COPPERWYND FINANCIAL

Providing financial navigation for your life's journey.

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Your Copperwynd Financial Newsletter: March 2023

Market Commentary

In Like a Lion, Out Like a Lamb

By Jake Eggett

March can be a turbulent month for weather as the cold winter ends and the warm spring begins. The old saying, "In like a lion and out like a lamb" may apply just as much to the market as it does to weather in the month of March.

Historically the market tends to be a leading indicator of the health of the economy and as such, it begins discounting future economic weakness rather quickly and oftentimes fiercely; however, once that has happened, the market will generally move higher well in advance of the economic recovery, but usually at a much slower and calmer pace than how fast it declined. In 2022, inflation and rate increases caused the market to drop strongly and now we see the market in 2023 shifting its focus from rate hikes (although the Fed is not done) to economic growth and corporate earnings. That begs the question: will we see a recession in 2023?

This may be the most widely predicted recession in US history, so let's evaluate why a recession may or may not occur in 2023 and the implication for the market if it does. One of the most talked about predictors for the impending recessions in the US is the inversion of the 2-year and 10-year Treasury yield curve. When the curve inverts, (meaning the 2-year Treasury rate is higher than the 10-year Treasury rate) the likelihood of a recession is high in the next 1-2 years.

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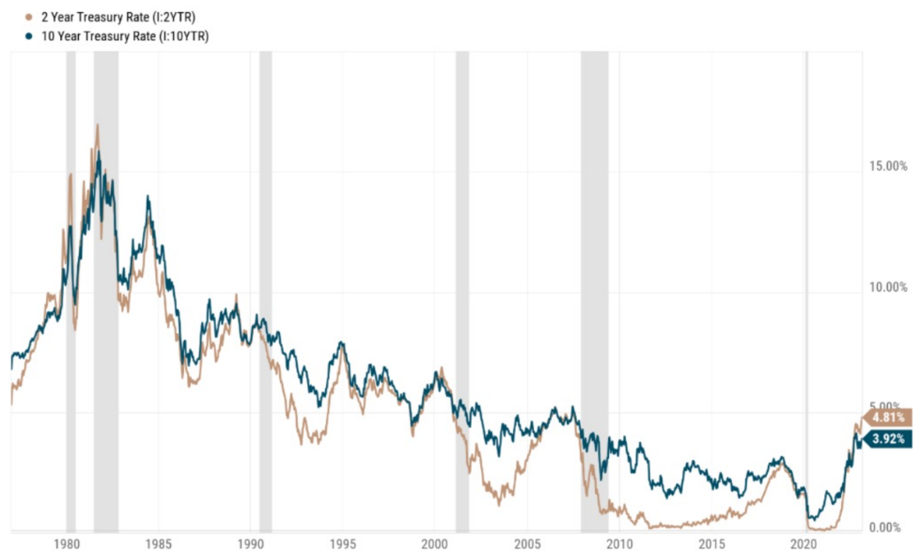
In Figure 1 below, the 2-year and the 10-year interest rates are shown since 1977. In a normal environment, the 10-year is higher than the 2-year treasury rate. The reason for this: bond investors expect a higher return for loaning money out longer. Currently, that is not the case, the 10-year treasury rate is near 4%, while the 2-year treasury rate is ~4.8%. The reason this inversion is occurring is that the Fed controls the short-term rates and the market (supply & demand) controls the longer term rates. The expectation is that a recession is nearing, and investors aren't requiring as much for longer term treasuries.

Figure 1:



Source: YCharts, data from 01/01/1977 – 03/01/2023

In Figure 2 below, this chart shows the spread between the 10-year Treasury and the 2-year Treasury with the grey shaded areas indicating past recessions and the circles representing when the curve inverts. Interestingly, it is typically the reversal of the inversion that seems to be predictive of a recession, as opposed to the inversion itself.

It's nearly been one year since the curve initially inverted and recently has reached the widest margin since the early 1980's at -.89%. Persistently high inflation and expectations for further tightening by the Fed have been the main drivers of creating this inversion. So, could the predictive power of this indicator be wrong?

Some have pointed out that when you adjust the curves for future inflation expectations the yield curve is flat to even positive sloping. The strong labor demand continues to be the main counterargument for the potential for the US avoiding a recession.

Whether this time is different or not, we want to remain nimble for the possibility of a recession and further market weakness. The ability to sidestep or limit the potential drawdowns during recessionary periods can make a big difference in your long-term returns.

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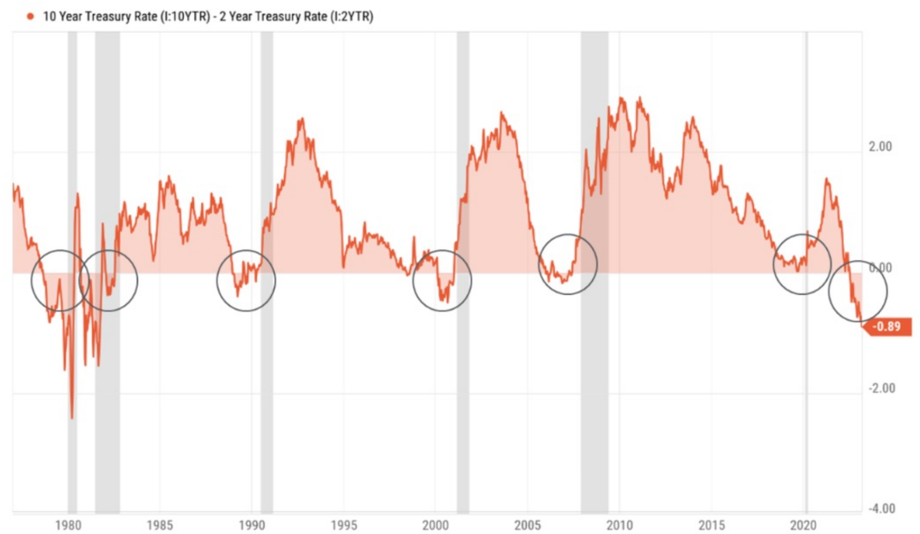
Figure 2:



Source: YCharts, data from 01/01/1977 – 03/01/2023

Market Performance

As we discussed last month, market expectations for future rate hikes have been disconnected from what the Fed has been saying and so somebody was going to be wrong. Well, February was the month that the market finally got the memo and those expectations moved closer to each other. We saw the markets give back about half of their 2023 gains in the month of February mainly due to the unraveling of the markets' hopes of lower rates.

The US stock market was a little more resilient in February than international stocks. This was mainly due to the strengthening dollar. Will the early international outperformance continue to hold through the year? The trend of the dollar will likely be the driver of this and it's too early to tell if this mostrecent uptick of the dollar is the start of a new trend or just a short-term rally. Given the hotter than expected inflation data, the market seems to be pricing in more tightening from the Fed which would have the effect of driving the dollar higher, as it did in 2022.

The 10-year treasury rate moved from 3.5% to 3.92% during February. As rates moved higher, this put pressure on bonds and the Aggregate bond index gave up most of its year-to-date gains and is now only slightly positive at .57% for 2023. The increase in yields has been a welcome sign for savers and now we have treasury rates that are above 5%. Not bad for a risk-free rate! The high-yield bond market has reversed course and it appears to be mostly due to rising rates than credit risk. (the risk of loans defaulting)

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Equities	February	YTD 2023
S&P 500	-2.51%	3.62%
Mid Cap	-1.87%	7.21%
Small Cap	-1.72%	7.93%
Nasdaq	-0.36%	10.24%
International Developed	-3.07%	5.65%
Emerging Markets	-6.65%	1.13%

Fixed Income	February	YTD 2023
Bloomberg Aggregate Bond Index	-2.67%	0.57%
High Yield Corporates	-1.90%	2.06%

The Bottom Line

The question is why have stocks been so resilient? The answer may lie in an old market adage: “Stocks don’t discount the same information twice.” The Fed walloped the markets in 2022 with rate hike shocks, but after sustaining that beating for 12 months, the truth is that the worst may be behind stocks from a rate hike standpoint. Sure, fed funds could possibly go as high as 6%, but that’s only about 1.5% of additional tightening from here, as opposed to the 4.5% we’ve already been through. Put simply, the 2022 market was about rate hikes, and regardless of whether we get another .5% or 1.5% of tightening, the bottom line is we’re closer to an end than a beginning. Does that mean we should be extremely bullish on the market? No, it does not, and here’s why. This year is going to be all about economic growth, and if that rolls over, so will this market. Stocks may have discounted higher rates, but they have not discounted the recession that higher rates might unleash upon the economy. We remain cautious on this market and at the same time respecting its resilience.

At Copperwynd, we remain fully invested in our equity models but continue with our defensive positioning. On the bond side, with rates moving higher, we sold out of our high yield positions and moved that portion to treasuries that are yielding ~4.3%. Time will tell if this signal was a head fake but we view that as the cost of insurance in order to avoid the disaster that a year like 2022 brought on the bond market. Currently, we have 60% of our Total Return bond strategy in floating rate bank loans that are yielding between 7-8%. Even though the trend has weakened recently, those positions are very attractive from a yield and volatility standpoint so therefore we remain invested.

With all the economic uncertainty, we don’t expect volatility to go away anytime soon; however, we are hopeful that this year has more lamb-like features than the lion-like volatility that we experienced last year. As always, if you are concerned about your risk level, please reach out to us, and schedule a time to review your allocation and financial plan.

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Upcoming Events

Client Appreciation Spring Training Games

Our next game is scheduled for:

- Friday, March 17th at 1:05PM – Chicago Cubs vs Los Angeles Dodgers, Sloan Fields, Mesa AZ

If you would like to join us, please email kcostlow@copperwyndfinancial.com or give us a call at the office 480-348-2100 to reserve tickets. In an effort to let as many clients attend as possible, please limit your initial request to two per family. Once you have reserved your tickets, more information will follow.

Hope to see you there!

Schwab Transition

You may remember back in 2020 Charles Schwab & Co., Inc. bought TD Ameritrade. In 2023, Schwab and TD Ameritrade will become one company solely under the Schwab brand. Your relationship with Copperwynd Financial will not change. Schwab will automatically transfer your assets and holdings over Labor Day weekend 2023.

In preparation for this change, you must have access to all your accounts online at TD Ameritrade using the portal www.advisorclient.com. Using your existing login ID and password will help ensure a smooth transition to the Schwab platform. This is the first critical step to take if you haven't done so already.

If you have any questions, please do not hesitate to contact our office at 480-348-2100.

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March is Women's History Month

By: Myra Alport

This month we're acknowledging the important contributions of 6 female trailblazers to the world of finance.

Muriel Siebert (1928-2013) is known as the "First Woman in Finance." After nine rejections, she was finally permitted to join the New York Stock Exchange in 1967, the first woman among 1,365 male members. That same year she founded Muriel Siebert & Co, a brokerage firm that operates today as Siebert Financial Corp. Muriel was the first woman to have a room named after her at the NY Stock Exchange.
In 1977, she became the first woman to serve as the superintendent of banking for New York State. Among her other accomplishments were pioneering the discount brokerage field and creating financial literacy programs for women.

Photo: Muriel "Mickie" Siebert in 1990, Harry Hamburg – New Yield Daily News / Getty Images

Victoria Woodhull (1838-1927) and **Tennessee Claflin** (1844-1923) were sisters from an impoverished family in Ohio who challenged the norms of Victorian society by launching the first female-owned brokerage on Wall Street in 1870. The firm, known as Woodhull, Claflin and Co, was silently backed by the one and only Cornelius Vanderbilt.

The sisters were well-known non-conformists, leading the way in the women's suffrage movement. Victoria became the first woman to run for President of the United States in 1872 as the Equal Rights candidate. This was nearly 50 years before women were granted the right to vote! Controversy seemed to follow them throughout their lives.

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Victoria Woodhull

Tennie Claflin

Photo: New York Woman for President, billgreerbooks.com

Hetty Green (1934-1916) was labeled “the wealthiest woman in the world” during the Gilded Age (1865-1898). From a young age, her wealthy father and grandfather required Hetty to read them the financial pages because of their poor eyesight. Raised as a strict Quaker, she was taught to live with austerity. When she married her wealthy Vermont husband Edward H Green, she saw to it legally that their financial property be separate, a precursor to a modern-day prenuptial agreement. Because he was wildly speculative, she bailed him out of debt many times over. She also bailed out New York City following the 1907 Bankers’ Panic when the bank refused to do so.

Between 1865 and 1916, she turned her 1865 inheritance of $5-10 million into a fortune equivalent to $2.5 billion in today’s dollars. Also noteworthy - Hetty was one of the pioneers of value investing; she did not believe in the buy-and-hold approach.

Photo: Hetty Green, Allthatisinteresting.com

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Maggie Lena Walker (1864-1934), the daughter of an enslaved couple in Richmond, VA, became the first female-chartered bank owner in the U.S. in 1903. She established the St. Luke Penny Savings Bank to help combat oppressive conditions of racial segregation while encouraging economic independence in the African American community. The institution grew significantly by 1924 and, after merging with two other banks, survived the Great Depression.

Photo: Maggie Lena Walker, from the Scurlock Studio Records in our Archives Center, National Museum of American History

Isabel Benham (1909-2013) graduated in 1931 with a degree in economics from Bryn Mawr College, one of the first 5 women to graduate with this degree. She got her big break working on Wall Street for RW Pressprich & Co, where she researched and reported extensively on America's railroad industry. Her contributions were so impressive that she earned the nickname "Madam Railroad." She went on to become the firm's first female partner and eventually earned a seat on the New York Stock Exchange.

Photo: Isabel Benham, The Street

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https://en.wikipedia.org/wiki/Muriel_Siebert

Three Scams to Avoid in 2023

By: Javier Jiminez

1. The "pig butchering" scam

These types of scams are often used in cryptocurrency scams, but may be used in any type of investment scheme. Generally, scammers reach out via text, social media, or dating websites and start to build a relationship (friendly or romantic). After some time communicating back and forth, the scammer starts to talk about how much money they've made on their "secret" investment. They'll try to convince you to try a small investment using their "special" app or platform (really just a bogus platform that steals your money).

2. Student loan forgiveness scam

With the student loan forgiveness program being highly publicized in the past year, scammers have found another way to take advantage of individuals. Scammers reach out via phone calls or emails. They use generic business names that sound trustworthy or they can pose as federal loan servicers and will set up a bogus website that looks official. They may say that they offer a number of services, from loan consolidation to loan forgiveness. If someone falls for the fraudulent service, they'll unwittingly disclose sensitive information to scammers such as social security number, IDs, financial information, addresses.

3. Damaged used cars selling for sky-high prices

With used car prices hitting historic highs in 2021 & 2022, this has offered a big opportunity for scammers. If you're in the market to purchase a used car, it may be difficult to determine whether the vehicle is actually in good condition. Dishonest individuals may tamper with the VIN, car title, or even hide serious issues such as water damage. A seller may charge a high price for a used car with extensive water damage and will clean up the car and lie about the vehicle's history. Another type of fraud is title fraud. Scammers will sell a salvaged title vehicle for the price of one with a clean record by forging or altering the car's title document.

Don't forget, this is a game of numbers for scammers. They do this thousands of times just to get one or two individuals to fall for the scam. So, they can sound very convincing and are good at what they do. If you are still unsure after doing your due diligence, you can always reach out to your team at Copperwynd Financial. We are more than happy to review any suspicious calls or messages.

https://www.aura.com/learn/latest-scams-going-around

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401(k) Allocation

By: Lynda Elley

There are trades.

"Soft landing or hard landing?" – we are not talking about flights here, but rather the Federal Reserve's ability to engineer a measured slowing of the US economy in order to lower inflation, while still keeping employment and GDP growth strong enough to avoid a deep recession. It is not an easy task, and this "flight" already experienced a pretty strong bout of turbulence with last year's rapid rate increases.

The hope of a cessation in the interest rate increases, fueled by slower increases, perked up both stocks and bonds, but recent signs of economic strength – well, that has actually been a negative for the stock market! Confused? It comes back to what we said in the zoominar last month – good news will be bad news and bad news will be good … sorta. Good economic news will pressure the Feds to keep raising rates and perhaps get more aggressive once again. Bad news will give them the breathing room to keep slowing the pace of the increases or even stop. But isn't bad economic news bad for the economy and thus bad for stocks? It will be if it goes too far, and as Jake pointed out in this month's commentary, we are seeing signals that would have us be cautious at this point.

So it is that we are rolling back some of the exposure to the stocks, as well as the bond mix we prefer for your 401K plans. Small measures for now but will accelerate if see more weakness as the Federal Reserve makes its plans known.

As always, if you have any questions about how to rebalance your 401K, we encourage you to reach out to us at the office and we'll be happy to help!

Asset Class	Description	Agg. Growth 100% Equity	Growth	Moderate	Balanced	Conservative
Bonds / Cash		**15%**	**25%**	**45%**	**55%**	**75%**
	Stable Asset - OR - Short Term Bond	*15%*	*25%*	*25%*	*30%*	*55%*
	Total Return	*0%*	*0%*	*20%*	*25%*	*20%*
	*High Yield Bonds***	*0%*	*0%*	*0%*	*0%*	*0%*
	Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Large Cap:		**55%**	**55%**	**35%**	**25%**	**20%**
	Large Cap Growth	*30%*	*25%*	*15%*	*10%*	*10%*
	Large Cap Value	*25%*	*30%*	*20%*	*15%*	*10%*
Mid Cap:		**15%**	**10%**	**10%**	**10%**	**5%**
	Mid Cap Growth	*5%*	*5%*	*5%*	*5%*	*0%*
	Mid Cap Value	*10%*	*5%*	*5%*	*5%*	*5%*
Small Cap:		**10%**	**5%**	**5%**	**5%**	**0%**
	Small Cap Growth	*5%*	*0%*	*0%*	*0%*	*0%*
	Small Cap Value	*5%*	*5%*	*5%*	*5%*	*0%*
International:		**5%**	**5%**	**5%**	**5%**	**0%**
	Developed International	*5%*	*5%*	*5%*	*5%*	*0%*
	Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*
		100.00%	**100.00%**	**100.00%**	**100.00%**	**100.00%**

** If High Yield Bonds are not an option in your 401k, you can allocate that portion to either your Total Return or Short Term bond fund