

UPDATE

April 2023

About our Company

Company Profile:

Mitchell Anthony Capital Management is a private, boutique investment firm who has helped our clients grow and protect their wealth since 1991.

Key Offerings:

- Personal wealth management
- Proactive investment strategies
- Proprietary research
- A professional team
- Fee-only services

Distinguishing Values:

- Passion for excellence
- Strategic focus
- A disciplined process
- Prudent risk management
- Comprehensive client care
- Superior long-term performance
- Sound judgment
- Objective Analysis

MITCHELL ANTHONY
CAPITAL MANAGEMENT

9259 Research Drive
Irvine, CA 92618

Phone: 949-852-4100 or 800-497-9400

Fax: 949-852-4106

www.MitchellAnthonyCapital.com

In the News

Check out the MACM Team's Blogs

If you have't already, check out the MACM team's blogs. You'll find them full of up-to-date commentary on everything from finance and economics to politics and current events.

The Intuitive View
by Mitchell Pletcher
macmblog.com

Long Story Short
by Kyle Aron
thelongstoryshortblog.com

The Starving Market
by Dane May
thestarvingmarket.com

Economic Review & Outlook

Markets Rally Big in Q1! Can it Continue & with what Leadership?

The first quarter of 2023 was volatile for both the economy and the financial markets. Expectations for economic growth and expectations for inflation mostly fell during the quarter but optimism for the soft landing ultimately prevailed. Inflation has been a tremendous burden on the US economy for the last two years and consumers are close to the end of their discretionary savings and they have been spending more and getting less for quite a while now. Consumers have yet to show frustration or walk away from the higher prices but it would seem that this sort of mentality is near. The financial markets mostly performed poorly in 2022 as inflation ran out of control and the Fed looked terribly behind in his job fighting inflation. Stocks, Bonds REITS, and Crypto all fell hard. However optimism has started to prevail in 2023 as many of the leading economic indicators showed clear signs of a significant slowdown that will curtail if not end the inflation cycle that we have endured. At this point it is unclear what lies ahead for economic growth but inflation seems set to re-anchor near the 3 to 3 1/2% level by the end of 2023.

Last year stocks leveraged to economic growth and ill-positioned for a hard landing were taken out to the woodshed and valuations were mostly cut in half as investors discounted a hard landing for the economy worrying that there was far too much capacity for most of these tech and consumer discretionary blue chips. However as expectations for the slowdown have moderated this year and we are no longer expecting a hard landing these highly valued tech and growth names have rebounded significantly as optimism returned. The outlook for the FAANG stocks has improved substantially and likewise these stock groups were up 25 to 35% so far this year.

While no significant rot has emerged in the US economy we have had some minor prob-

lems. This obviously includes the inflation cycle and crisis within regional banks. A few banks have went down but the contagion has been contained and it doesn't look like we will have a banking crisis of significance. However we will have an economy that does not have great access to credit because of these distressed banks. We continue to look for more problems and it seems like the next piece of rot could be in the commercial real estate arena. There is way too much capacity and pricing for commercial property and office buildings has been falling steeply as the "do everything from home" theme continues to play out. Employers have not been successful at getting employees back to corporate offices and consumers continue to be more comfortable shopping at home.



Mitchell Anthony
President
Chief Investment Officer

While there are several indicators that are still showing strength in the economy, most leading indicators are forecasting weakness ahead. Strong pricing for retailers and high employment for consumers are the two areas of strength in our economy. Businesses are still raising prices and consumers are still gainfully employed with unemployment still at historical low levels of 3.5%. Retail sales has declined on a real basis but on a nominal basis it continues to grow which is most important as it continues to benefit businesses who were selling less product for a bigger top line. It hurts consumers who are paying more for less product. This doesn't seem to be a problem just yet. Consumer confidence has recovered from historical lows but is still far from all-time highs (pg. 4, fig. 1).

(cont. on pg. 2)

Economic Review & Outlook (continued)

(cont. from pg. 1)

Consumer wealth is still close to all-time highs with stock prices now only 5 to 10% from all time levels and real estate prices for single-family homes in most areas still not far from all-time highs (pg. 4, fig. 2). Consumer wealth drives consumption and with wealth still up it's hard to see a big decline in consumption on the horizon. We have seen tens of thousands of people laid off from the tech and e-commerce industries as they have adapted to the outlook and now taken people out of their workforce to reduce costs to be better prepared to weather the storm without significant damage. For whatever reason these layoffs have not shown up in the unemployment rate as it has held firm at 3.6% ((pg. 4, fig. 3). It would seem that most of these people are quickly being absorbed into other areas of the economy that were stretched thin with employees because of the shortage we have seen for the last several years due to Covid. The fact that employment remains strong is the best indicator of a soft landing. If employment was going to break it likely would have broken by a sizable amount already. We suspect the unemployment rate will peak at 4 ½% to 5% which is low relative to past recessions.

There are many leading indicators that are in the red and clearly forecasting weakness. This would include the level of interest rates and the significant impact it has made on the cost of housing. Housing sales have revived a bit this year but are still at historically low levels. New home construction has likewise been resilient given the rise in rates but new home starts are still significantly lower than levels that indicate a healthy housing sector. The manufacturing sector of our economy has seen a significant decline in new orders as retailers have cut back on inventory as they brace for an economic slowdown. There seems to be more of a fear of a slowdown than the reality at this point. The best part of the economy is consumer experiences and they have shown no signs yet of breaking. Travel, eating out, and entertainment, remains quite strong and trends are improving as summer starts to approach. It does seem inevitable though that these areas will see weakness in some modest manner as unemployment gets hit this year.

There are other themes of consumption that are worth noting. The world of e-commerce is still alive and companies like Facebook and Netflix which had been written off as troubled are now recovering nicely and learning how to monetize the businesses that they dominate. Web services have secular tailwinds that are still blowing but the demand for web services has declined to where the growth rate is only half of what it was a few years ago. It seems like this is only temporary and is mostly due to corporate America bracing for a slowdown and putting off purchases, but they will likely get back to business if this slowdown never really materializes. Digital devices continue to have strong demand as iPads and iPhones and the like are almost treated like a staple item rather than a cyclical discretionary item. Computers and laptops seems vulnerable to softness and will hurt Apple a bit. Overall, Apple is doing quite well as orders stay strong and consumers prioritize their products.

Financial Market Review

Generally investment markets did quite well in the first quarter as money returned to risk assets after moving away for most of last year. Also risk-free investments in short-term treasuries were quickly gobbled up and the 5% yields that were there for a moment declined to 4% or less currently with nothing over 3 ½% available now for more than five

(cont. on pg. 3)

Table 1: Stock & Bond Market Returns

3/31/2023

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	14.3%	-11.2%	Small Cap Value (IWN)	-0.7%	-13.2%
Large Cap Value (IWD)	0.9%	-6.2%	Small Cap Growth (IWO)	6.0%	-10.5%
Europe Asia Far East (EFA)	9.0%	-0.2%	Emerging Markets (EEM)	4.1%	-10.5%
Invest Grade Bonds (LQD)	4.7%	-6.3%	High Yield Bonds (HYG)	3.7%	-3.1%
Interm Treasuries (IEF)	3.9%	-5.8%	Mortgage Bonds (MBB)	2.7%	-4.7%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

Table 2: Real Estate & Commodity Returns

3/31/2023

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	1.4%	-19.2%	DJ Commodity Index (DJP)	-6.3%	-14.4%
Int'l Real Estate (IFGL)	-1.6%	-22.2%	Goldman Commodity (GSG)	-5.2%	-11.2%
NAREIT Residential (REZ)	3.9%	-23.9%	Gold (GLD)	8.0%	1.4%

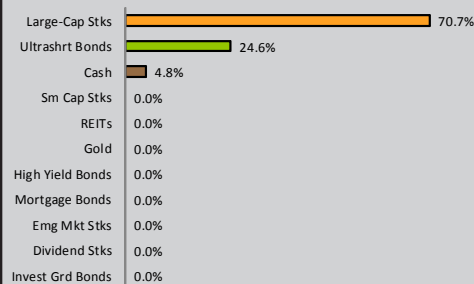
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

MACM Managed Accounts

Growth Portfolios

Dynamic Growth (Qualified Accounts)

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.



Growth

A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.



Diversified Equity

A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.



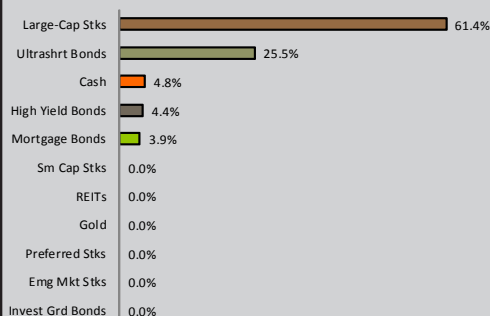
Focused REIT

A portfolio of companies whose primary business is owning and leasing real properties.

Balanced Portfolios

Dynamic Growth & Income (Qualified Accounts)

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.



Economic Review & Outlook (continued)

(cont. from pg. 2)

years. The quarter was volatile as there was a quick move to cash and T-bills at the beginning but reversed course by mid-quarter as the outlook improved and money flowed back to risk assets. Notable in the first quarter was:

- Fixed Income price are higher as slower growth expectations grew larger.
- Inflation moderated and banking crisis dented bank lending.
- Corporates (LQD) up 4.5%, TLT up 7.4%, and Junk Bonds (HYG) up 3.7% ((pg. 4, fig. 4)
- Oil was down 7% as slower growth expectations hit energy.
- Equites were up 7.8% (SP500) QQQ up 20% as soft landing looked more probable!
- Stocks were higher, mostly a move back into tech and consumer cyclical names

Equity Market & Sector Review

As noted earlier expectations for a soft landing rose throughout the quarter and drove money back to FAANG and Tech as investors had previously these areas bracing for a much harder landing for the US Economy. There really was a rotation back into tech and out of the defensive areas. FAANG stocks had a terrific quarter advancing 25 to 35% depending upon how the basket is weighted. NASDAQ was right behind with the QQQ up over 20% during the quarter. MACM's diversified equity portfolio DE advanced 14.3% and MACM's DG portfolio rose by over 9.2%. This compares to a rise of 7.5% for the S&P 500 and only 1% for the Dow Jones industrial average ((pg. 4, fig. 5). MACM DG portfolio did extremely well given that it was still carrying a defensive 25% cash position. MACM portfolios in general had great performance in the first quarter mostly because of not owning the areas of the market that did poorly and being overweight Tech and FAANG which did great.

Financial Market Outlook

Will stocks continue to move higher?

Has the rotation into tech stocks and the rotation out of financials, healthcare, and utilities ended or has it just begun? Industrials, energy, materials, and telecom all underperformed as tech bounced back strongly over the last few weeks. This is likely because tech does not have credit problems and for the most part is cash rich and will not be hindered by the regional banking crisis that has emerged. Financials, industrials, and deep cyclical names all need credit to make their businesses run and grow and credit has gotten tighter and more expensive for small to mid-sized businesses and hence these businesses are not well-positioned for growth. Stocks will continue higher and current leadership will likely stay in place.

Will Bond prices higher and yields fall further?

This question is easily answered with an accurate forecast for inflation and inflation expectations. Well ok not so easy.. Expectations have already built in a soft landing for the economy and a return to 3.5% inflation. Still above the Fed's target but a level of inflation that would probably not warrant higher rates but likely warrant keeping fed fund at 4-5%. Long rates will fall from 3.3% to under 3 if CPI breaks 4% in the next few months. Investment grade bonds or treasuries are a more conservative bet on inflation breaking, than stocks or High yield Bonds, and will do the best if the economy falls into negative GDP for more than a quarter.

How about Real Estate or REITS?

Office and Commercial Property have already discounted a lot of problems and the outlook is dismal. While downside may be modest, upside is not likely without a change in the do everything from home theme that still prevails!

Home prices have not discounted in the current level of rates and the unaffordability for cash buyers. Prices will move lower to enable affordability. Cash Buyers are mostly gone now. Residential REITS are much more attractive than real property as they have seen sizable declines in market price that reflect where the underlying property will likely be valued this year. Not a bad place to be a buyer. We remain optimistic.



Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Technology	23.5%	-6.6%
Comm Services	20.4%	-17.9%
Cons Discretionary	16.0%	-19.1%
Materials	4.7%	-8.1%
Industrials	4.1%	-0.7%
Real Estate	2.0%	-19.6%
Cons Staples	1.0%	0.0%
Financials	-2.7%	-13.0%
Utilities	-3.2%	-6.0%
Healthcare	-3.7%	-3.9%
Energy	-5.1%	12.4%

Source: Bloomberg, Barclay's Global Investors ETFs.
Actual performance including dividends.

Economic & Financial Market Charts

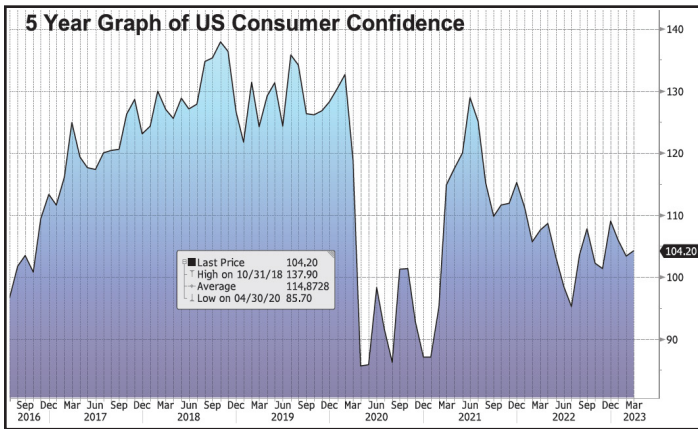


Figure 1 - Source: MACM / Bloomberg Financial
Consumer Confidence, up from lows but still well off highs

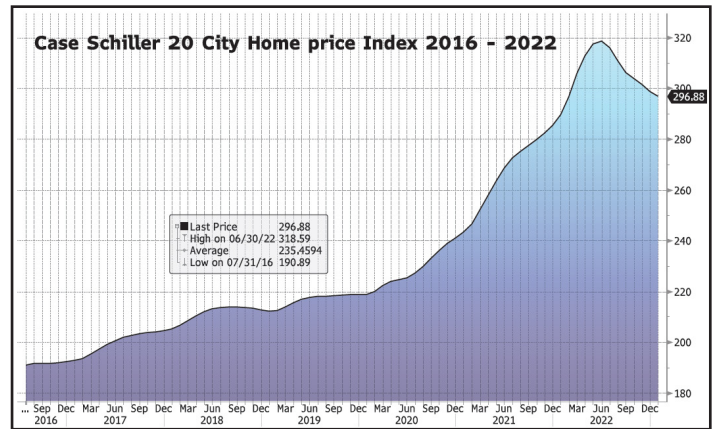


Figure 2 - Source: MACM / Bloomberg Financial
Case Schiller Home Price Index, near highs but continuing to decline

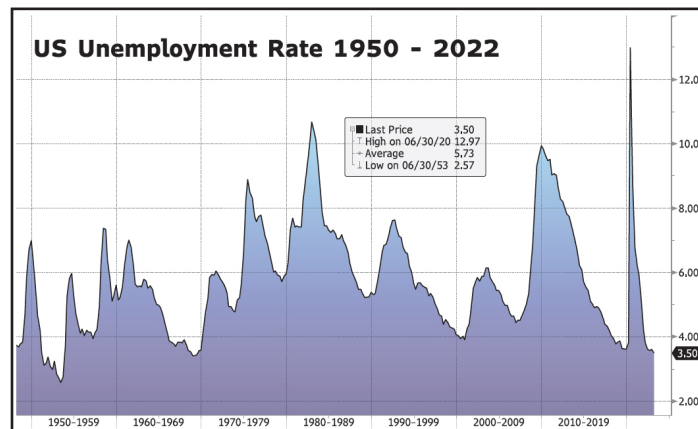


Figure 3 - Source: MACM / Bloomberg Financial
Unemployment rate still at a very low level

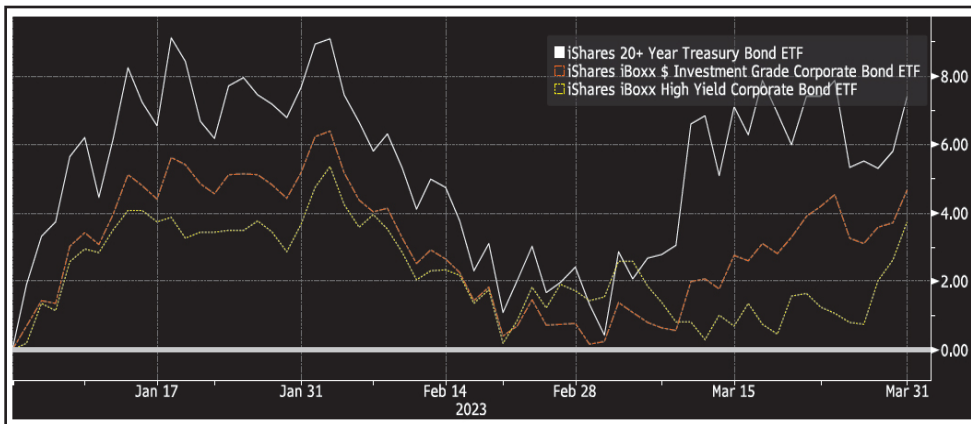


Figure 4 - Source: MACM / Bloomberg Financial
Fixed Income prices moving higher with bets on slower growth ahead

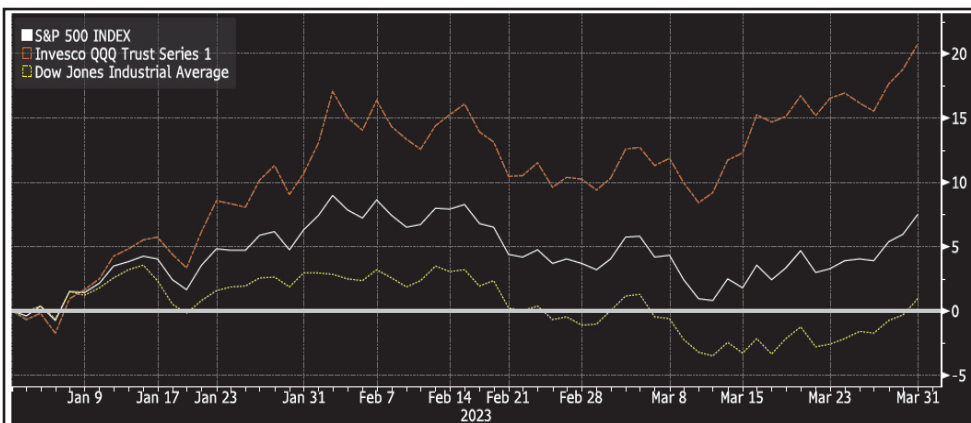


Figure 5 - Source: MACM / Bloomberg Financial
NASDAQ 100 leading the way for 2023, with the S&P 500 also up significantly while the Dow barely clings to a gain