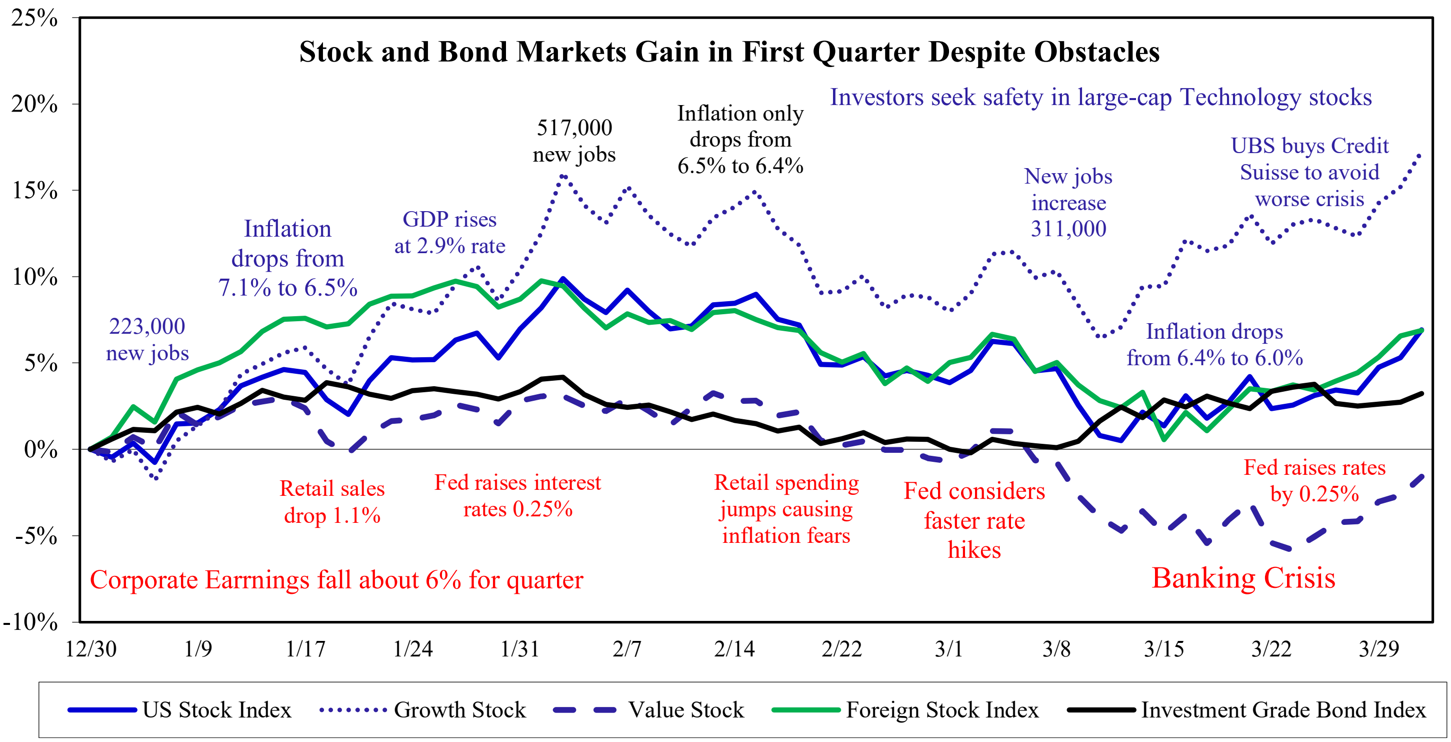
Economic and Financial Market Summary
First Quarter 2023

Disciplined Investors LLC

"Markets showed their resilience in the first quarter, despite being rocked by shock waves that few anticipated. Investors began the year feeling largely upbeat. Inflation appeared to be subsiding, and many bet that would lead the Federal Reserve to switch quickly from raising interest rates to cutting them. Then economic data started coming in hot. Stocks and bond prices slid, hit by worries that the Fed would likely have to keep rates higher for longer. The biggest shock of the quarter came in March, when Silicon Valley Bank and Signature Bank collapsed. Bank stocks tumbled. Credit Suisse Group AG came to the brink of failure… In the face of significant uncertainty, markets proved to be more buoyant than many investors thought possible." *The Wall Street Journal*, April 1, 2023.

U.S. and foreign stocks both rebounded almost 7% in the first quarter after their declines in 2022. Domestic stocks were led by growth companies with the technology-heavy Nasdaq Composite Index soaring 17% in the first quarter. Value stocks were flat in the quarter reversing the performance in 2022 when value stocks held steady and growth stocks plunged. Bonds rallied in March when the banking crisis erupted. Investors anticipated the Fed will stop raising interest rates more quickly to stabilize the banking system. The banking crisis will also cause growth to slow with tighter loan conditions and fears about a recession hitting later in 2023. While the economy has been resilient, corporate earnings dropped for the first time in years last quarter. Higher costs, especially for labor, have squeezed profitability. More earnings declines are expected for the next few quarters.



Optimists are hoping that the banking crisis has mostly passed with the government stepping in when a bank comes under pressure. If a recession can be avoided and inflation drops enough to allow the Fed to stop the rate hikes and even lower interest rates in the second half of the year, stocks could build on the strong first quarter. Other investors have many fears including more turmoil for banks that have large losses for their bond portfolios. A recession is very possible as the effects of higher interest rates take hold. Sticky inflation could force the Federal Reserve to hike rates more than expected. Also, little progress is being made to raise the government debt ceiling, and global conflicts could escalate. It is usually easier to think of potential risks than reasons for tensions and volatility to decrease, but the old saying "Wall Street climbs a wall of worry" often comes to pass.

One Liberty Place, Suite 500 • 100 North Sixth Street • Waco, Texas 76701
254.754.7973 • Fax 254.754.7940 • todd@dinvestors.com