Capital Ideas

04/06/2023

Capital Ideas Advisors
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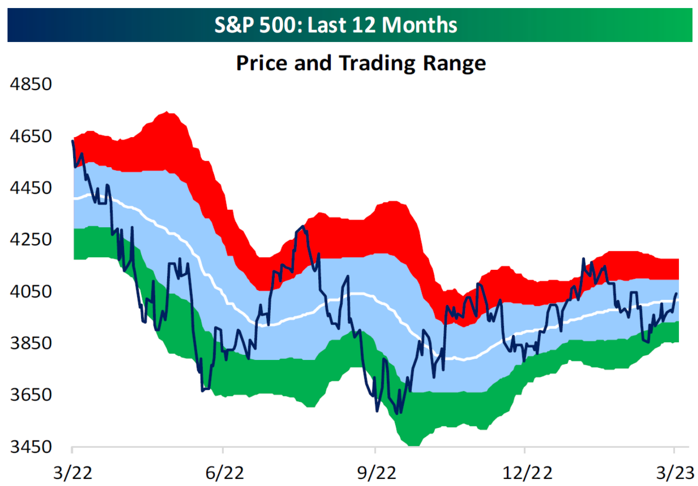
Dear Reader,

March came in like a lion and out like a bull! The S&P 500 posted a 7.5% return during Q1, which was the second straight quarter of positive market performance. While we remain cautious, there are signs a new bull market may be emerging, which would be the case if the lows from October 2022 are not revisited later this year.

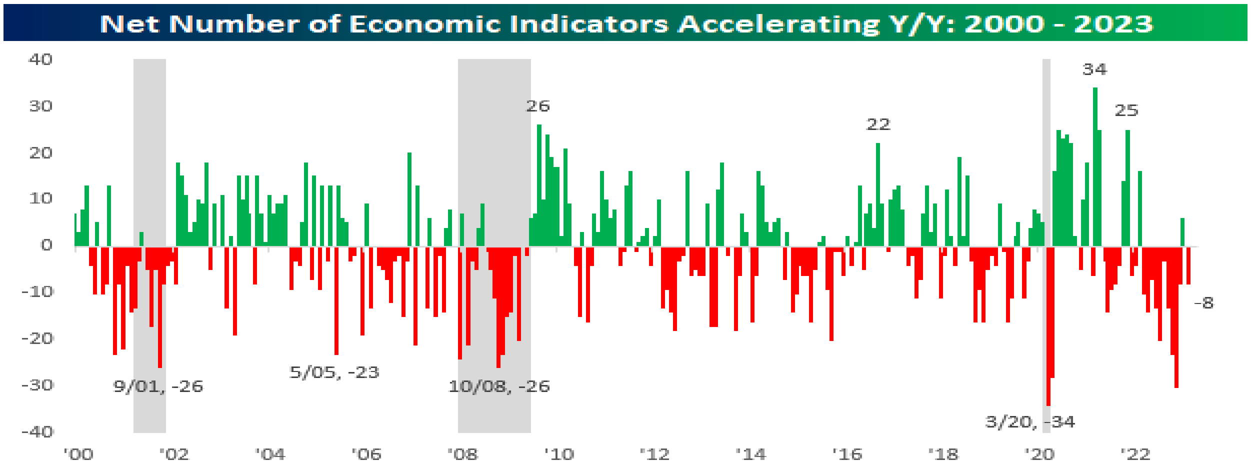


Source: Bespoke Investment Group

The current environment may generate attractive opportunities to invest your capital as parts of the market become dislocated, which is not unusual for this stage of the cycle. For example, the recent stress across the banking sector prompted by the failure of Silicon Valley Bank has resulted in many well-capitalized regional banks with conservative balance sheets trading at depressed valuation levels. Given the significant shift in market behavior and sentiment over the past year, heightened sensitivity to economic data, and seasonal weakness which often accompanies later spring and summer months, we expect more buying opportunities to surface. While we won't participate in every segment of the market impacted by a headline-driven sell-off, periods of market dislocation often present opportunities to invest across industries or themes we find attractive.

In the meantime, given the significant increase in short term interest rates, we have invested cash balances in a money market fund (short term US Treasuries) currently yielding roughly 4.5%. As we identify more attractive opportunities within the market, we expect to redeploy these assets into existing or new holdings in your portfolio.

While there have been some positive developments regarding the main concerns facing investors (i.e. interest rates, inflation, and a potential growth slowdown), and the market has certainly taken notice



Source: Bespoke Investment Group

so far this year, uncertainty regarding the outlook for corporate earnings has prevented stocks from breaking above their recent trading range in our view. Almost on cue, the number of forward economic indicators had finally turned positive (albeit by a thin margin) in February only to reverse course the following month. This example highlights the challenges investors currently face given mixed economic signals and valuation levels that are not obviously cheap or expensive by historical standards.

While challenging market environments are frustrating, and short term rallies often fail to gain much momentum, patience is often the best panacea for achieving long-term investment goals. All things equal, markets appreciate stability, clarity, and the passage of time (which inevitably results in the former two outcomes eventually coming to fruition). A good example of this occurred during the mid-to-late 1970s when the US experienced stagflation, a dysfunctional, inept political landscape, rampant violence in major cities, and the general feeling of malaise and hopelessness among consumers and businesses. If you were to poll investors regarding their expectations for the stock market at that time, it would have been dour at best, having fresh licked their wounds from a nearly 50% price decline during 1973/1974. Consumer confidence, in fact, was eventually hovering near the all-time lows. Nevertheless, during the 1980s, stocks posted one of their best decades in history only to be followed by an encore, resulting in the greatest bull market run US investors have ever seen. While today's environment, despite some similarities, is a far cry from where we were 40+ years ago, as Mark Twain once said, "history never repeats itself, but it does often rhyme."

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