ADVISER
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WEALTH ADVISORY GROUP

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Adviser Outlook

The markets experienced a shaky moment in March when Silicon Valley Bank failed, triggering a chain reaction that required the Federal Reserve to step in and reinforce the suddenly beleaguered banking sector. But investors soon shrugged off fears of a wider crisis, and the Fed was confident enough in the stability of the financial markets to raise interest rates at its next policy meeting as part of its ongoing fight against inflation.

So, where do we go from here? While we expect increased noise surrounding the debt-ceiling debate and conflicting opinions in the months ahead on whether the U.S. economy is in recession, the following themes are foremost on our radar when it comes to the investment portion of your long-term financial plan.

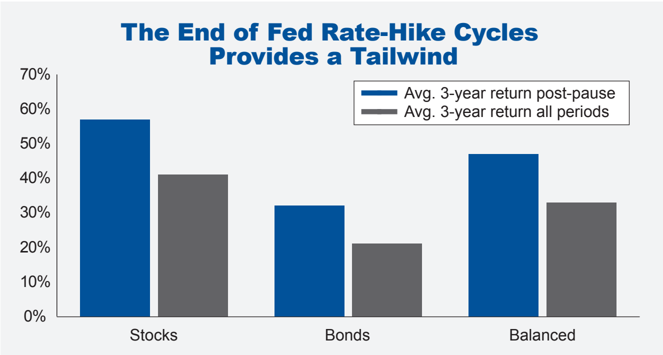
QUICK TAKES

- ✔ **Stocks gained in the first quarter even as the Federal Reserve continued to raise interest rates in its ongoing fight against inflation. When the Fed eventually pauses its campaign, it is likely to create a tailwind for stocks and bonds.**
- ✔ **Our approach to narrow market conditions is to manage risks through portfolio diversification. The trends driving performance today could switch direction unexpectedly, for this reason, we are positioning assets to account for a range of short- and intermediate-term outcomes.**
- ✔ **The market and economic themes we cover are important in the context of your long-term goals, and your advisor is informed and ready to ensure that your financial plan is meeting your personal priorities.**

Spring Themes

The Fed will dominate the market narrative, with its every policy move and utterance under scrutiny. The central bank has been engaged in a concerted effort to reduce inflation, which spiked to as high as 9% in 2022, by cooling down the economy. The banking mini crisis created some additional uncertainty around what policymakers might do to accomplish their dual mandate of price stability and maximum employment.

While the Fed went ahead with a rate hike in March, there is growing sentiment that it may soon be time for a pause or even a reversal of its interest-rate policy if we are to avoid the "hard landing" of a prolonged recession in the U.S. Right now, some indicators lend weight to the argument that it's time to pause (the stress high rates put on the financial sector) even as others point to the need for more hikes (stubbornly high inflation, a strong job market). We're not in the business of economic forecasting, but soon, this rate-hike cycle will end and the Fed will pause. These kinds of shifts have historically provided a tailwind for both stocks and bonds.



Note: Chart shows the average three-year total return for stocks (S&P 500 Total Return index), bonds (Bloomberg U.S. Aggregate Bond Total Return index) and a balanced portfolio rebalanced monthly (60%/40% S&P 500/Bloomberg U.S. Aggregate Bond) from the end of the month when the Federal Reserve completed a period of hikes to the fed funds rate, alongside average three-year total returns over all rolling month-end periods from August 1984 through December 2021. For illustrative purposes only. It is not possible to invest directly in an index. Sources: Morningstar Direct, Adviser.

Turning our view to the job market and rising prices, which are interrelated, we're seeing signs that Fed policy is working to slow the pace of inflation (though at 5% in March it was still well above the target rate of 2%). We expect to see the job market soften later this year and the unemployment rate begin to rise—job creation slowed in March, as did wage growth. The recent weakness in the banking sector will only add to this pressure. A cooler job market would support a Fed pause.

Two additional themes may appear at odds with each other—but both point to the value of diversification in a portfolio. We've seen a reversal of fortune in the outperformance trend between growth and value stocks, as well as between U.S. and foreign stocks. Value beat growth by 10% in Q4 2022, but growth is ahead by 13% this year through Q1. And developed foreign stocks are outpacing U.S. stocks by 1% in Q1, building on a 10% advantage in Q4 2022 and reversing a multiyear trend of U.S. outperformance. It would be easy to point to these shifts as a reason to build concentration in those winning segments and allocate less to the losers. But that would require buying high and selling low while taking on additional investment risk by sacrificing diversification.

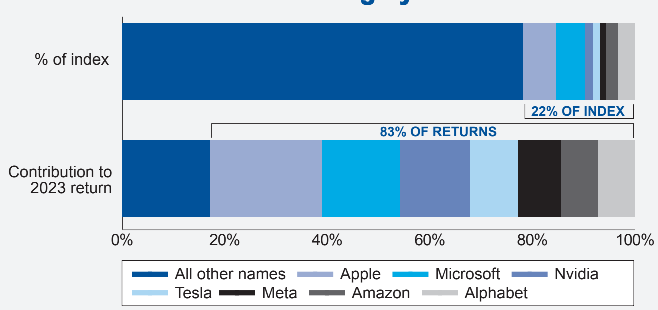
Speaking of concentration, we're again seeing a handful of stocks dominating the S&P 500 index. In fact, it is so extreme today that just seven companies' stocks (Apple, Microsoft, Nvidia, Tesla, Meta, Amazon and Alphabet), which add up to 22% of the overall index, account for an outsized 83% of the S&P 500's 7.5% year-to-date return through March.

Two takeaways here: First, it's anyone's guess how long this group's outperformance lasts, but when traders move away from these stocks, the swing from leading to lagging could be dramatic for portfolios heavily invested in them (the same goes for portfolios tilted toward the growth/value and U.S./foreign trends). The second takeaway is that outsized gains like these could lead an investor to measure the success of their investment strategy or financial plan against just what's making news. This tendency is common, but it can become counterproductive if it leads to chasing short-term performance.

We firmly believe in managing to our clients' plans and not a market benchmark. This is why we monitor short-term market performance but advise clients not to make far-reaching decisions based upon what's in the financial headlines—they are ultimately a distraction from your personal goals, which have far more to do with a lifestyle and legacy than an arbitrary yardstick like the S&P 500 or the Dow Jones Industrial Average.

That said, we view economic and market analysis as just one of the tools we can employ on your behalf. It helps us align your investment portfolio with your larger financial plan, keeping you positioned to advance toward your goals. Our investment philosophy is based on controlling costs, diversifying assets and putting the power of compounding over time to work for you. These principles have been foundational to our approach since day one, and we believe they are as relevant as ever now.

S&P 500 Returns Are Highly Concentrated



Note: Chart shows index allocations to the seven top-performing names in the iShares Core S&P 500 ETF (a proxy for the S&P 500 index) along with their contributions to the index's year-to-date return as of March 2023. Sources: Morningstar Direct, Adviser.

ADVISER'S QUARTERLY WEBINAR

WEDNESDAY, APRIL 26, 2:00 PM EDT

Register at: AdviserInvestments.com/webinar

A replay will be posted to our website following the live event.

The Adviser Advantage & the Polaris Promise

Like your financial plan, which we continually revisit and revise, Adviser and Polaris are evolving to better meet your changing needs.

Led by Chief Executive Officer Mario Ramos, Head of Wealth Management Steve Reder, President of Polaris and Head of Wealth Services Chris Thom, and Chief Investment Officer Tim Clift, we are broadening our capabilities to meet you where you are. This means adding new services, refining existing offerings and, most importantly, making sure we understand what matters most to you so that your plan is tailored to your personal priorities.

Our advisors—who have decades of experience helping clients navigate a wide range of market environments and life events—have found that the steepest challenge people face when it comes to their money is achieving peace of mind, not selecting specific investments. How we feel about our finances and how this sways our decision making is the most influential factor in an investor's success.

That's why we want to know what makes you nervous, what makes you feel safe and what gives you joy. Our goal is to partner with you to find your path to financial freedom and determine what success looks like for you and your family. As much as possible, we want to relieve you of financial stress in your day-to-day life so that you have the time to focus on what you enjoy.

Your wealth advisor is uniquely equipped to guide you through each stage of life. Whether you are building your wealth, starting a family, figuring out what to do with stock options, succession planning for your business, entering retirement or creating a legacy plan, your advisor, supported by our deep bench of investment, planning and tax professionals, will help you every step of the way.

Please reach out to your wealth advisor at any time—your trusted partner is here for you.