USIC News Stream

Wealth Management

February 14, 2023 Commentary from the U.S. Investment Committee

Shiny objects

One of the main lessons learned during the pandemic was the importance of flexibility. Within such a dynamic environment, the importance of not anchoring oneself to any one plan, investment strategy, area of focus, or metric to watch became vital.

As the ripple effects of the pandemic spread, attention shifted constantly from new cases to mortality rates, quarantine lengths, government stimulus, vaccine developments, vaccine rates, consumer activity and mobility, consumer spending, inflation, Fed rate activity, unemployment, and wage growth, and the list goes on.

While all were important at the time, some of the "shiny objects" that demanded so much attention were often temporary compared to the long-term picture. In a volatile environment, many metrics or data points were simply the next thing markets were watching with the hope that if enough dots connected, we could be brought all the way back to "normal." While "old" normal may never return or has been dramatically redefined, when it comes to markets, the following are a few established areas of focus that may remain worthy of longer-term attention:

- **Economic indicators:** Unemployment and inflation continue to be the standard measuring sticks, with heightened importance for how changes in economic data may impact ongoing Fed activity.
- **Earnings growth:** While GDP growth is an important factor in gauging the health of economic activity, we are more focused on corporate earnings growth as a barometer of where equity markets may be headed. With Q4 earnings season nearing completion, we've seen growth expectations and general economic indicators continue to grind lower. The bottom line, in our view, is that as long as inflationary pressures remain elevated while labor markets remain resilient, the Fed appears set on continuing to raise rates, which tightens financial conditions resulting in the lowering of earnings expectations. Estimates have already come down; how much further before the right level of caution is factored in remains our key area of attention.
- **Fiscal/monetary activity:** While the monetary playbook appears to be decently understood at this point, fiscal policy remains a shifting landscape. Despite the conclusion of midterm elections, we continue to monitor how policymakers may impact markets.

It's likely we will continue to see new areas to monitor as we progress into 2023. It's hard to believe that just a year ago many of us were still at home while the omicron variant was surging. While the worst appears to be behind us, new twists and turns have been par for the course. The aforementioned flexibility, and a deeper focus to the long-term factors that tend to matter, may provide a stronger foundation to move forward.

Active Portfolio Overweights

Equity

- U.S. Small Cap
- U.S. Midcap
- U.S. Communication Services

Fixed Income

- U.S. Preferreds
- U.S. Government Bonds
- U.S. Corporate High Yield
- Emerging Market Bonds

U.S. Investment Committee and Resources