KELLEHER FINANCIAL ADVISORS

Newsletter

April 2023

In This Edition:

- "Spring has arrived…"
- On to the Markets
- 1Q 2023 Market Commentary

"It is not the ship so much as the skillful sailing that assures the prosperous voyage." – George William Curtis

SPRING HAS ARRIVED!

*Analysis and Review written by **Neil Cataldi**, Managing Director at Starboard Advisors & KFA.*

The markets in which we invest are constantly evolving. The quote above seems as relevant as any time in recent memory with the first quarter of 2023 being full of surprises. The investment landscape in a very short period of time has in fact "changed". Our team at KFA holds dear the responsibility of protecting and growing our clients' assets over the long haul. Our "voyage" together requires skillful navigation through periods of clear skies and calm waters, as well as periods when the seas may be more rough, which in some respect is similar to what we have experienced recently.

The recent financial turbulence (and surprise to the markets) was created by a liquidity crisis and led to the second largest bank failure in United States history. The sheer size and velocity of the most recent bank failures are what caught most investors by surprise. In general, bank failures are more common than one would imagine as supported by the graphic below.

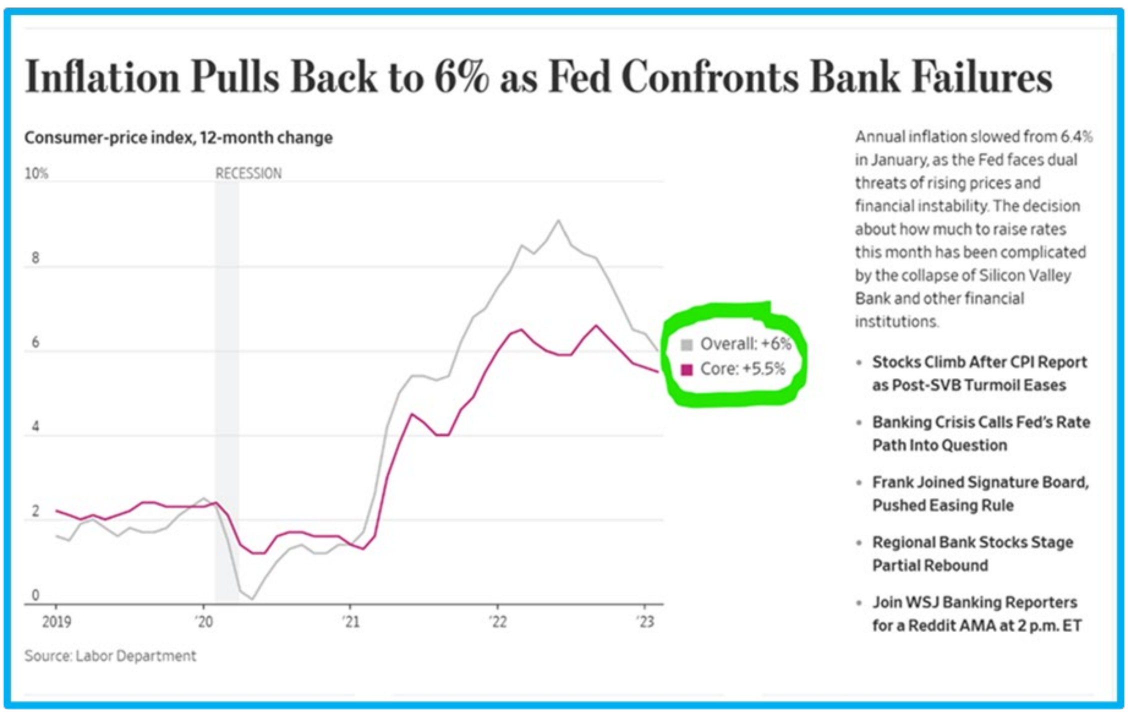
Source: FDIC, Deutsche Bank; April 18, 2023

They often happen quietly on a Friday and by Monday morning our regulatory institutions have sorted out the various pieces to limit any further damage. This series of events took place in early March when Silicon Valley Bank was seized by regulators after depositors attempted to withdraw $40 billion over the course of just one day. A few days later, Signature Bank suffered a similar fate. Fast forward to the end of April, our government has taken initiatives to help the banking system, the markets have regained stability, and while some questions persist, depositors know their assets are secure and protected. At KFA, our custodian banks are fully backed by SPIC insurance as well as additional insurance and layers of risk mediation. Please view our recent paper **here** on the crisis and how insured assets work.

If you would like to discuss the state of our current banking system in more detail, please let us know. We are happy to be a resource.

The second surprise during the first quarter occurred as expectations for future interest rate hikes continued to shift. The Federal Reserve raised rates as expected to combat the persistent inflation we've experienced in the previous 24 months. However, in a change from the previous expectations at year end, the Fed is now expected to raise rates again next month. The pace and magnitude of the interest rate hikes are historic and the impact across our economy remains to be seen in the months and quarters ahead.

The third surprise, most notable of all perhaps, was how markets reacted to the news above during the timeframe. Despite both occurrences and an overall negative sentiment, investor appetite for risk has not been deterred. As reported by my colleague Tom Burnett further ahead in our newsletter, the major indices were all UP – some significantly. Our general sentiment at KFA is that this rebound reflects a small amount of optimism of inflation receding and the "clouds" over corporate earnings potentially burning off by late 2023/early 2024. All eyes will be on corporate profits going into the second half of 2023.



Source: WSJ.com March 28, 2023

At KFA , we have a long-term perspective and are focused on finding quality investments, whether it's a portfolio of financially strong and profitable companies, exchange traded funds or government issued Treasury bills. We serve as our clients' fiduciary and are central to their financial planning process. Our team is constantly reviewing clients' accounts and measuring "client intent."

This is a period to know what you own and why you own it.

Please don't hesitate to reach out if the volatility we experience from time to time requires more discussion or explanation. We look forward to the skies clearing later this year and a return to economic growth in the United States.

My very best regards,
Neil

Neil Cataldi
Managing Director, Starboard Advisors

ON TO THE MARKETS

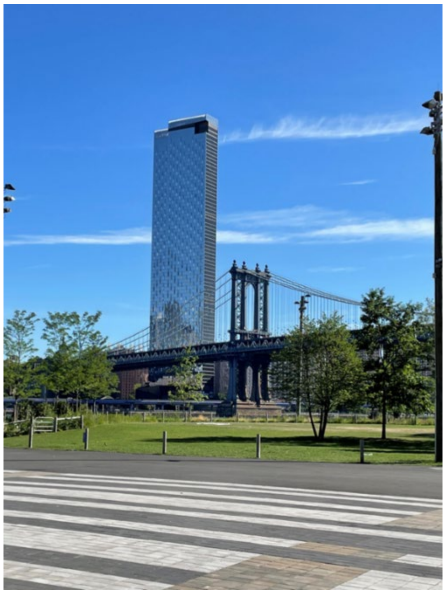
*Analysis and Review by **Thomas Burnett, CFA**, Vice Chairman & Director of Research at Kelleher Financial Advisors*

As reflected in the Table, global stock markets recovered sharply from the 2022 negative performance. For example, the S/P 500 Index rose more than 7% in the first quarter of 2023, after declining almost 19% in 2022. More dramatically, the NASDAQ Composite Index increased 16.7% this year, following a decline of 33% in 2022. Strong performances by NVDA (up 94%) and META (up 72%) led the NASDAQ recovery. All the major global stock markets showed a positive performance for the first quarter.

INDEX	% Change YTD as of 3/31/2023
Dow Jones Industrial AVG. (TR)	0.5%
S/P 500 Index (TR)	7.4%
Nasdaq Composite	16.7%
Nikkei Tokyo	7.4%
China (Shanghai)	5.9%
EURO 600	7.7%
GOLD	8.6%
Crude Oil per bbl	-6.0%
RATE on Ten-Year T Bond	3.47%
VIX Volatility Index Change	-13.7%
Bloomberg Commodity Index	-6.5%

Source: WSJ.com April 1, 2023

Interest rate movements were volatile, but the failures of Silicon Valley Bank and Signature NY Bank led investors to pursue a "flight to safety" with U.S. Treasury notes and bonds. Despite the aggressive actions by the Federal Reserve to raise short-term interest rates over the past several months, the yield on the Ten-Year Treasury Bond ended the quarter at 3.47%, down from 3.87% at the end of 2022. We believe investors have been encouraged by the recent slowdown in the



inflation numbers. The most recent figure for the Personal Consumption Expenditures 12-month inflation was 5.0% (the Core number was 4.6%), the lowest rate of increase since September 2021. Commodity prices, led by the Energy sector, have fallen sharply from 2022 levels. The Bloomberg Commodity Index has fallen nearly 7% this year and is down 14.8% over the past 12 months. As these price declines work through the overall economy, inflationary pressures should subside, making it possible for the Federal Reserve to consider a pause in its rate hiking policy. First quarter corporate earnings estimates are holding up, based on the most recent *FACTSET* report from March 16, 2023. Earnings for the S/P 500 Index companies are projected at $220 this year and at $248 in 2024. If achieved, those earnings imply a P-E multiple in the 17x area, in line with the recent 5 and 10 year averages.

Thomas Burnett
Vice Chairman and Director of Research, CFA

ABOUT US

Since 1995, our firm has provided clients with thoughtful and personalized solutions in many areas of financial planning. At KFA, we place our clients at the center of everything we do. And while situations and experiences differ, our belief is that every client deserves the very best of what we have to offer.

Our firm acts as both an advisor, formulating long-term strategies, and as a manager, making specific recommendations and implementing decisions in areas such as portfolio construction, estate planning and investment management.

KFA educates our clients, communicating with them and sharing our rationale and analysis about issues that should be considered on an ongoing basis and ensuring that appropriate actions are taken. We do not sell proprietary financial products and are paid solely by our clients. In this way, KFA is able to recommend and incorporate independent investment vehicles and managers into a portfolio as needed.

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