Q1 2023 Conference Call Outline

You can click on each link to jump to the discussion of the topic.

- The Yield Curve
  - Dramatic interest rate hike produced the worst bond market in 102 years
- The Inverted Yield Curve
  - Short-term interest rates higher than long-term interest rates
  - Inverted yield curve portends a slowdown in the economy (which is what the Fed is trying to produce, in order to reduce the level of inflation)
  - CPI Report on Thursday, January 12 indicated that inflation is moderating
- World Interest Rate Probability
  - Fed likely to raise rates 25 bps on February 1 and then another 25 bps on March 22
  - Data dependent, unlikely to raise interest rates further after that
  - Fed will likely cut rates by the end of the year
- U.S. Dollar Impact on Stocks
  - U.S. dollar index has risen over the last year, almost perfectly inverse correlation with S&P 500
  - As dollar strengthens, other central banks have to react by selling assets (see Swiss National Bank $143 billion loss in 2022)
    - This produces selling pressure in S&P 500 and other equity markets
- U.S. Dollar Impact on Stocks: YTD
  - As inflation has begun to moderate in 2023 (decreasing U.S. dollar index), the S&P 500 has risen
- U.S. Debt Clock
  - U.S. national debt is almost at $31.5 trillion
  - That debt is being financed with the current treasury rates, so there will be an incentive to keep rates low
- The Fed & Interest Rates
  - The Fed has a long-term neutral interest rate goal of 2.5%
- Interest Rates & Inflation
  - The Fed faces a conundrum: normal yields are increasing, while real yields (yields after inflation) are still negative
- The Market Return Equation
  - Based on Q4 earnings estimates, the total return for the stock market was 18.11% in 2022
- Corporate Profits and Sources of Total Return
  - Earnings are a major catalyst to produce strongly positive equity returns in the future, and estimates indicate that we'll hit new highs by 2024
- S&P Valuation Measures
  - All S&P valuation measures are in line relative to the 25-year average
- P/E Ratios & Equity Returns
  - Forward-looking P/E ratios indicate that we should have positive returns
- S&P Aggregate Annual Returns and Intra-Year Decline
  - Historically, the S&P 500 tends to rebound after a down year

- Bloomberg U.S. Aggregate Returns and Intra-Year Decline
    - The balanced portfolio (60% equity, 40% bonds) had its worst performance since 1871
- Private Credit Update
    - Private credit led 2022
    - With a time horizon of 24 months, we are confident that investors will have a positive return in private credit
- No Need for a Crystal Ball…
    - We can't predict what scenario will unfold in 2023, but we have confidence that private credit will protect capital with a 6-15% return range, with 10+% most likely.
- Enhancing Portfolio Performance by Lowering Costs
    - Chicago Partners focuses on keeping costs low for our clients to enhance returns
- Risk Mitigation
    - One example of a risk mitigation strategy is using a Defined Outcome ETF, which completely protects the first 15% of downturn in the S&P 500
        - With that 15% buffer, the maximum growth opportunity, or cap, is 20.51%
- Economic Indicators
    - Inflation is slowly decelerating, but still high