THE CAPITAL MARKETS

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The Dow Jones Industrial Average (DJIA) finished April at 34,098, up +2.48% for the month, up +2.87% so far for the year. The S&P 500 closed April at 4,169, up +1.46% for the month, up +8.59% year to date. The NASDAQ Composite gained +0.04% in April, up +16.82% so far in 2023. Small-company stocks as measured by the Russell 2000, ended April down -1.86% for the month, up +0.44% so far year to date. Financials (-3.33%) and Energy (-2.78%) are the worst-performing sectors year-to-date.

"The bottom line, as neatly summed up by Jefferies economist Thomas Simons, is that demand for labor is easing but its supply is increasingly scarce. That means wage growth has to slow substantially before the Fed's 2% inflation target is reached."

(Barron's, The Economy, Randall Forsyth, May 8, 2023)

SELL IN MAY AND GO AWAY?

Wall Street loves its adages. "Sell in May and go away," "Don't catch a falling knife" and "Buy the rumor, sell the news" are just a few examples. Like many sayings, there may be examples of truth in some of these.

For example, over the last 25 years, markets have earned on average around +2.10% in the six months May to October, the lowest 6-month stretch on the calendar. It's important to consider, however, that the period has not meant losses on average for the period, just smaller gains.

In fact, since 1990, the S&P 500 has had a positive total return for the period in 25 of 33 years. A better framing may be that, historically, market returns have been especially strong in the November to April period, but markets have rewarded investors with positive returns on average over any of the seasons. With no shortage of market risks in the near term, including a debt-ceiling standoff, weakening corporate earnings and fear of an eventual recession, we wanted to explore what the empirical market data may suggest about the best way to navigate uncertain markets.

- **Bear markets and recessions occur frequently, but markets have rewarded long-term investors.** Since World War II, recessions have occurred on average around every five to six years. For investors with a multi-decade time horizon, you can expect to live through multiple bear markets and recessions. Despite this, since 1950, the S&P 500 has earned a total return of 11.2% annually. $1 invested in the S&P 500 over this period would be worth $2,321 today, despite a dozen or so bear markets. This return involved no attempts at market timing or stock picking, which can open investors up to mistakes and suboptimal returns. Letting markets work for you and compound over time, in an appropriate asset allocation and diversified portfolio, has been a profitable strategy for investors historically.

- **Attempting to time markets can seriously impact returns.** From 1990 to 2021, the S&P 500 returned around 10.75% per year, turning $1,000 into $26,322 over the period. If an investor had missed just the five best days over the period, the return would have been 9.18% and the $1,000 would have grown to just $16,625. The markets best days are often clustered around some of its worst, and attempting to time the market can have significantly negative impact on long term returns if investors are out of the market during the early stages of a recovery.

"The Fed slows the economy through lifting rates, which causes tighter financial conditions such as higher borrowing costs, lower stock prices and a stronger dollar. Recent stresses in the banking system are expected to further tighten financial conditions, but the magnitude of any credit crunch is hard to predict and might not be apparent for months." (The Wall Street Journal, Gabriel Rubin, May 10, 2023)

• **Asset allocation is the primary driver of returns.** A well-known study in academic finance found that over 90% of a diversified portfolio's return patterns over time were explained by the asset allocation, or the mix between stocks, bonds and cash. Despite often getting peoples' attention and focus, security selection and market timing explained less than 10% of returns. This suggests that matching an assets time horizon and return goal to an appropriate asset allocation is the most critical decision in the investing process.

Keeping short-term assets in more conservative and less volatile allocations, and allowing longer-term assets to remain invested in higher equity allocations in exchange for higher expected returns, is the evidence-based approach investors can take regardless of where we are in the market cycle.

Investing doesn't have to be overcomplicated, but we would suggest taking most of Wall Street's adages with a grain of salt.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 3/31/2023	CLOSE AS OF 4/30/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	33,274.15	34,098.16	+824.01	2.87%
S&P 500	4,109.31	4,169.48	+60.17	8.59%
NASDAQ Composite	12,221.91	12,226.58	+4.67	16.82%
RUSSELL 2000	1,802.48	1,774.80	-27.68	0.44%
Fed Funds Rate	4.75% - 5.00%	5.00% - 5.25%	+0.25%	
2-Year Treasury	4.06%	4.04%	-0.02%	
10-Year Treasury	3.48%	3.44%	-0.04%	
Crude Oil $ per Barrel	$75.67	$76.78	+$1.11	-4.34%
Gold $ per Troy oz.	$1,986.20	$1,999.10	+$12.90	9.47%
UK Point in U.S. $	$1.2364501US=1£	$1.2569001US=1£	$ WEAKER	4.49%
Euro in U.S. $	$ 1.08645US=1€	$1.104US=1€	$ WEAKER	3.44%
Canada $ per U.S. $	$1.35335C=$1.00US	$1.3563C=$1.00US	$ STRONGER	0.10%
Japan Yen per U.S. $	133.09¥=$1.00US	136.165¥=$1.00US	$ STRONGER	3.20%