CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2023 --- 1st Quarter

A POSITIVE START TO THE YEAR

During the first 3 months of 2023, the stock market was up, down, and then up again. The good news is that investment results for the **1ST QUARTER** were ultimately positive! U.S. stocks rallied, rising +7.5% as measured by the S&P 500 Index; international equities in developed countries rose +8.6% (MSCI EAFE Index); and the broad U.S. bond market showed continued improvement, +3% measured by the Bloomberg U.S. Aggregate Bond Index. Personal investment returns for the quarter are in a range from approximately 5% to 8%, depending on the mix of stocks and bonds.

As always, the quarter gave us a few surprises. The relative calm of January quickly ended in early February when a Chinese surveillance balloon, later confirmed as a spycraft, was shot down by U.S. fighter jets (but only after we had collected all the intelligence the balloon contained). The next disruption happened in March when several banks failed. It is a fact that the banks affected had conditions present that should have been addressed by management and regulators. However, what "broke" in the financial system was directly due to the Federal Reserve's own tightening policies. Many institutions were caught off guard by the speed at which interest rates were hiked.

A couple of the topics from last year, **RECESSION AND INFLATION**, are still a consideration in many conversations today.

- The purpose of all the interest rate increases by the Federal Reserve is to tame and reduce **inflation**. They raised interest rates 0.50% during the first quarter and will continue to analyze new data on inflation in deciding whether to continue. The Fed may hike rates again in May, but it is likely to be the last one for now. It looks like the impact of their actions over the past year is working. The economy is slowing, which is what they want, and inflation pressures are easing. The Fed will need to watch what happens next very closely so they can respond, or not respond, accordingly.

- It is believed that the economic slowdown we are going through will eventually, officially, be declared a **recession**. But that can take time and may not happen until after a recession is over. As investors, we don't have to wait for that. It is good to remember that even though people keep talking about recession, from an investment perspective the stock market is forward looking and on its own timeframe. Stock markets usually start to recover before a recession ends. If history is a guide, we can watch for them to rebound about six months before the economy does.

WHAT TO EXPECT?

Expect market volatility to continue a bit this year as we make our way through the current cycle. We are also seeing frequent changes as to which types of investments are doing best in the short-term. For example, value to growth and back, large companies over small, etc. This changeability makes the practice of diversification and asset allocation even more important.

Progress has been made and there is optimism for 2023.

Feel free to call Nan or Ann at 414-431-6491 with your questions or concerns.

220 E. BUFFALO STREET, SUITE 301 • MILWAUKEE, WISCONSIN 53202
414–431–6491 • TOLL FREE 866–340–0430 • FAX 414–431–6492