Peregrine asset advisers

# 1ST QUARTER 2023 MARKET OVERVIEW

## WHAT'S NOT TO LIKE?

What a difference a year makes. At the outset of last year, the stock market was at record levels; high risk territory. Inflation was soaring, and interest rates were spiking. When war broke out in Ukraine, everything was compounded, as supply chains were interrupted. The combination of inflated valuations, inflation, and rising rates, was a horrible investment environment. Consequently, it was a terrible year for most of the market.

2023, by comparison, appears downright serene. Across many areas, the stock market is cheaper, and therefore, less risky. The widely anticipated recession may be averted. Inflation is inevitably cooling and should return to near 2% by June. The Fed tightening cycle is nearing completion. These are factors that are supportive for investing.

The stage appears set for a good year.  Given mishaps along the way, what is not to like about this investment environment?

Even the recent banking crisis and the failure of several banks, interestingly, is more a byproduct of last year, than a systemic risk, going forward. The big move in interest rates substantially already happened, going from zero to almost 5%. Therefore, the damage is already done to bank balance sheets and it unlikely to recur.

The action in the stock market was tumultuous in the quarter. It began in strong fashion. The S&P 500 powered to a nearly 9% gain in January. It was short lived, however. Between February and mid March the market sagged and relinquished all of its gains for the year.  It required a flurry over the last two weeks of the quarter to move the index to a gain of 7%. It could be interpreted as a bullish signal for the market to retreat to a level of support before a vigorous bounce.

Pacing the market after plunging 33% last year, was the vaunted NASDAQ,  gaining 16% in the first quarter. The primary large technology stocks recovered from their steep selloffs. In this manner, we did see symptoms of 2021, whereby the largest companies like Nvidia, Apple, Microsoft, Tesla, and Meta, posted strong gains. This small list contributed the preponderance of the gain in the S&P 500 and the NASDAQ. It also happened, seemingly, at the expense of the rest of the market, which didn't do as well. The DOW and the Russell 2000 are still barely up for the year, and pale in comparison to the NASDAQ.

For all the fuss over the NASDAQ, the quarter-end simply reverts to the level visited in early February, last summer, and even two years ago. Furthermore, the average stock throughout the entire market only gained 3.01% for the first quarter. There is reason to believe the stock market is stuck in a long term trading range. At least it is not running away from patient investors.

Primary sectors of the NASDAQ; tech, communication services, and consumer discretionary were the only sectors of the S&P that gained in the first quarter. All other sectors were negative!

Last year's leaders United Healthcare (-10.50%), Merck (-3.50%), and General Mills (2.1%) all struggled during the past three months.

Separate from equities, a banner benefit to Peregrine clients and all investors, in fact, is that interest rates on short term securities and money markets hover between 4% and 5%. These elevated returns boost the case for 2023 being a year of favorable returns.

## THE BASICS OF BALANCED

The lure of earning near 5% without risk is a viable proposition. Given the volatility over the past several years, a safe predictable, return carries additional appeal.

This renders the case for a balanced asset allocation. An investment account that holds 50% of its assets in risk free Treasuries and 50% in equities with growth prospects and dividend income, has a very high likelihood of positive returns. In addition, there is a lower risk of a draw down, should unfavorable circumstances emerge.

For example, if the S&P 500 gains 10% in a calendar year, an account with a 50%-50% weighting to stocks and Treasuries would earn 7.50%. Conversely, if the S&P 500 falls 10%, this same account would fall only 2.5%. A 2.5% decline, is small enough to be quickly offset with a market rebound.

It is noteworthy to point out as a caveat, accounts invested with this balanced approach stand to under perform during strong stock market advances. Bear in mind, a 20% gain for the stock market would yield just 12.50% for this hypothetical balanced investment account. Cash and short term securities can be a drag on investment returns in a bull market.

The principle of this balanced approach becomes more beneficial as it is applied over the long term. Avoiding a large scale decline is a key contributor to long term growth. It also illustrates the tremendous benefit of holding some investments with a guaranteed interest rate.

## PEREGRINE STRATEGY

Much of the first quarter was spent investing in short term treasuries, collecting interest and dividends and sidestepping volatility. We also constructed accounts for the second quarter by investing in stocks that we think will have favorable moves.

It would have been optimal to invest in the technology leaders at their low points, and we look forward to seeing how these stocks perform in the second quarter.

We continue to look for short term trading opportunities to make money for client accounts.

Our view is the economy will prove to be resilient and avoid a recession. Industrial stocks carry the best prospects for positive surprises, in our view. Beneficiaries are businesses with declining input costs and favorable pricing, contributing to strong profit margins. A company like General Electric is an example. GE stock has been one of the best performers in the S&P 500 this year, but is still down 50% from mid 2010 and is a far cry from its luster in 2000. GE and other industrial stocks could hold good prospects for shareholders throughout 2023.

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