![Capital Ideas]

Capital Ideas

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Capital Ideas Advisors
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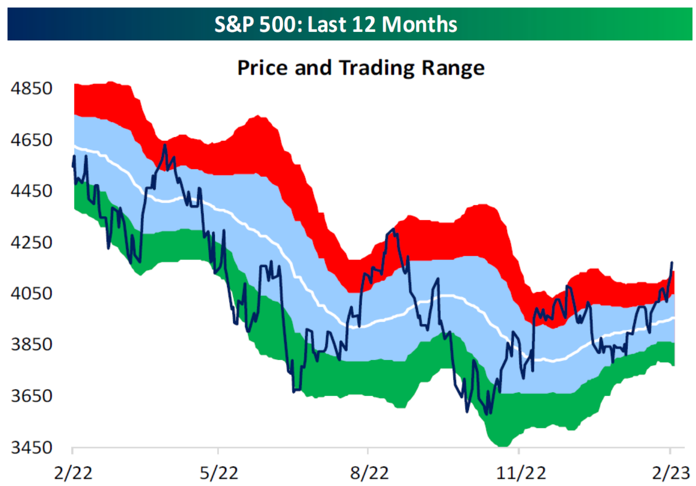
Dear Reader,

Stocks started 2023 with a rally, a welcome relief after last year! The S&P 500 was up 6.3% in January – a strong opening month for stocks has historically been a positive signal for the remainder of the year.



Source: Bespoke Investment Group

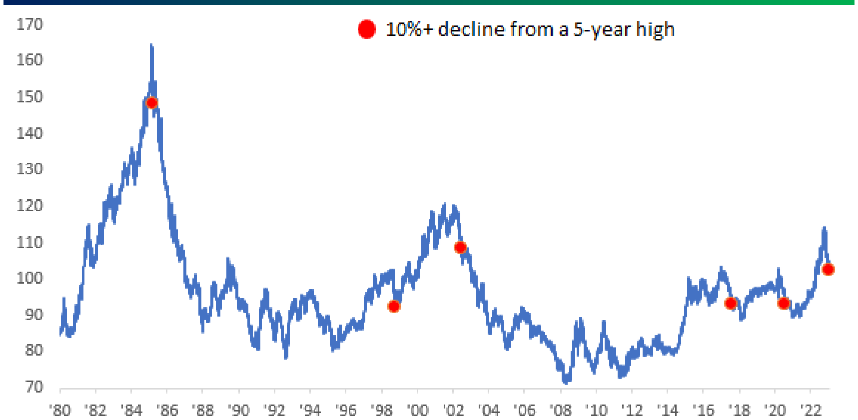
While many of the things worrying investors (i.e., inflation, interest rates, etc.) certainly haven't disappeared with the turn of the calendar, some clarity can often be a welcome remedy for a weak market. Looking at the economic data released in January, many inflation indicators are showing continued signs of moderating while consumer demand appears to be holding up better than expected at least for the time being.

Investors are now looking towards corporate earnings for additional clarity regarding the economic picture and the implication for stock prices. Apple, Amazon, and Alphabet, three technology stocks which collectively represent $5 trillion of market capitalization, all report fourth quarter results during the first week of February. Forward guidance provided by management and the stock price's subsequent reaction will be very telling regarding whether or not investor expectations are aligned with how stocks are currently priced. Ideally, last year's weakness across asset prices has reset expectations low enough to absorb any bad news relatively well.

Last year, high growth companies, such as those owned within the ARK ETFs in your portfolios, were especially out of favor. Should investors again rotate into growth-oriented businesses, we believe this could especially benefit companies held within these funds which are generally at an earlier stage of evolution and, thus, exhibit more upside potential. Two of our largest individual stock holdings – Microsoft and IBM – we believe offer clients the benefit of exciting future growth prospects as well as a healthy balance sheet and economics of scale.

One key factor helping US stock prices recently has been U.S. dollar weakness. Since peaking roughly two months ago, the dollar is down roughly 10%. Typically, investors holding US stocks view dollar weakness as a bullish indicator for earnings given that revenue which American companies generate in other currencies is more valuable (when translated back to dollars) and goods sold abroad are relatively cheaper, increasing demand from foreign customers. Large multinational companies often enact currency hedges as a risk management tool, although any net gain or loss from these financial instruments is typically very muted relative to operating earnings.

US Dollar Index: 1980 - 2023



Performance Following Declines From Dollar Peaks

	S&P 500 Performance (%)		
Date	**Three Months**	**Six Months**	**One Year**
4/12/85	7.06	2.07	30.70
10/15/98	18.69	26.29	19.09
6/21/02	-14.53	-9.44	0.66
7/31/17	4.25	14.31	14.01
8/5/20	5.49	16.80	33.10
1/12/23			
Median	**5.49**	**14.31**	**19.09**

First time in each period that the US Dollar Index was down 10%+ from a five year high with no prior occurrences in the last year.

Source: Bespoke Investment Group

That said, while a strong start to the year for stocks certainly feels better than the alternative, we believe the fundamental backdrop needs to become clearer before declaring victory over this bear market. While encouraged by recent price momentum and signs that the economic picture may be improving, at current valuation levels stocks are not cheap from a historical perspective. In our opinion, in order to support the beginning of a new bull market, we will need to see convincing evidence that we are approaching a new expansionary earnings cycle. To this extent as the picture unfolds during the year, we believe better than expected earnings could provide further support for stocks.

As always, we thank you for your patronage and encourage you to call us with any questions or concerns.

Sincerely,

CJ Brott

Karen Burns

Andrew Kerai