April 18, 2023
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Todd Asset Management

Back to a Narrow Market

TAM US Q1 2023 Review and Outlook Chartbook

	1Q 2023	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
S&P 500	7.5%	-7.7%	18.6%	11.2%	12.4%	12.2%
Russell 1000 Value	1.0%	-5.9%	17.9%	7.5%	9.0%	9.1%

* *Annualized Total Returns.*

Good first quarter returns for the S&P were primarily driven by ten former growth darlings that had a countertrend rally in Q1. After a volatile quarter for rates and sentiment that favored growth, we expect the value stocks should see a resurgence in coming quarters.

Back to a Narrow Market

Through April 4, ten stocks (mostly tech former darlings) accounted for 90% of the S&P YTD gain.

Source: Strategas- Daily Macro Brief 4-5-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Major points

- The **largest 10 stocks** (slightly different than the list above) in the S&P **rose an average of 31.3%** during the quarter. Most were former tech darlings enjoying a countertrend rally as liquidity flooded the system. **The remaining 490 stocks rose 3.2%.** The S&P index rose 7.5%
- **Higher rates** and a **withdrawal run on several banks** in early March prompted the **Fed to pour money into banks** to prevent more systemic risks. Their actions stopped the bank run, but now *investors worry the ensuing tighter credit environment will lead to recession.*
- Growth trounced value in the quarter (see the winners above) but history suggests this countertrend rally is almost over. **We think growth stocks remain in a secular bear market**.
- **Investors expect a Fed Pause** soon. **Inflation is moderating**, but perhaps not enough for a pause. Meanwhile, **lower rates since the bank crisis could encourage spending and hiring**, while the labor market remains very tight. **Equities probably remain in a trading range** while the tug of war between expected growth and recession fears play out.

Sentiment has shifted dramatically and quickly during the quarter. We ended last year with consensus expecting a hard landing, which shifted to a soft landing in January, No landing in February and a recession in March. US Government 10-year rates bounced from 3.4% to around 4% twice during the quarter on swings in investor sentiment. Two-year yields had even wider swings, moving from over 5% to under 4% in the month of March alone. Sentiment that can change on a dime (with conviction) makes for a difficult environment. Leadership has been a narrow group of stocks that we believe are rallying in a longer-term bear market for the growth stocks. When we have seen rebounds like this before, they usually ultimately give way for the new trends. In this case that would imply a rotation back towards the more capital intensive and value-oriented stocks, something we believe plays out of the rest of the year.

We believe a capital cycle is unfolding, and years of underinvestment in old economy companies needs to be fixed. There is little spare capacity in energy and other raw materials. China is re-opening and assuming the rest of the world avoids recession for now, prices are poised to work higher. Investment is needed for infrastructure spending, re-shoring manufacturing investments, new- green energy initiatives, Commodities production, and last (but not least) defense spending. This investment spending needs to be financed, so banks should benefit from that, especially if upward pressure on rates allows for higher net interest margins. Investors worry that deposit rates are likely to increase, so we will be watching the upcoming earnings reports for guidance on that front.

As we look forward, we believe there are few excesses in the consumer or corporate balance sheets. You can point to some areas of speculative technology and real estate (offices and retail) as having overinvestment. Deep recessions usually are driven by a wide swath of consumers and companies over investing in housing or capital or real estate. We are not seeing that now. Higher rates have led to higher recession risk (and bank risk), but if we resolve the recession/soft landing debate and get into a recovery next year, the outlook for equities should be good after that. Until then, a trading range with rotation towards value is our base case, and international stocks should do well in that environment.

Factor Analysis

Factors- Value lagging YTD

As of 3/31/2023

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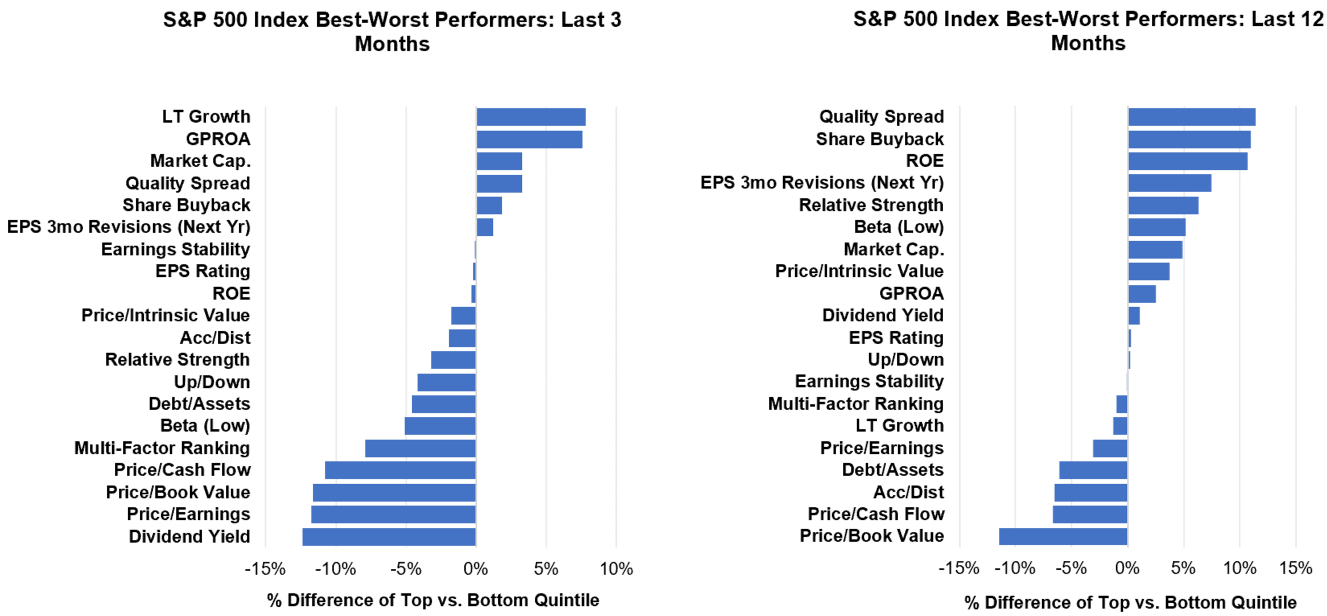


Higher Growth factors worked in Q1 while Value factors lagged.

Data Source: Bloomberg, William O'Neill & Co. and TAM. The noted index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs. The volatility of the index and a client account will not be the same.

The Nasdaq bear market was the big story last year. Higher multiple speculative stocks and asset classes got crushed as rates rose. The first quarter was the inverse of that as we experienced a countertrend rally (documented in the following charts). Investors paid up for growth stocks and as low valuation stocks saw profit taking while the most expensive outperformed. Over the past year, quality measures were the best, as investors worried about the growing possibility of recession.

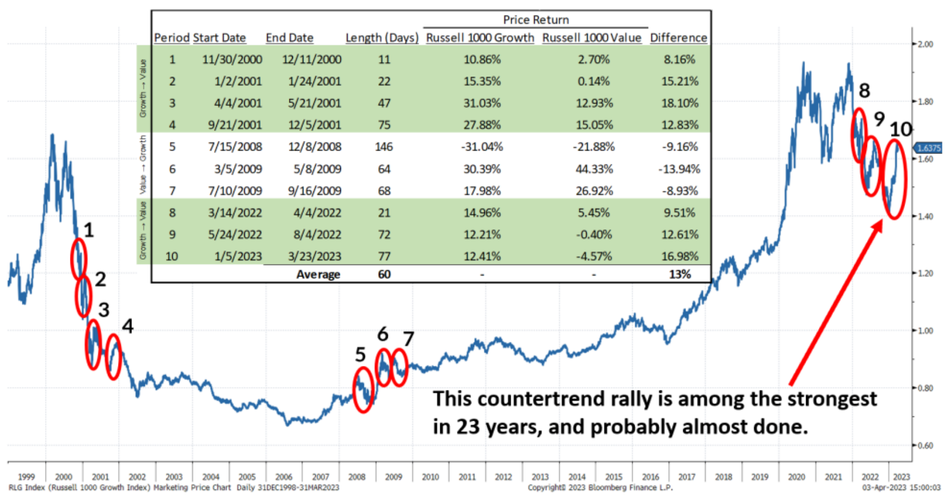
Countertrend rallies have predictable patterns and tend to end after a certain magnitude of a rebound. Our sense is that this has already occurred, and we expect the cyclical/value trade to reassert itself as the year progresses.

Charts we are sharing with our clients.

Countertrend Rallies are Violent Around Rotations

As of 3/31/2023

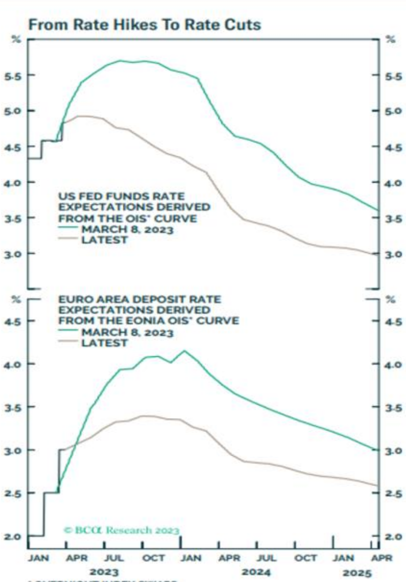
Going Against the Grain- Countertrend Rallies In Long Term Trends



	Period	Start Date	End Date	Length (Days)	Price Return: Russell 1000 Growth	Price Return: Russell 1000 Value	Difference
Growth → Value	1	11/30/2000	12/11/2000	11	10.86%	2.70%	8.16%
	2	1/2/2001	1/24/2001	22	15.35%	0.14%	15.21%
	3	4/4/2001	5/21/2001	47	31.03%	12.93%	18.10%
	4	9/21/2001	12/5/2001	75	27.88%	15.05%	12.83%
Value → Growth	5	7/15/2008	12/8/2008	146	-31.04%	-21.88%	-9.16%
	6	3/5/2009	5/8/2009	64	30.39%	44.33%	-13.94%
	7	7/10/2009	9/16/2009	68	17.98%	26.92%	-8.93%
Growth → Value	8	3/14/2022	4/4/2022	21	14.96%	5.45%	9.51%
	9	5/24/2022	8/4/2022	72	12.21%	-0.40%	12.61%
	10	1/5/2023	3/23/2023	77	12.41%	-4.57%	16.98%
			Average	60	-	-	13%

Source: Bloomberg, FTSE Russell, Todd Asset Management. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

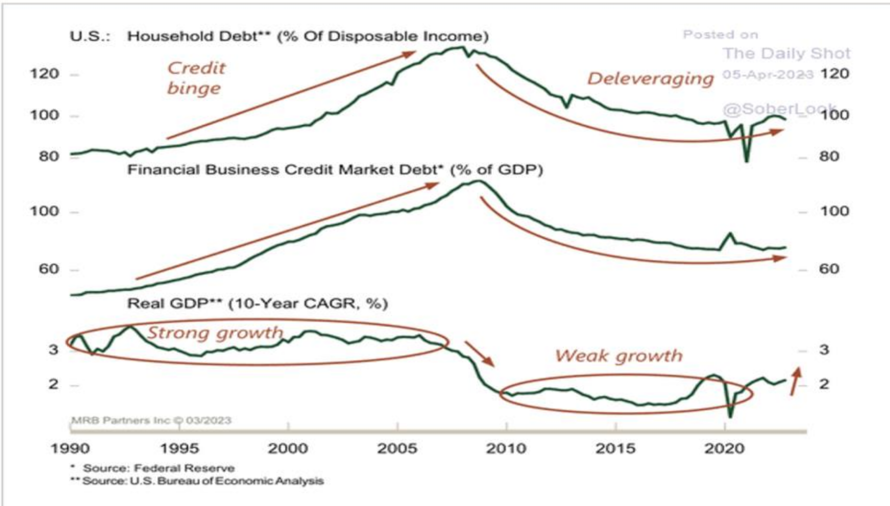
Post Bank Failures- Are Central Banks Done?



- Central banks speak hawkishly, and yield curves are inverted. Investors think tightening cycles are over following crypto and speculative bank failures.
- Chart shows expected short rates from the Fed (top panel) and ECB (bottom panel). Green line- before the bank failures. Grey line- after failures at 3/30/23
- Expectations shifted much lower post failures. Consensus is further modest tightening to be followed quickly by rate reductions.
- Markets worry about recession. Earnings season should offer updated guidance.

Source: BCA Second Quarter 23 Strategy Outlook: 1998 or 2008? 3-30-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

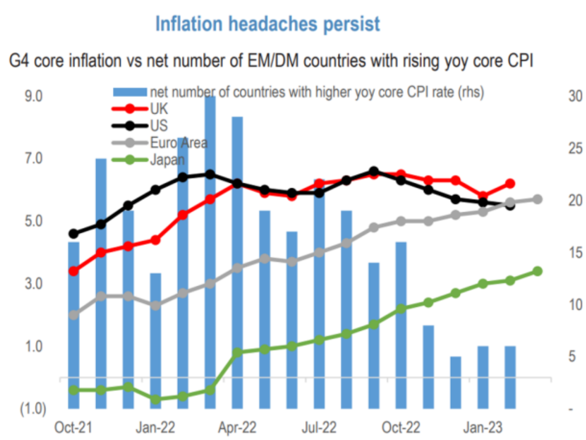
Don't Get Too Bearish- Debt Paydowns Post GFC are Complete



Debt paydown after the GFC binge has depressed growth since 2008. That paydown appears complete and should lead to better growth.

Source: Daily Shot 4-5-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Don't Get Too Bullish- Inflation Remains Sticky

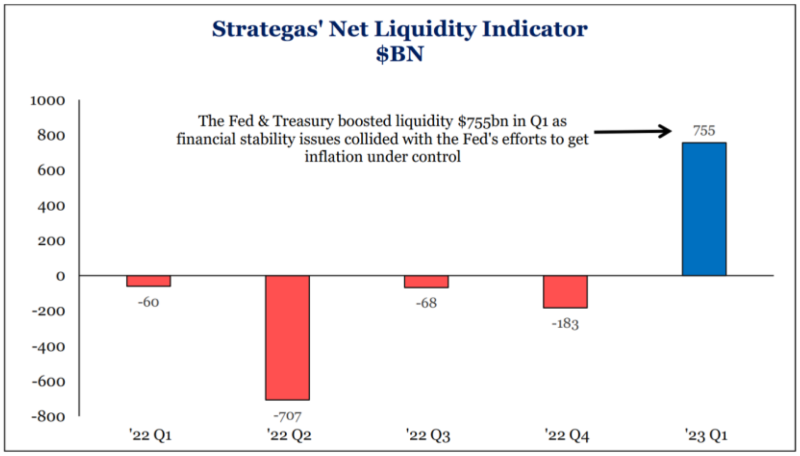


Source: J.P. Morgan

Inflation remains persistent in most developed markets. This needs to change for central banks to be finished raising rates.

Source: JP Morgan Global Markets Strategy 4-3-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

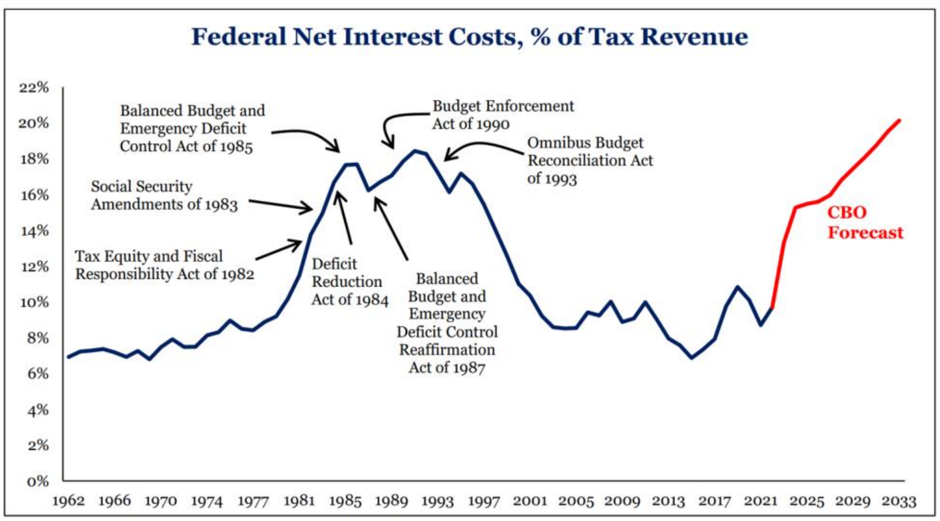
Liquidity Surged in Q1 on Stimulative Actions



- Liquidity surged as the Fed flooded the system with cash to alleviate regional bank stress and avert a larger crisis. This could reverse.
- Mega-cap Tech, Crypto and growth stocks were beneficiaries.

Source: Strategas Q Review In Charts 4-4-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

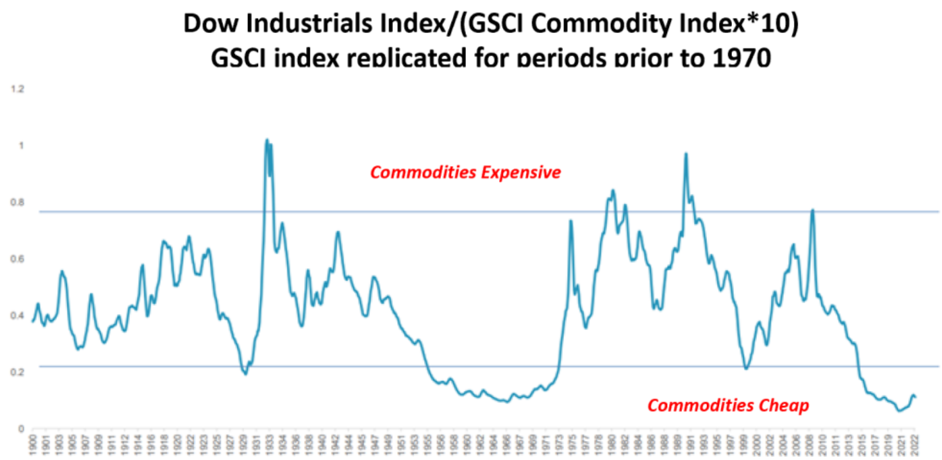
Higher Rates- More Concerning Long Term Than Debt Ceiling



- Higher rates and spending mean interest costs will dramatically rise.
- When net interest costs surpass 10% of revenue, curtailing government spending becomes a priority.

Source: Strategas Q Review In Charts 4-4-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

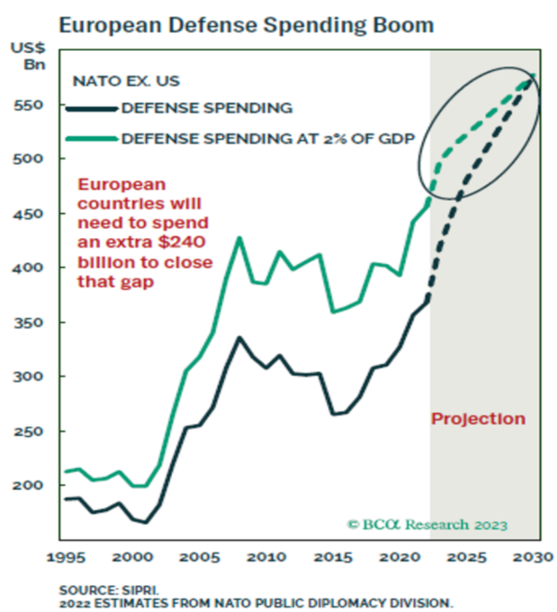
Commodities- Recovering from Historic Lows vs Stocks



- We like commodities as their 2008-2020 bear market has left them near 120-year lows compared to stocks. Their recovery should last years.
- A new capital spending cycle is needed, but not occurring yet. That means prices are likely to rise over time.

Source: Goehring & Rozencwajg Conference Presentation . Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Defense Spending Set to Surge



- War in Europe has prompted a swift ramp in defense spending.
- Europe has fallen short of NATO's 2% of GDP annual target spending. Catching up will cost $240B annually.
- As Europe, Japan, South Korea, Taiwan and others evaluate defense needs, they should dramatically rise.

Source: BCA European Investment Strategy 3-20-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Oil Market Deficits Point to Higher Prices

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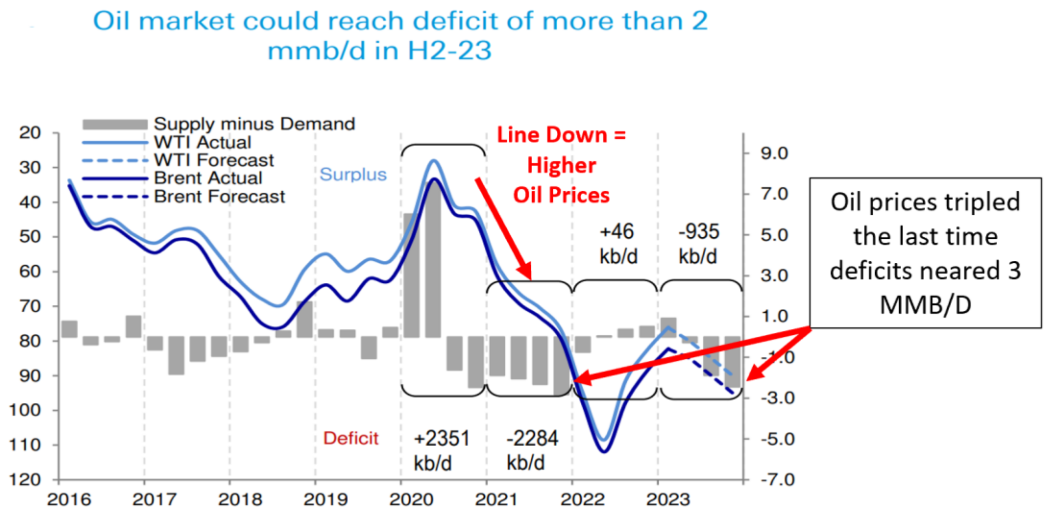

Source : IEA data from Monthly Oil Data Service © OECD/IEA 2023, www.iea.org/statistics, Licence:www.iea.org/t&c; as modified by Deutsche Bank

Source: Deutsche Bank Oil Outlook 4-4-23. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Bank Credit Default Swaps: Elevated but Contained

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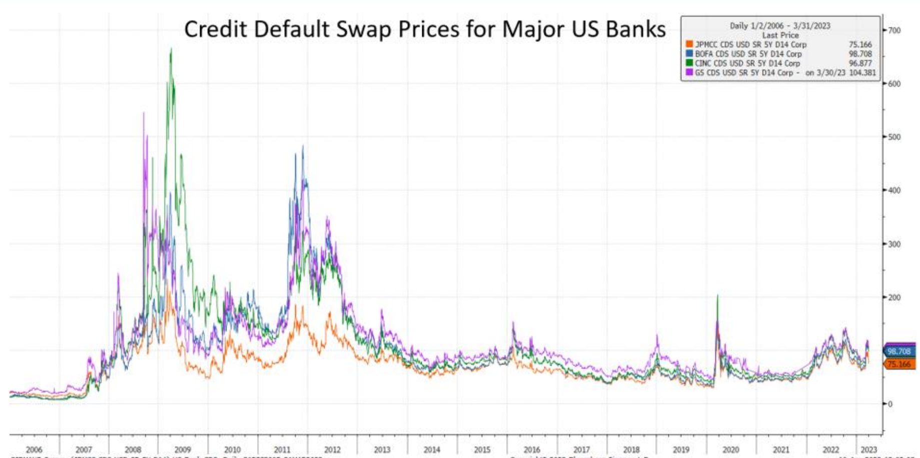
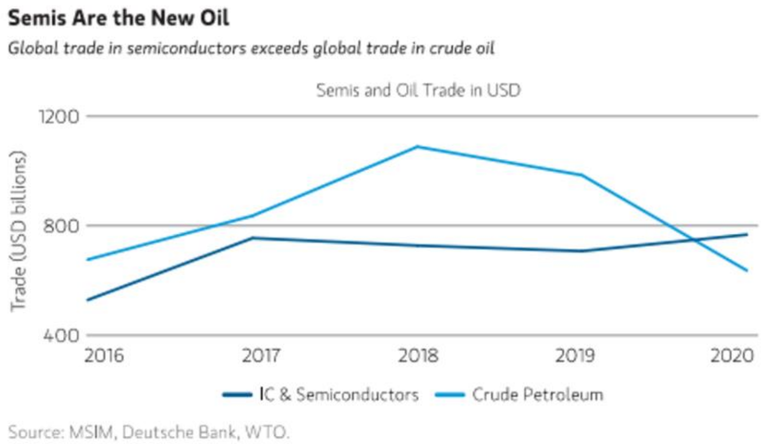
As of 4/10/23



Credit Default Swap prices gauge risk levels for banks. Prices have increased but are not at records. We expect them to decline as concerns ease.

Source: Bloomberg- CDS prices for JPM, GS, BAC, C. Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Commentary may contain subjective judgements and assumptions subject to change without notice. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Technology- Are Semis the New Oil?



- Global Trade in Semis overtook Oil for the first time in 2020.
- Chips are subject to trade restrictions and industrial policy from major developed market governments, as they wish to retain dominance.

Source: Morgan Stanley Investment Management- Themes for 2023 . Commentary is based on information as of the date of this presentation. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but are not guaranteed. See additional disclosure at the end of this presentation.

Current Situation:

We believe the recent reprieve that growth stocks have seen is a rally within a secular bear market. Earnings season will probably give us a good read on fundamental trends within the market. Europe is expected to have better earnings trend than the US and Asia, something that should increase investor interest in those markets. Many strategists are very bearish on economic prospects globally. **We believe economic growth in international markets is probably poised to improve as China reopens** their economy. Until the US and European recession questions are resolved, markets probably track sideways in a range. Higher rates have led to higher recession risk (and bank risk), but ***if we resolve the recession/soft landing debate and get into a recovery next year, the outlook for equities should be good after that.*** Until then, a trading range with rotation back towards value is our base case.

As always, if you need any additional information, please feel free to contact any of us.

Curt Scott, CFA
Jack White, CFA
Jack Holden CFA
Shaun Siers, CFA

04/17/2023
S&P 500 – 4,151
Russell 1000 Value –1,529

Refer to the following page for more information on the commentary presented. This is pertinent to this letter and should not be reproduced or duplicated without this disclosure.

The indexes used in this letter are unmanaged, and not available for direct investment. They do not include the reinvestment of dividends, nor do they reflect management fees or transaction costs.

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks. The performance data was supplied by Standard & Poor's. It is included to indicate the effect of general market conditions.

Russell 1000 Value Index is a widely recognized index of market activity based on the aggregate performance of common stocks from the Russell 1000 Index, with lower price-to-book ratios and lower forecasted growth values. The performance data was supplied by Frank Russell Trust Company.