MARKET MINUTE
WITH McGAREL

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Usain Bolt holds the world record, set in 2009, for the fastest 100 meter race in history at 9.58 seconds (he ran a wind aided race of 8.97 seconds once!). Bolt's record breaking race was run in ideal conditions on a perfect track. The 110 meter hurdle world record is 12.80 seconds (adjusted for 100 meters the time would be 11.64 seconds). That's almost 20% slower than the 100 meter dash. Why? Simple. There are ten 42 inch hurdles to jump over on your way to the finish line! It's a lot harder, in fact impossible, for the same runner to go faster over the hurdles than the dash.

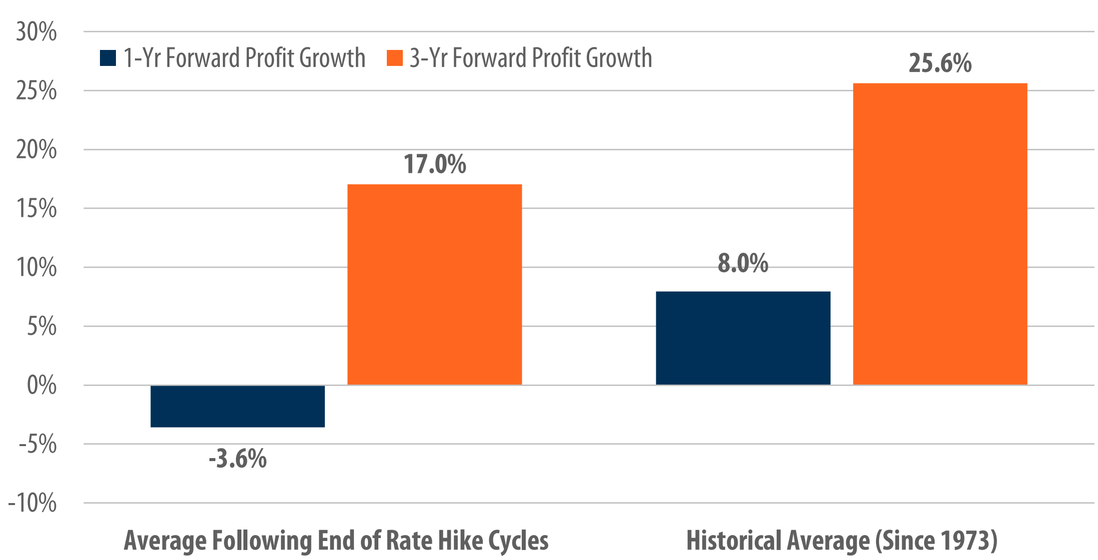
This is one lens to view the economy and the stock market as we move forward. We have hurdles. Primarily higher interest rates. All things being equal, higher interest rates will increase company costs and weaken demand as consumers are challenged by higher financing costs.

We don't know if there will be a recession (mild or severe) or when it may begin. We do know, however, that it is easier to grow earnings in a low rate environment with massive fiscal support. That world is behind us. We expect slower earnings growth amid a higher rate environment and fading fiscal support (see chart below). You don't have to be negative to realize equity gains are going to be more difficult to come by as earnings are poised to grow at a slower pace without the massive fiscal and monetary stimulus that preceded today. Stock multiples are almost back to their December 2021 highs when rates were still zero. The S&P 500 Index traded at 22 times forward price-to-earnings then and trades at almost 21 times forward price-to-earnings today.

This year's 20% increase in the S&P 500 Index shouldn't confuse us. It is the result of multiple expansion. What's hard to grasp is we all know that multiples and interest rates are negatively correlated to each other. Not so far this year though. The market has been incredibly resilient, though we still see value in certain areas as we have discussed in previous Market Minutes. We expect the market to continue to broaden regardless of direction.

Higher interest rates don't have to be a massive headwind (especially if the next Federal Reserve (Fed) move is an interest rate cut) but they will never be confused with a tailwind. We believe investors should focus on equities that have good balance sheets, can still grow earnings, and have attractive valuations.

Forward Corporate Profit (After Tax) Growth After Last Fed Hike in Cycle



Source: Bloomberg. Data as of 3/31/23.

Past performance is no guarantee of future results.

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The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. **Forward Price-to-Earnings (P/E)** is the price of a stock divided by estimated forward earnings. **Multiple** is a ratio that is calculated by dividing the market or estimated value of an asset by a specific item on the financial statements.

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