FORWARD

Investment Advisors

Forward Focus

April 2023

Tax Day: Tuesday, April 18, 2023

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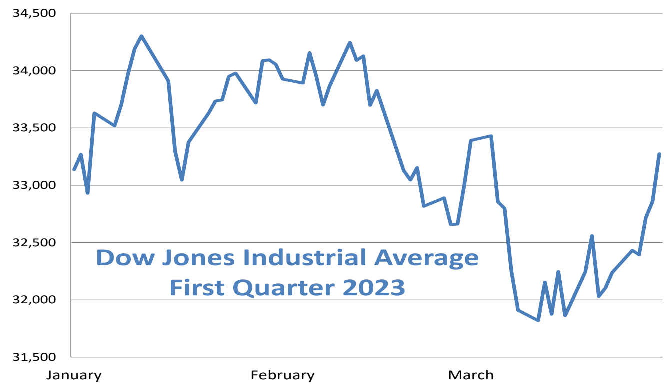
Quarterly Market Review

The stock market had a rollercoaster start to the year, after a tough 2022. More Fed rate hikes, a banking crisis, continued war in Ukraine, and increased layoffs, led to stock market volatility. The failure of Silicon Valley Bank on March 10th led to a market selloff, but the Federal bank backstop announced on March 15th reassured investors.

The chart on the right shows the first quarter performance of the Dow Jones Industrial Average. January was very strong, February gave it all back, and March took the Dow into the red for the year before the very last day of March pushed the market to positive again. The Dow ended the quarter basically flat.



The Federal Reserve raised rates by another half percent in the first quarter. A quarter point rate hike in February, followed by a quarter point rate hike in March. It is likely the Fed rate hikes may finally be over, but **Forward** does not anticipate rate cuts to occur anytime soon. Further bank issues or a rapid deceleration in the economy would change that outlook. We remain cautious overall over the next six months.

For the first quarter of 2023, the best performing sectors were Consumer Discretionary, Communication Services, and Technology, while the worst performing sectors were Financials, Energy, and Health Care.

A Run on the (Silicon Valley) Bank

Silicon Valley Bank (SVB), which served many tech start-ups and venture backed companies, collapsed on March 10th due to poor management and a run on the banks. In the normal course of bank business, banks invest a portion of their deposits into U.S. Treasuries to earn additional yield. Banks typically have ample cash for depositors' withdrawal needs and invest in various maturities of U.S. Treasuries to earn extra yield. A proper mix of cash on hand and short and long duration U.S. Treasuries provides a good balance. All normal, all fine.

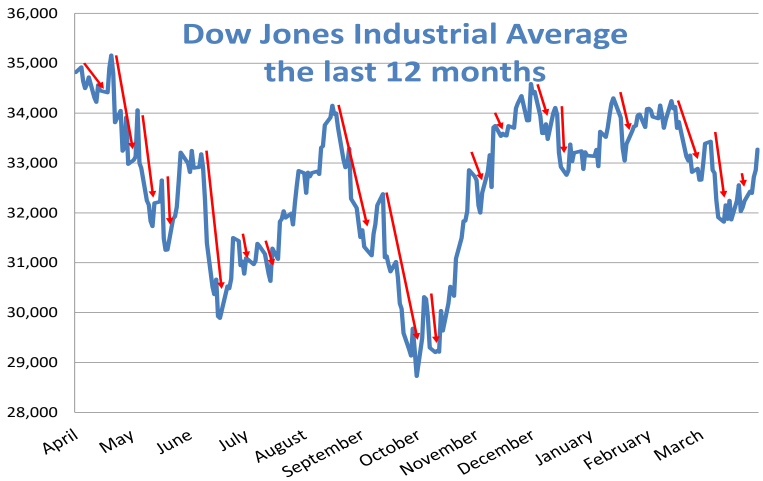
That worked well during the years the Fed artificially kept rates low. That all changed when the Fed started hiking rates at a historic pace in 2022. When rates rise, Treasurys and bonds decline in value (on paper). I say "on paper" because if you hold them to maturity, you get back your original investment plus the stated yield. However, if you are forced to sell them prior to maturity, you have to take whatever the current price is.

Example: Say you were offered a $1,000 Treasury yielding 3% or a $1,000 Treasury yielding 5%. Would you pay the same price for the 3% yield? No. You'd want a discount. That's what happened. SVB had too many Treasuries that had not matured and were forced to sell them at a discount when depositors panicked. In the age of phone apps, moving money has never been easier. So, when depositors panicked, they jumped online and withdrew $42 billion in 1 day and planned to withdraw $100 billion the next. Sadly, a textbook run on the banks.

<u>First Quarter 2023</u>

Dow Jones Industrial Average 0.4% ● S&P 500 7.4% ● MSCI EAFE (International) 8.5%
Russell 2000 (Small Cap) 2.8% ● MSCI EMI (Emerging) 4.1% ● Barclays Capital Aggregate Bond 3.1%

Bear Market Rallies: As the red arrows on the chart below indicate, the Dow Jones Industrial Average has declined over 17 times from prior periods of gains over just the past 12 months. During periods of uncertainty, this is normal and healthy. Uncertainty will continue as the Fed now decides whether to continue to hike rates or if they should pause or possibly cut rates. Other issues include the debt ceiling, job reports, earning season, and potential prolonged effects on the financial sector from the banking crisis. These issues will likely keep stocks range bound for a while. The S&P 500 index has been in a 400-point range of 3,800 - 4,200 for the last 5 months. We are currently at the upper end of that range.



Forward believes that the recent mid-March rally is another short-term rally that will likely fade.

Last week, 17 out of 18 members of the Federal Open Market Committee (FOMC) noted that risks to GDP are to the downside in its Summary of Economic Projections (SEP). (Source: Federal Reserve)

Do You Have An Emergency Fund?

Everyone should have a safety net. A buffer between their daily needs and their long-term needs. An account to take from should something come up. You know, an Emergency Fund.

What is an Emergency? Any unexpected expense that you can't pay with money you have in your daily living expenses account. Examples: car repairs, medical expenses, home repairs, loss of job, unexpected travel (i.e., family matters or funeral), natural disasters, etc.

What is an Emergency Fund? An emergency fund should be <u>3-6 months of living expenses set aside in an easily accessible account</u> (a checking, savings, or money market account). If you were to get really crazy, I'd even be ok with a Certificate of Deposit (CD). Notice I said, 'Living Expenses' not 'Months of Salary'. Living Expenses are what you actually need to live off of for 3-6 months. That is not always (and shouldn't be) your entire paycheck.

Understand that Credit Cards, a Home Equity Line of Credit (HELOC), or selling investments is NOT an emergency fund. Rates on HELOCs are 7% and credit card rates are much higher.

This is all pretty basic. Why am I bringing this up? 57% of U.S. Adults could not cover the cost of a $1,000 emergency expense, according to Bankrate's Annual Emergency Fund Report. Almost 60% of all U.S. Adults! I'm bringing it up because an unexpected expense (emergency) <u>will</u> happen and when it does it will be 'unexpected'. Therefore, you need to have it in place now!

Why is an emergency fund important? It is a safety net. It puts a buffer between you and your long-term savings. It allows you to handle the unexpected financial aspect while you deal with the actual emergency. It reduces stress, gives you peace of mind, keeps your long-term goals on track, and prevents you from sliding into debt.

If you don't have an emergency fund, get one. Now! If you are saving for retirement, stop until you have a few months' worth of expenses saved. It is that important. As I have stated for months, a recession is very likely in 2023. I have already spoken to people whose companies are starting layoffs. Even if your job is secure, natural disasters and unfortunate events happen. Set aside at least 3 months of expenses. There is no downside to doing this. The cushion, peace of mind, and additional protection between you and your long-term goals is wonderful.