LPL Financial

75 State Street, 22nd Floor
Boston, MA 02109

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

March 1, 2023

Dear Valued Investor,

Financial markets have experienced quite a bit of change this year in just two short months. We started the year hopeful that stocks would benefit from a better economic and monetary policy environment by the spring, but recent developments suggest that may be further out than we initially thought. We remain confident that a new bull market will come—it just may require a bit more of our patience before we get there.

When 2023 began, we had hoped for a new bull market to bloom in the spring, prompted by the end of the Federal Reserve's (Fed) interest rate hiking campaign. Following recent data pointing to stronger growth and higher inflation, rate hikes may extend into the summer and potentially delay the start of a new bull market. Against that backdrop, even though stocks pulled back in February, this year's modest two-month gain for the S&P 500 Index feels like a victory.

Recent evidence of consumers' resilience has been encouraging. Over 500,000 jobs were created in January, according to the U.S. Bureau of Labor Statistics, nearly triple economists' expectations (the February report is scheduled for March 10). The unemployment rate is at its lowest level since the 1960s. Retail sales rose a better than expected 3% in January month over month, as consumers benefited from the healthy job market and excess savings, while motivated by the diminished COVID-19 threat (with perhaps a small assist from mild winter weather). However, that consumer strength was accompanied by a series of hotter than expected inflation reports for January, fueling more concerns about higher interest rates and, in turn, weighing on the stock market.

Rewards for investors will come—they always do—but they will require more patience than we had hoped. In an environment where inflation has been frustratingly slow to come down, with a Fed still very much intent on combatting it, our patience is being tested. The risk that the Fed tightens too much and drives the U.S. economy into recession has risen. Higher interest rates also put stress on stock market valuations, so the longer we worry about the Fed, the less likely we are to see that bull market arrive this spring. Corporate America is not in a position to help much, given earnings declines are likely during the next two or potentially three quarters.

Still, we remain steadfast in our belief that investors' patience will be rewarded. As Warren Buffett wrote in his latest annual letter to shareholders, "There has yet to see a time when it made sense to make a long-term bet against America." Stocks have generated annualized returns of over 9% since the advent of the S&P 500's predecessor index, the S&P 90, back in 1927—and that includes the Great Depression, World War II, the dotcom crash, the 2008–2009 financial crisis, 9/11, and numerous other economic and geopolitical shocks. Stocks may be volatile until the direction and ultimate destination of interest rates becomes clearer, but new highs will come—eventually.

In closing, we expect investors who put money to work in the coming weeks to be rewarded with solid gains this year. The next bull market may not arrive in time for spring, but stocks may still ramp up this summer as inflation eases and the Fed finally hits pause on rate hikes.

As always, please contact your financial advisor with questions.

Sincerely,

Jeffrey Buchbinder, CFA
Chief Equity Strategist
LPL Research

LPL Financial

RES-1446113-0223 | For Public Use | Tracking # 1-05362119 (Exp.03/24)