Buckingham STRATEGIC PARTNERS

Q2 2023

Quarterly Outlook

Perspectives on Markets and Economic Conditions

Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

Fed's Fight Against Inflation Continues Despite Banking Turmoil

Main Takeaway

The failures of Silicon Valley Bank – the second largest in U.S. history – and Signature Bank have heightened risks to the financial system. Despite the banking turmoil, the Federal Reserve remains focused on bringing down inflation.

Top Risks

If the Fed continues to raise interest rates, or keeps rates higher for longer, it could cause more financial distress. On the other hand, if it does not, inflation may become more difficult to subdue. Tight labor markets and a potential economic slowdown threaten corporate profits, while geopolitical tensions and the debt ceiling continue to loom.

Sources of Stability

The bond market has rallied on the prospect that the Fed will be slower to raise rates. Workers continue to see strong growth in wages, and the labor market is about the tightest it has ever been. State finances are in a strong position, putting them in better shape to withstand a possible recession.

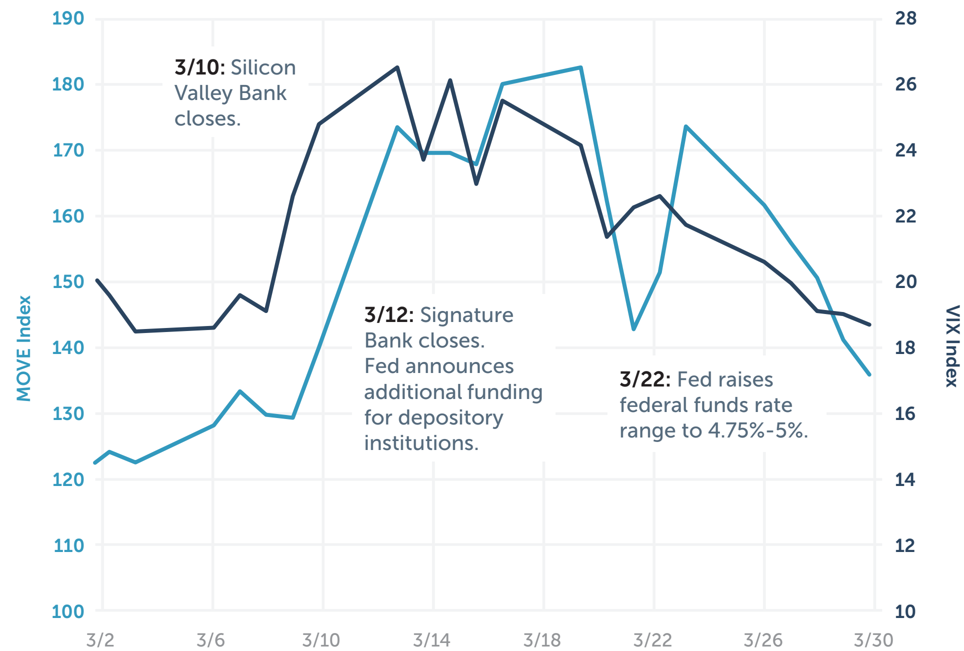
ECONOMIC SPOTLIGHT:

Have Markets Stabilized Since the Bank Failures?

The best measures of uncertainty in the stock and bond markets are the VIX and MOVE indexes, respectively. Each index tracks expected volatility using options pricing, and as more investors seek protection against stock or bond market drops, the indexes will rise in value. The greater the risk or the larger the potential impact, the higher the indexes trend.

Each measure spiked following the collapse of Silicon Valley Bank and Signature Bank in March. But once the Fed unveiled plans to shore up the banking sector, including backstopping deposits at the failed institutions and establishing a new lending facility, nerves subsided.

Despite experiencing the second-largest bank failure in U.S. history, stock and bond markets were positive for the quarter, the VIX and MOVE indexes have declined from their peaks, and the VIX has returned to its long-term average. The MOVE index, however, remains elevated and is especially sensitive to Fed announcement dates, suggesting that we should expect more bond market volatility over the next quarter.



Sources: Chicago Board Options Exchange, CBOE Volatility Index (VIX) data retrieved from FRED, Federal Reserve Bank of St. Louis. ICE BofAML MOVE Index (MOVE) data retrieved from Yahoo! Finance.

Key Areas to Watch

Inflation Trajectory

While inflation has eased, it remains stubbornly high and shows signs of leveling off higher than the Fed's 2% target.[1] Stimulating fiscal policy, tight labor markets and deglobalization are headwinds to the Fed achieving its target.

Fiscal Policy

The U.S. continues to run a massive fiscal deficit, with the Congressional Budget Office projecting a federal budget deficit of $1.4 trillion for 2023, or just over 5% of GDP.[2] Fiscal deficits work against the Fed's goal of reducing inflation. The self-imposed debt ceiling looms, with a default possible as soon as June.

Global Economy

China has begun reopening its economy, the second largest in the world, and the country's top economic official set this year's growth target at around 5%.[3] However, an improving Chinese economy would increase demand for energy and other commodities, making it more difficult for the Fed to reduce inflation.

Monetary Policy

Monetary policy is not yet truly restrictive. A policy is considered restrictive if the federal funds rate is well above the inflation rate, and with the Fed rate still below 5%, it is not even at the year-over-year inflation rate. Although the issues in the regional banking sector have underscored the risk from the rapid increase in rates, the Fed has made clear its objective is to bring down inflation.

Key Areas to Watch (Cont.)

Labor Market

Despite the headlines from tech companies laying off workers by the thousands, the overall U.S. labor market is about the tightest it has ever been, with the number of available positions at 10.8 million in January.[4] Notably, shortages appear to be most prevalent in the service industry, including nurses, teachers, pilots and welders.

Consumer Spending

The average savings rate in the five years pre-pandemic was 7%.[5] Despite the tight labor markets, the average savings rate has now fallen to 4.6%.[6] At the same time, defaults have increased. The share of credit card users making late payments rose in the fourth quarter, and total credit card debt reached a record $930.6 billion.[7]

State Finances

The median state had an estimated 42 days of spending in its rainy day fund at the end of 2022, or a total of about $136 billion.[8] The numbers imply that a typical state could weather a roughly 12% drop in revenue over the course of a year without cutting spending, as opposed to only a 5% drop in 2001 and 2008.

Housing Market

Home purchases marked a 28-year low as sales posted a 12th straight monthly drop in January, driven largely by higher mortgage rates.[9] In February, home prices fell for the first time in 11 years. While housing demand has weakened, the U.S. still faces an estimated shortage of about four million homes, meaning it is unlikely we'll see significant declines in home prices.[10]

Economic and Market Snapshot

Global stock markets have priced in the latest economic and banking news as price-to-earnings (P/E) ratios, a measure of how expensive markets are, have declined significantly since last year.

Value stocks are trading at P/E levels not seen since the 2008 financial crisis.

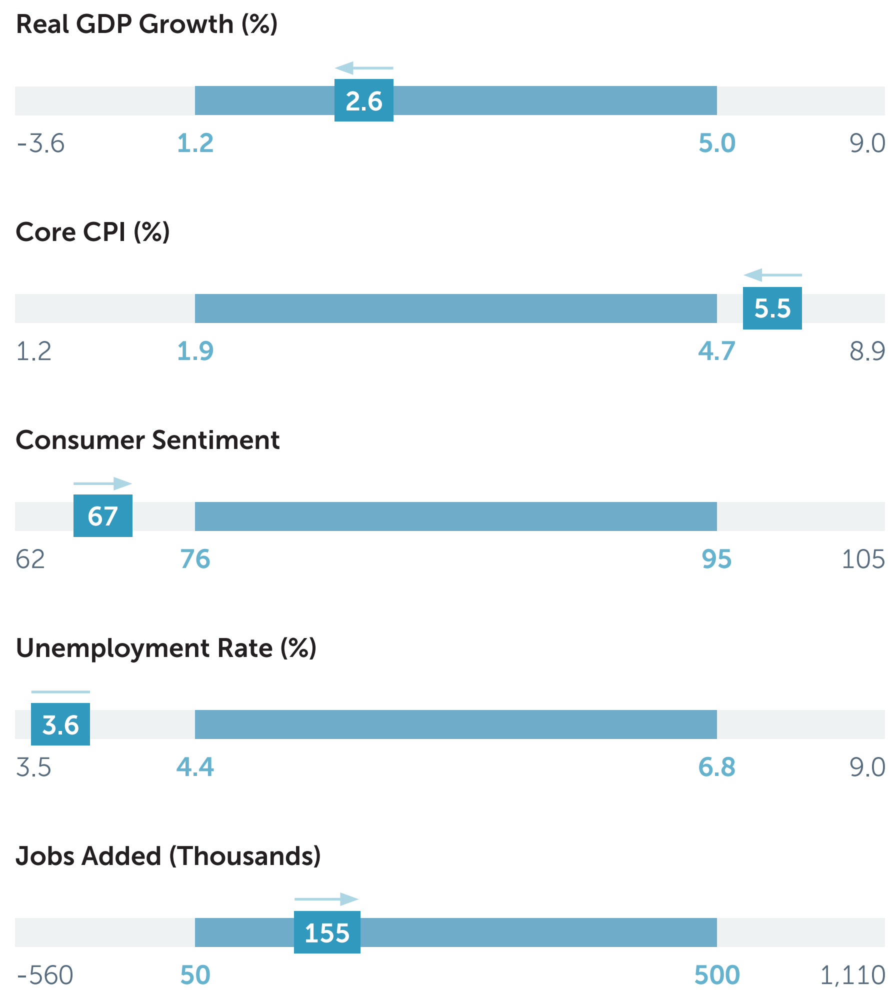
Treasury bond yields, while still elevated compared to the late 2010s, have benefited from a flight to quality, pushing yields lower.

Major Asset Class Returns*

Q1 2023

		Quarterly Return	Past 12 Months
Stocks			
U.S. Stocks	▲	7.2%	-8.6%
International Stocks	▲	7.6%	-3.9%
Emerging Markets Stocks	▲	3.9%	-10.7%
Bonds			
U.S. Government Bonds	▲	2.3%	-1.5%
Global Bonds	▲	1.8%	-0.4%

Key Economic Indicators*



*See Appendix on page 8.

Investment Planning Implications

Where do markets go from here?

Corporate profits are threatened. A slower economy, which could curb sales, and the tight labor market, which allows workers to collectively bargain for higher wages, could squeeze corporate profits, in turn putting pressure on stock prices.

Bond markets are experiencing significant rate volatility. High-quality, short- to intermediate-term bonds have been more stable than lower-quality and longer-dated bonds, but expect continued rate swings as the markets look for clarity on the Fed's path forward. If the Fed raises its federal funds rate higher, or keeps it higher for longer, stock and bond markets could come under pressure.

It doesn't matter to markets whether the news is good or bad, only whether it is better or worse than expected. The stock market is viewed as a leading economic indicator, meaning it tends to bottom out well before other economic indicators, such as GDP, payrolls and earnings. The biggest determinant of future returns will be how the news unfolds compared to what is currently expected.

What are the investment planning implications?

Expect continued volatility in both stock and bond markets. Inflation news, including Fed announcements, and debt ceiling discussions are likely to cause shifts in market prices as traders quickly digest the news. Less overall liquidity in the market will amplify those shifts.

Avoid treating the improbable as impossible. We were reminded in the first quarter that even an unlikely event, such as a large bank failure, is not impossible. Therefore, the best course is to work with your advisor to ensure your portfolio is broadly diversified across as many unique sources of risk and return as appropriate.

Don't try to time the market. The banking crisis is leading banks to tighten lending standards, which slows company investment and increases the likelihood of a recession. However, research shows that recessions are not a reliable way to time the stock market. Rather, stay focused on your goals and remember that your plan is built to anticipate market declines.

About the Buckingham Team

Larry Swedroe

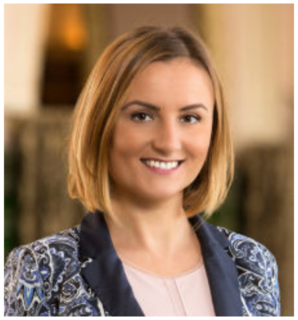
Head of Financial & Economic Research

In his role and as a member of Buckingham's Investment Policy Committee, Larry regularly reviews the findings published in peer-reviewed financial journals, evaluates the outcomes and uses the result to inform the firm's formal investment strategy recommendations.

Kevin Grogan, CFA, CFP®

Chief Investment Officer

Kevin is a member of Buckingham's Investment Policy Committee and helps lead the firm's investment strategy, portfolio management and fixed income teams. He has co-authored three books on investment topics and enjoys educating others on concepts that will have a tangible effect on their financial lives.



Blerina Hysi

Director, Fixed Income

Blerina works with fixed income and advisory teams to help construct and maintain customized bond portfolios, with an eye toward finding the best way to implement comprehensive financial plans. Her duties include fixed income analysis, bond trading and building tailored, client-focused portfolio solutions.

Daniel Campbell, CFA

Investment Strategy Advisor

Dan helps clients and advisors understand and implement an evidence-driven investment strategy. He has a demonstrated ability to understand complex investment topics, but he gets the most energy from conversations with individuals and families in pursuit of financial freedom.

Additional economic and investment resources are available at **buckinghamstrategicpartners.com/perspectives**

Buckingham's Investment Policy Committee (IPC) is a committee for Buckingham Strategic Wealth, LLC and Buckingham Strategic Partners, LLC (collectively Buckingham Wealth Partners) and not a committee for independent members of the Buckingham Strategic Partners community.

Appendix

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1. Larry Swedroe, Advisor Perspectives. “First Quarter 2023 Economic Review and Forecast.” March 27, 2023.
2. Congressional Budget Office. “The Budget and Economic Outlook: 2023 to 2033.” February 2023.
3. The Associated Press. “China sets this year’s economic growth target at ‘around 5%’.” March 4, 2023.

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4. Bloomberg. “U.S. Job Openings Drop to 10.8 Million But Are Still Too High for Fed.” March 8, 2023.
5. Axios. “Americans’ pandemic-era cash pile is shrinking.” Dec 7, 2022.
6. Bureau of Economic Analysis. Personal Income and Outlays, February 2023.
7. CNBC. “U.S. credit card debt jumps 18.5% and hits a record $930.6 billion.” Feb. 3, 2023
8. Pew. “States Build Their Reserves Amid Growing Uncertainties.” Oct. 18, 2022.
9. Wall Street Journal. “U.S. Home Sales Fall for 12th Straight Month.” Feb. 21, 2023.
10. NPR. “There’s a massive housing shortage across the U.S. Here’s how bad it is where you live.” July 14, 2022.

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Major Asset Class Returns: The index representation for the Major Asset Class Returns is as follows: U.S. stocks are represented by the Russell 3000 Index, international stocks by the MSCI World ex U.S. IMI Index, emerging markets by the MSCI Emerging Markets IMI Index, U.S. government bonds by the Bloomberg Government Intermediate Total Return Index, and global bonds by the FTSE World Government Bond 1-5 Year Index. Past performance is not a guarantee of future results. Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Information from sources deemed to be reliable, but its accuracy cannot be guaranteed.

Key Economic Indicators: Sources: Bureau of Economic Analysis (BEA) for real GDP growth. Real GDP is the annual rate of change of real gross domestic product, seasonally adjusted. Bureau of Labor Statistics (BLS) for core CPI. The core consumer price index (CPI) is the annual rate of change, seasonally adjusted, and excludes food and energy. Consumer sentiment is from the University of Michigan’s consumer sentiment index. Unemployment rate is reported by the BLS, and jobs added is based on nonfarm payroll employment reported by the BLS. For all indicators, the boxed number reflects the latest reading, and the line above the box shows the change since the last update. The shaded areas reflect normal readings compared to history (based on the 25th-75th percentile of historical measures), while areas outside the dark blue reflect more extreme readings compared to history. The ranges are based on the percentile values of historical readings for each economic figure. The lowest number reflects the 5th percentile value, the bottom of the blue range reflects the 25th percentile, the top of the blue range is the 75th percentile, and the highest value reflects the 95th percentile. All ranges are based on the full period available. To account for population and employment, the ranges presented for jobs added are based on the percent change in employment numbers, using December 2022 as the base year.