METIS WEALTH
MANAGEMENT & PLANNING

April 1st, 2023

Chugging Along by Robert Sokolowski

In January I wrote that we were watching to see when the S&P 500 would break out of the downward sloping channel it occupied for the vast majority of 2022 and that a breakout would likely cause us to become more optimistic on stocks. As it turned out, we didn't need to wait long- the breakout occurred on January 23rd (circled in red).

The volatility we saw in 2022 (on both an intra and interday basis) has persisted to start 2023. Looking past the volatility, the market has been chugging along for the past six months. In Q4 of 2022, the S&P 500 returned 7.7% and bonds returned 1.9%. In Q1 of 2023, the S&P added an additional 7.5% and bonds posted another 3% return.

Banking

While the potential for further issues in the banking sector certainly still exists, it appears for the time being that the actions taken by the Fed and the FDIC to stabilize Silicon Valley Bank and a few other regional banks have helped mitigate the threat of bank runs. The problems faced by these banks have not fully abated, but with the creation of the Fed's lending facility, banks have additional options for dealing with them now. Furthermore, the decision by the Fed and the FDIC to make SVB depositors whole has stemmed withdrawals from other banks- giving banks more time to address balance sheet issues.

One of the most important potential factors to consider amid the fallout from the regional banking crisis is the availability of credit for small businesses. Small and mid-size businesses are too small to get debt financing from the bond market and most are too small to get debt financing from the larger banks as well. Therefore, most of their financing comes from regional banks- the very banks facing the bulk of the problems right now.

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SPECIAL POINTS OF INTEREST

- We will be closed in observance of Good Friday on April 7th, 2023.
- We will be out of the office in the afternoon on Friday April 14th, but will be checking emails and messages.
- The tax deadline is Tuesday April 18th, 2023! There is still time to make 2022 contributions to certain account types.

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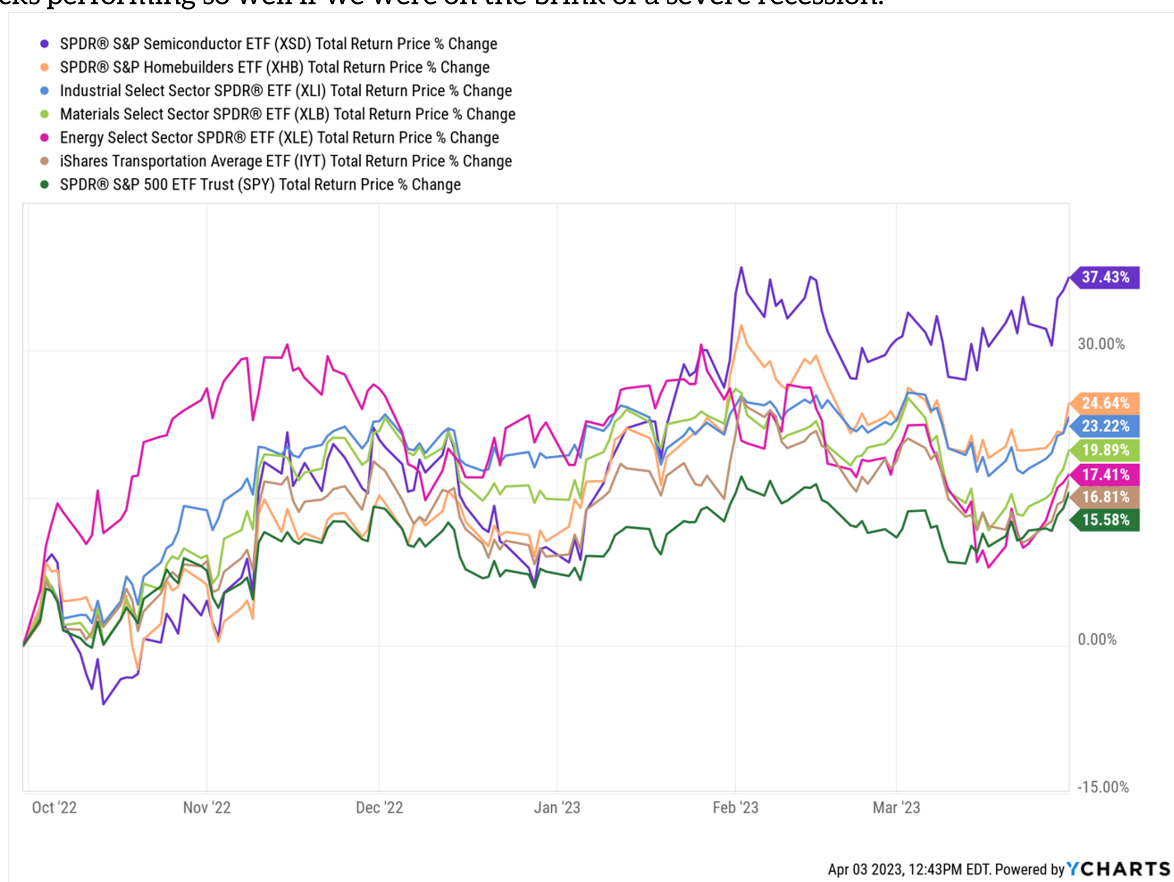
Banks will likely tighten lending standards to ensure their balance sheets remain high quality. The problem for these small businesses is that the extension of credit to them by banks is often an all or nothing decision. Banks typically won't offer credit at a higher interest rate to riskier creditors, they just won't offer them credit <u>at all</u>. This could present a major issue to small businesses that are reliant on debt financing and could also impact the employment picture- small businesses provide nearly half the private sector jobs in the country.

The Economy

We certainly continue to see risks to overall economic health. Interest rate hikes are well known to have "long and variable lags" between their implementation and their effects on the economy. We also can't deny the Fed's long history of raising interest rates too far and tipping the economy into recession. Finally, the issues in the banking sector have likely not been fully felt yet and it's entirely possible that those issues will have wider ranging impacts. That being said, economic data continues to hold up better than most expected:

- Year over year inflation (CPI) has fallen every month since last June.
- The Producer Price Index (PPI), a measure of the change in prices paid by businesses to suppliers, has been on a steady march downward since March 2022.
- The Fed's preferred measure of inflation (Core PCE) came in lighter than expected in February. It appears this index peaked in February 2022.
- Initial jobless claims and unemployment remain historically low.
- Revised Q4 2022 GDP showed the economy expanding at a 2.6% annualized rate.

These positive data points have kept a level of optimism for a "soft landing" alive. Economic data is useful, but it only tells a story of what has already happened- it is not a forecast. Stocks prices, however, <u>are</u> based on future expectations and the fact is we have continued to see strength in the most economically sensitive stocks since the October low. In fact, these stocks have outpaced the S&P 500 significantly since October. It's hard to imagine these types of stocks performing so well if we were on the brink of a severe recession.



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Chugging Along

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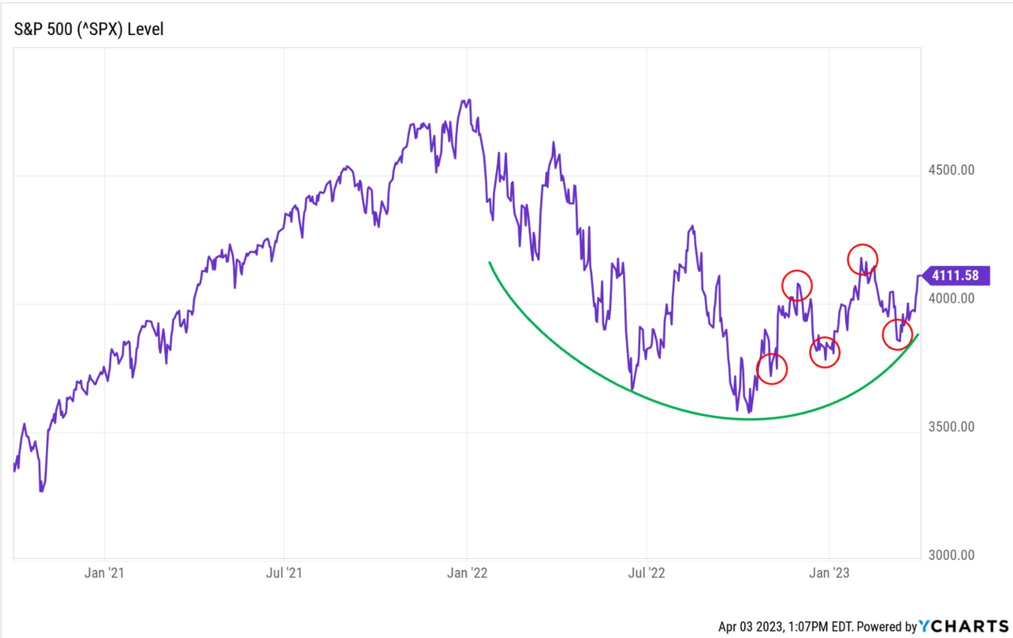
During the pandemic, investors got accustomed to "V" shaped recoveries typified by waterfall selling on the front end and sharp rallies thereafter. However, that's not always how recoveries happen. Sometimes the market will chop along sideways before starting to grind higher- a "U" shaped recovery. That is what we seem to be experiencing now.



Stocks hit their bottom (so far, at least) in October and since then have entered a phase of higher highs and higher lows (circled in red). There is no guarantee this will continue, but this is a far more encouraging pattern than we observed through the majority of 2022.

Though we reduced our levels of cash in January based on what we were observing in the markets, we remain in a slightly defensive position overall. In general, client accounts have about 3-5% cash and are slightly overweight on bonds. We have also remained defensive in our stock selection with a focus on higher quality, more stable companies at reasonable valuations. This means, in part, limiting our exposure to growth-oriented tech stocks. As it happened, these stocks performed very well in Q1, due in large part to speculation about the future of artificial intelligence. This meant missing out on some of the gains in the tech space, but we felt this was necessary from a risk management perspective. In general, we are very happy with the performance we are seeing in client accounts relative to their benchmarks especially in one year and longer time periods.

We will continue to monitor the markets and the economy and adjust appropriately. As always, don't hesitate to contact us if you would like to talk about anything at all! We are available to chat about the market, your financial plan and goals, or life in general.

Market Index	Q1 Total Return	YTD Total Return	1 Year Total Return
S&P 500	7.5%	7.5%	-8.0%
DJIA	0.9%	0.9%	-2.4%
Nasdaq Comp	17.1%	17.1%	-13.5%
MSCI EAFE	8.6%	8.6%	-0.4%
Russell 2000	2.7%	2.7%	-12.5%
US Aggregate Bond	3.0%	3.0%	-4.5%

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Bank & Investment Account Protection

By Jenn Sokolowski

Banks have been a hot topic this quarter. There has been negative news about bank failures, but also positive news like the attractive rates that are available on CDs and savings accounts. We have also received questions from clients about the safety of cash deposits in the last couple of weeks, so we wanted to go over the basics on deposit insurance.

FDIC

As an independent agency of the US government, the FDIC protects the cash that has been deposited at FDIC insured banks if that bank fails. This deposit insurance is backed by the full faith and credit of the United States government.

You do not need to apply for FDIC insurance. You automatically get coverage when you deposit cash into an FDIC insured bank. Most banks are FDIC insured, but if you aren't sure, you can check the status of your bank here: https://banks.data.fdic.gov/bankfind-suite/bankfind.

Deposits are covered up to $250,000 per depositor per FDIC-insured bank. For example, if Sally has $300,000 at Bank A and $150,000 at Bank B, she has a total of $450,000 in cash, but only $400,000 of it is FDIC insured. However, if Sally's account at Bank A is held jointly with her husband Steve, then they are each covered for $250,000 at Bank A- making the entire $300,000 insured.

We recommend clients be careful not to hold more than what would be covered by FDIC insurance at any bank in the unlikely event the bank fails. It is relatively easy and low cost to spread cash out amongst banks to ensure all deposits are covered.

Along with checking and savings accounts, many Certificates of Deposit (CDs) are also FDIC insured. Purchasing a CD at a different bank than where your deposits are held is one way to earn additional interest while ensuring adequate FDIC coverage. We can purchase CDs for clients within their Schwab accounts from many different banks. This gives us flexibility to find attractive rates from reputable banks while also making sure we stay under FDIC limits.

SIPC

Securities Investor Protection Corporation (SIPC) sometimes gets lumped together with FDIC, but they are different. SIPC helps protect investors in the event their brokerage firm fails financially or if customer assets go missing. SIPC extends $500,000 in coverage of securities and cash per investor with a limit of $250,000 on cash. SIPC does not protect investors from the value of their investments declining and they do not investigate fraud or securities crimes.

Asset Protection at Schwab

Client accounts at Schwab are protected by both FDIC and SIPC. Cash is typically held in a "Bank Sweep" account on a client's behalf. In some cases, Schwab will split the cash sweep account across multiple different banks enabling FDIC coverage above the "per bank" limits. Schwab accounts are also protected by SIPC. This coverage would be used to reimburse clients in the event that the brokerage failed and there was a shortfall of assets during liquidation.

Any securities owned by a client belong to the client, and the SEC does not allow Schwab to use client assets to finance any part of their business. These securities are segregated from Schwab's other assets and held by a third-party depository institution. These securities would not be available to creditors in the unlikely event that Schwab became insolvent.

Lastly, Schwab also has additional insurance known as "excess SIPC". This program has $600 million in aggregate coverage and would kick in if Schwab's brokerage business failed and SIPC coverage was insufficient.