Goodman FINANCIAL
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

MARCH 2023 MARKET COMMENTARY

EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks were mixed in March, with large-cap stocks doing significantly better than smaller ones. The S&P 500 was up 3.7% and the Blended Equity benchmark was down -0.2% for the month, as the Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index fell -3.2% and -5.2%, respectively. The NASDAQ Composite Index led the way for the month, up 6.8%. International stock indices posted gains, with developed markets up 1.9% and emerging markets up 2.7% in March.

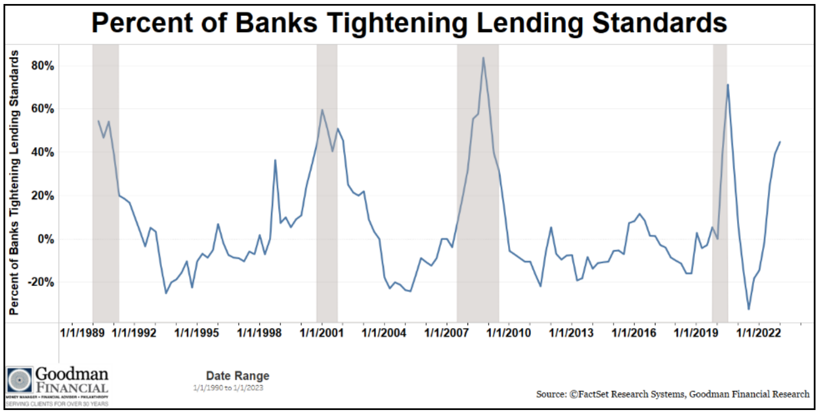
ANOTHER NAIL IN THE ECONOMIC COFFIN

As if the most dramatic Federal Reserve (Fed) rate hiking regime since the 1980’s wasn’t enough to slow down the economy (and it has), the recent failure of a few banks will only add fuel to the recession fire. Recall that we wrote a special Market Commentary earlier this month sharing our immediate thoughts and views on those bank failures and the federal government’s response to them. What has become clear since then is that many banks are increasingly planning to tighten their lending standards, thereby limiting access to loans by consumers and businesses. Those banks are doing so in order to preserve liquidity in an effort to reduce the risk of any further deposit withdrawals. As seen in the chart below, banks had already been tightening their lending standards over the past year – and now the tightening will only accelerate further. What is also seen in the chart is that we are now approaching a percentage of banks (i.e., > 40%) tightening their lending that has historically been concurrent with a recession. Given that access to credit is the lifeblood of any economy, this should not be too surprising.

You may recall that in our ***Q4 2022 Quarterly Letter***, we stated our view that “We now think we will see a U.S. economic recession to begin around the middle of 2023, but believe the odds are for a shorter and shallower one rather than a deeper and longer one.”. Recent events provide further conviction that a recession will happen later this year. At this point, we currently see no reason to change our view that the recession will be a shorter and shallower one, but we will be diligently paying attention to incoming economic data to reassess that view as the year progresses.

If we are right that a recession is in fact imminent, then it is probably fair to say that the Fed is likely done raising interest rates for the time being, and in fact could be poised to begin lowering them later this year (often referred to as the “Powell Pivot”). Such actions by the Fed would also be consistent with our prediction of a lower Fed Funds rate by year-end, as laid out in the Q4 Letter. The market would seem to agree as economists are nearly unanimous in predicting that the Fed Funds rate will be lower by year end, per FactSet.

So, what does this mean for the markets and our portfolios you might ask? Well, as we have previously stated, stocks broadly suffered a bear market last year, and would seem to have priced in an impending recession already. S&P 500 earnings estimates for 2023 have been declining for over a year now, already reflecting an economic slowdown. Stocks, which are forward looking, will begin to recover before any recession does, and accordingly, our expectations remain that stocks will still end the year higher. As regards interest rates, a slowing economy should put downward pressure on inflation - which, of course is what the Fed is trying to accomplish – and should give the Fed cover to pause further hikes and potentially lower rates later this year or early next year.



Disclaimer: The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this commentary is intended to constitute personalized legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. Past performance is not indicative of future results. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest directly in an index. Information obtained from third party sources are believed to be reliable but not guaranteed. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Blended Equity Benchmark: 50% S&P 500 Index, 30% S&P 400 Mid-cap Index, 20% S&P 600 Small-cap Index. Fixed Income Benchmark: Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index

S&P 500 – market capitalization weighted index of 500 leading publicly traded companies in the U.S.
S&P Midcap 400 – index of 400 companies that broadly represent companies with a midrange market capitalization between $3.6 billion and $13.1 billion.
S&P Smallcap 600 – index of small-sized companies that meet specific liquidity and stability requirements defined by Standard & Poor’s.