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"The nine most terrifying words in the English language are: I'm from the Government, and I'm here to help."
- Ronald Reagan

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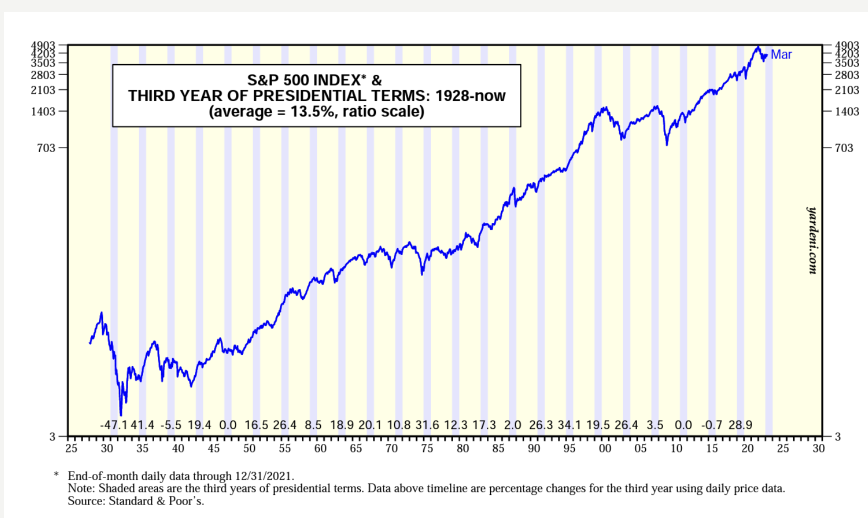
Regardless of your political affiliation, it seems the one thing we can safely assert is that trust in the government is at an all-time low. **According to Gallup**, only 20% of the nation approves the job that Congress is doing[1]. Joe Biden and Donald Trump are poised for a Presidential rematch, despite the seemingly impossible task of finding someone who would suggest these are the two best and brightest candidates we have available. And lastly, the Federal Reserve has reassured us that the banking system is safe despite another high-profile bank seizure at First Republic this last weekend. Did we mention the brinksmanship in Congress over the debt ceiling and a potential default? Woof.

On the bright side, history has shown the third year of a Presidential term to be quite favorable for the stock market. **According to Yardeni Research**, the third year of a Presidential term has resulted in an average return of 13.5% for the stock market, compared to a 6.1% average return in the other three years[2]. The two driving factors seem to be candidates offering the pie in the sky policy proposals to businesses and consumers, combined with Congress avoiding any policy potholes during legislative sessions. 2023 seems to be following a similar pattern, with the S&P 500 up 9.18%, YTD, through the end of April[3].



Yet, as it relates to the market and the course it charts for the remainder of the year, our biggest concern revolves around the government's inability to get out of its own way. Debt ceiling debates usually resolve themselves by raising the threshold and kicking the can down the road. However, the active discussions over which bonds to repay first, or whether to prioritize Social Security payments or defense spending make this current episode seem more dire than past. Second, and more pressing, is the Federal

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Reserve's stance on interest rate policy. While Silicon Valley Bank's seizure in March could arguably be viewed as a "one-off" issue, a second failure in First Republic Bank to end the month of April shows that fallout from the rapid rate hiking campaign is more widespread. To be certain, we do not think this will lead to widespread financial system contagion but we have concerns about further belt tightening in the banking sector and the cooling effects that will have on the economy.

The Federal Reserve raising rates to 5.25% this month, after two bank failures, looks to us like a policy error. The Fed is keeping rates high in an effort to squash economic growth, but it looks as though they are fighting the last war, a process which should have been done in 2021. The economy has slowed, the rate of inflation has fallen dramatically and hiking rates resulting in not just one, but multiple banks break seems imprudent. The rally in the market this year seems to show a great deal of trust that the Fed will cut rates soon. However, they have not started to cut, nor have they given any verbal indication that they will in the short-term. In fact, it is entirely possible they do not cut rates until greater economic calamity happens.

We emphasized in our most recent Quarterly Investment Perspectives that investors should assess their overall portfolio risk, including fixed income allocations, and whether they are in line with their financial goals. This may necessitate rebalancing overall asset allocation or a concentrated move to reduce risk. While reducing risk in the midst of a drawdown like we saw in 2022 is often best avoided, as it locks in losses and avoids a rebound, we have (1) seen a substantial rebound in stock prices since the fall of last year (the S&P is up 15% since September 30) and (2) bonds are offering yields between 4-6% for high-quality, short-term investments[3].

This is to say nothing of the long-term return prospects for stocks, which look favorable given current valuations and the ability of the economy to innovate around Washington D.C.'s mismanagement. For long-term capital appreciation, stocks continue to be the main driver of portfolio growth. However, we are cautious about the short-term investment horizon for the aforementioned reasons and believe conservatism is warranted as we move through the rest of 2023.

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1: Gallup Poll - “Congress and the Public” - https://news.gallup.com/poll/1600/congress-public.aspx#:~:text=Congressional%20Job%20Approval&text=Line%20graph.,from%20February%202023%20is%2018%25.
2: Yardeni Research - https://www.yardeni.com/pub/stmktprescycle.pdf
3: All data via Kwanti, as of 4/20/2023