% annualized pace. While this number boosted GDP for the quarter, government spending does not generally lead to greater purchasing power in the private sector. The greatest drag on growth during the quarter was from inventories, which went from surging to a slight decline and shaved 2.3 percentage points off the real GDP growth rate. The other figure from the report that was of concern is inflation. GDP prices rose at a 4% annualized pace in the first quarter and are up 5.3% over the past year. Both figures remain above the Federal Reserve's 2% target.

Stocks and Bonds

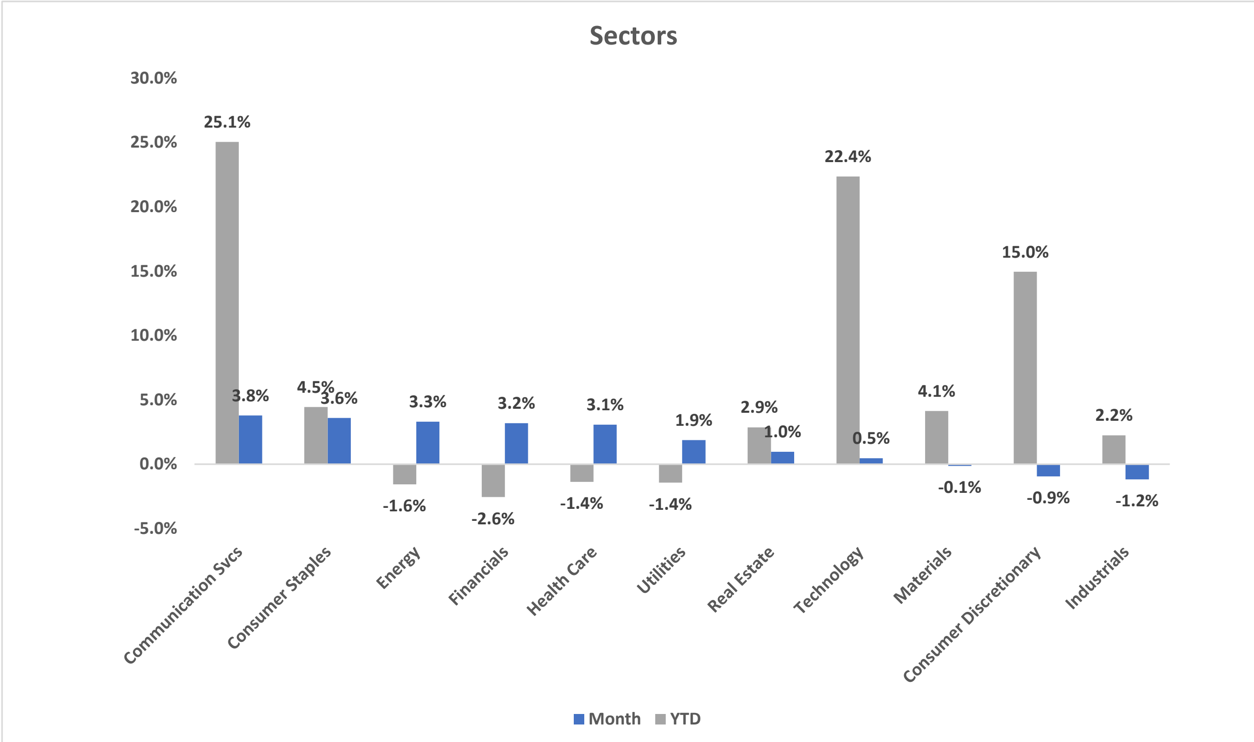
Strength in the largest stocks led to an overall gain for the S&P 500 for the month. Including dividends, the index returned 1.6%, which brought the year-to-date total return to 9.2%. Volatility decreased for the month of April with only three of the 19 trading days with a move of at least 1% or more. This compares with March when 11 of the 23 trading days moved by at least 1%. The NASDAQ, which is dominated by mega-cap technology stocks, was flat for the month, but maintains a sizable lead year-to-date with a total return of 17.1%.

As you move down the market cap (size) spectrum returns deteriorated for the month. The S&P 400 Midcap index was down slightly less than 1%, while the Russell 2000 (small cap) index was down nearly 2%. Both continued the trend from the prior month. However, both indexes remain slightly positive for the year-to-date period.

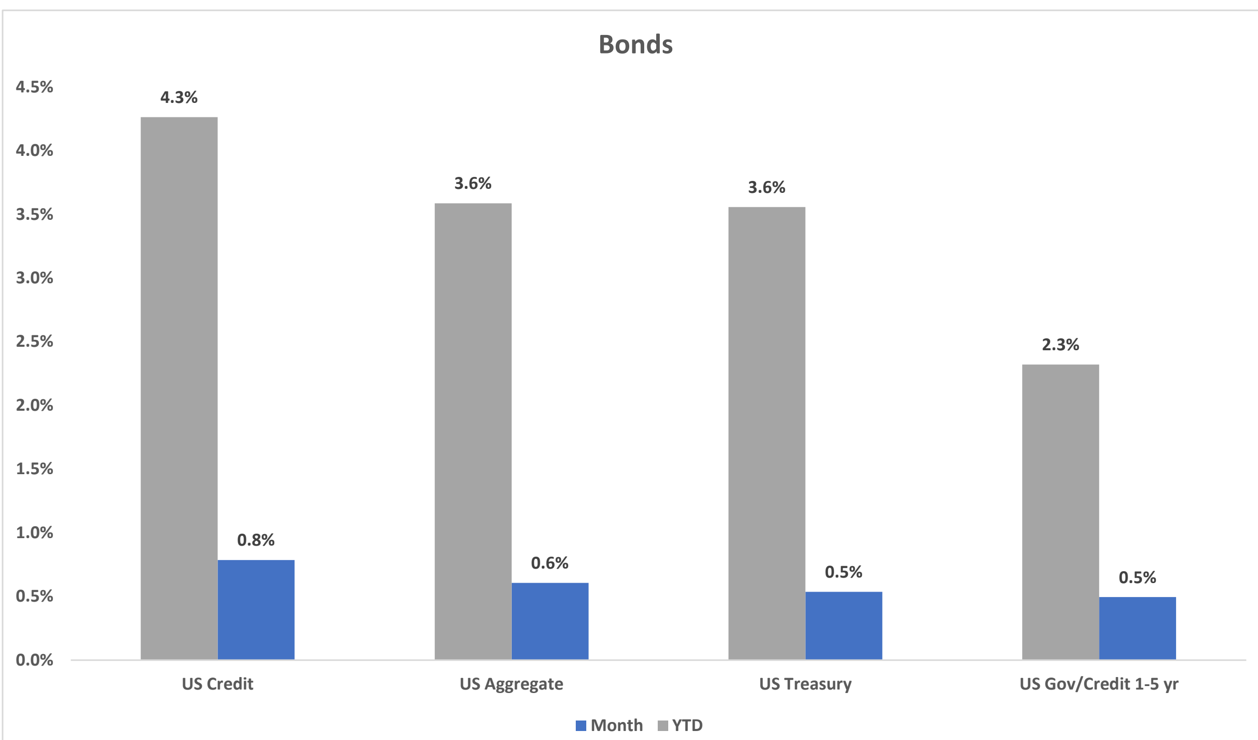
Looking beyond the USA, the MSCI EAFE index returned 2.9% for the month and is up nearly 12% so far this year. Emerging market stocks were down 1.1% in April and are up less than 3% YTD.



Eight of the 11 sectors were positive in April, with Communication Services, Consumer Staples, Energy, Financials and Health Care all returning more than 3% for the month. Utilities, Real Estate, and Technology were also up. Industrials were the worst performing sector with a decline of 1.2%. So far in 2023, Communication Services, Technology, and Consumer Discretionary are solidly in the lead with YTD total returns of 25.1%, 22.4%, and 15.0%, respectively.



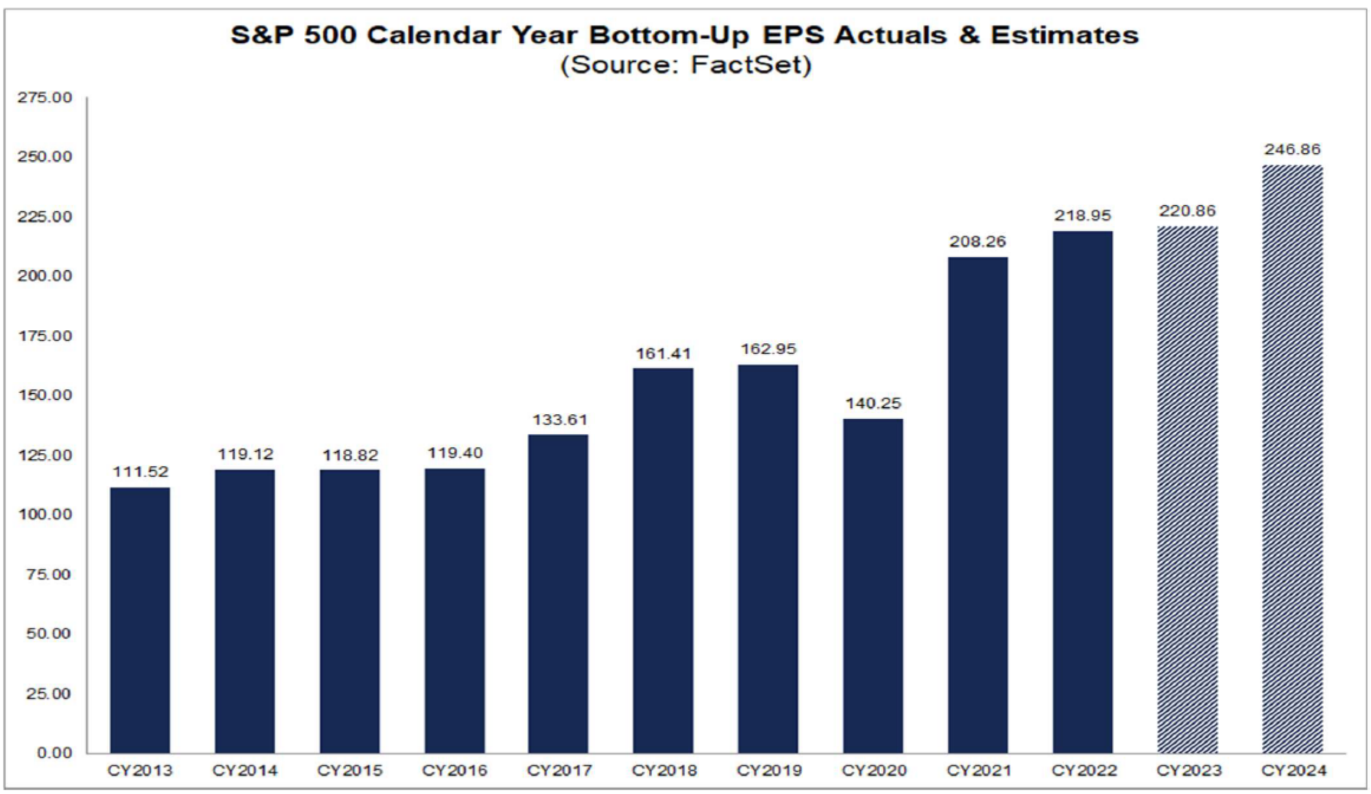
Most fixed income benchmarks added to their prior month gains and further cemented a respectable showing for the first four months of the year. While the Federal Reserve has continued to rachet up short-term interest rates, the overall bond market seems to have gained some degree of confidence that the brunt of the rate increases are now behind us.



Earnings Reports Better than Expected…so far

Earnings season is well underway with most S&P 500 companies reporting first quarter earnings between mid-April and early-May. With concerns in the market surrounding a possible economic slowdown or recession, investors have been especially tuned-in to the most recent results to get a feel for the pulse of the corporate sector. The good news is that S&P 500 companies are recording their best performance relative to analyst expectations since the fourth quarter of 2021, according to FactSet. As of April 28th, 53% of the companies in the S&P 500 have reported actual results for the first quarter of 2023. Of these companies, FactSet reports that 79% have reported earnings per share (EPS) that were above estimates, while 74% have reported revenues that were above estimates.

The only fly in the ointment is that both revenue and earnings growth are slowing from what they have been in recent quarters. FactSet reports that the blended revenue growth rate for the quarter currently stands at 2.9%, while the blended earnings decline stands at -3.7%. If both numbers hold it will mark the lowest revenue growth reported by the index since Q3 2020 and the second consecutive quarterly decrease in earnings.



Putting the current quarter into context, earnings per share on for the S&P 500 rose 34.4% from the end of 2019 through the end of 2022. That includes the decline in 2020 and the rapid recovery in 2021 and 2022. (See chart above.) For the current year, analysts are still expecting a slight increase in EPS followed by a relatively robust acceleration in 2024.

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