MARCUM WEALTH

Strategy Newsletter – 2nd Quarter 2023

- The debt ceiling, dollar reserve status, and bank deposit flight are all on the minds of investors.
- Earnings expectations turned negative while certain pockets look attractive for the long-term.
- Bonds have done well recently despite the Fed's continued rate hikes.
- Commercial real estate concerns come into focus.

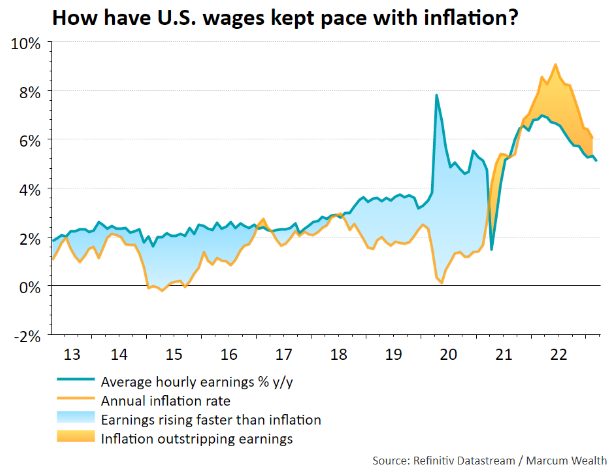
Economy

There are plenty of questions around the macro economy that keep people up at night.

Ever since August 2011, there have been debates about raising the federal government debt ceiling. In that episode, bonds rallied on the news and interest rates fell, contrary to most forecasts. Stocks corrected as well, with many fearing a double-dip recession. Prices recovered by the spring of 2012.

Each successive debate ended with less fanfare. We are again reaching that point with the debt ceiling. It seems like an "own goal," to borrow a soccer term. Ultimately, we see the situation being resolved, but the timing is always the question.

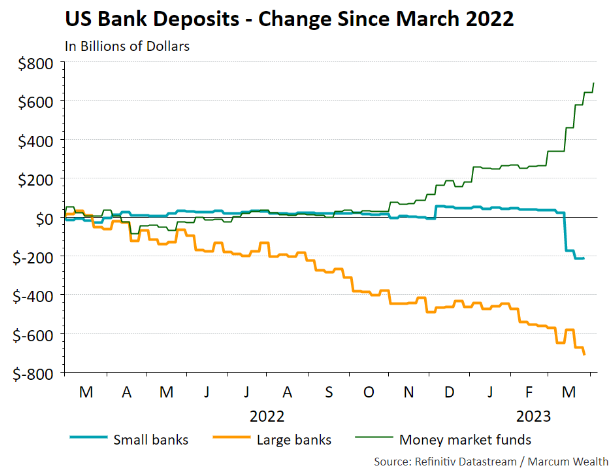
Will inflation finally come down?



Consumers felt the price pain since 2021. We've seen improvements in the annual change in consumer prices for nine straight months. The bigger question is how long wage gains will stay high and push the trajectory of inflation up.

Will the U.S. dollar lose its reserve currency status? We do not see it any time soon. The dollar makes up 60% of foreign country currency reserves and nearly 90% of financial transaction volume around the world. The rule of law here is still better than alternative countries like China, which matters in placing your faith in a currency.

There are usually problems when the Fed hikes interest rates. Silicon Valley Bank was the first headline problem in the banking industry with the interest rate hikes. Can banks withstand the withdrawals? Investors flocked to money market funds and withdrew deposits, and this accelerated in the last 5 months.



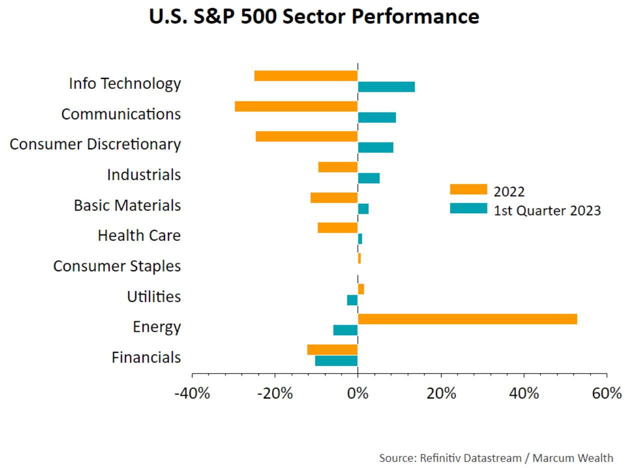
This may not be the last issue we see as interest rate hiking cycles impact the economy with a lag of one to two years.

Equity

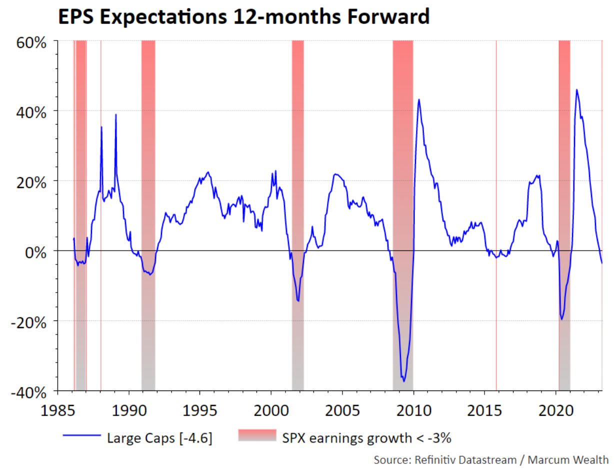
Despite all of the negativity, stocks posted gains for the second straight quarter. Growth took the lead over value in the U.S. and developed international markets. Large caps beat out small caps.

U.S. Equity	1Q 2023
Large Cap Stock	
S&P 500	7.5%
Small & Mid Cap Stock	
S&P 400 Mid Cap	4.2%
S&P 600 Small Cap	2.6%
All Cap Style Indices	
S&P 1500 Value	5.0%
S&P 1500 Growth	9.2%
International Equity	**1Q 2023**
MSCI EAFE	8.6%
MSCI EAFE Value	6.1%
MSCI EAFE Growth	11.2%
MSCI Emerging Markets (EM)	4.0%
MSCI EM Value	4.0%
MSCI EM Growth	4.1%

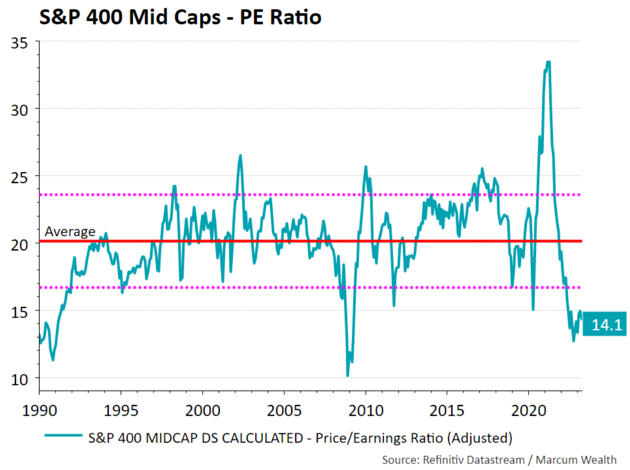
Many sectors bounced back during the first quarter. After a difficult 2022, technology, communications, and consumer discretionary led the way. These sectors tend to have larger weighting in growth indices and helped style beat value. While energy was the big winner last year, it fell behind only financials in the first quarter.

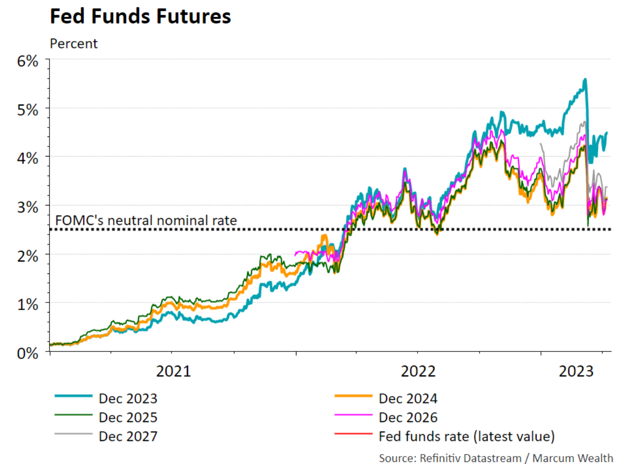


Earnings for the S&P 500 keep falling. It may be surprising, but the returns one-year later at these levels are similar to periods of growth. In fact, markets have shown strong returns historically when earnings are forecast to fall 15% in the year ahead. Right now, the forecast is for a drop of 4.6%.



While large cap valuations are above average relative to history, both small and mid-cap stocks started to discount an earnings decline. Below is the trailing price-to-earnings ratio for the S&P 400 Mid Cap Index. At just 14x earnings, it's in the bottom 5% of its history. It was lower only during the recessions in 1990 and 2008-09.





We continue to seek out global opportunities with skilled investment managers. The Marcum Wealth Asset Allocation Frameworks hold a small overweight to equities.

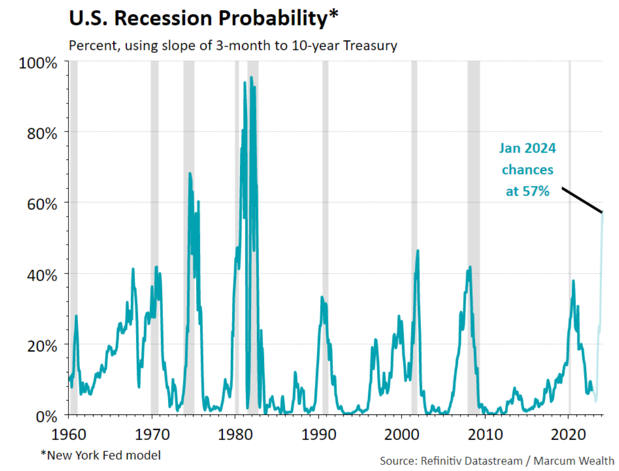
Fixed Income

Bonds quietly posted a second straight quarter of positive returns. Yields fell as the 10-Year Treasury started at 3.83% and ended the quarter at 3.48%.

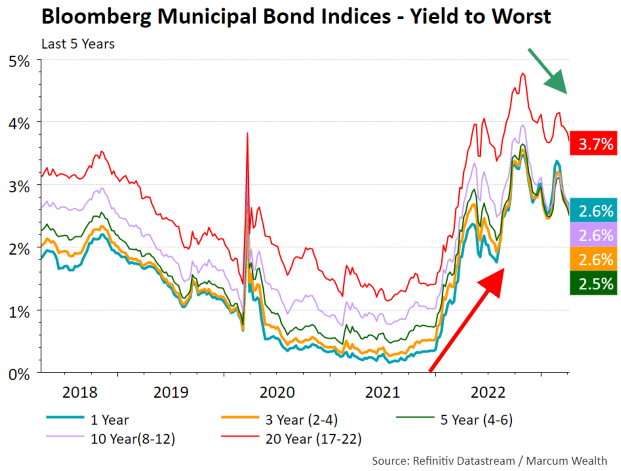
Fixed Income	1Q 2023
Bloomberg U.S. Aggregate Bond	3.1%
Bloomberg Corporate Inv. Grade	3.6%
Bloomberg High Yield Bond	4.1%
Bloomberg Global ex. U.S. Treas.	4.1%
Bloomberg Municipal Bond	3.0%
Bloomberg TIPS	4.8%

Did markets see the last interest rate hike in March? This increase brought the Fed funds rate to 5%. Or will we see one or two hikes in the second quarter? There are a range of outcomes for where the Fed funds rate will end the calendar year of 2023. Markets judge the highest probability as a cut from today's level, then see more cuts on the way.

Wherever the Fed funds rate ends up, it is far above the neutral level. Being in restrictive territory to combat inflation brings an increased risk of recession. Chairman Powell has avoided talking much about the inverted yield curve as it portends an economic downturn. But now that the Fed's most-watched curve is quite inverted, it probably has his attention. Research from the New York Fed shows when the 3-month Treasury yield is greater than the 10-year Treasury yield, the risk of recession is high. Indeed, there have been no false positives. The indicator is flashing ahead.



Given increased risk with the economic outlook, we have been adding to one of the areas with the lowest default risk – municipal bonds. After rising for the first 10 months of 2022, municipal bond yields reside at 7-month lows.



Inflows into municipal mutual funds and ETFs turned positive in January. This is a positive change in sentiment for the asset class looking forward and happened following outflow periods in 2013, 2016, 2018, and 2020.

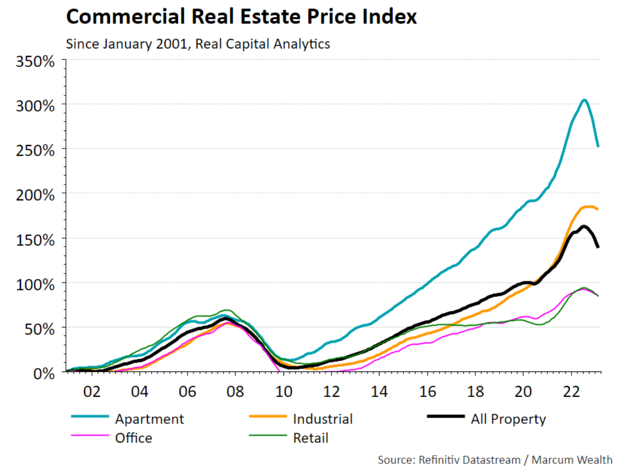
While portfolios hold an underweight in dollar amounts to fixed income assets, the makeup of the yield and interest rate duration puts portfolios in line with strategic benchmarks.

Real Estate

REITs showed stability partly due to interest rates coming down. The volatility in the financial sector during March led to a decline.

Real Estate	1Q 2023
Wilshire U.S. REIT	3.3%
Wilshire Int'l REIT	0.2%

The Real Capital Analytics All Property Index, which tracks private market values, shows a 9% decline since July 2022. The drop in transaction volume is leading to wide spreads between asking price for buyers and bids from sellers.



Meanwhile, public REITs sit near 15-month price lows, down nearly 30% from the peak. Since public REITs tend to lead private markets, the trend down looks like it may continue.

With interest rates up over the past year, the cost to roll over debt put downward price pressure on certain sectors, like office properties, due to the work-from-home trend, which may have permanently impaired the price of assets. Real estate operators with a process for buying, fixing, and leasing buildings will be in good position to take advantage of distress.

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

Summary

The second quarter in the third year of the Presidential cycle marks the end of one of the best seasonal periods for markets. Momentum across asset classes is now positive for nearly every style, sector, and strategy. Notwithstanding these optimistic signals, we remain cognizant of the risks to the outlook. There remain opportunities across many asset classes for investors with a long-term outlook.

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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