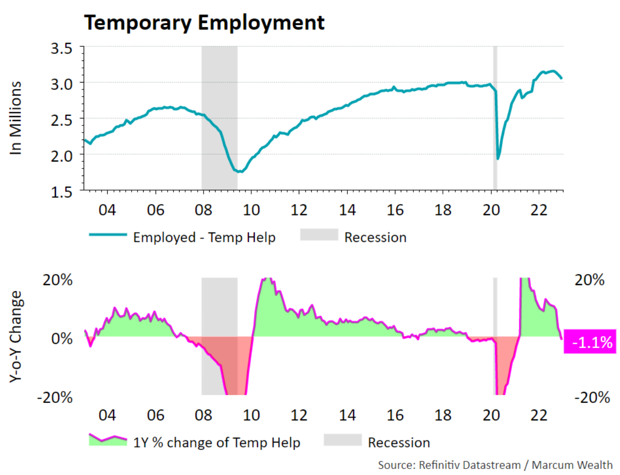
MARCUM WEALTH

Strategy Newsletter – 1st Quarter 2023

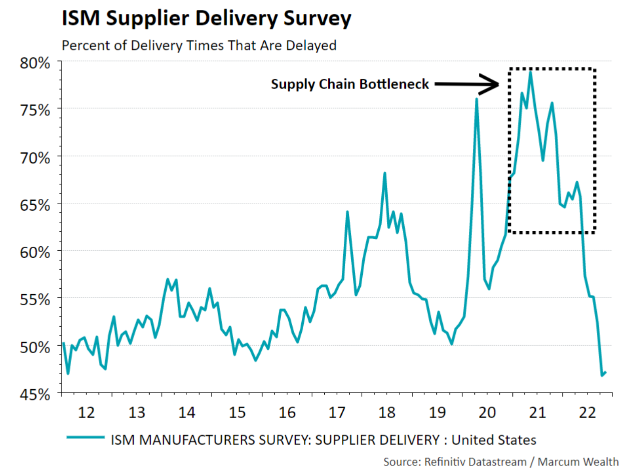
- Economic growth continues with inflation data improving.
- Stocks turned a corner with international markets leading the way.
- Markets anticipate a pause in the interest rate hiking cycle in the coming year.
- Affordability for homes remains a challenge.

Economy

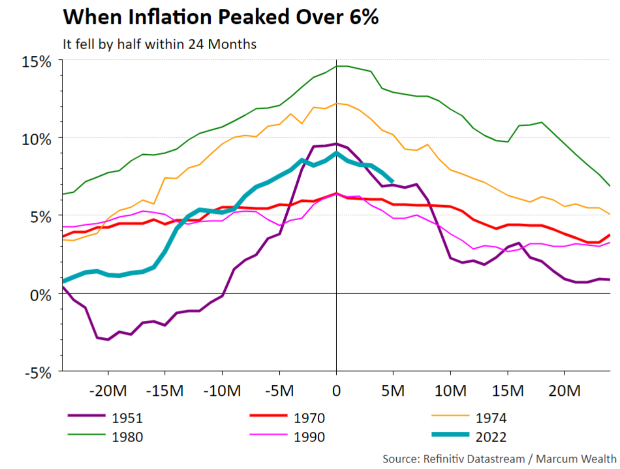
The pace of job gains slowed over the course of 2022. The first six months of the year saw 444,000 jobs gained, while only 300,000 gains were recorded in the last six months. Typically, hiring slowdowns affect temp workers first and falling temp-jobs may signal an impending recession. While job growth was positive in December, temp work fell for the first time on a year-over-year basis.



The demand shock resulting from more goods purchased by consumers was compounded by supply chain issues. Both were key factors contributing to last year's high inflation. The following chart shows that supplier delivery times have been improving drastically. In fact, companies are reporting fewer delivery delays now than in any time over the past decade. Many companies currently have too much inventory, which may result in price declines over coming quarters.



Between 1950 and 2022, inflation peaked at over 6% just five times. In each instance, it fell quickly over the following two years. Given the housing market slowdown and supply chain improvements, inflation may have peaked in June of 2022. This would be a welcome sign for the Federal Reserve.

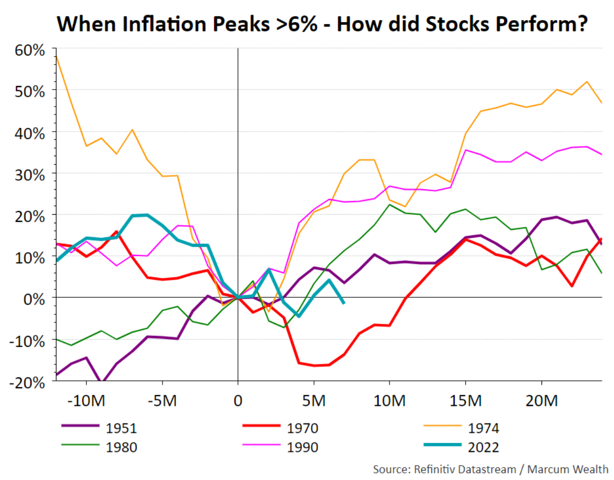


Equity

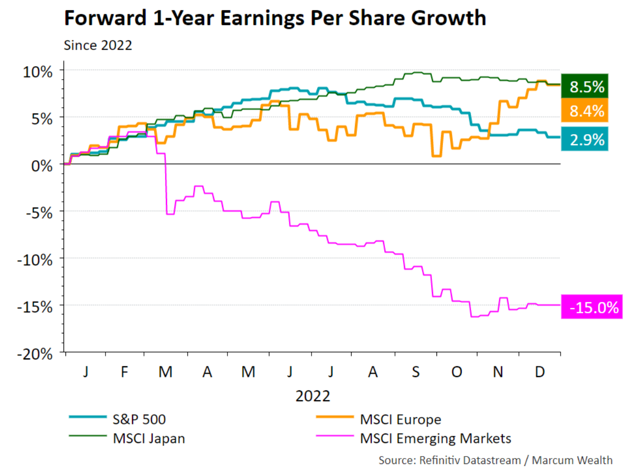
Historically, the mid-term election quarter produces positive results for equity investors and 2022 was no exception. Domestically, small caps led the way while value stocks beat growth stocks. International stocks outgained U.S. stocks.

U.S. Equity	4Q 2022
Large Cap Stock	
S&P 500	7.6%
Small & Mid Cap Stock	
S&P 400 Mid Cap	10.7%
S&P 600 Small Cap	9.3%
All Cap Style Indices	
S&P 1500 Value	13.5%
S&P 1500 Growth	2.0%
International Equity	**4Q 2022**
MSCI EAFE	17.4%
MSCI EAFE Value	19.7%
MSCI EAFE Growth	15.1%
MSCI Emerging Markets (EM)	9.8%
MSCI EM Value	9.9%
MSCI EM Growth	9.7%

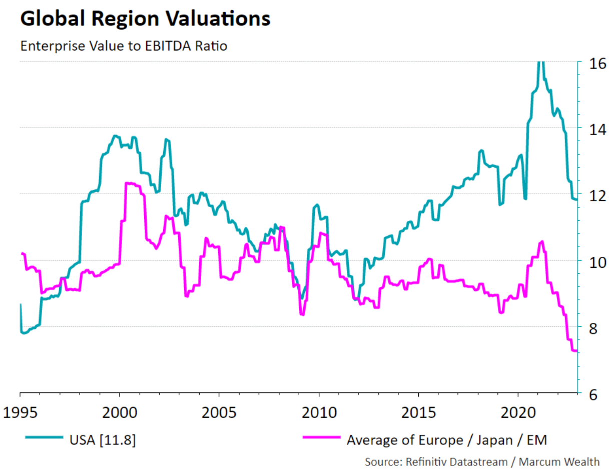
During high inflationary peaks since 1950, equities regained their footing to produce positive returns both 12 and 24 months later. In those instances, stocks bottomed within six months of the inflationary peak. The debate among investors this year is whether we will retest the lows made in the fall. This will likely come down to earnings.



Expectations for earnings continue to fall for 2023. This is not surprising given the increase in interest rates and diminishing demand as the fiscal stimulus fades. Over the last quarter, analysts increased earnings growth for Europe while Japan held steady. The fundamental picture could change, particularly if the U.S. dollar weakens further.



The valuation gap between the U.S. and the rest world is near the widest level since 1995. Better relative value and improving fundamentals could turn the tide for international markets.



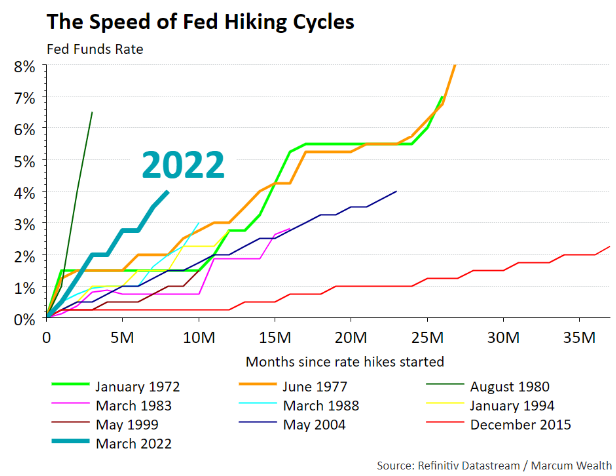
The Marcum Wealth Asset Allocation Frameworks maintains a small overweight to equities with a tilt toward small caps. Portfolios have a bias toward quality companies with fundamental strength.

Fixed Income

Bonds reversed the decline from the first nine months of 2022. The longer duration and foreign currency exposure of the global bond index helped propel these gains.

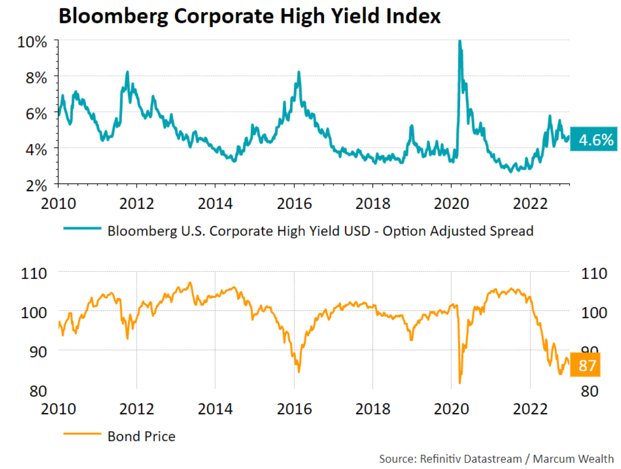
Fixed Income	4Q 2022
Bloomberg U.S. Aggregate Bond	2.0%
Bloomberg Corporate Inv. Grade	3.8%
Bloomberg High Yield Bond	4.9%
Bloomberg Global ex. U.S. Treas.	9.3%
Bloomberg Municipal Bond	4.5%
Bloomberg TIPS	3.0%

Interest rate hikes act with a lag on the economy. The full effect of the interest rates will be felt in the second half of 2023 and 2024. Markets and investors respond much faster to interest rate increases. The pace of interest rate hikes were only faster in 1980.

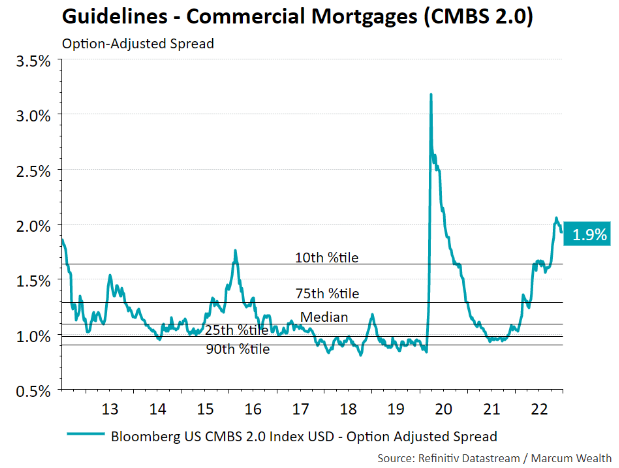


Markets expect to the Federal Reserve to pause interest rate hikes in the first half of 2023. Historically, a pause has been a positive catalyst for bond investors. In past hiking cycles, the 10-year Treasury yield fell five out of six times in the six- and twelve-month periods following the last hike (the exception being 1974). The five-year Treasury yield fell in all six of these instances. The reason for the rally is that markets anticipate a cut to interest rates. On average, the first interest rate cut occurred seven months after the last hike.

Credit spreads improved during the quarter. At 4.6%, the spread relative to Treasuries is near the median over the last few decades. The dollar price of bonds, however, is still near the lows following 2010. While spreads could widen in a downturn, investors are earning yields in the high single digits.



Commercial mortgage-backed-securities (CMBS) spreads remain wide relative to the past decade. Dirven by interest rate volatility and a challenging financing environment, investors are demanding more compensation. After the rapid rise in rates created large bid/ask spreads for buyers and sellers, investors are trying to determine the valuation for commercial buildings.



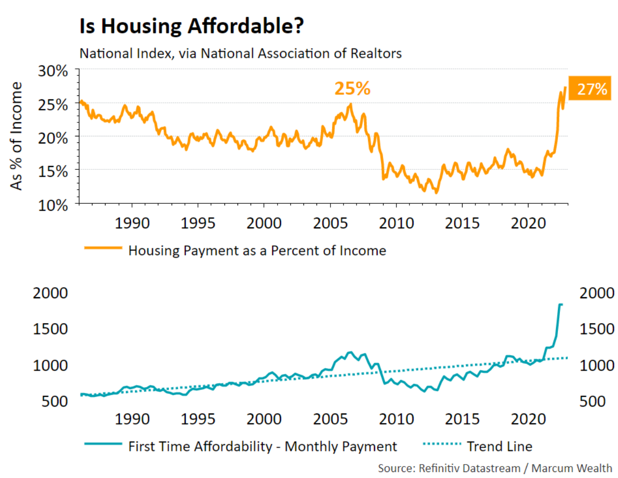
The Marcum Wealth Asset Allocation Frameworks maintain an underweight exposure to fixed income in favor of equities. Portfolios have attractive yields across a diversified mix of sectors.

Real Estate

REITs turned in positive scorecard to end the year while lagging the broad market.

Real Estate	4Q 2022
Wilshire U.S. REIT	4.0%
Wilshire Int'l REIT	12.7%

Mortgage rates spikes have put housing at a standstill and affordability is the worst since 1990. Payments as a percent of income are worse today than they were just prior to the Great Financial Crisis. For first time home buyers, payments are the highest they have ever been above the long-term trend.



Existing home and new home sales look set to fall. Lower interest rates may provide a reprieve when this hiking cycle ends, but it's likely homebuyers will anchor to the high prices reached in 2022.

The Marcum Wealth Asset Allocation Framework continues to maintain equal weight exposure to REITs.

Summary

From a contrarian standpoint, the negative investor sentiment may signal opportunity. In addition, the seasonal period for markets enters one of the best times of the four-year presidential cycle. The first half year following mid-terms has been positive since 1946. Of course, markets have plenty of risks: war, energy supply, a hawkish central bank, to name just a few. Still, we have confidence that investors with a strategic investment process that navigates changing cycles will deliver results.

Marcum Wealth Asset Allocation Frameworks

	Income	**Conservative**	**Balanced**	**Moderate**	**Growth**
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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