BIONDO PERSPECTIVES

FIRST QUARTER REVIEW

Joseph P. Biondo

The first quarter of 2023 has come to a close and as is customary, we review what has transpired. In sharp contrast to the tough year that was 2022, equity markets around the globe produced strong positive returns. As evidence, the benchmark S&P 500 Index was up 7.50% for the quarter, while the Dow Jones Industrial Average advanced 0.93%, and the tech-heavy Nasdaq Composite led the charge higher with a 17.05% return. On a global basis, the MSCI ex US Index was up 7.00% and the Bloomberg US Aggregate Bond Index advanced 2.96%, in the first quarter of 2023. These positive returns were in sharp contrast to last year and have started 2023 in great fashion.

The major issues impacting investor decisions remain interest rates, inflation and earnings. This quarter, however, was marked by a banking scare, with the failure of both Silicon Valley Bank and Signature Bank. While failures are disconcerting to experience, we do not believe that they are symptomatic of a serious broader problem in the financial system. Policymakers' aggressive response should ensure the failures do not weaken the system or the fragile economy.

Particularly disconcerting is the speed at which the institutions failed – another example of the ways in which the world has changed in the Information Age. Once depositors lost faith in the viability of these institutions and began withdrawing funds, the banks quickly unraveled. Bank runs are rare, but when they do occur, they happen at a dizzying pace. These failures were especially surprising on the heels of a lengthy period of calm in the banking system. There were no bank failures last year or the year before. The system has been enjoying solid loan growth, extraordinarily few credit problems, and healthy profitability. These are not the conditions that historically have been the fodder for problems in the system.

As such, it is unlikely that the recent bank failures are signaling more bank runs and failures. The failed institutions were unusual in that they catered to the technology sector, in the case of Silicon Valley Bank, and the crypto markets in the case of Signature. Of course, tech has been hit hard over the past year, beginning with the slide in stock prices of most tech companies in 2022, and the crypto market has suffered somewhat of a crash. Also unusual is that almost all of the depositors at Silicon Valley Bank had very large deposits that as such were not fully insured by the FDIC. Many of the tech companies with these big deposits were quick to move their funds out of the bank, sensitive to their risk. Compare this to the typical bank, for whom well over half of deposits are below the FDIC limit and are generally very sticky. That is, depositors are slow to move their accounts, even for a better deal somewhere else. Further containing any fallout from the bank failures on the rest of the banking system is that system's fundamental strength.

In the wake of the financial crisis of 2008 and reforms to the system, including the comprehensive Dodd-Frank legislation, the banking system has significantly increased its capitalization. The biggest banks must also engage in stress tests each year. These tests simulate the impact of severe economic downturns on their balance sheets and income statements. To be sure, regulators are partly to blame for the failures, and more reform is necessary and certainly on the horizon.

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The most recent inflation data from March showed that inflation eased to its lowest level in nearly two years, but underlying price pressures are likely to keep the door open for further rate hikes. The CPI, a closely watched gauge that measures what consumers pay for goods and services, rose by 5% in March, as compared to 12 months earlier, but was down from 6% in February, according to the most recent report from the Department of Labor. High inflation and a tight labor market led Fed officials to signal they could raise rates again in May, despite a higher likelihood the economy may enter a recession later this year, according to the minutes released last week from the March Fed meeting. The Federal Reserve's target for inflation over the long-term is 2%, so recent readings are still cause for Fed concern. Several Federal Reserve officials considered pausing the central bank's tightening cycle after two banks collapsed in March and caused economic turmoil. That led Fed staff to forecast a mild recession starting later this year.

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In response to Russia's war on Ukraine, developed western nations and their allies have imposed sanctions on Russia, disrupting supply chains and driving up food and energy prices. With the conflict unlikely to be resolved over the next twelve months and a further escalation possible, not only are additional sanctions quite likely but geopolitical considerations will also drive changes to business models and supply chains going forward. One area to watch is how the political and economic ties between Russia and China develop, as any kind of Chinese military support for the invasion might trigger additional sanctions to those recently expanded by the US, to weaken China's position in their bilateral technology arms race. Such additional sanctions cannot be completely ruled out, after the US recently convinced European and Japanese allies to also impose controls on exports of high-performance semiconductors to China, despite these allies' usual caution given their close economic ties with China.

The economy started the year with surprising strength, but has shown recent signs of slowing. Tighter lending following recent bank failures will also slow growth this year, according to a recent International Monetary Fund (IMF) estimate. The International Monetary Fund's director of research, Pierre-Olivier Gourinchas, reports that "the fog around the world economic outlook has thickened." The IMF expects global growth to slow significantly. However, there are plenty of silver linings in the storm clouds ahead. The IMF's forecasts, while downbeat, are nevertheless significantly better than they were in October. The Fed still sees the economy as being strong enough to cope with higher rates and there is consensus that this cycle of tightening is very near its end.

Nevertheless, as recent events have made clear, this remains a very difficult investment environment that needs to be navigated with great care. Inflation, the central banks' response to it, and the economic and corporate implications of this remain key. Even after recent declines, current market valuations still implicitly assume that an economic "hard landing" can be avoided. The Fed and other central banks must maintain an appropriate monetary policy approach, tight enough to cool economies without tipping them into recession or prompting major sectoral setbacks. Despite their knowledge and skills, central banks could still struggle to get this policy right. Stubborn inflation in major economies in 2023 and the recent deterioration in financial conditions now make their task even more difficult.

In our view, how the remainder of 2023 plays out will largely depend on economic activity and earnings growth. While concerns are abundant, economic activity has remained more robust than expectations thus far in 2023. As we write, we are at the beginning of earnings season for the first quarter. In the coming weeks, we will learn a great deal from companies about how the year has started from a growth standpoint, and we should also have a much better idea of how management teams at the companies we own are viewing the balance of the year. This is also a period that will guide us, as we manage the various strategies that we employ on your behalf.

On a longer-term basis, we continue to believe that exposure to global growth opportunities through the ownership of great companies will serve you well over time. As always, our team will continue to search for new opportunities, stay well-focused on current investments and adjust to an ever-evolving landscape. While we believe that we are well-positioned, we are also certain that there is a need to continuously adapt and evolve our strategies to meet the various needs of our clients. We strongly encourage each of you to take advantage of our planning capabilities, continually review your risk assessments and reach out to us with any questions or concerns. Our team looks forward to continued service and helping you navigate this ever-complex environment.

Joseph P. Biondo
CEO & CIO, Portfolio Manager

Sources: Index returns – Bloomberg; Inflation data, Fed meeting minutes – CNBC; Quote on economic outlook – IMF Blog

Congratulations Joseph!

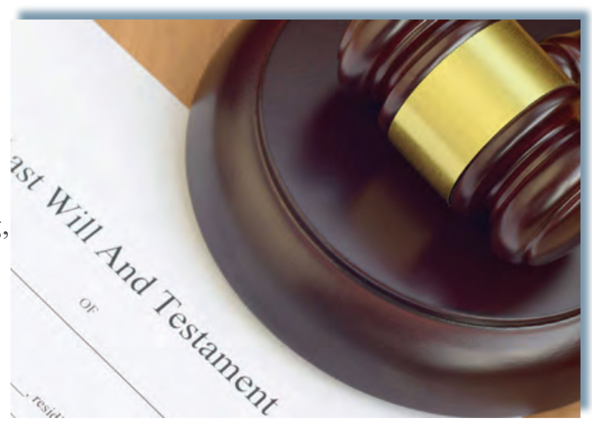
Joseph P. Biondo, CEO, CIO and Portfolio Manager, has once again been named to Forbes' prestigious **Best-in-State Wealth Advisors** list for Pennsylvania.

"I'm thankful for the recognition from Forbes. The dedication of our team of professionals has always been one of our strengths. This award endorses our commitment to being client-centric and the privilege of earning their trust with our financial guidance."

Congratulations on this well-deserved achievement!

The Forbes ranking Best-In-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative criteria, gained through telephone, virtual and in-person due diligence interviews, and quantitative data (as of 6/30/22).

An Estate Planning Strategy to Avoid Probate



If you're like many people we talk to, you may be actively looking for ways to avoid probate. Probate is the public, legal process of administering the estate of a decedent. It can be costly, time-consuming, and intrusive, so bypassing it is worth exploring.

There is an endless array of tools and techniques available to address probate avoidance. **Ideally, a properly drafted estate plan is in order and kept up to date.**

One of the strategies that may be included in an estate plan is transfer by contract. Meaning, assets (generally, brokerage accounts, stocks, bonds and other non-retirement investment accounts) are transferred to a beneficiary via a Transfer on Death (TOD) account registration.

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A TOD registration is simply a form completed by the owner of an account to name beneficiaries on the account. Retirement accounts have named beneficiaries. TOD allows for a similar function on non-retirement accounts. The registration treatment varies by state, but is very comparable in the majority of states. This form can be filled out when the account is opened, or added later.

In practice, the mechanics are as follows:

- The account owner completes and signs a Transfer on Death form for the account they desire.
- At passing, the executor of the deceased's estate or another individual notifies the firm who administers the account, and provides the deceased's death certificate.
- The account is then re-registered in the name of the beneficiary who was named on the Transfer on Death form.
- Any step-up in cost basis that is allowable by the applicable law is accounted for by recording the value of the account at the date of death of the original owner.

The significant takeaway of this strategy is that, generally speaking, the beneficiary will have access to the assets much sooner (subject to state requirements) to take care of the immediate needs of the estate, i.e., funeral costs, mortgages, taxes, etc.

In contrast, if a person dies without registering Transfer on Death or without other estate planning, the person's investment account may be frozen in probate. The court would have to determine whether there is a valid will and what that will says about the deceased's intentions. If there is no will, the procedure becomes even more difficult because there is less information.

Cost, time, and emotions are just a few of the obstacles mentioned for those who do not have an estate plan. Some of these burdens to heirs can be avoided with a straightforward Transfer on Death registration.

Again, this simple strategy is not by any means a substitute for a properly drafted estate plan by an attorney. We have established relationships with several legal professionals that specialize in estate planning, who we can coordinate with to bring you peace of mind and closer to your financial and legacy goals.

If you would like to learn more about Estate Planning, please contact us.

Casey Pisano, CFP®
Wealth Advisor

REMINDERS

Are your beneficiaries up to date?

It is important to review your beneficiary information to ensure everything is current. Certain life events such as marriage, the birth of a child or divorce may prompt a change.

You can log-in to your Fidelity account to view and make any changes or, speak with your Wealth Advisor at 570-296-5525 for assistance.

Do you have a "Trusted Contact" form on file with us?

Should there be any questions or concerns about your health or welfare, this form authorizes us and Fidelity to contact the designated trusted contact.

If you would like a form sent to you or have any questions regarding its use, please reach out to us at team@thebiondogroup.com or call 570-296-5525.

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