



Capital Market Review

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From stock market returns to economic data, April can be described as a mixed bag. The largest companies in the U.S. had a strong month, climbing 2.5%, while the smallest companies fell about 2.5%. Economic data was much of the same, the consumer remains resilient, but inflation is sticky. We almost made it through the month without a continuation of March's banking crisis until the Federal Deposit Insurance Corp (FDIC) seized First Republic Bank's assets, then sold them to JPMorgan during the final weekend of the month.

As we approach the most telegraphed recession in history, there appear to be indications of a slowdown in various areas of the economy; however, it has yet to hit economic data. Labor markets remain strong, though the unemployment rate typically bottoms 12-18 months after the Federal Reserve begins hiking rates. The first rate hike happened about 14 months ago, so we may start seeing a softening labor market this summer. Although large companies have been making headlines for layoffs all year, over half of Americans work for small businesses (less than 500 employees). Many small businesses continue hiring, even picking up workers laid off by larger companies.

The initial estimate of first-quarter GDP was released last week, showing the economy grew 1.1% from this time last year. The U.S. consumer continues to be the strongest piece of the economy. At the same time, businesses have slowed investments, and the government has decreased spending. The positive from this report is that the economy is still growing. However, there has been a slowdown over the past three quarters (3.2% to 2.6% to 1.1%), leading many economists to believe we are heading towards a recession later this year.

Along with economic data, we have also been hearing from companies as they report quarterly earnings. Despite all the pessimism in the markets, companies are reporting solid earnings driven by the consumer. Chipotle and McDonald's are more confident about the rest of the year and see inflation slowing from a year ago. Procter & Gamble sees a resilient consumer and American Airlines is continuing to experience strong demand for summer vacations. Although not every company is as optimistic, such as Amazon, expecting slower revenue growth throughout the year, there are bright spots and areas for active managers to buy great companies.

Whether it is economic or corporate data, there are mixed messages. Both data sets take time to become public knowledge, and we are just now receiving first quarter data a month after the quarter has ended. In this day and age, a month is an eternity and almost useless when trying to make investment decisions. Rather than focusing on what past data shows, looking past short-term noise that often has already happened can set a portfolio up for the most success. In the words of Wayne Gretzky (or was it Michael Scott?), "Skate to where the puck is going to be, not where it has been."



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