



A Freedom Advisors Company

2023 1st Quarter Market Commentary

Investors Flee for the Safety of Long Duration Assets



Key Benchmarks: Performance and Characteristics as of 3/31/2023

Equities	MTD	QTD	YTD	1-Yr Fwd P/E: Current vs 10-Yr Range	
S&P 500	3.7%	7.5%	7.5%	18.3x	
MSCI EAFE	2.5%	8.5%	8.5%	13.1x	
MSCI Emerging	3.0%	4.0%	4.0%	11.8x	

Fixed Income	MTD	QTD	YTD	Real Assets	MTD	QTD	YTD
Bloomberg Barc U.S. Aggregate	2.5%	3.0%	3.0%	US REITs	-1.7%	1.8%	1.8%
Bloomberg Barc US High Yield	1.1%	3.6%	3.6%	GSCI Commodities	-1.1%	-4.9%	-4.9%
Bloomberg Barc Global Agg ex U.S.	3.7%	3.1%	3.1%	GSCI Prec Metals	8.3%	7.4%	7.4%

Data Source: Bloomberg

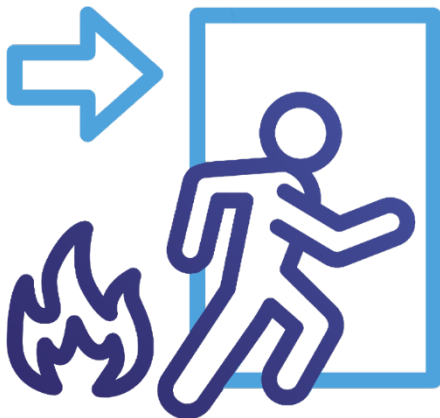
March and 1st Quarter 2023 Highlights:

- Global equity markets ended on a high note following a volatile sell-off in February as investors sought to look past U.S. and European banking pressures, piling into the growth certainty of technology stocks. With inflation pressures appearing to abate amidst further signs of consumer and business spending slowdowns, investors continue to position for a soft landing, hoping that the Federal Reserve eases policy by cutting rates while avoiding an outright recession. The MSCI All-Country World Index (ACWI) rose 3.1% for the month of March and 7.4% for the 1st quarter of 2023.

- Across major regions, Japan and U.S. markets outperformed the rest of the world in March, while Europe lagged, weighed down by troubles in the banking sector (Credit Suisse takeover by UBS), surrendering some of its QTD leadership. In March, MSCI Japan and the S&P 500 returned +4.0% and +3.7%, respectively, followed by MSCI Emerging Markets (+3.0%), MSCI Pacific ex-Japan (+2.8%), and MSCI Europe (+2.4%). In 1Q2023, MSCI Europe and the S&P 500 returned +10.6% and +7.5%, respectively, followed by MSCI Japan (+6.2%), MSCI Pacific ex-Japan (+4.1) and MSCI Emerging Markets (+4.0%). Bucking against recent flight-to-safety episodes, the U.S. dollar reversed its February recovery as the banking crisis could prompt a more dovish policy response from the Federal Reserve with the goal of stabilizing the financial system.
- Within the U.S., small caps underperformed large caps as the latter benefited from megacap growth technology companies that comprise an increasing concentration of market value across the main large cap indices, while S&P Pure Value underperformed Growth as the latter benefited from highly profitable companies trading at premium valuations. For the month of March, the S&P 600 Index returned -5.2% versus +3.7% for the S&P 500. S&P Pure Value underperformed Pure Growth, returning -6.6% versus -0.2%, respectively, both styles underperforming the S&P 500 Index. For 1Q2023, the S&P 600 Index returned +2.6% versus +7.5% for the S&P 500. S&P Pure Value underperformed Pure Growth, returning -1.9% versus +0.3%, respectively, both styles underperforming the S&P 500 Index.
- Across sectors, large cap growth stocks that comprise the majority of sector weightings across Technology and Communication Services along with defensive sectors such as Utilities and Consumer Staples outperformed in March while traditional cyclicals (Industrials, Energy, and Materials) lagged as well as Real Estate and Financials, the latter hurt by the sell-off in U.S. banks. Similarly, in 1Q2023, growth-focused sectors (Technology, Communication Services, and Consumer Discretionary) outperformed traditional cyclicals and defensives by a sizeable margin.
- Among major risk factors, in March, High Quality outperformed all the other major risk factors, benefiting from the flight to growth stocks while Value and High Dividend underperformed. Similarly, in 1Q2023, High Quality outperformed all other major risk factors by a considerable margin.
- In March, fixed income market returns recovered from the February sell-off and spike in interest rates as investors sought the safe haven of long duration assets in anticipation of an easing of Fed policy in response to the banking crisis. The Bloomberg U.S. Aggregate Bond Index returned 2.5% for the month while the Global ex-U.S. Aggregate Index returned 3.7%, helped by a weakening dollar against local currencies. Bloomberg Emerging Market Local Currency also outperformed U.S. fixed income, returning 3.8% for the month while Bloomberg US High Yield lagged, returning 1.1% for the month, as lower quality bonds did not benefit as much from the flight to long duration assets. For the quarter, the Bloomberg U.S. Aggregate Bond Index returned 3.0%, slightly underperforming the Global ex-U.S. Aggregate Index which returned 3.1%. Riskier fixed income sectors such as Bloomberg Emerging Market Local Currency and Bloomberg US High Yield outperformed global investment grade, returning 5.1% and 3.6%, respectively.
- The 10-Year U.S. Treasury yield ended the month at 3.5%, down from 3.9% at the beginning of the month, while the 2-10 Year term structure steepened sharply in March as the short-end of the curve dropped the most in anticipation of Fed rate cuts over the next year. However, inflation expectations implied by breakeven rates between TIPS vs Nominal Treasury yields remain elevated (yet lower than short-term breakeven rates).

- Within equity alternatives, Commodities and Real Estate underperformed Precious Metals in March as the former were weighed down by lower industrial metals and oil prices as well as volatility across the financial sector. The S&P GSCI Commodities Index returned -1.1% for the month and the Dow Jones REIT Index returned -1.7%. The S&P GSCI Precious Metals Index benefited from a rally in spot gold prices that briefly surpassed \$2,000/ounce, returning 8.3% for the month. For 1Q2023, S&P GSCI Commodities Index dropped 4.9%, while the Dow Jones REIT Index rose 1.8%, both underperforming the GSCI Precious Metals Index which rose 7.3% for the quarter.
- U.S. equity market valuations are now trading toward the higher end of their 10-year peak levels, while international markets are trading at median or below levels, despite U.S. dollar weakness. As market breadth narrows to a handful of generative AI beneficiaries and other promising future tech, other sectors are facing less pricing discrimination between top and bottom performing companies. As a result, more babies than bathwater may be found among the neglected non-growth tech sectors as well as some segments of the fixed income market that experienced relative value collateral damage from the banking fallout (such as commercial and residential mortgages). Time will tell whether the historically high multiples afforded to the technology sector can be justified with actual earnings growth.

Investors Flee for the Safety of Long Duration Assets



"People who invest make money for themselves; people who speculate make money for their brokers."

– Famed Value Investor Benjamin Graham

"For my part I know nothing with any certainty, but the sight of the stars makes me dream."

– Vincent Van Gogh

Source: istockphoto.com

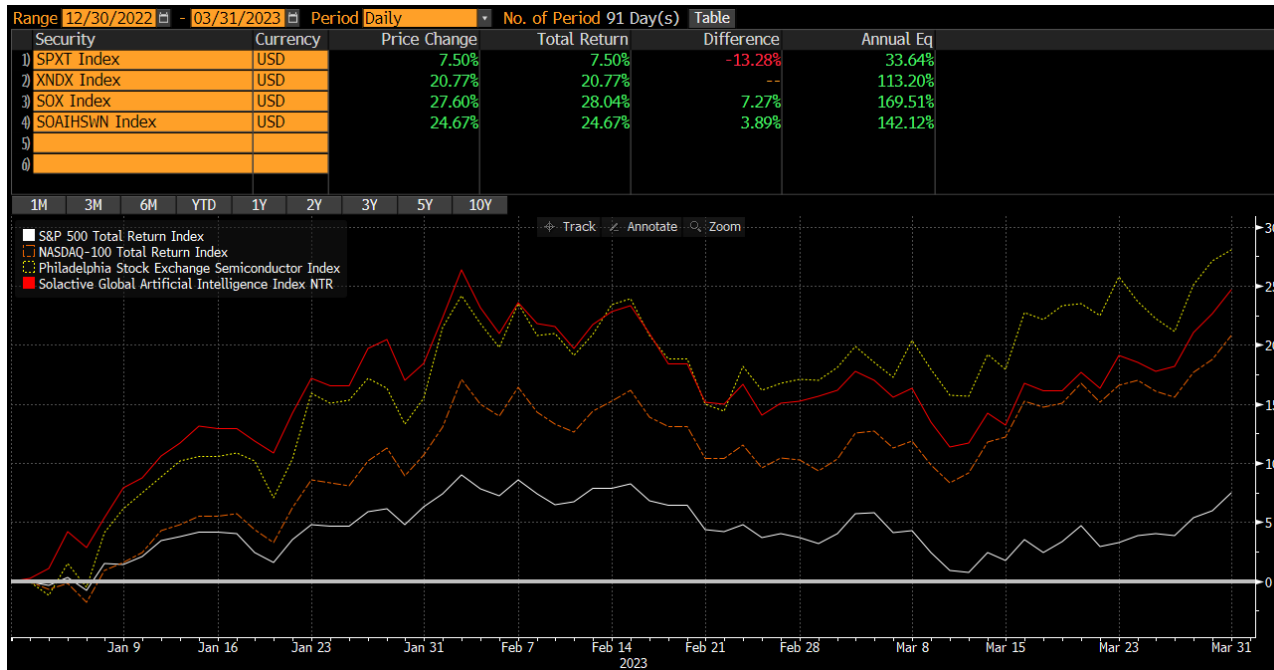
The first quarter of 2023 is now in the books and can be somewhat bluntly characterized by two extremes in investor sentiment: extreme highs for long duration assets (technology stocks trading at high valuations, long-term maturity debt securities, precious metals such as gold) and extreme lows for everything else (value stocks, especially beaten-down bank stocks, small caps, cyclical commodities). Essentially, the first quarter of 2023 saw a reversal of 2022 which saw inflation fears driving investors to favor cyclical value stocks and commodities while reducing exposures to long-duration assets such as expensive growth stocks and long maturity debt carried at historically low interest rates. The first quarter saw investors flee for the safety of long duration assets, whether expensive growth technology stocks viewed as immune to recessionary pressures or long maturity fixed income in anticipation of deflationary forces that would compel global central banks to ease monetary policies.

This quarter's backdrop for growth versus value investing could not have produced a greater dichotomy of distinctive odors (**Figures 1 and 2**); the sweet perfumy growth potential of generative artificial intelligence¹ (and the semiconductor investments needed to power such initiatives) versus the noxious fumes of banks² and insurance companies, whose balance sheets are overloaded with low interest-bearing assets, leaving them less able to compete for short-term capital that is fleeing for higher yielding money market funds and U.S. Treasury Bills. For the 1st quarter, technology growth stocks generally rallied more than 20% while regional bank stocks sold off more than 20%. It was truly a tale of two market fortunes this quarter.

¹ ["Generative AI Market Observes Strong Growth Potential, With Projected Market Size of USD 151.9 Bn by 2032"](#)

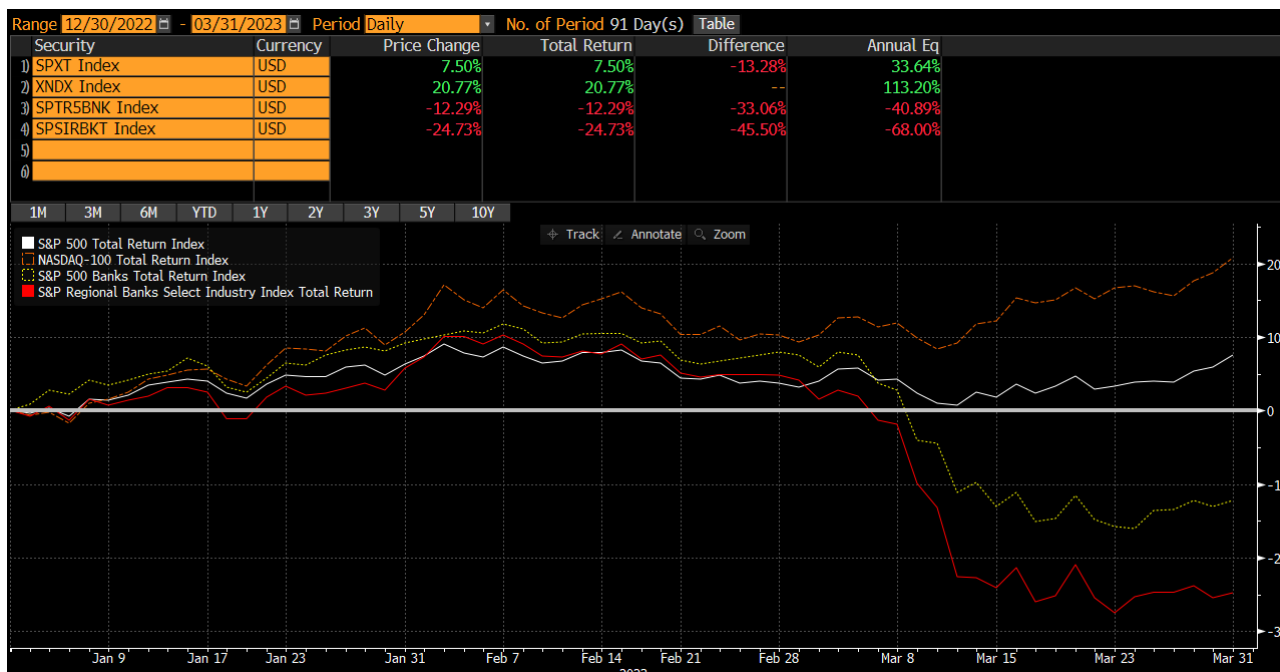
² ["After SVB Collapse, Are Bank Stocks a Buy or a Liability?"](#)

Figure 1 – Investors Seek the Safety and Sweet Aroma of Technology Growth Stocks (Nasdaq 100, Semiconductors, Global Artificial Intelligence)



Source: Bloomberg

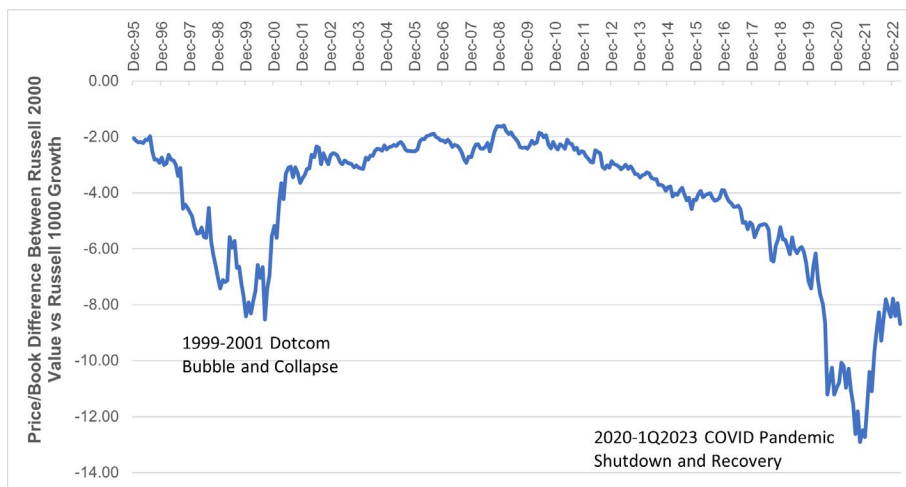
Figure 2 – Investors Flee from the Noxious Odors of Bank Stocks with Their Duration-Mismatched Balance Sheets



Source: Bloomberg

The diverging fortunes of technology growth stocks versus beaten-up financial value stocks can also be seen in the post-pandemic yawning valuation gap between the Russell 1000 Growth Index, dominated by large cap technology stocks, and the Russell 2000 Value Index, using price/book as the valuation measure (**Figure 3**). The historically wide valuation gap, much wider than the 1999-2000 dot-com period, appears to be taking on a more structural nature suggesting that investors are willing to pay a much higher premium to be invested in growth certainty, whether investing in the cloud, software-as-a-service, the digital metaverse, or now generative AI.

Figure 3 – Small Cap Value Stock Valuations (Price/Book) Remain at Historical Discounts versus Large Cap Growth Stocks in the Post-Pandemic Market Regime



Source: Bloomberg

The promising growth in generative AI applications remain mostly anecdotal at this point, although as we highlighted in our [February 2023 Market Commentary](#), many corporations are starting to mention AI initiatives in their quarterly conference calls that will help spur product innovation and/or increase operational efficiencies. Whether such promising prospects warrant structurally high valuation premiums is subject to debate. And small cap value stocks, weighed down by the troubled financial sector squeezed by higher interest rates, are compelling investors to demand a higher risk premium for owning small cap value in the first place.

The deposit beta and balance sheet duration-mismatch turmoil plaguing the banking sector (and spreading to life insurance) will likely weigh on near-term investor sentiment until some clarity is achieved on central bank tightening (are we close to the end of rate hikes?) and commercial credit deterioration (are loan losses expected to spike in the face of an economic slowdown?). We summarized the U.S. and European banking situation in this blog post ("[Remember Deposit Beta](#)") as well as two video updates recorded in the latter half of March 2023 ([3/17/23 update](#) and [3/24/23 update](#)). In addition, we encourage readers to listen to our [March 2023 podcast](#) with Ken Shinoda from DoubleLine Capital.

With respect to quarter-end developments, the bank deposit flight appears to be abating³ with some analysts characterizing the deposit flight as mostly large uninsured accounts⁴ moving to Tier 1 banks, which are more tightly

³ [@FedGuy12](#) (Joseph Wang): <https://twitter.com/FedGuy12/status/1642615424255938560>

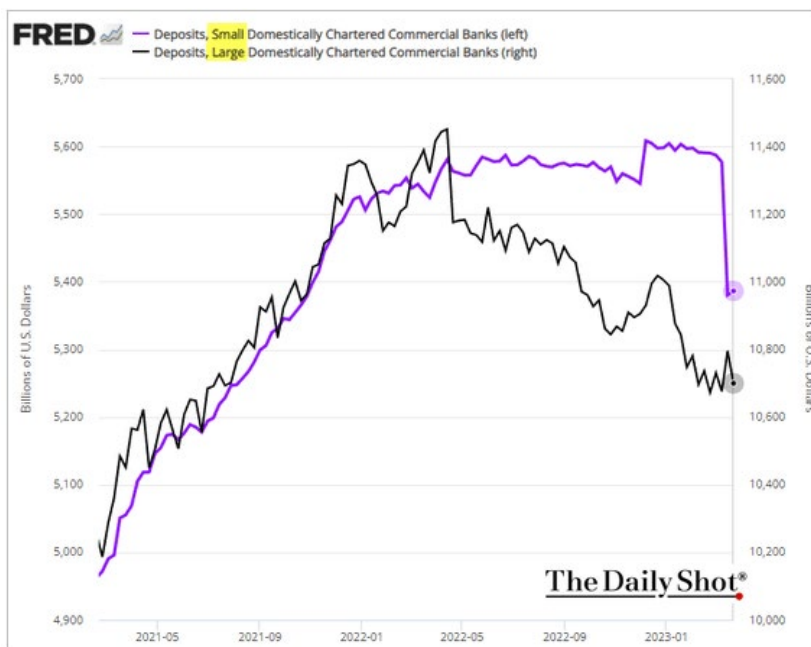
⁴ [@FedGuy12](#) (Joseph Wang): <https://twitter.com/FedGuy12/status/1642559485767192577>

regulated, or into money market funds investing in U.S. government securities. The FDIC was able to auction off some of the assets and business units of SVB Financial and Signature Bank⁵, although the deposit guarantor ended up with problematic loans while having to make some guarantees on future losses. The U.S. banking system has experienced about \$500 billion in net outflows throughout March (Figure 4) although small bank outflows may have reached a peak for now (Figure 5). In the end, deposit flight may have reflected more banking concerns than the pursuit of higher yields.

Figure 4 – U.S. Banks Had Seen \$500 Billion Net Deposit Outflows Throughout March



Figure 5 – Some Relief in Sight for Small Banks as Deposit Outflows Appear to Bottom



⁵ “First Citizens to Buy SVB After Biggest Failure Since 2008” Bloomberg

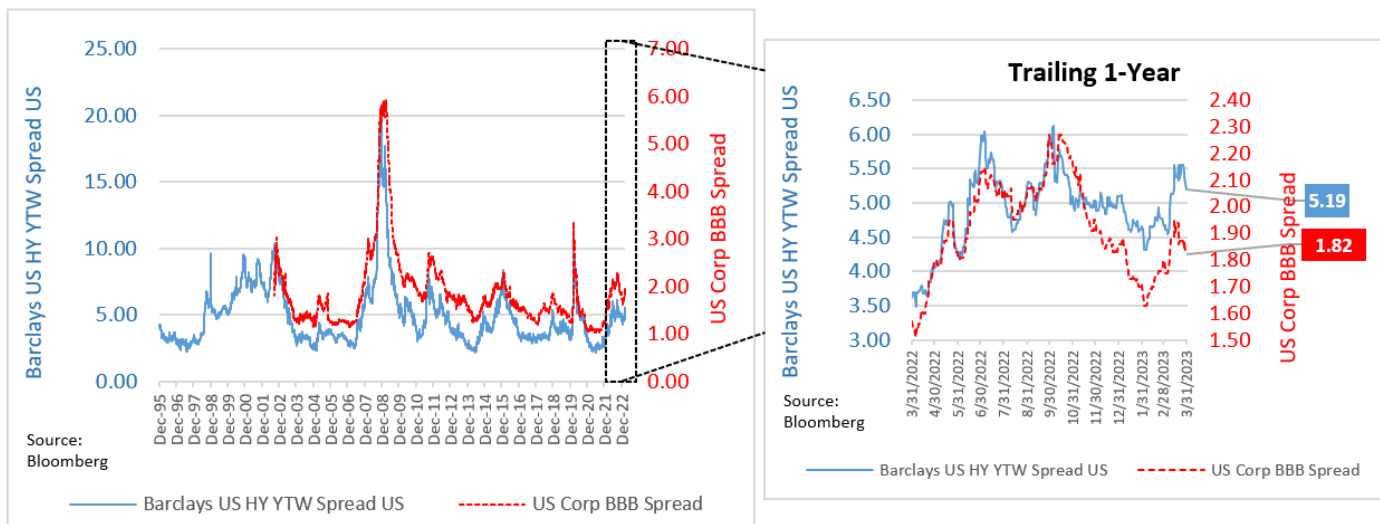
Implied default risk across the financial sector, as expressed through credit default swap (CDS) spreads (**Figure 6**), appears to be leveling off as well as have overall corporate credit spreads (**Figure 7**), which spiked during the height of the banking crisis but then recovered late in the quarter. Global markets recovered toward the end of the quarter as investors expressed relief that the worst of the banking crisis may be behind us, although gathering storms around commercial and retail lending remain on the economic horizon.

Figure 6 – Implied Default Risk (CDS) Remains Elevated for U.S. and European Banks but Seems to Be Leveling Off



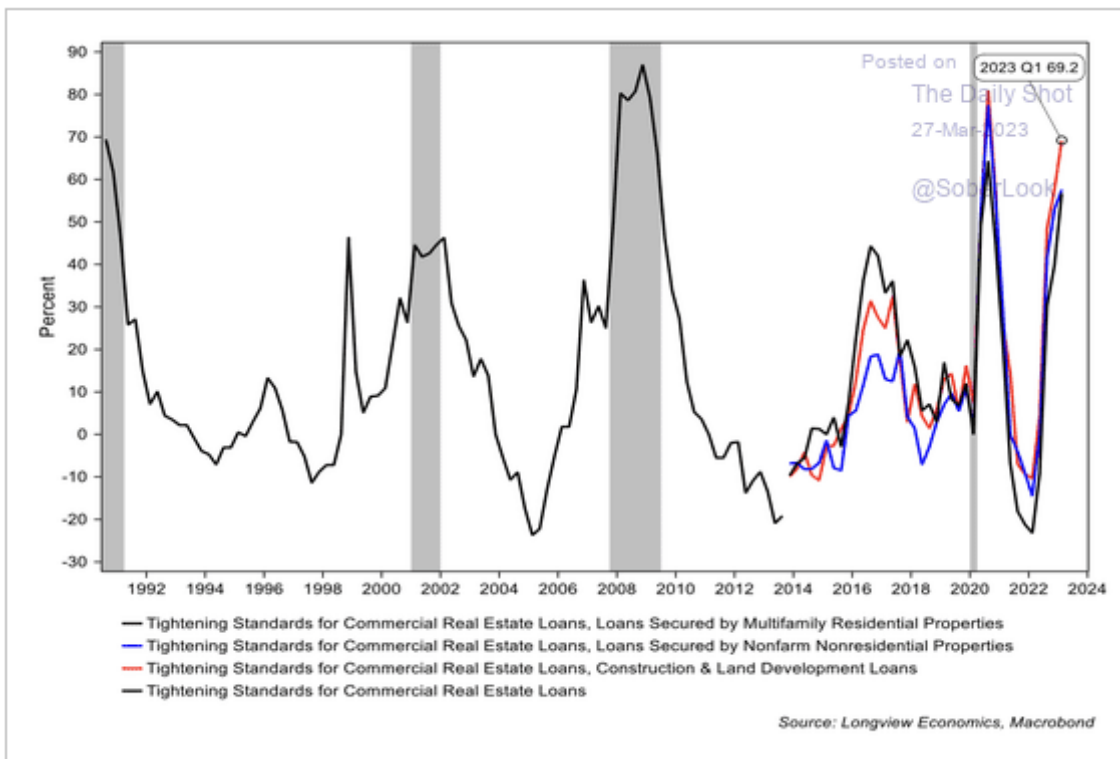
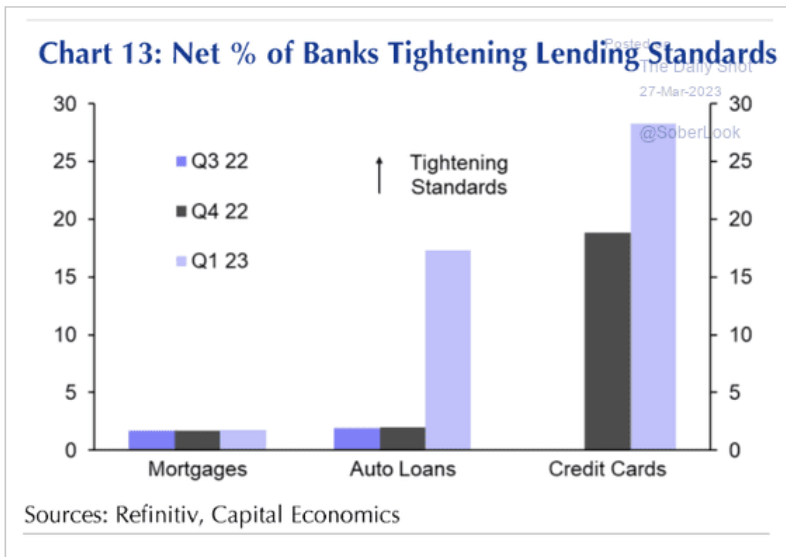
Source: Bloomberg

Figure 7 – Corporate Credit Risk Also Elevated but Down from Peak Banking Stress Levels



One fallout from the U.S. and European banking crisis: a pullback in lending as small/mid-sized banks face the prospect of tighter regulation⁶ while also having to reassess deposit flight risk. Having already tightened prior to the mid-March banking crisis, bank lending standards (Figure 8) are set to tighten even further, potentially slowing growth in investment and spending across small businesses and consumers.

Figure 8 – Bank Lending About to Get Even More Stringent



⁶ [“Banks Face Biggest Rules Overhaul in Years After SVB, Signature” Bloomberg](#)

Commercial real estate, notably office, remains on watch as vacancy rates for the largest metro areas reach multi-decade highs (Figure 9). And smaller banks appear to be more vulnerable to a deterioration in credit card lending (Figure 10).

Figure 9 – Office Vacancy Rates Approaching Multi-Decade High, Pressuring Borrowers

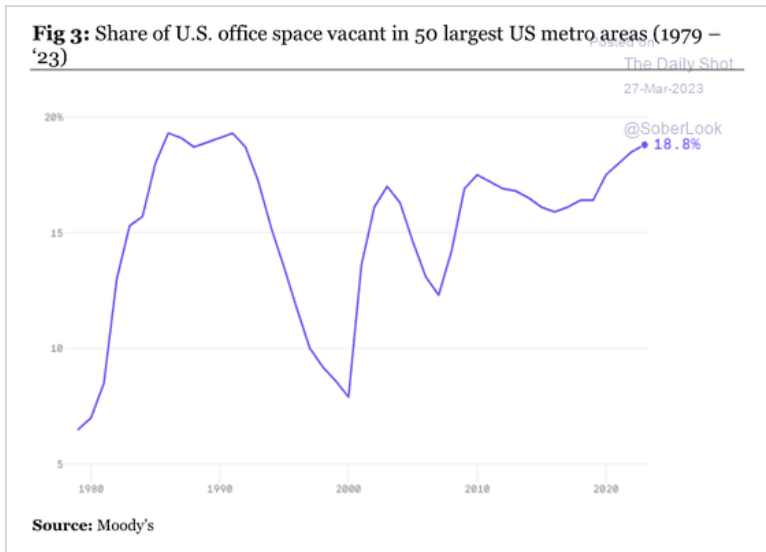
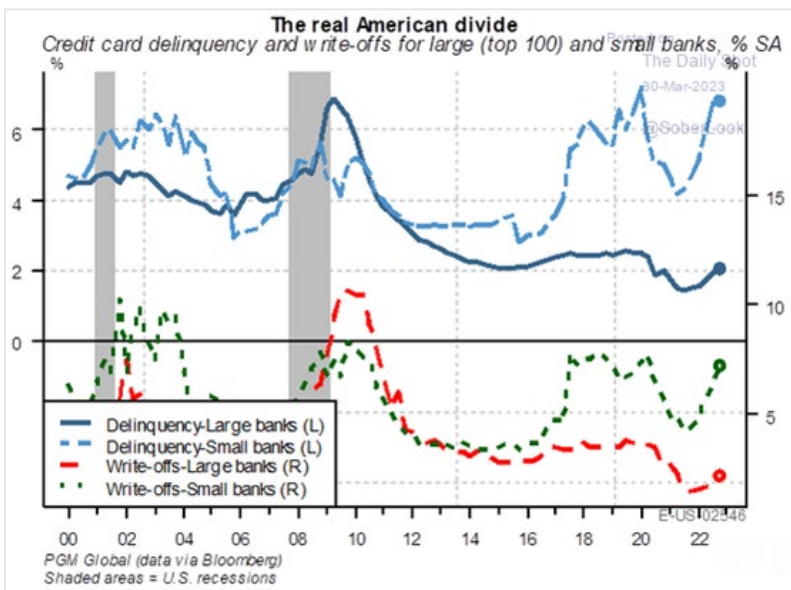


Figure 10 – Credit Card Losses Expected to Hit Small Banks Harder Than Larger Banks



To summarize the U.S. banking situation (source: the Bear Traps Report):

- U.S. commercial real estate ex-multifamily is ~\$2.5 trillion of which Office comprises \$968 billion
- Office occupancy at 91% (vs cycle highs of 93.5%); lower in top 50 metro areas (see above)

- More than \$1 trillion of mortgages, U.S. Treasuries, and commercial real estate loans issued with 1-3% coupons are on the books of banks and insurance companies
- Given the rise in rates, banks have lost ~\$2 trillion, although most of this has not been marked to market, much less crystallized
- Uninsured deposits equate to \$9 trillion of banks' liabilities

Even with tighter credit storms gathering on the horizon (not to mention the expiration of pandemic fiscal benefits such as SNAP payments, Medicaid eligibility, and the end to student loan and rent payment moratoriums), the global economy continues to grow on the heels of U.S. spending, China lockdown recovery, and tight labor markets pushing through higher wage gains. Consensus economic outlook has grown more positive over the course of the quarter with Bloomberg economists now forecasting 1% real GDP growth for the U.S. (up from 0.3% at the end of 2022), 0.5% for the Eurozone (up from -0.1%), 5.3% for China (up from 4.8%), and -0.4% for the United Kingdom (up from -1.0%). In addition, the [Atlanta Fed GDPNow model](#) is projecting 1.7% real GDP growth for the 1st quarter (**Figure 11**) even with the slowdown in industrial activity.

Figure 11 – Atlanta Fed GDPNow Estimate for 1Q2023 Still Positive, Boosted by Consumer Spending, Despite Industrial and Residential Construction Slowdown

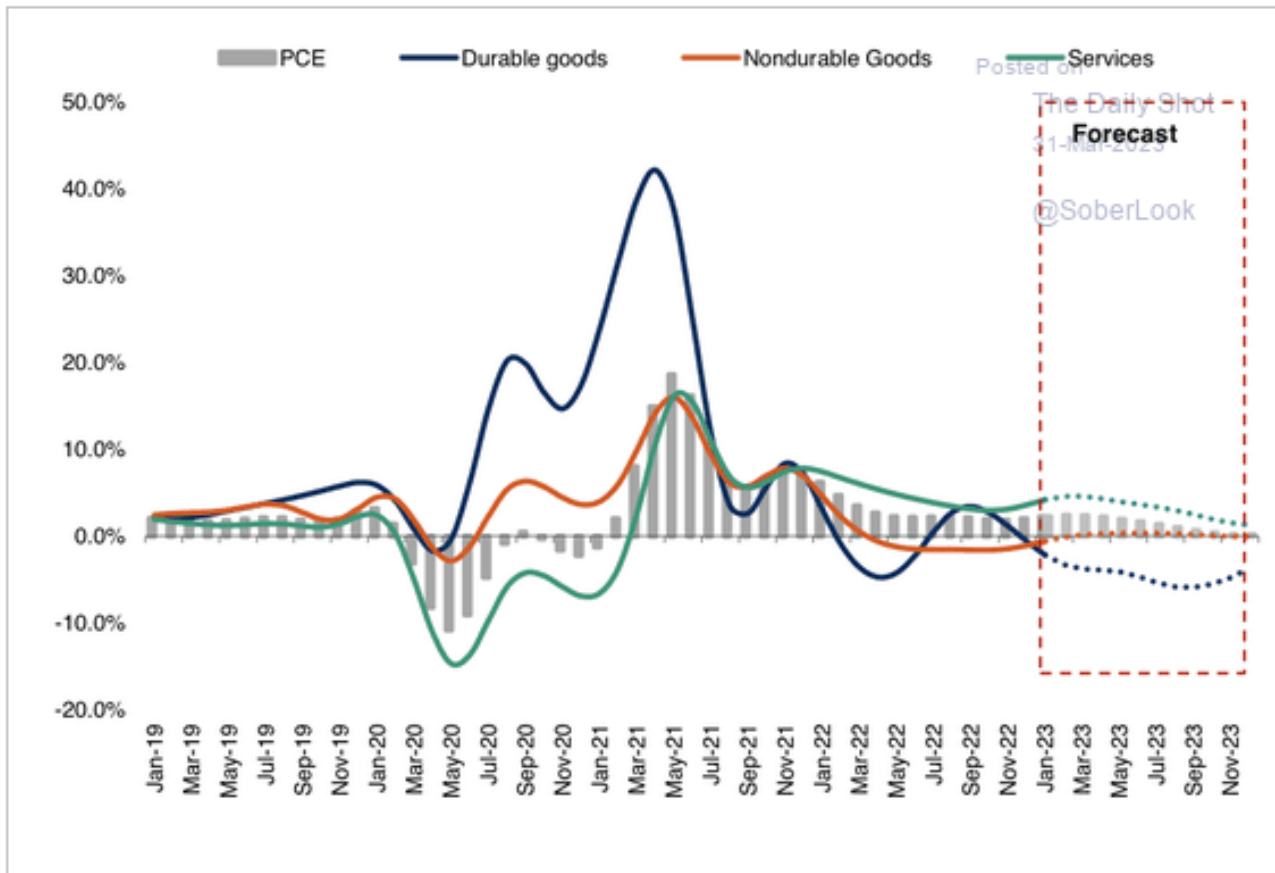
Atlanta Fed GDPNow estimates for 2023: Q1, growth rates and changes												
Date	Major Releases	GDP	PCE	Equip-ment	Intell. prop. prod.	Nonres. struct.	Resid. inves.	Govt.	Exports	Imports	Change in net exp.	Change in CIPI
30-Mar	Latest BEA estimate for 22:Q3	3.2	2.3	10.6	6.8	-3.6	-27.1	3.7	14.6	-7.3	162	-72
30-Mar	Latest BEA estimate for 22:Q4	2.6	1.0	-3.5	6.2	15.8	-25.1	3.8	-3.7	-5.5	30	98
27-Jan	Initial GDPNow 23:Q1 forecast	0.7	1.9	-0.9	5.5	-0.8	-12.6	1.9	5.1	-1.5	47	-74
24-Feb	GDP(2/23), Pers Inc/PCE, NIPA tables, New-home sales	2.7	3.8	7.3	6.5	0.1	-10.1	2.0	5.9	-1.0	47	-66
10-Mar	Employment situation, Monthly Treasury Statement	2.8	4.5	1.8	6.3	4.2	-9.2	1.8	7.5	1.4	34	-68
14-Mar	Consumer Price Index	2.8	4.5	1.8	6.3	4.2	-9.2	1.8	7.5	1.4	34	-67
15-Mar	Retail trade, Producer Price Index	3.2	5.0	1.7	6.3	3.7	-9.4	1.8	7.4	1.4	34	-68
16-Mar	Housing starts, Import/Export Prices	3.2	5.0	1.8	6.3	3.8	-11.3	1.8	7.9	0.6	44	-68
17-Mar	Industrial production	3.2	5.0	1.6	6.3	2.8	-11.5	1.8	7.6	0.3	45	-64
21-Mar	Existing-home sales	3.5	5.0	1.6	6.3	2.8	-6.8	1.8	7.7	0.4	45	-64
23-Mar	New-home sales	3.5	5.0	1.6	6.3	2.9	-6.6	1.8	7.7	0.4	45	-64
24-Mar	Advance Census manuf (M3-1)	3.2	5.0	0.2	6.3	2.9	-6.6	1.8	7.7	0.3	45	-74
28-Mar	Advance Economic Indicators	2.7	5.0	-0.9	6.3	2.9	-6.6	1.8	5.2	1.3	20	-76
31-Mar	GDP(3/30), Pers Inc/PCE, NIPA tables	2.5	4.6	-3.0	6.1	3.1	-6.6	1.7	5.3	1.2	23	-69
3-Apr	ISM Manuf., Construction spending	1.7	3.7	-5.7	5.9	1.6	-7.1	2.1	3.0	-0.7	26	-69
Maximum forecast of real GDP growth												
23-Mar	New-home sales	3.5	5.0	1.6	6.3	2.9	-6.6	1.8	7.7	0.4	45	-64
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Note: The first two rows are published BEA estimates for the most recent two quarters. Rows including and below row three are GDPNow forecasts. CIPI is "change in private inventories." Changes in net exports and CIPI are both in billions of 2012 dollars (SAAR). All other numbers are quarterly percent changes (SAAR). The table does not necessarily include all estimates for the quarter; see tab "TrackingHistory" in the [online Excel file](#) for the entire history.

Sources: US Bureau of Economic Analysis and Federal Reserve Bank of Atlanta

At some point, U.S. consumer spending is expected to slow down from its pandemic recovery pace (**Figure 12**), but that still seems like next year’s problem (and betting against the U.S. consumer is right up there with shorting Japanese bonds as the top widow maker trades).

Figure 12 – Expected Spending Slowdown to Be Driven by a Decline in Durable Goods Spend



Source: [Moody's Investors Service](#)

Finally, headline job losses seem to be confined to the Technology and Media sectors (**Figure 13**), both of which saw a surge in pandemic-level hiring. The overall labor market appears to be slowing but remains strong overall.

Figure 13 – Job Losses Mainly Confined to the Technology Sector So Far



Sell-side analysts are marginally less pessimistic on S&P company earnings outlook even though CY-2023 earnings-per-share (EPS) estimates continued to be revised lower following the end of the 4Q2022 reporting season as Wall Street seeks to shift investor’s attention ahead to CY-2024. According to the [3/31/2023 edition of Factset Earnings Insight](#), sell-side analysts expect a 1st half 2023 decline in earnings but for earnings growth to recover in the 2nd half even though net profit margins continue to decline due to higher input costs and slowing revenue growth (11.2% net margin vs 12.2% from a year ago). For CY-2023, analysts are still projecting slight positive earnings growth of 1.5% on revenue growth of 2.0% for S&P companies but are increasingly optimistic for a stronger recovery in CY-2024. The bulk of this year’s earnings growth is expected to come from the Consumer Discretionary and Commercial Services segments with earnings from Energy and Materials, facing tough year-over-year comparisons, expected to decline.

This brings us to expectations over the near-term future of U.S. Federal Reserve policy in the face of persistently elevated inflation (**Figure 14**). Fed Funds Futures have been all over the map (like a cat chasing a red dot from a laser pointer), having expected 6% terminal fed funds rate by this summer (and no rate cuts in 2023) in early February, to 4.75% terminal rate and 5-6 rate cuts in 2023 at the height of the banking crisis in mid-March, to current expectations of 5.25% terminal rate in May and 2-3 rate cuts by year-end (**Figure 15**). The general consensus is that the Fed has more room to maneuver given tightening financial conditions (see tightening lending standards above) and slowing year-over-year inflationary pressures, not to mention a pullback in overall industrial activity. As a result, long-term sovereign bond yields have declined from peak mid-February levels across the U.S. and Europe (**Figure 16**), as investors continue to play the long duration, premium growth stock playbook.

Figure 14 – Supercore Inflation (Core Services ex Housing) in the U.S. Remains Elevated



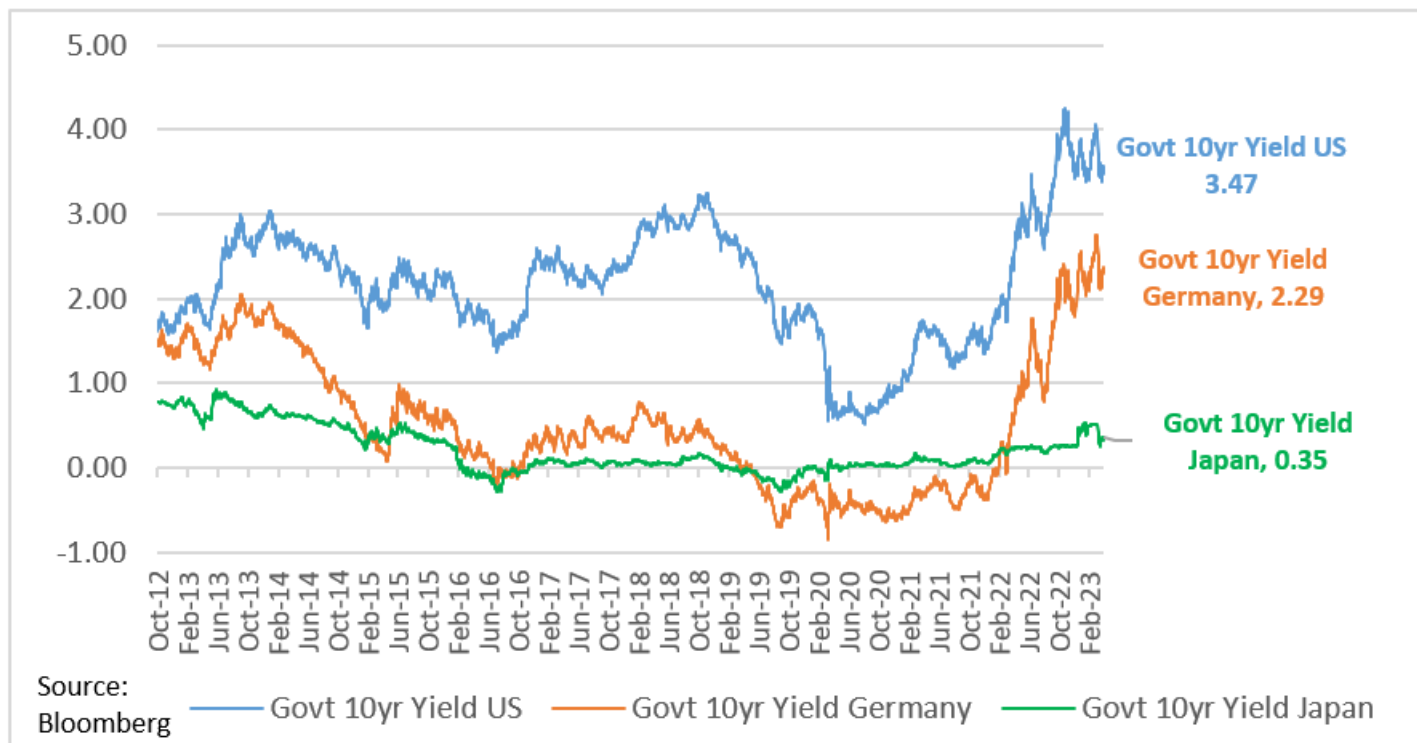
Figure 15 – Fed Funds Futures Now Expect ~5.25% Peak Fed Funds Rate by May to Be Followed with 2-3 Rate Cuts by Year-End

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	5.00	Pricing Date	03/31/2023
Effective Rate	4.83	Cur. Imp. O/N Rate	4.813

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
05/03/2023	+0.576	+57.6%	+0.144	4.956	0.250
06/14/2023	+0.426	-15.0%	+0.106	4.919	0.250
07/26/2023	+0.050	-37.6%	+0.013	4.825	0.250
09/20/2023	-0.570	-62.0%	-0.143	4.670	0.250
11/01/2023	-1.232	-66.2%	-0.308	4.504	0.250
12/13/2023	-1.859	-62.7%	-0.465	4.348	0.250
01/31/2024	-2.570	-71.1%	-0.643	4.170	0.250

Source: Bloomberg World Interest Rate Probability (WIRP)

Figure 16 – Long-Term Government Bond Yields Well Off the 2023 YTD Highs



U.S. equity market valuations are now trading toward the higher end of their 10-year peak levels, while international markets are trading at median or below levels, despite U.S. dollar weakness. As market breadth narrows to a handful of generative AI beneficiaries and other promising future tech, other sectors are facing less pricing discrimination between

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March and 1st Quarter 2023 Market Review

Global equity markets ended on a high note following a volatile sell-off in February as investors sought to look past U.S. and European banking pressures, piling into the growth certainty of technology stocks. With inflation pressures appearing to abate amidst further signs of consumer and business spending slowdowns, investors continue to position for a soft landing, hoping that the Federal Reserve eases policy by cutting rates while avoiding an outright recession. Ongoing favorable winter and net energy demand reductions out of Europe as well as a more muted COVID lockdown recovery from China helped push down industrial commodity and energy prices to cycle lows. The MSCI All-Country World Index (ACWI) rose 3.1% for the month of March and 7.4% for the 1st quarter of 2023.

Across major regions Japan and U.S. markets outperformed the rest of the world in March, while Europe lagged, weighed down by troubles in the banking sector (Credit Suisse takeover by UBS), surrendering some of its QTD leadership. In March (**Figure 17**), MSCI Japan and the S&P 500 returned +4.0% and +3.7%, respectively, followed by MSCI Emerging Markets (+3.0%), MSCI Pacific ex-Japan (+2.8%), and MSCI Europe (+2.4%). In 1Q2023 (**Figure 18**), MSCI Europe and the S&P 500 returned +10.6% and +7.5%, respectively, followed by MSCI Japan (+6.2%), MSCI Pacific ex-Japan (+4.1) and MSCI Emerging Markets (+4.0%). Bucking against recent flight-to-safety episodes, the U.S. dollar (**Figure 19**) reversed its February recovery as the banking crisis could prompt a more dovish policy response from the Federal Reserve with the goal of stabilizing the financial system.

Figure 17 – Japan and the U.S. Outperform Rest of the World in March While Europe Lagged

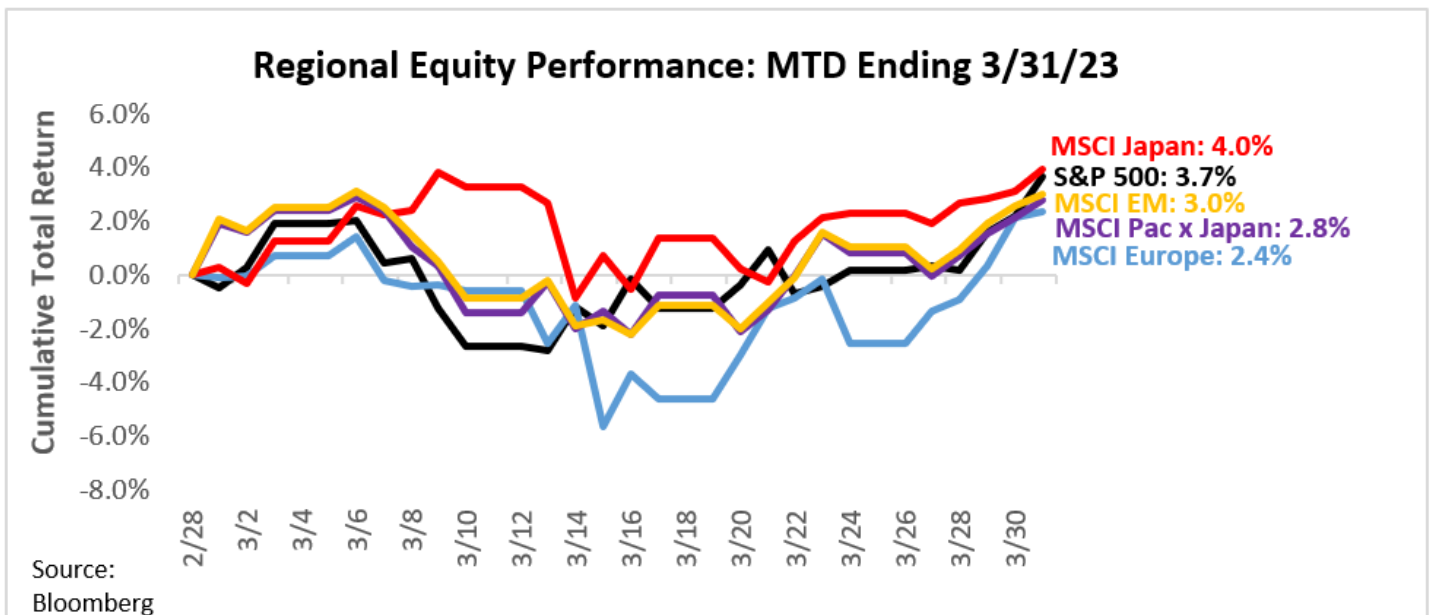


Figure 18 – Europe and the U.S. Outperform Rest of the World in 1Q2023

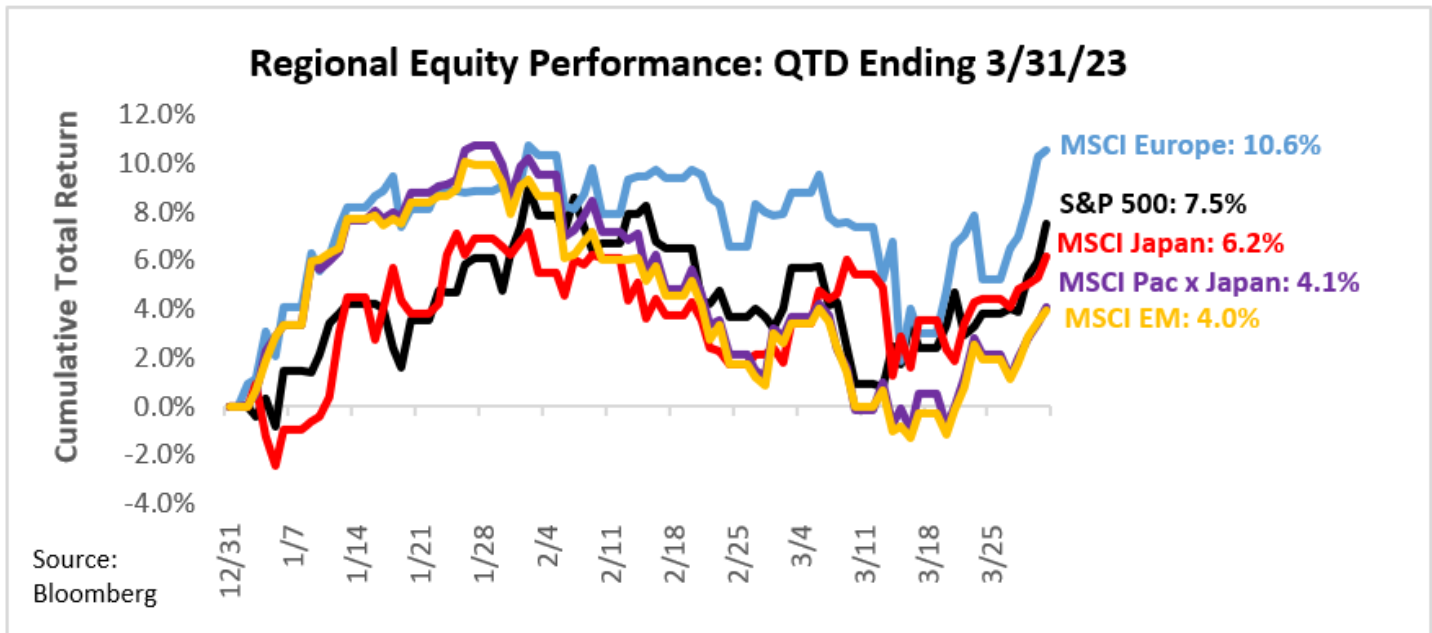
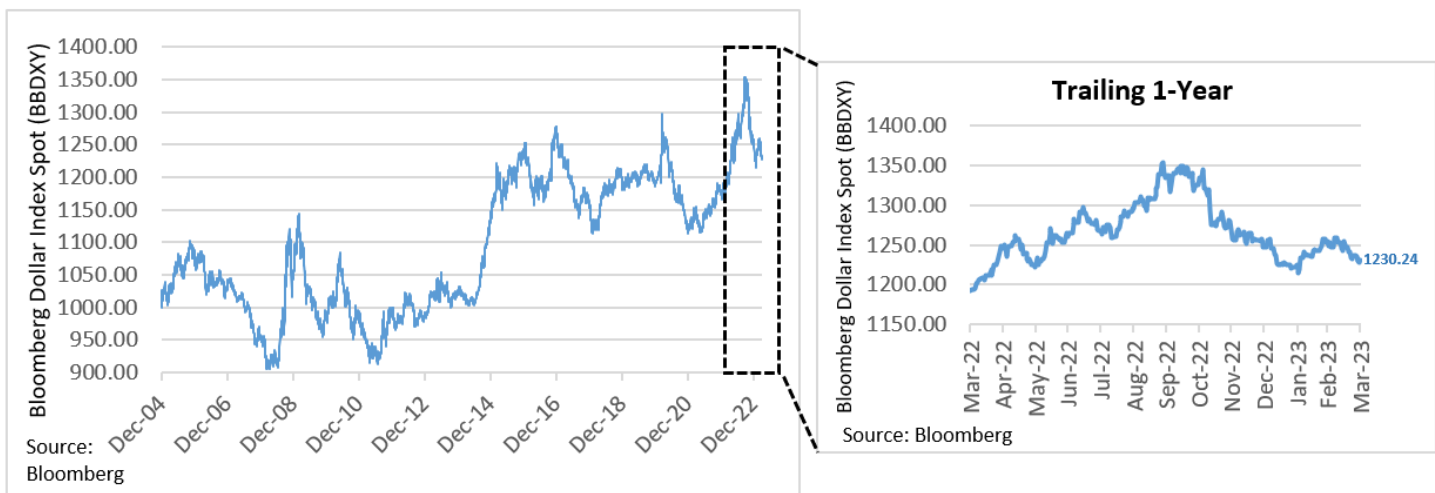


Figure 19 – The U.S. Dollar Depreciated Toward the End of the Quarter in Response to the U.S. Banking Crisis and Expectations of a More Dovish Fed Policy Response



Within the U.S., small caps underperformed large caps as the latter benefited from megacap growth technology companies that comprise an increasing concentration of market value across the main U.S. large cap indices, while S&P Pure Value underperformed Growth as the latter benefited from highly profitable companies trading at premium valuations. For the month of March (**Figure 20**), the S&P 600 Index returned -5.2% versus +3.7% for the S&P 500. S&P Pure Value underperformed Pure Growth, returning -6.6% versus -0.2%, respectively, both styles underperforming the S&P 500 Index. For 1Q2023 (**Figure 21**), the S&P 600 Index returned +2.6% versus +7.5% for the S&P 500. S&P Pure

Value underperformed Pure Growth, returning -1.9% versus +0.3%, respectively, both styles underperforming the S&P 500 Index.

Figure 20 – In March, Small Caps Underperformed Large Caps While Value Underperformed Growth, Although Both Growth and Value Underperformed the S&P 500

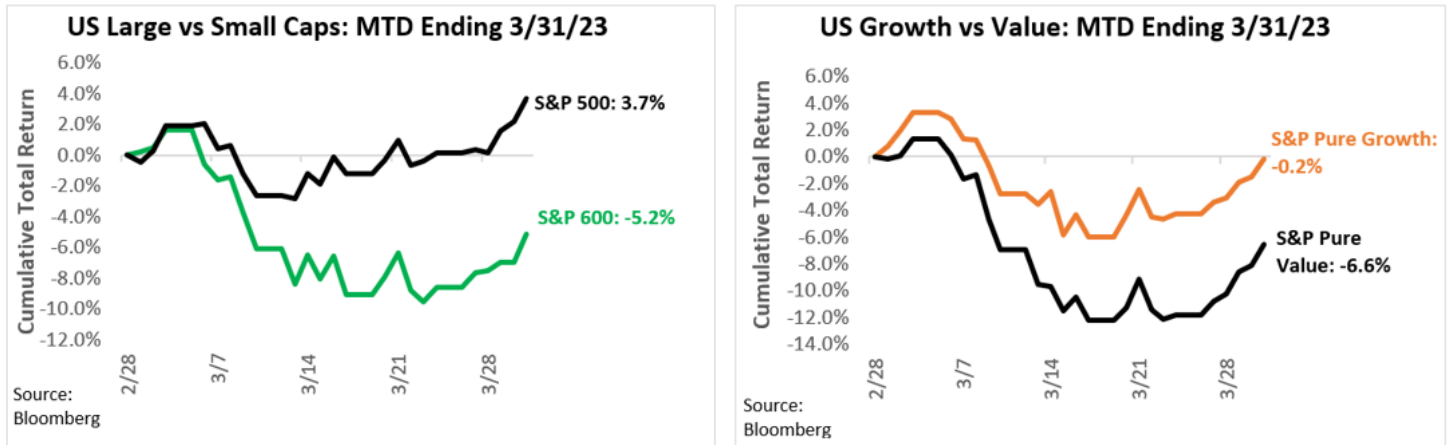
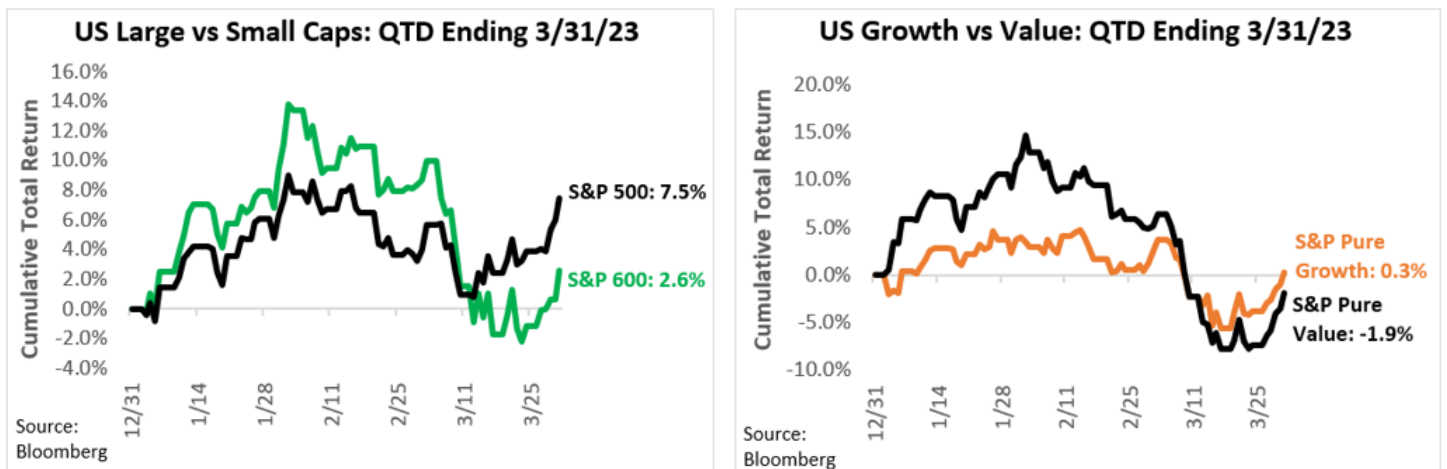


Figure 21 – In 1Q2023, Small Caps Underperformed Large Caps While Value Underperformed Growth, Although Both Growth and Value Underperformed the S&P 500



Across sectors, large cap growth stocks that comprise the majority of sector weightings across Technology and Communication Services along with defensive sectors such as Utilities and Consumer Staples outperformed in March (**Figure 22**) while traditional cyclicals (Industrials, Energy, and Materials) lagged as well as Real Estate and Financials, the latter hurt by the sell-off in U.S. banks. Similarly, in 1Q2023 (**Figure 23**), growth-focused sectors (Technology, Communication Services, and Consumer Discretionary) outperformed traditional cyclicals and defensives by a sizeable margin.

Figure 22 – In March, Tech-Focused Growth Sectors (Technology, Communication Services) Along with Defensive Sectors Outperformed Traditional Cyclical (Industrials, Materials, Energy), Real Estate, and Financials

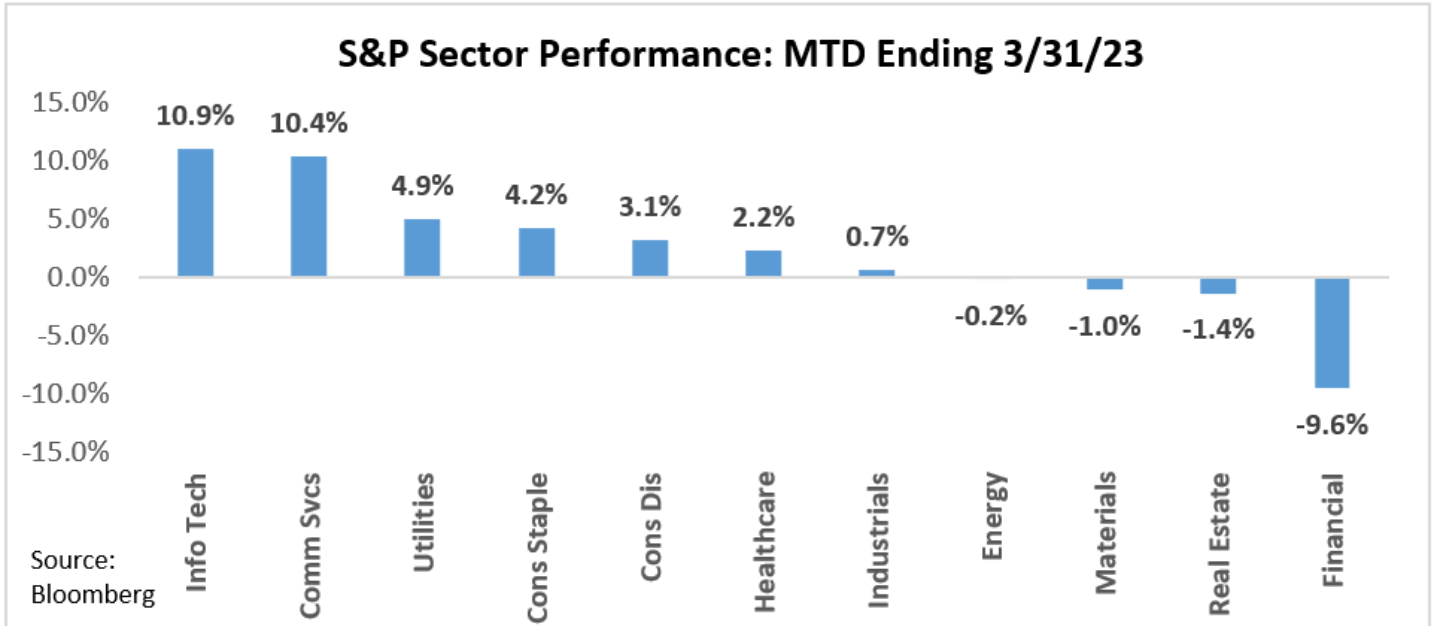
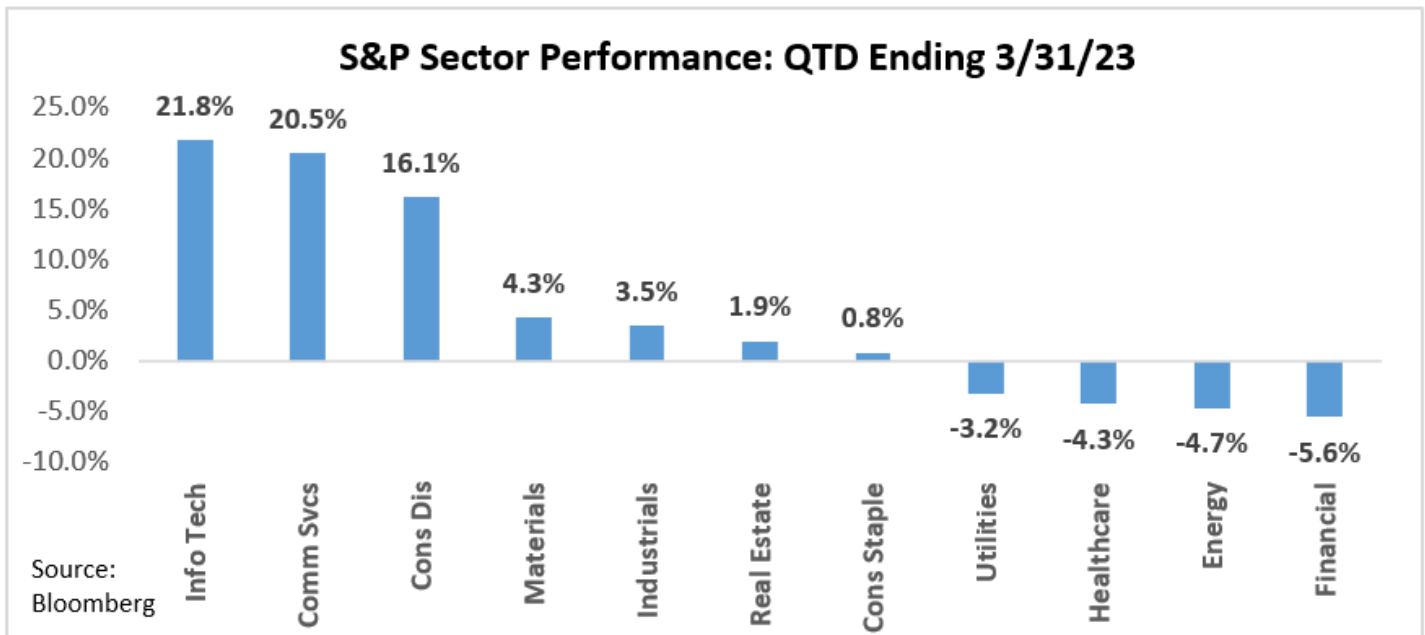


Figure 23 – In 1Q2023, Tech-Focused Growth Sectors (Technology, Communication Services, Consumer Discretionary) Outperform Traditional Cyclical and Defensives by a Wide Margin



Among major risk factors, in March (Figure 24), High Quality outperformed all the other major risk factors, benefiting from the flight to growth stocks while Value and High Dividend underperformed. Similarly, in 1Q2023 (Figure 25), High Quality outperformed all other major risk factors by a considerable margin.

Figure 24 – In March, High Quality Outperformed All Other Major Risk Factors While High Dividend, Momentum, and Value Lagged

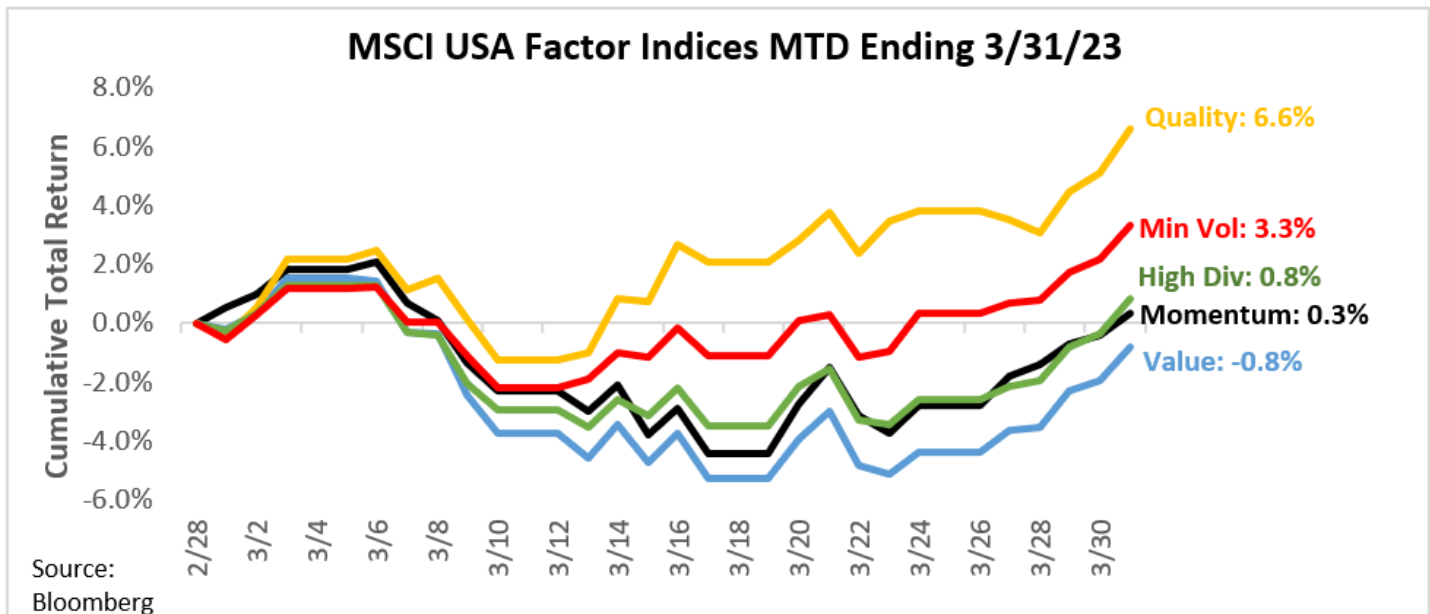
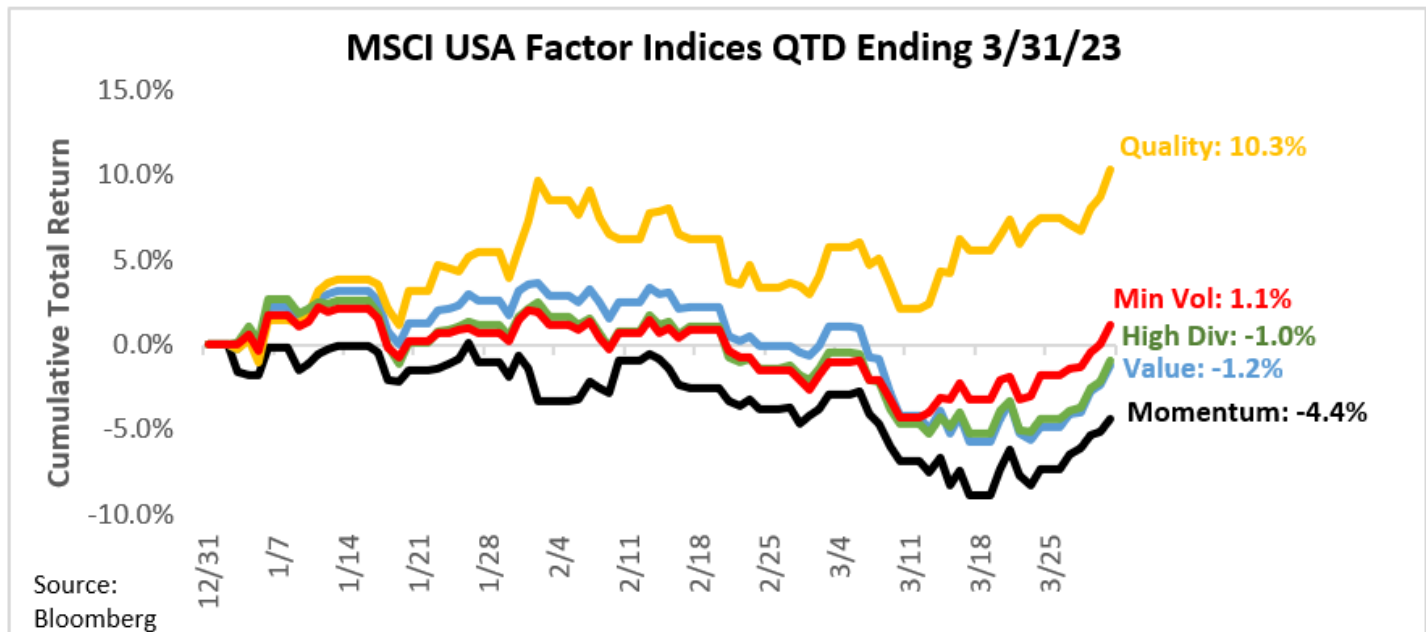


Figure 25 – In 1Q2023, High Quality Outperformed All Other Major Risk Factors by a Wide Margin While High Dividend, Value, and Momentum Lagged



In March, fixed income market returns recovered from the February sell-off and spike in interest rates as investors sought the safe haven of long duration assets in anticipation of an easing of Fed policy in response to the banking crisis. The Bloomberg U.S. Aggregate Bond Index returned 2.5% for the month (**Figure 26**) while the Global ex-U.S. Aggregate Index returned 3.7%, helped by a weakening dollar against local currencies. Bloomberg Emerging Market Local Currency also outperformed U.S. fixed income, returning 3.8% for the month while Bloomberg US High Yield lagged, returning 1.1% for the month, as lower quality bonds did not benefit as much from the flight to long duration assets. For the quarter (**Figure 27**), the Bloomberg U.S. Aggregate Bond Index returned 3.0%, slightly underperforming the Global ex-U.S. Aggregate Index which returned 3.1%. Riskier fixed income sectors such as Bloomberg Emerging Market Local Currency and Bloomberg US High Yield outperformed global investment grade, returning 5.1% and 3.6%, respectively.

The 10-Year U.S. Treasury yield ended the month at 3.5%, down from 3.9% at the beginning of the month, while the 2-10 Year term structure (**Figure 28**) steepened sharply in March as the short-end of the curve dropped the most in anticipation of Fed rate cuts over the next year. However, inflation expectations implied by breakeven rates between TIPS vs Nominal Treasury yields remain elevated (yet lower than short-term breakeven rates).

Figure 26 – In March, Fixed Income Markets Rallied with a Drop in Interest Rates

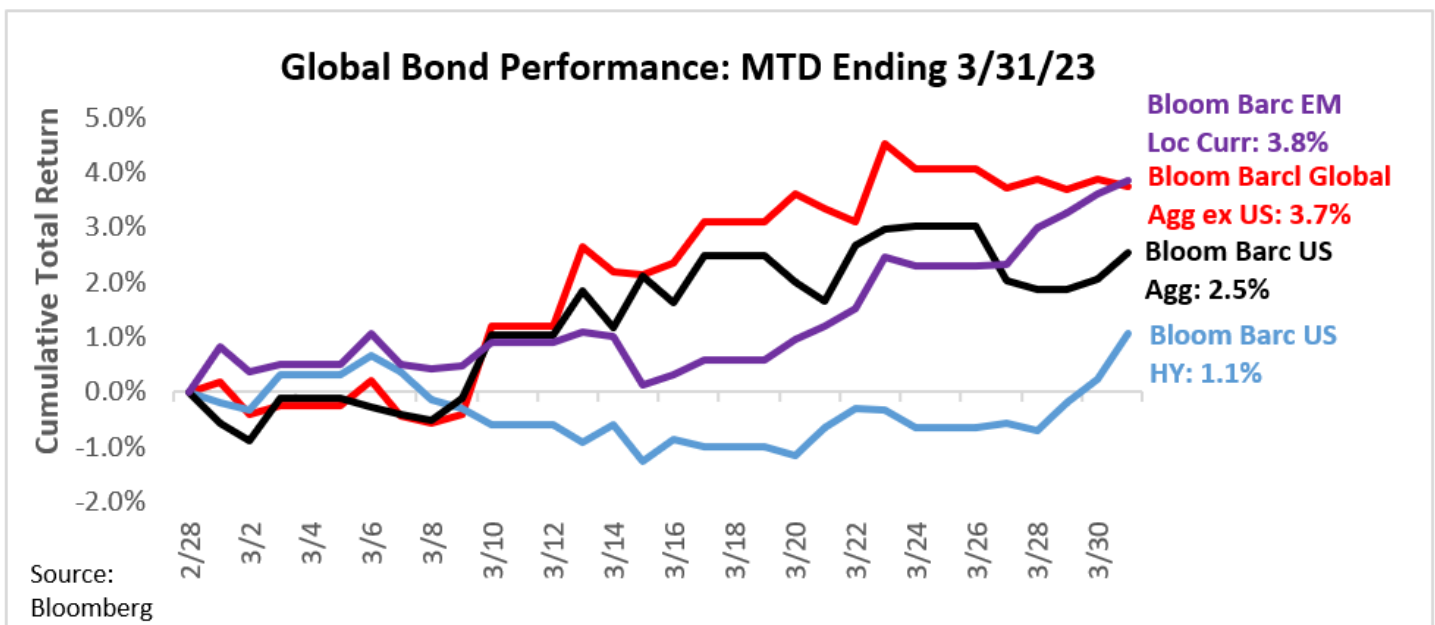


Figure 27 – In 1Q2023, Riskier Fixed Income (EM Local Currency and High Yield) Outperformed Global Investment Grade as All Sectors Benefited from a Drop in Lower Rates

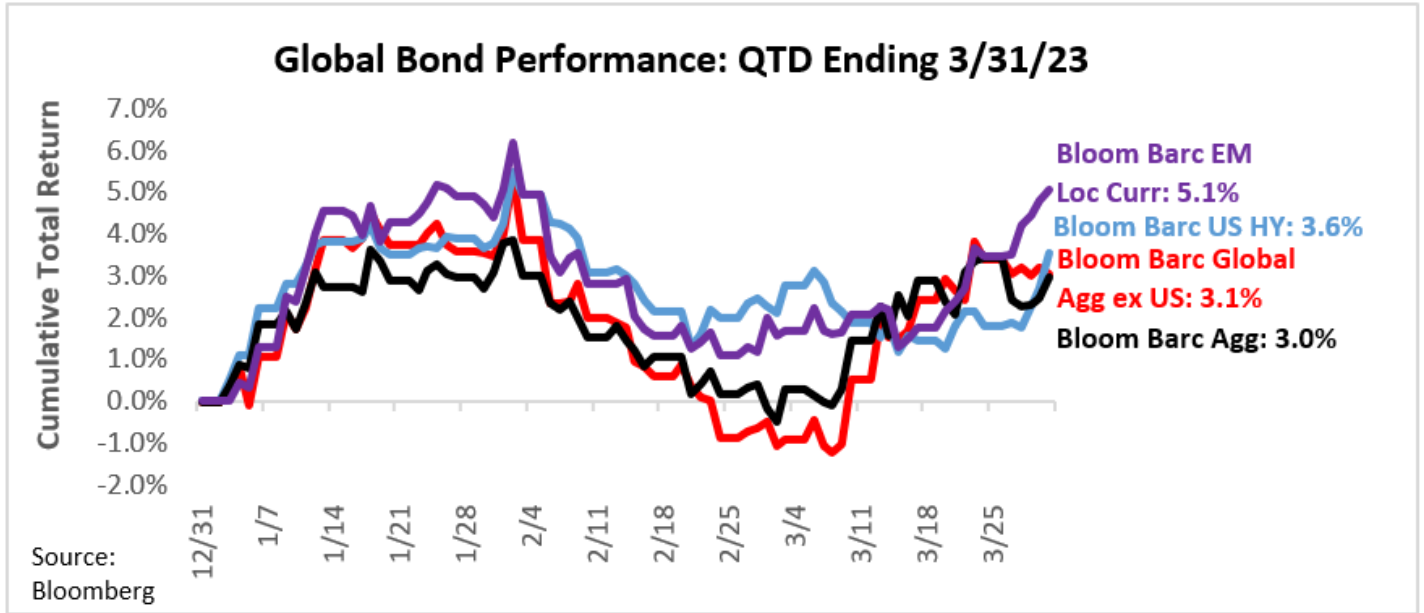
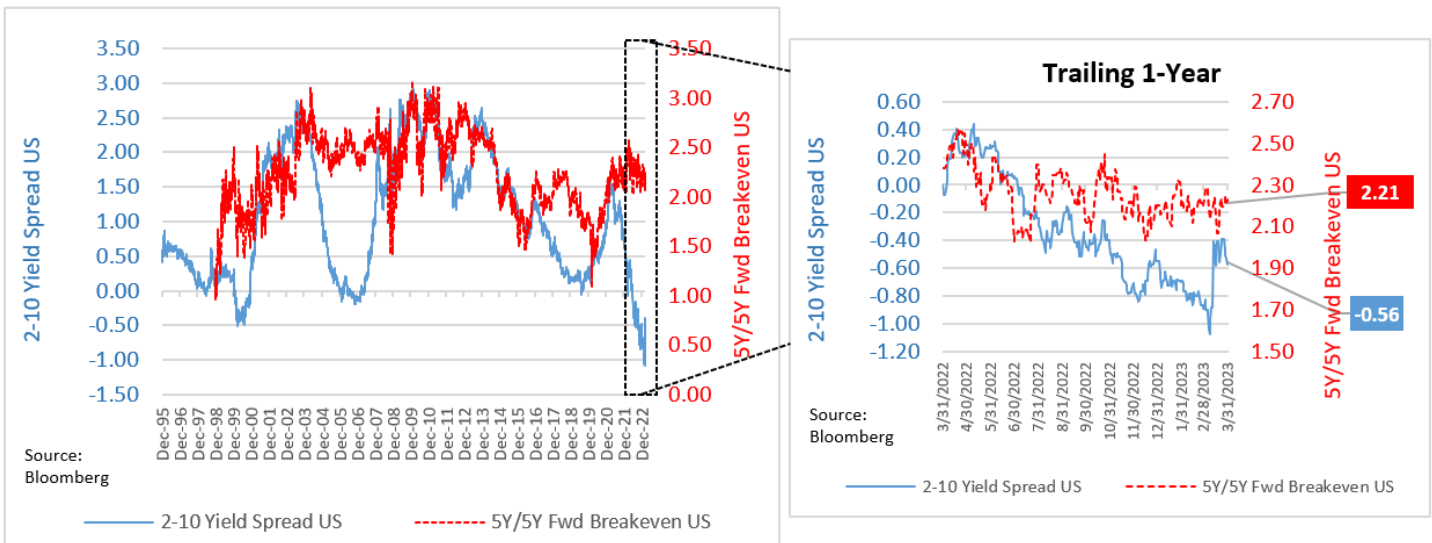


Figure 28 – 2-10 Year Term Structure Steepened in March but Remains Deeply Inverted While Inflation Expectations (Breakeven Rates Between TIPS vs Nominal Treasuries) Remain Stable Despite Elevated Short-Term Inflation Expectations



Within equity alternatives, Commodities and Real Estate underperformed Precious Metals in March as the former were weighed down by lower industrial metals and oil prices as well as volatility across the financial sector. The S&P GSCI Commodities Index returned -1.1% for the month (**Figure 29**) and the Dow Jones REIT Index returned -1.7%. The S&P GSCI Precious Metals Index benefited from a rally in spot gold prices that briefly surpassed \$2,000/ounce, returning

8.3% for the month. For 1Q2023 (Figure 30), S&P GSCI Commodities Index dropped 4.9%, while the Dow Jones REIT Index rose 1.8%, both underperforming the GSCI Precious Metals Index which rose 7.3% for the quarter.

Figure 29 – In March, Real Estate and Commodities Underperformed Precious Metals, Which Benefited from a Rally in Gold Prices

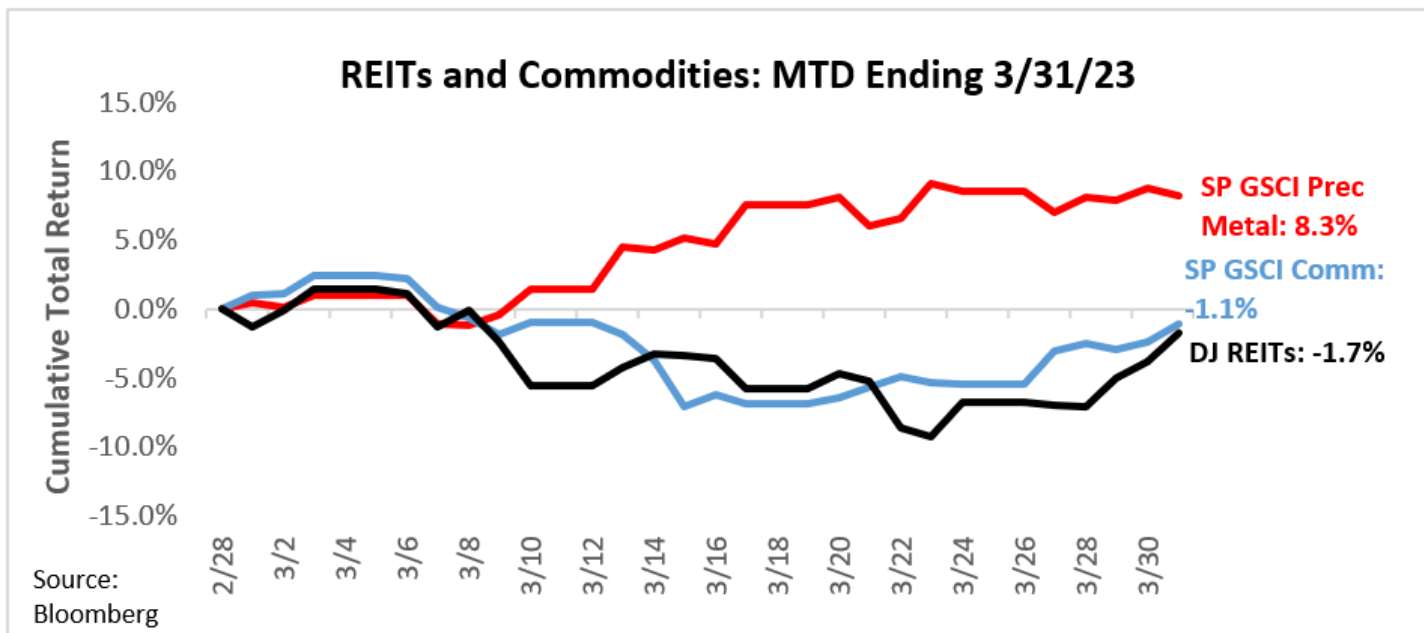
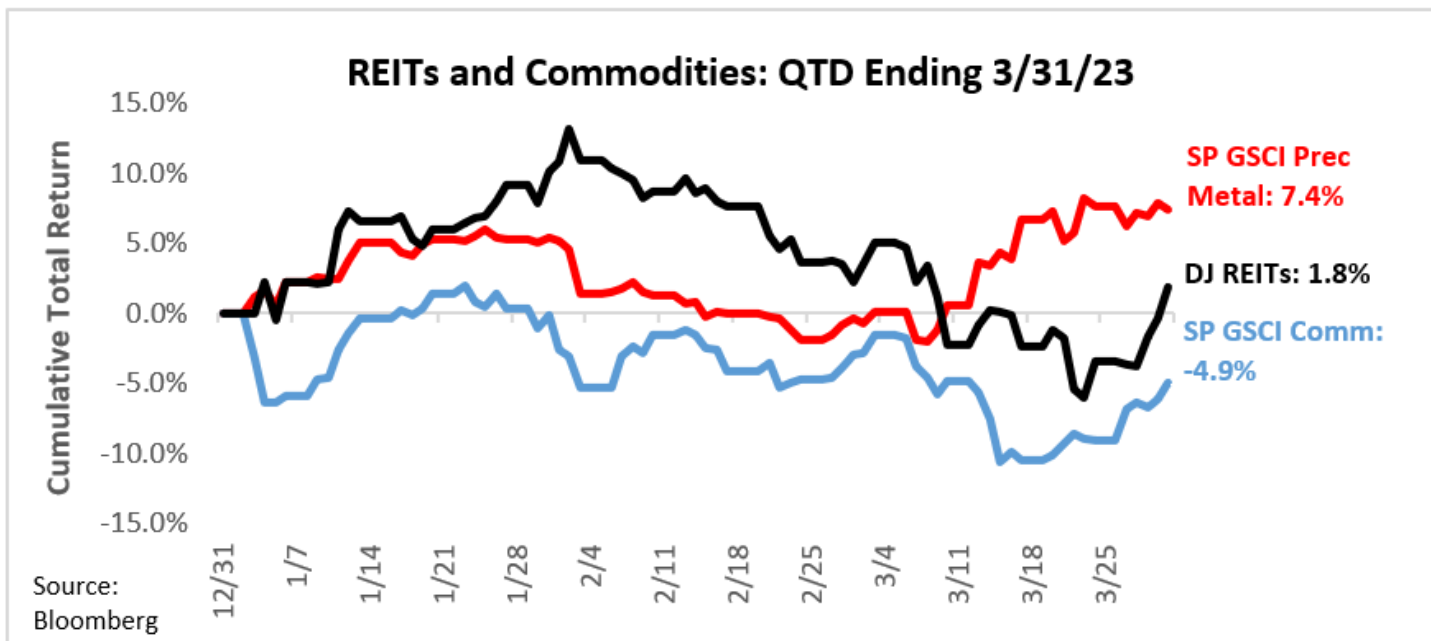


Figure 30 – In 1Q2023, Real Estate and Commodities Underperformed Precious Metals



Industrial metals partially recovered from steeper price drops while oil prices briefly dropped below \$70/barrel before recovering to the mid-\$70 range (Figure 31). Speculative positioning in oil futures contracts saw near record short levels as traders anticipated further energy price weakness (Figure 32).

Figure 31 – Industrial Metals and Oil Prices Dropped Over the Course of the Quarter Although Partially Recovered Toward Quarter-End

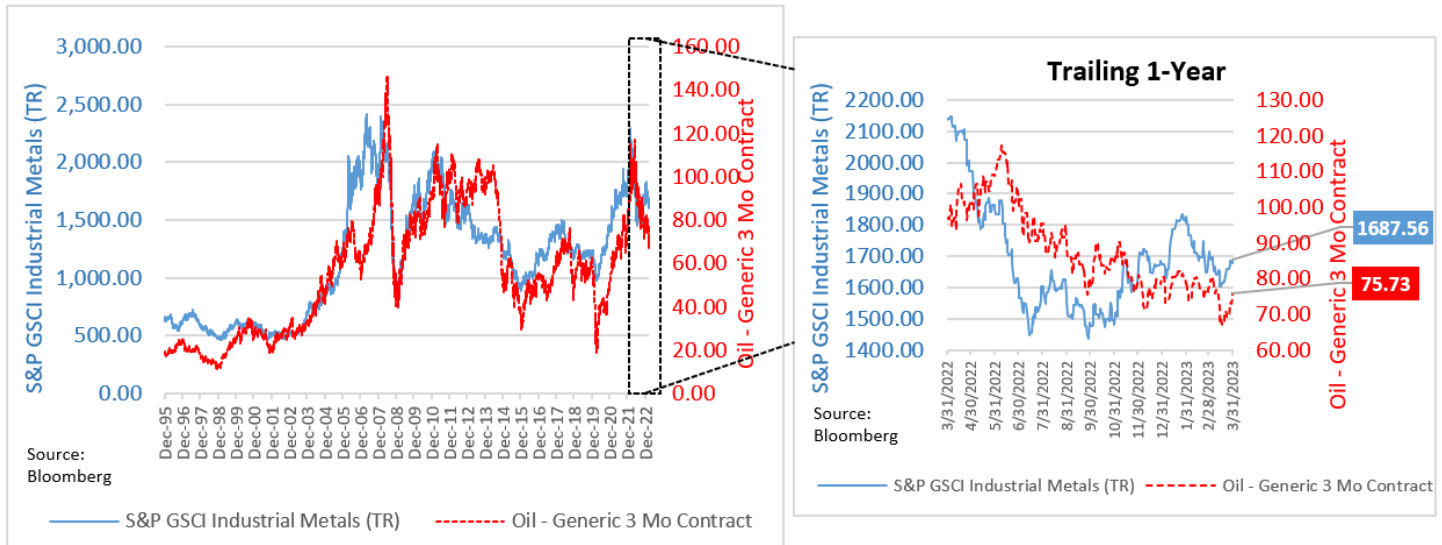
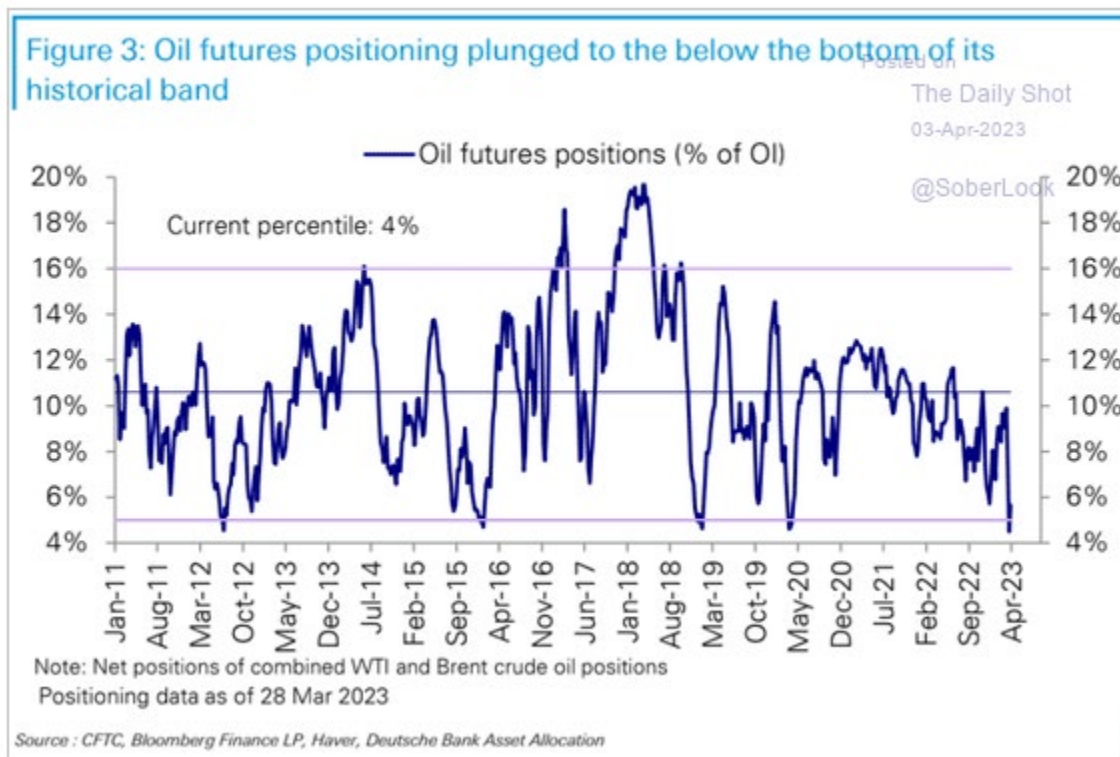


Figure 32 – Speculative Positioning in Oil Futures Reaches Near Record Short Levels, Reflecting Significant Negative Sentiment Over Future Pricing





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