

“
MARKET
NOISE”

LIVE

Managing Market Volatility & Uncertainty

PFS Advisory Team

May 25, 2023

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Key Themes on the Minds of Investors

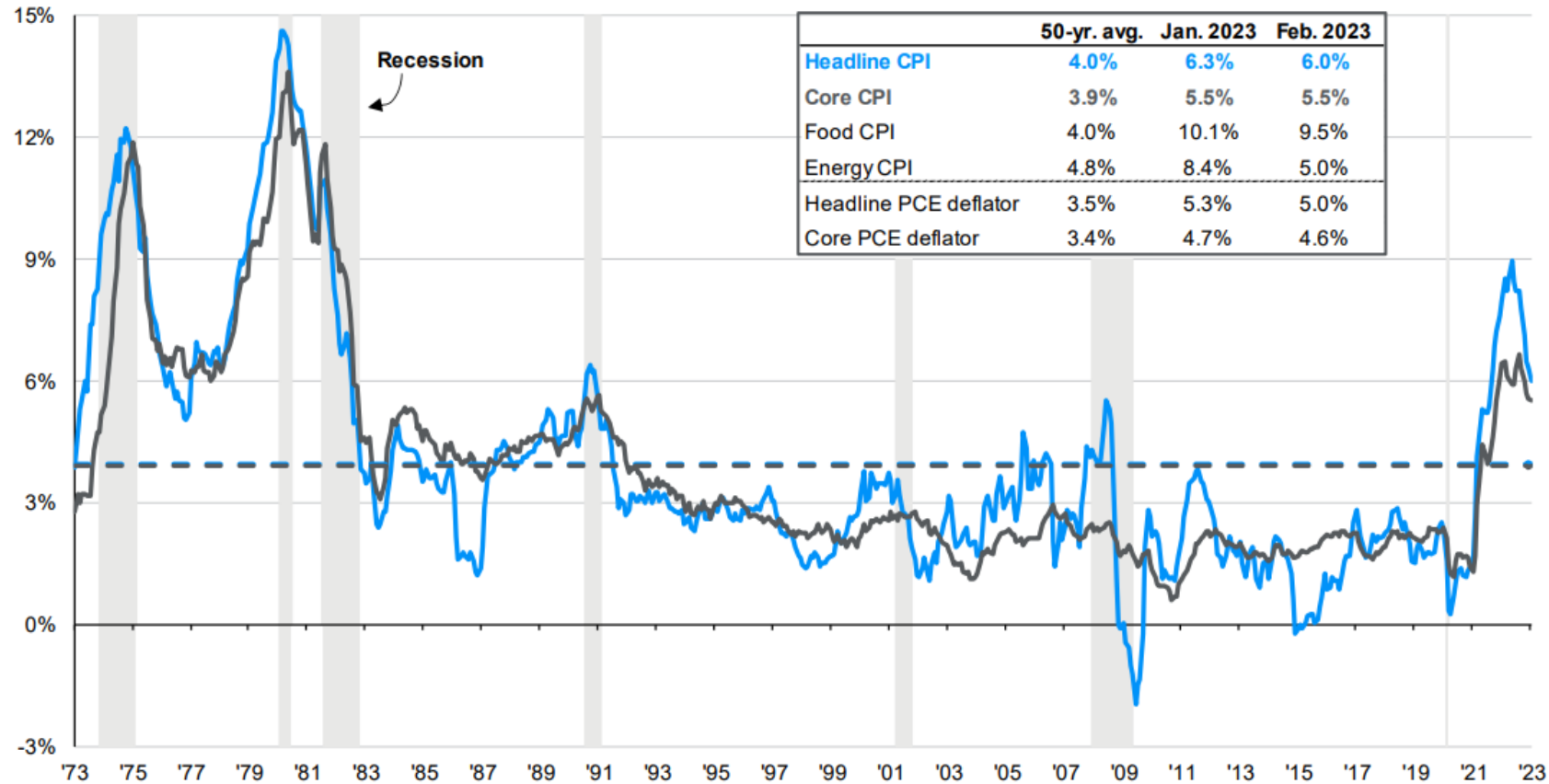
- Inflation
- Fed tightening and interest rates
- Recession?
- Principles for long-term success of investing
- Positive trends and tailwinds
- Portfolio implications and positioning

Inflation

Inflation Is Trending Down From Its Peak

CPI and core CPI

% change vs. prior year, seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management, as of March 31, 2023

Inflation Heatmap Improves

Consumer Price Index, components

m/m % change, seasonally adjusted

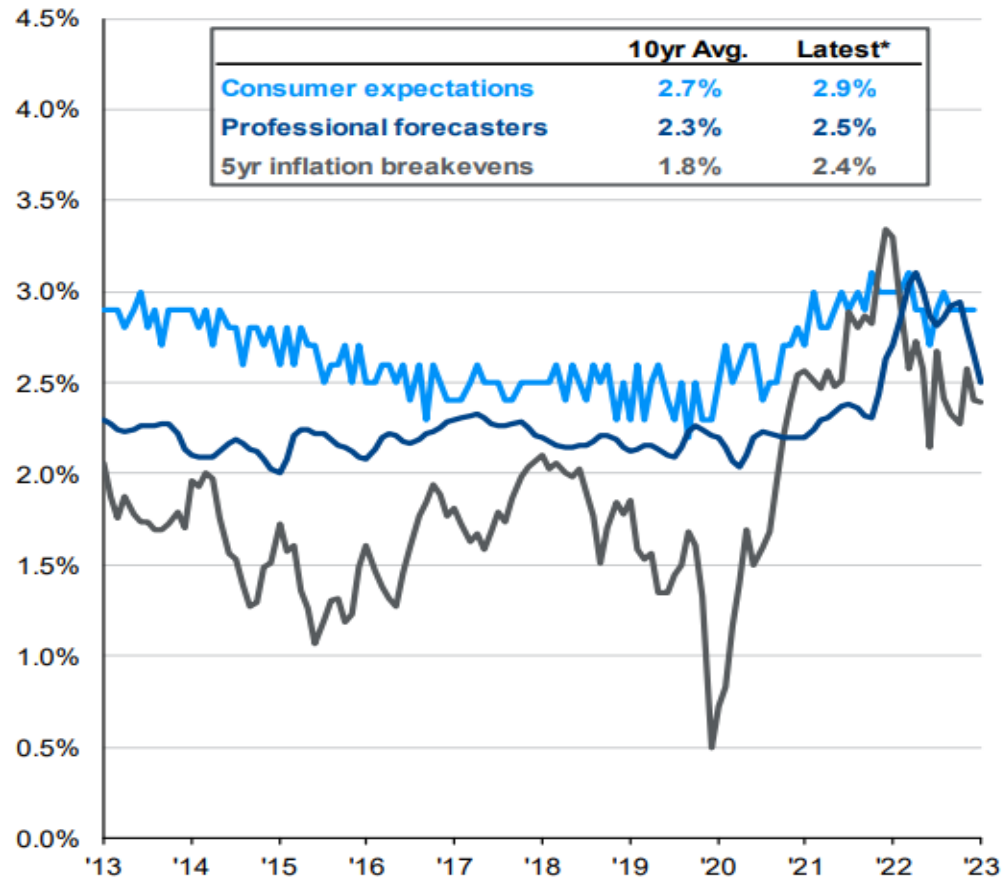
	Weight	2021												2022												2023	
		Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb		
Headline CPI, y/y	100.0	2.6%	4.1%	4.9%	5.3%	5.2%	5.2%	5.4%	6.2%	6.9%	7.2%	7.6%	8.0%	8.5%	8.2%	8.5%	8.9%	8.4%	8.2%	8.2%	7.8%	7.1%	6.4%	6.3%	6.0%		
Core CPI, y/y	79.5	1.7%	3.0%	3.8%	4.4%	4.2%	3.9%	4.0%	4.6%	5.0%	5.5%	6.1%	6.4%	6.5%	6.1%	6.0%	5.9%	5.9%	6.3%	6.6%	6.3%	6.0%	5.7%	5.5%	5.5%		
Core svcs. ex-housing PCE, y/y*	-	2.9%	4.3%	4.3%	4.2%	4.4%	4.4%	4.3%	4.4%	5.0%	5.0%	4.9%	4.8%	4.7%	4.5%	4.5%	4.6%	4.0%	4.2%	4.5%	4.7%	4.4%	4.3%	4.7%	4.7%		
Headline CPI, m/m	100.0	0.5%	0.7%	0.7%	0.8%	0.4%	0.4%	0.4%	0.9%	0.8%	0.8%	0.6%	0.7%	1.0%	0.4%	0.9%	1.2%	0.0%	0.2%	0.4%	0.5%	0.2%	0.1%	0.5%	0.4%		
Core CPI, m/m	79.5	0.3%	0.8%	0.7%	0.7%	0.3%	0.2%	0.3%	0.7%	0.6%	0.7%	0.6%	0.5%	0.3%	0.5%	0.6%	0.6%	0.3%	0.6%	0.6%	0.3%	0.3%	0.4%	0.4%	0.5%		
Core svcs. ex-housing PCE, m/m*	-	0.6%	0.5%	0.4%	0.4%	0.5%	0.3%	0.2%	0.2%	0.6%	0.5%	0.2%	0.3%	0.5%	0.3%	0.3%	0.6%	-0.1%	0.5%	0.5%	0.4%	0.3%	0.4%	0.5%	0.3%		
Energy	6.9	3.5%	0.2%	0.3%	1.5%	1.7%	2.8%	1.5%	3.6%	2.6%	2.4%	0.8%	2.7%	8.2%	-1.0%	3.4%	6.9%	-4.7%	-3.9%	-1.7%	1.7%	-1.4%	-3.1%	2.0%	-0.6%		
Gasoline	3.2	6.3%	-0.6%	-0.1%	2.5%	2.5%	4.5%	1.5%	4.1%	4.2%	3.8%	-0.3%	4.7%	13.2%	-3.1%	3.2%	10.3%	-8.1%	-8.4%	-4.2%	3.4%	-2.3%	-7.0%	2.4%	1.0%		
Electricity	2.5	-0.1%	0.9%	0.4%	0.0%	0.2%	0.7%	1.0%	1.6%	0.7%	0.9%	2.7%	-0.3%	1.7%	0.9%	1.3%	1.5%	1.5%	1.2%	0.8%	0.5%	1.3%	0.5%	0.5%			
Utility Gas	0.9	2.4%	1.6%	1.1%	1.2%	2.0%	1.6%	2.2%	6.7%	0.5%	0.1%	0.5%	2.0%	0.6%	2.5%	7.2%	7.5%	-3.8%	3.5%	2.2%	-3.7%	-3.4%	3.5%	6.7%	-8.0%		
Food	13.5	0.1%	0.3%	0.4%	0.7%	0.6%	0.4%	0.9%	0.9%	0.8%	0.6%	0.8%	1.0%	0.9%	0.8%	1.1%	1.0%	1.1%	0.8%	0.8%	0.7%	0.6%	0.4%	0.5%	0.4%		
Food at home	8.7	0.1%	0.3%	0.3%	0.8%	0.5%	0.4%	1.2%	1.0%	1.0%	0.6%	0.9%	1.3%	1.3%	0.9%	1.3%	1.0%	1.3%	0.8%	0.7%	0.5%	0.6%	0.5%	0.4%	0.3%		
Food away from home	4.8	0.1%	0.3%	0.6%	0.7%	0.8%	0.4%	0.5%	0.8%	0.6%	0.6%	0.7%	0.4%	0.3%	0.6%	0.7%	0.9%	0.7%	0.9%	0.9%	0.9%	0.5%	0.4%	0.6%	0.6%		
Core goods	21.4	0.1%	1.9%	1.7%	1.9%	0.3%	0.3%	0.3%	1.3%	1.1%	1.4%	0.9%	0.3%	-0.4%	0.1%	0.6%	0.6%	0.1%	0.4%	0.0%	-0.1%	-0.2%	-0.1%	0.1%	0.0%		
Apparel	2.5	0.1%	1.0%	0.8%	0.6%	0.0%	0.3%	-0.5%	1.0%	0.7%	0.9%	0.7%	0.6%	0.3%	-0.1%	0.4%	0.7%	-0.1%	0.3%	0.0%	-0.2%	0.1%	0.2%	0.8%	0.8%		
New vehicles	4.3	0.0%	-0.1%	1.1%	1.6%	1.4%	1.2%	1.3%	1.5%	1.6%	1.8%	0.3%	0.1%	0.1%	0.4%	0.6%	0.5%	0.5%	0.8%	0.7%	0.6%	0.5%	0.6%	0.2%	0.2%		
Used cars	2.7	0.6%	9.6%	7.7%	9.1%	-0.4%	-1.3%	-0.5%	3.1%	3.2%	3.9%	1.4%	-0.6%	-3.6%	-0.7%	1.9%	0.5%	-0.8%	-0.2%	-1.1%	-1.7%	-2.0%	-2.0%	-1.9%	-2.8%		
Medical care commod	1.5	0.1%	0.6%	0.0%	-0.4%	0.2%	-0.2%	0.3%	0.6%	0.1%	0.0%	0.9%	0.3%	0.2%	0.1%	0.3%	0.4%	0.6%	0.2%	-0.1%	0.0%	0.2%	0.1%	1.1%	0.1%		
Core services	58.2	0.3%	0.4%	0.4%	0.3%	0.3%	0.1%	0.2%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.4%	0.6%	0.8%	0.5%	0.5%	0.6%	0.5%	0.6%		
Shelter	34.4	0.3%	0.4%	0.3%	0.4%	0.5%	0.2%	0.4%	0.4%	0.5%	0.4%	0.3%	0.6%	0.5%	0.5%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.6%	0.8%	0.7%	0.8%		
Rent of primary res.	7.5	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.4%	0.6%	0.6%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%	0.7%	0.8%		
OER	25.4	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	0.7%	0.6%	0.7%	0.8%	0.6%	0.7%	0.8%	0.7%	0.7%		
Medical care services	6.7	0.1%	0.0%	-0.1%	-0.1%	0.1%	0.2%	0.0%	0.6%	0.5%	0.5%	0.5%	0.1%	0.6%	0.5%	0.4%	0.7%	0.4%	0.7%	0.8%	-0.4%	-0.5%	0.3%	-0.7%	-0.7%		
Transportation services	5.8	1.1%	1.3%	1.9%	0.9%	-0.8%	-0.7%	-0.9%	0.0%	1.2%	0.5%	0.7%	1.1%	2.1%	2.2%	1.6%	1.8%	-0.4%	1.0%	1.9%	0.6%	0.3%	0.6%	0.9%	1.1%		

Source: BLS, FactSet, J.P. Morgan Asset Management, as of March 31, 2023

Inflation Expectations Align With Long Term Average

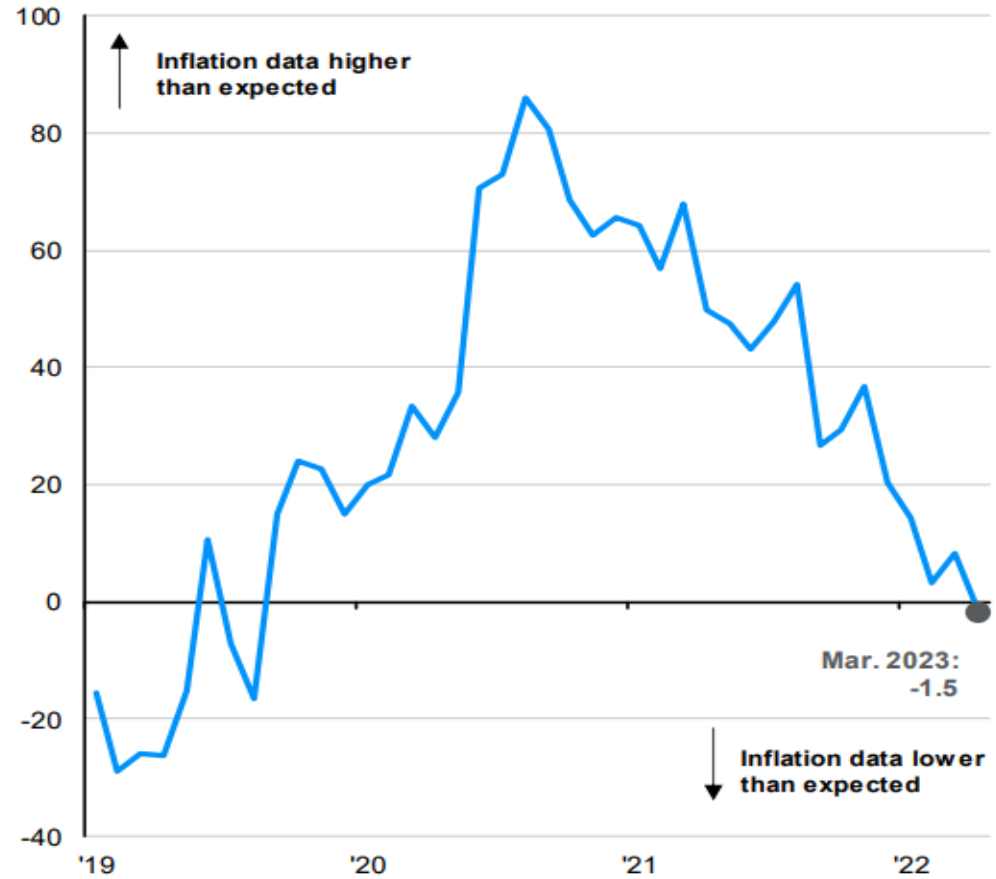
Inflation expectations, next 5 years

% change vs. prior year, non-seasonally adjusted



Citi Inflation Surprise Index

Monthly



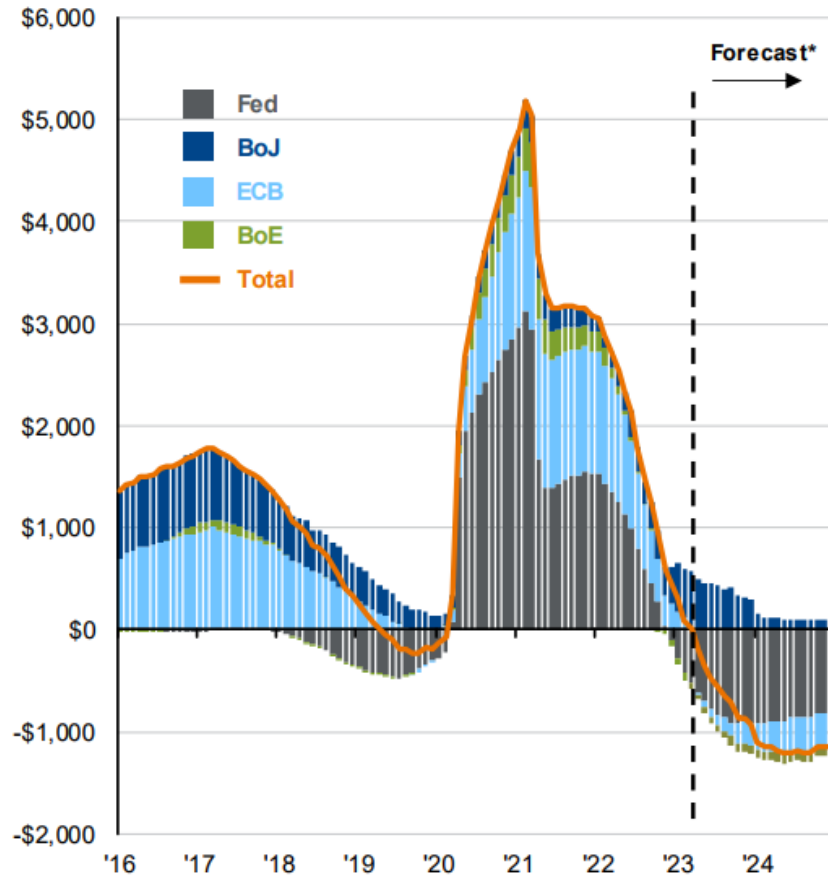
Source: Bureau of Labor Statistics, Citi, FactSet, Federal Reserve Bank of Philadelphia, University of Michigan, J.P. Morgan Asset Management, as of March 31, 2023

Fed and Interest Rate

Fed and Interest Rate

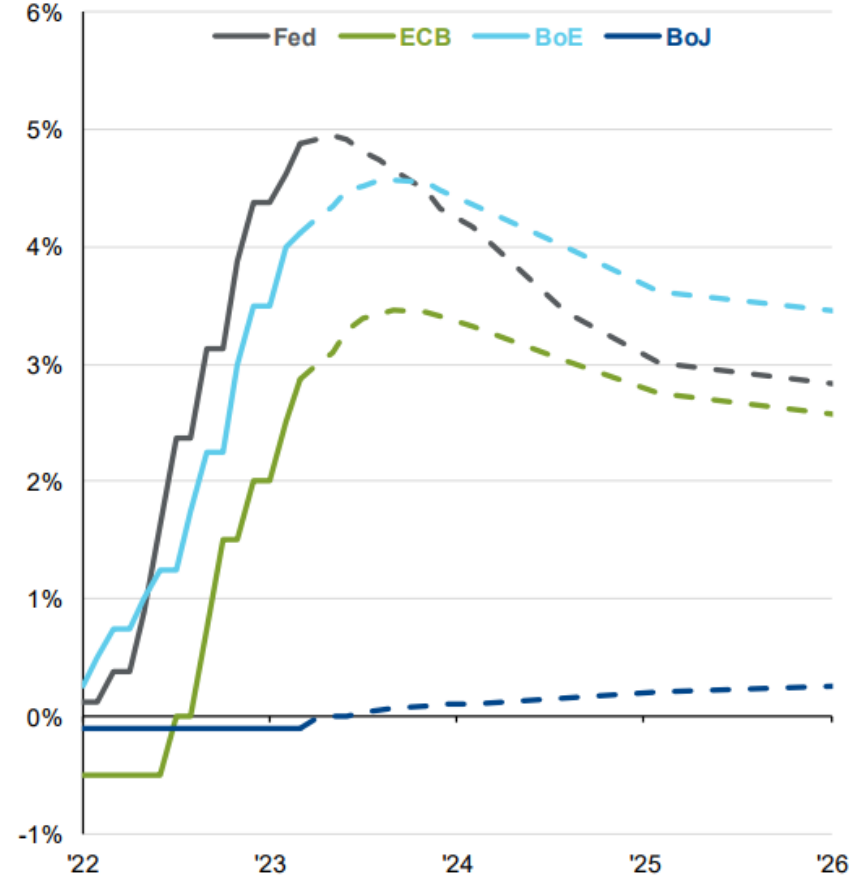
Developed market central bank bond purchases

USD billions, 12-month rolling flow



Historical policy rates and forward curves

Target policy rates and Global Overnight Index Swaps (OIS) curves

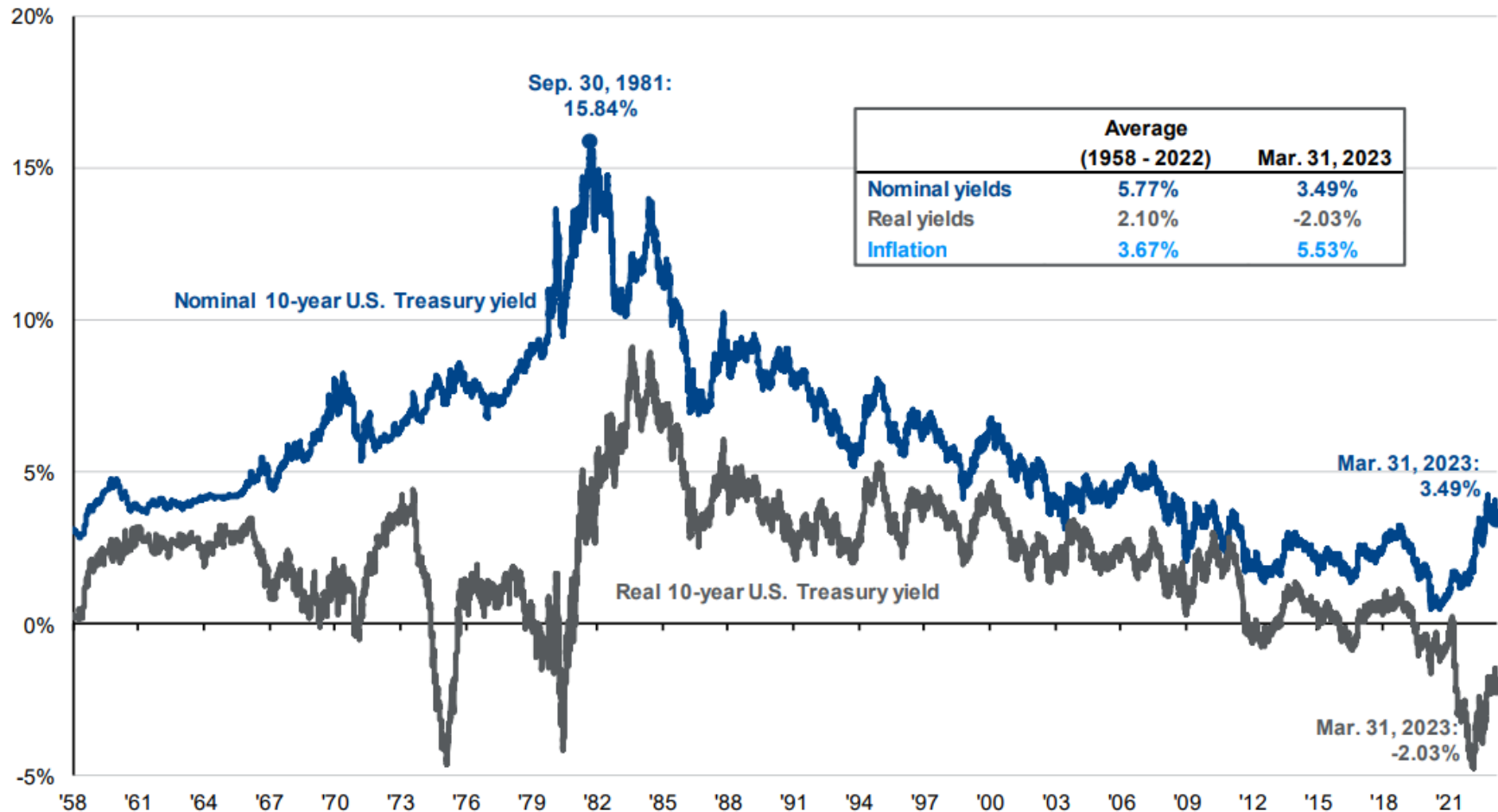


Source: BIS, Bloomberg, FactSet, J.P. Morgan Asset Management, as of March 31, 2023

Nominal and Real Interest Rate

Nominal rate = Real Rate + Inflation

Nominal and real U.S. 10-year Treasury yields



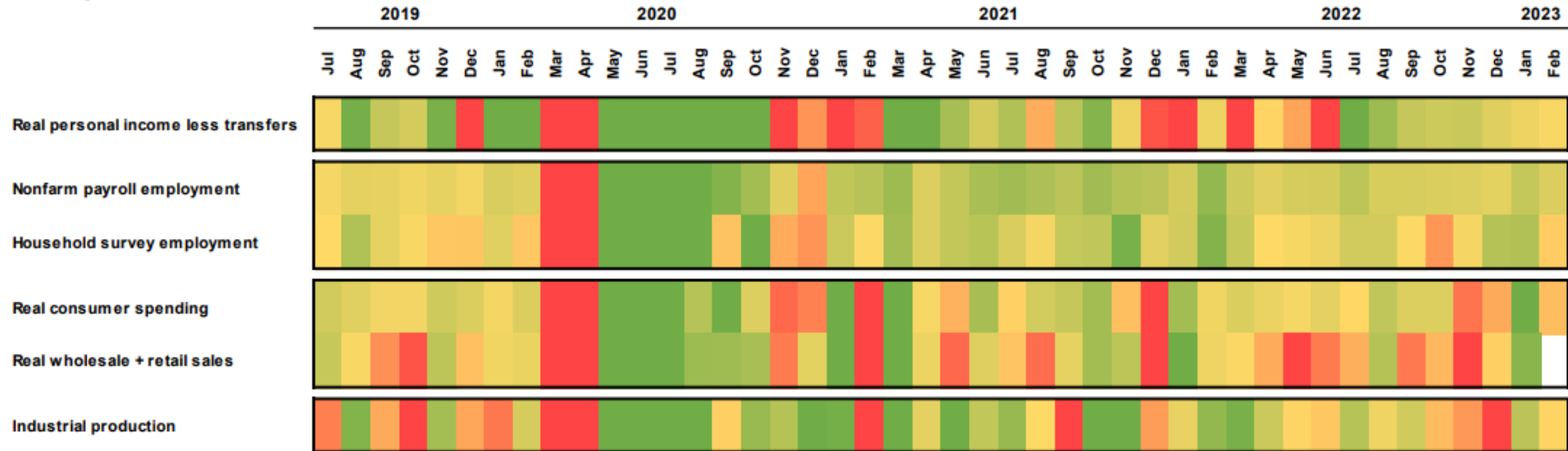
Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management, as of March 31, 2023.

Recession?

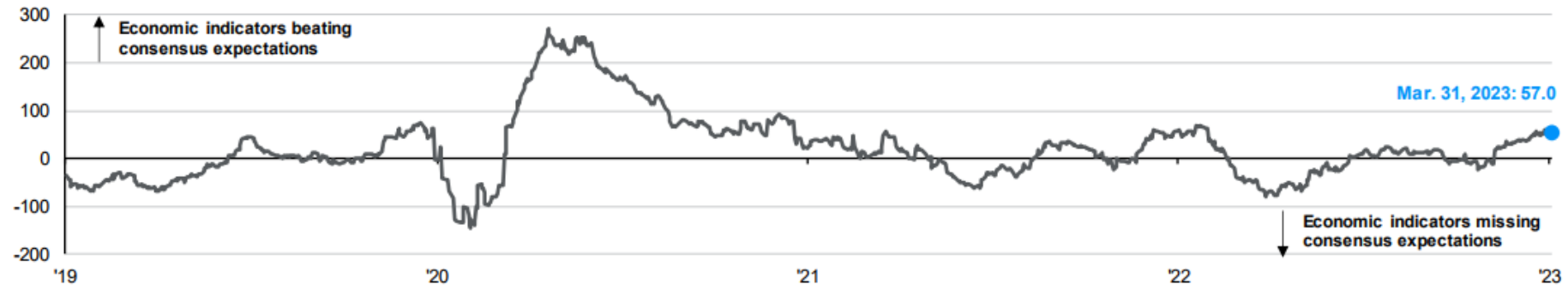
Recession Determinants

Variables used by the NBER in making recession determination*

% change month-over-month



Citi Economic Surprise Index

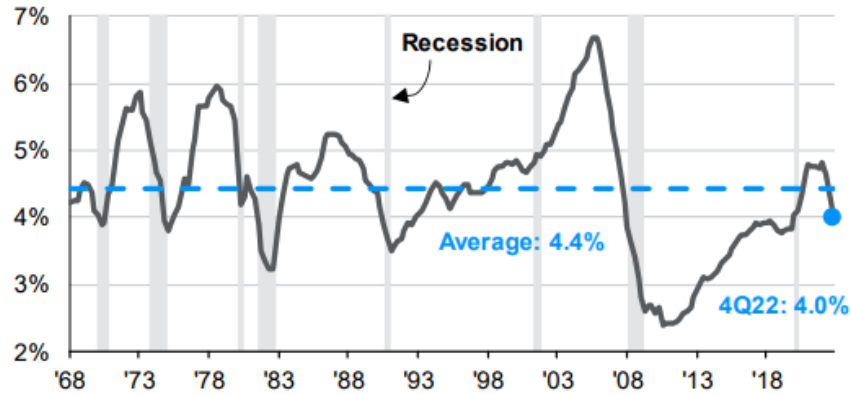


Source::Bureau of Economic Analysis Bureau of Labor Statistics, Census Bureau, Citigroup, NBER, J.P. Morgan Asset Management, as of March 31, 2023.

A Potential US Recession Would Likely Be Shallow

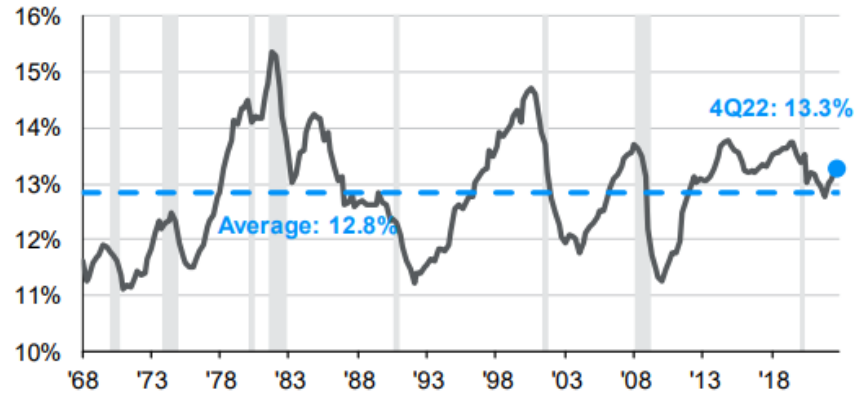
Residential investment as a % of GDP

Quarterly, seasonally adjusted



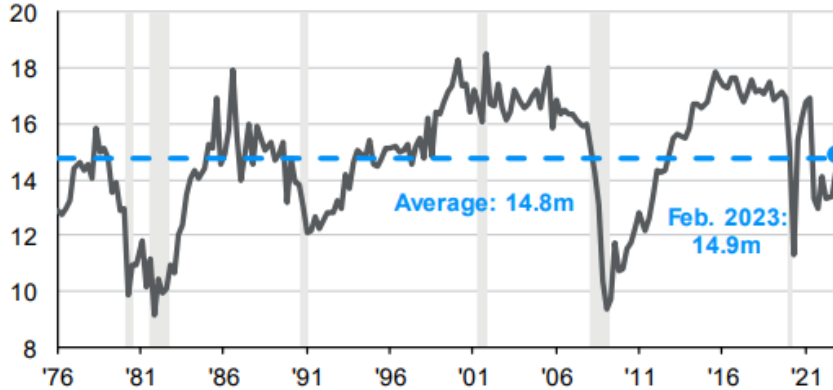
Business fixed investment as a % of GDP

Quarterly, seasonally adjusted



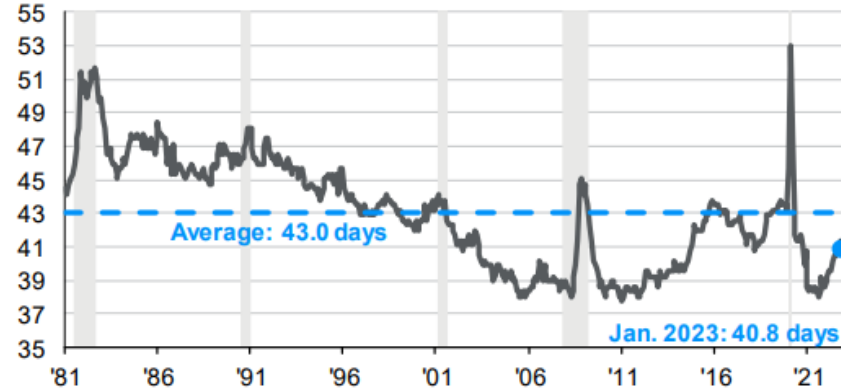
Light vehicle sales

Mil vehicles, seasonally adjusted ann. rate



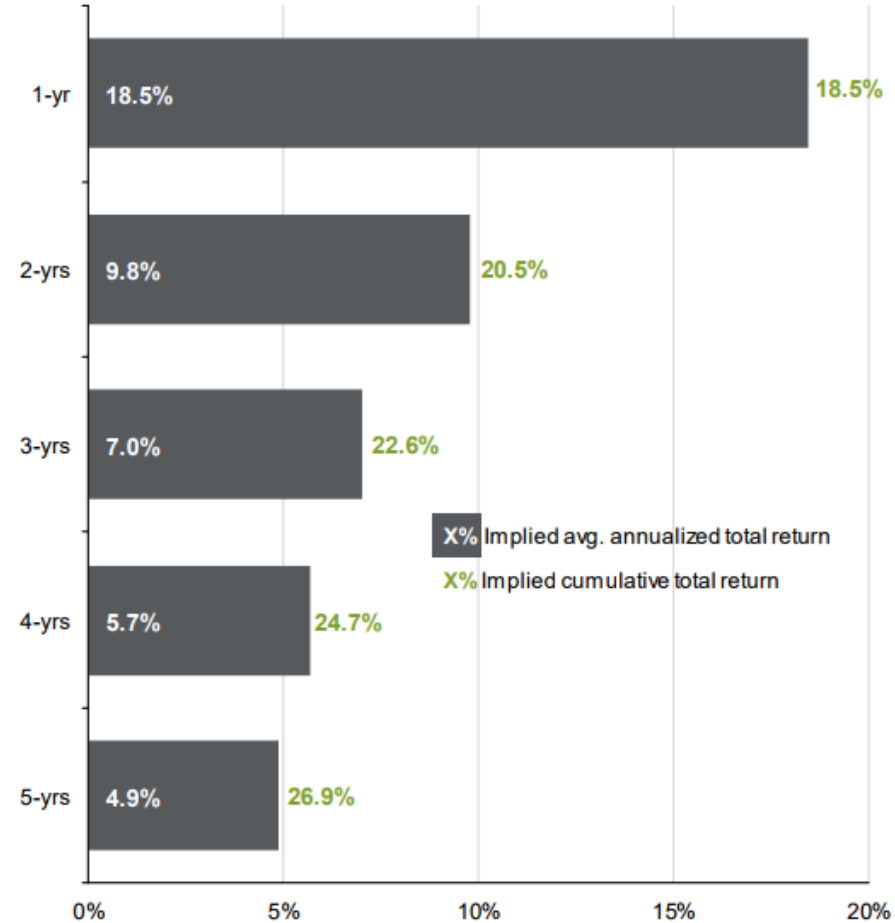
Total business inventory/sales ratio

Days of sales, monthly, seasonally adjusted



Recessions Have Been Painful But Less Impactful Than Expansions

Return needed to reach January 2022 peak of 4,797
S&P 500 level as of 3/31/2023 is 4,109



Bull and bear markets

Bull markets			Bear markets		
Bull begin date	Bull return	Duration (months)	Market peak	Bear return*	Duration (months)*
Jul 1926	152%	37	Sep 1929	-86%	32
Mar 1935	129%	23	Mar 1937	-60%	61
Apr 1942	158%	49	May 1946	-30%	36
Jun 1949	267%	85	Aug 1956	-22%	14
Oct 1960	39%	13	Dec 1961	-28%	6
Oct 1962	76%	39	Feb 1966	-22%	7
Oct 1966	48%	25	Nov 1968	-36%	17
May 1970	74%	31	Jan 1973	-48%	20
Mar 1978	62%	32	Nov 1980	-27%	20
Aug 1982	229%	60	Aug 1987	-34%	3
Oct 1990	417%	113	Mar 2000	-49%	30
Oct 2002	101%	60	Oct 2007	-57%	17
Mar 2009	401%	131	Feb 2020	-34%	1
Mar 2020	114%	21	Jan. 2022**	-25%	9
Averages	162%	51	-	-41%	20

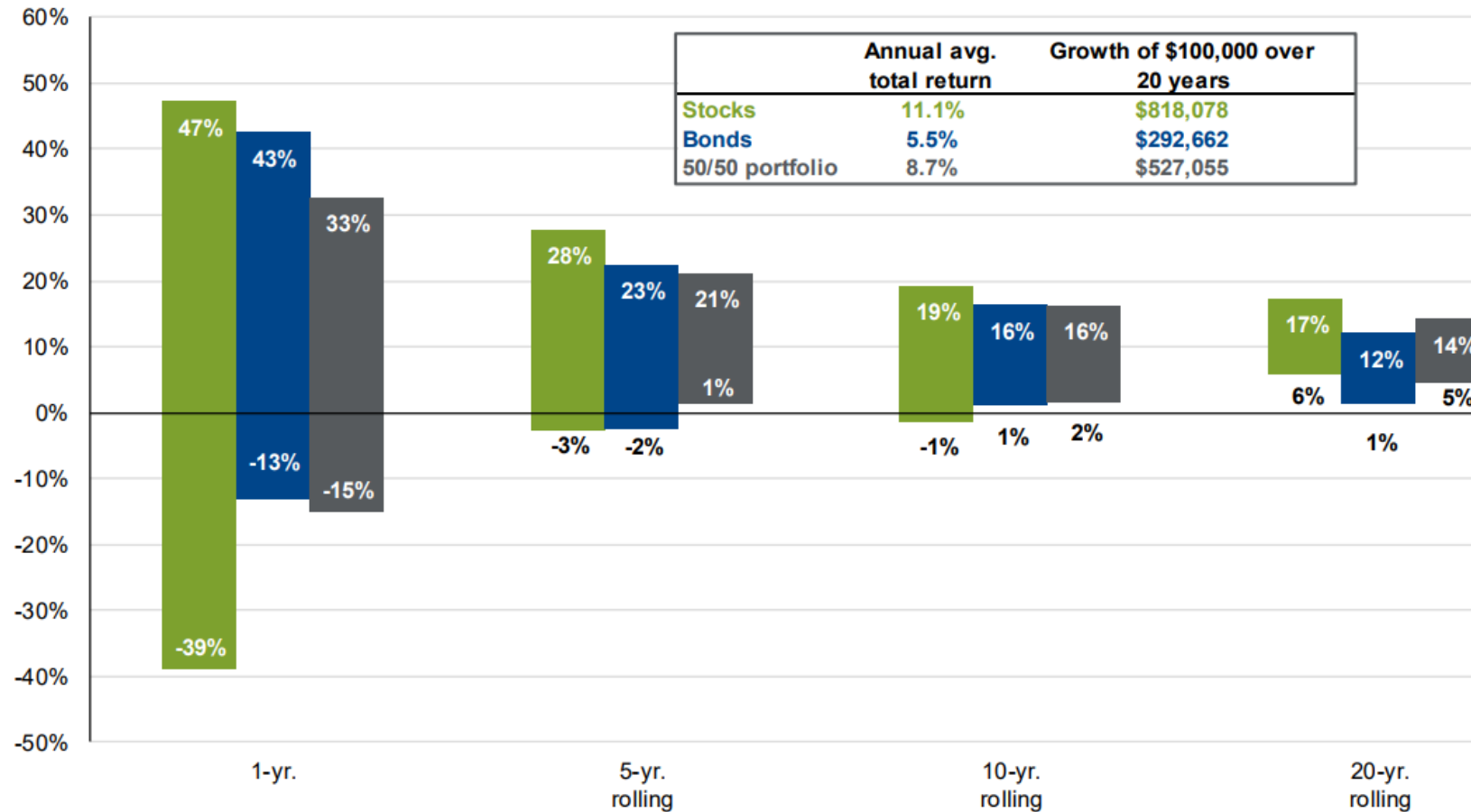
Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. , as of March 31, 2023.

***Principles for Successful
Long-term Investing***

Market Returns Are More Predictable Over Time

Range of stock, bond and blended total returns

Annual total returns, 1950-2022



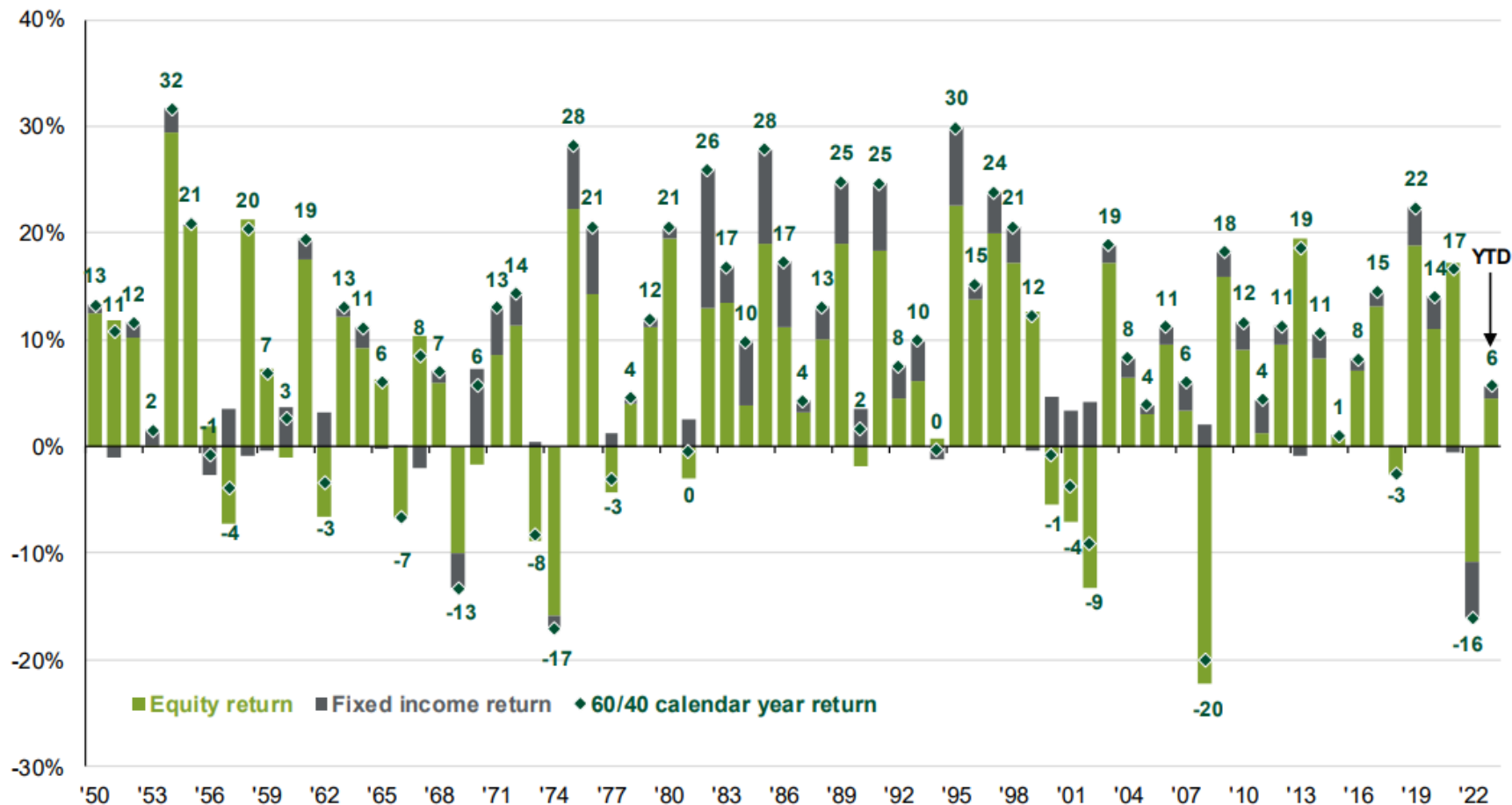
Source: Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management, as of March 31, 2023.

Balanced Portfolio Provides Positive Returns

...82% of the time

60/40 annual return decomposition

Total returns, 1950 – present



Source: Bloomberg, FactSet, Ibbotson/Strategas, Robert Shiller, Standard & Poor's Yale University, J.P. Morgan Asset Management, as of March 31, 2023.

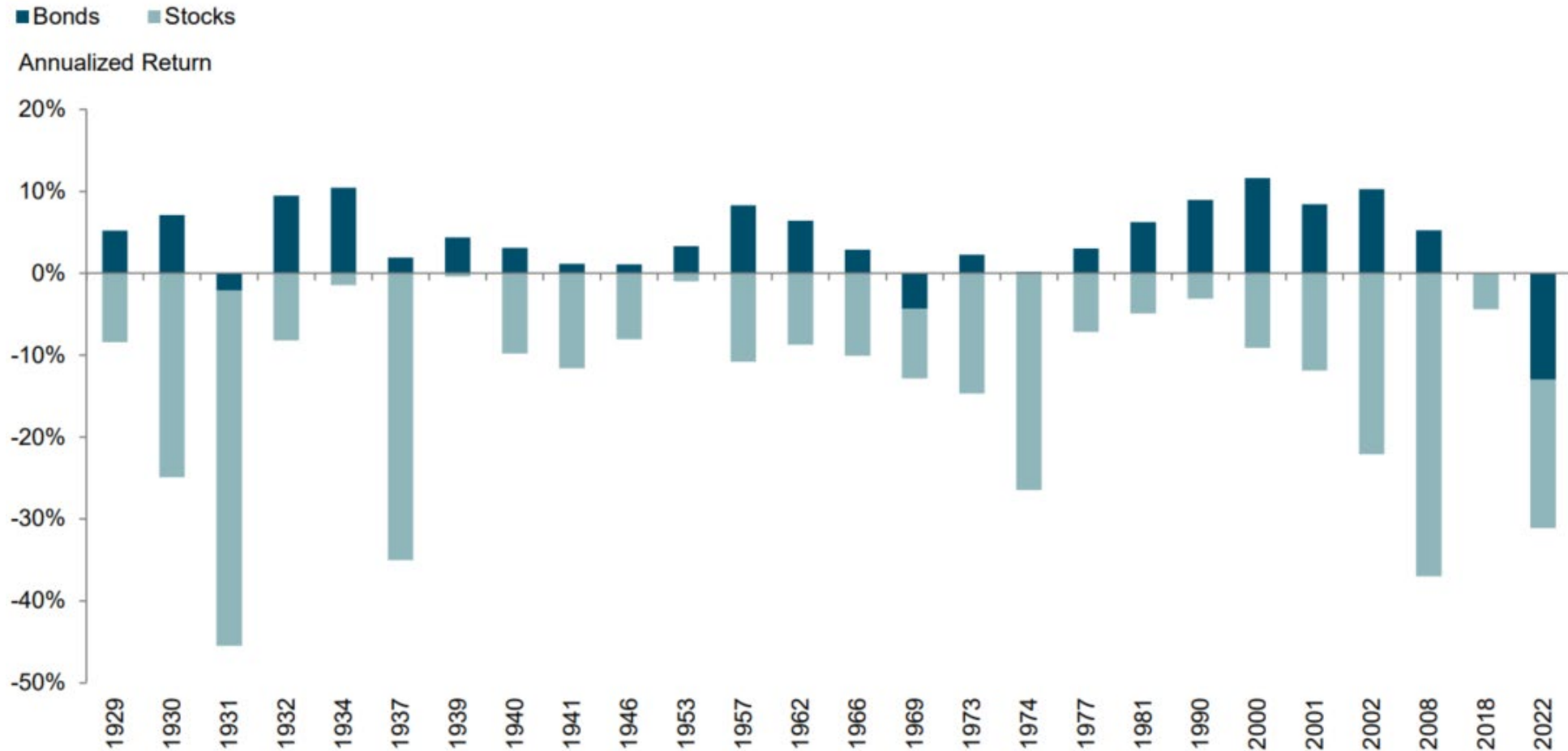
***Positive Trends and
Tailwinds***

2022 Was Painful But Necessary



Bond as Shock Absorber

Equity and Bond Returns in Years When Equities Fell (1926–2022)



Source: Fidelity Investments (AART), Haver Analytics, as of March 31, 2023.

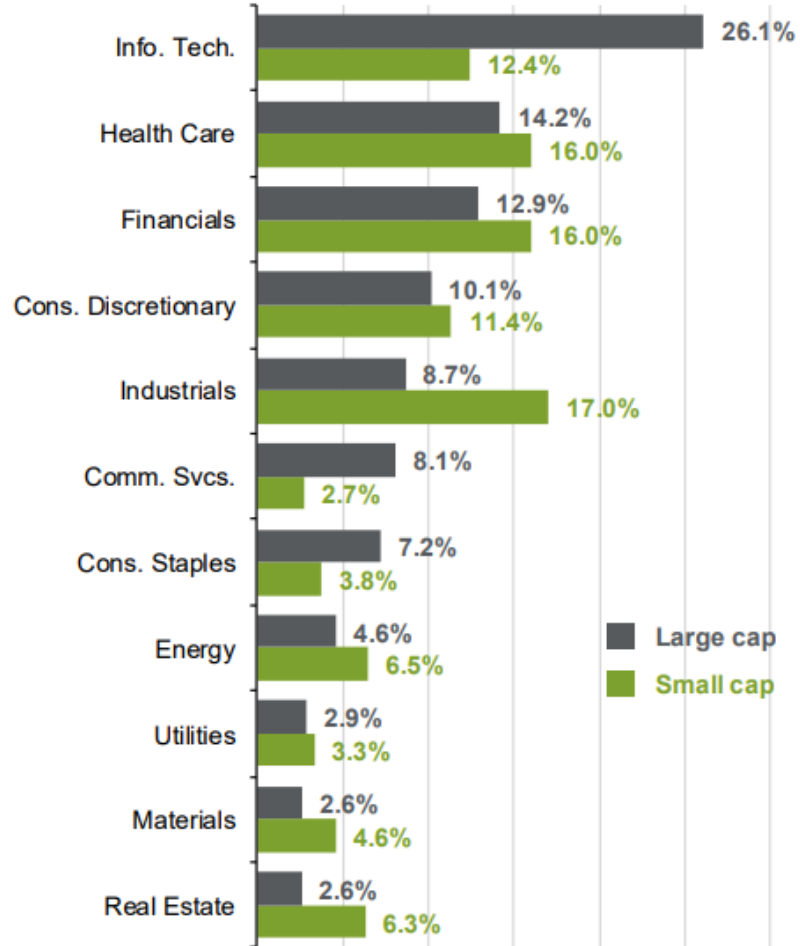
Portfolio Implications and Positioning

- Large cap overweighting
- Quality focus
- CD rates and fixed income opportunities

Favor Large Cap over Small Cap

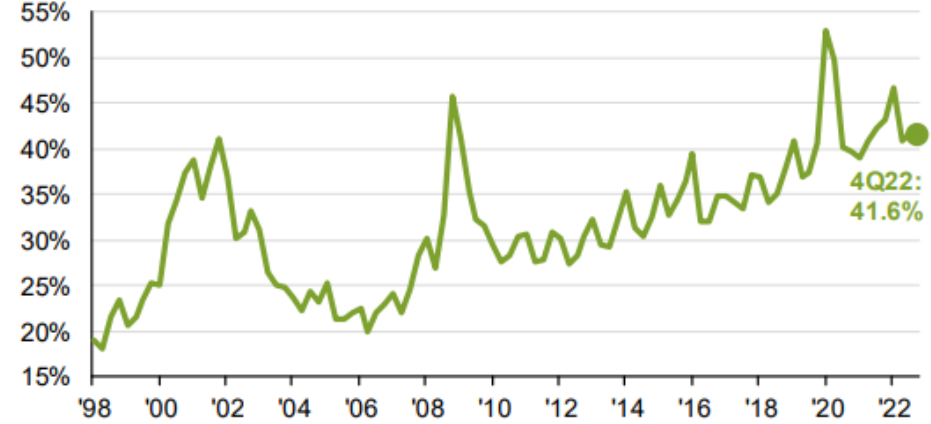
Sector composition

% of index market capitalization



Percent of unprofitable companies in the Russell 2000

1Q98 – 4Q22, pro-forma EPS



Interest rate coverage ratio

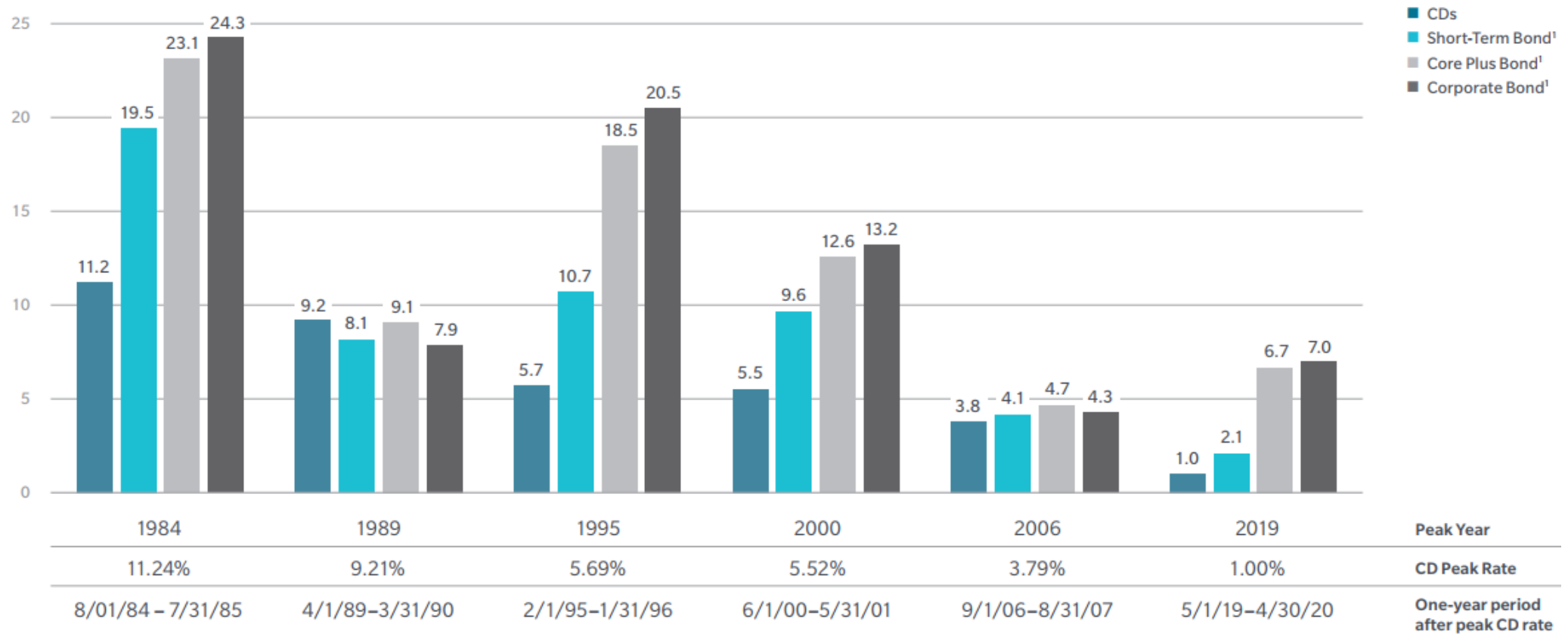
EBIT/interest expense on debt, monthly, LTM, 1998-present



CD Rates and Fixed Income Opportunities

Generally, investing in CDs at peak rates left money on the table

One-year subsequent total return from peak CD rate (%)



Source: CD rates from Bankrate.com, All other data from Morningstar Direct. MFS – as of March 31, 2023.

Key Takeaways

- Fed is likely near the end of its rate-hiking campaign with inflation moderating from its peak.
- The likelihood of a recession decreased from last time we spoke; If we do enter a recession, it will likely be shallow.
- The market has been resilient. Being patient with your long-term investment strategy is the key for your financial success.
- US equities remain relatively attractive. Opportunities within fixed income have improved.

Questions?

Second Opinion Service

Call us at 440.740.0130 to schedule time to talk,
or email us at PFS@PlannedFinancial.com



Thank you for joining us.
Happy Spring!

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