

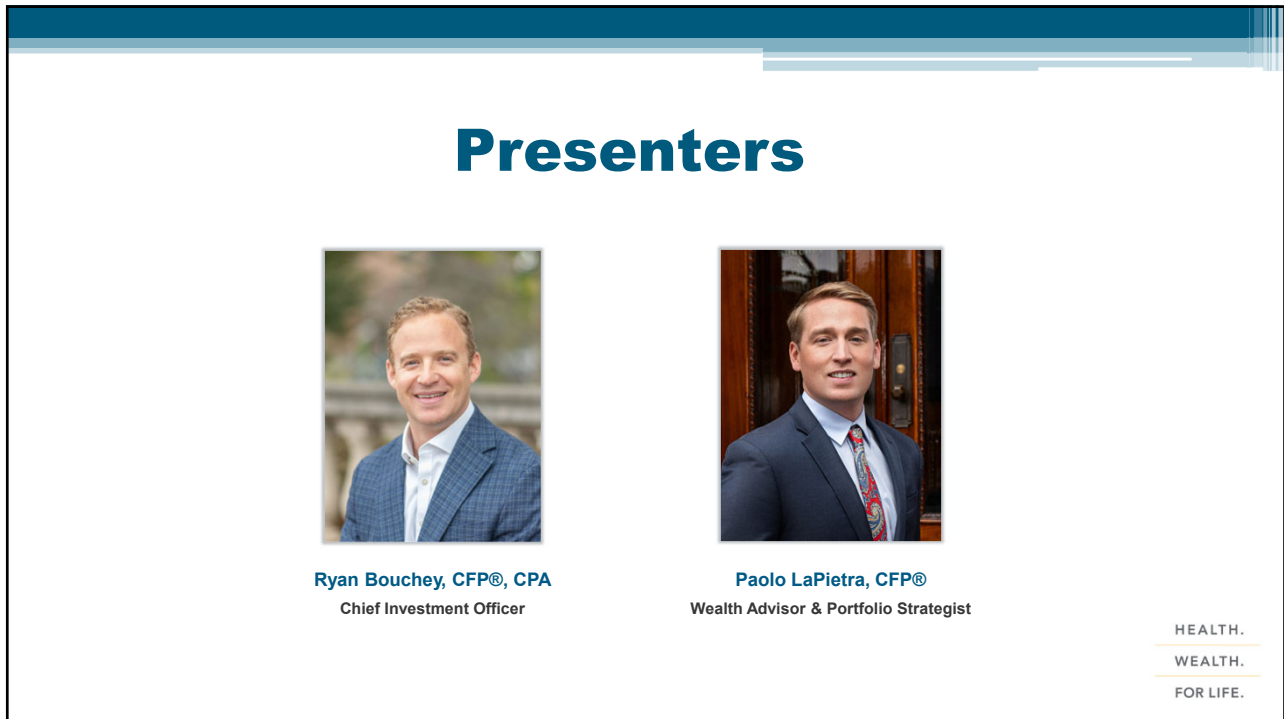


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**Q1 2023 Market
and Economic Update**

April 12th, 2023


1



Presenters



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Chief Investment Officer



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Market Resiliency to Start 2023

Today we will discuss:

- Q1 Market Overview
- SVB Impact & The Fed
- Economic Outlook
- Path(s) Forward

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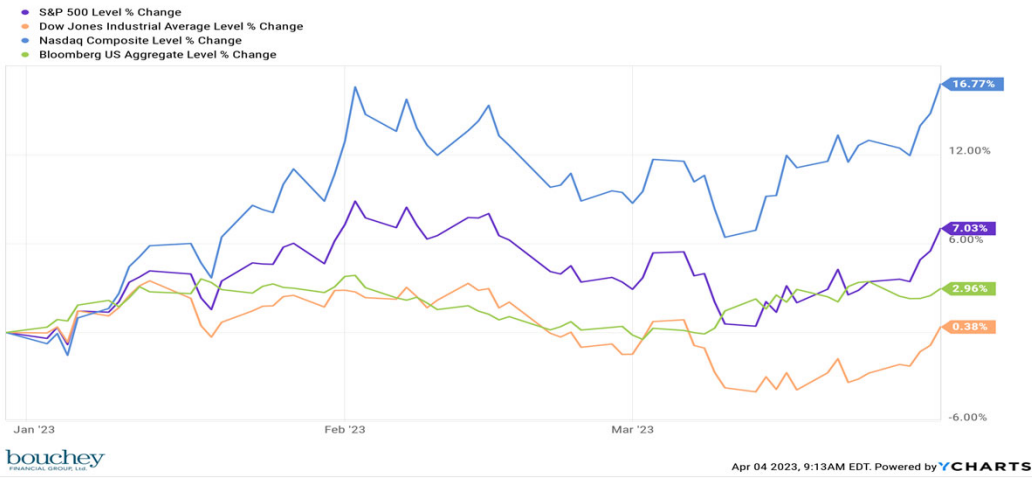
Don't Fight The Fed



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YTD Market Performance Recap



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BFG Portfolio Tactical Allocation

| Overweight | Underweight |
|------------------|------------------------|
| U.S. Equities | International Equities |
| Technology | High Yield Debt |
| Dividend Growers | Financials |
| Profitability | Real Estate |

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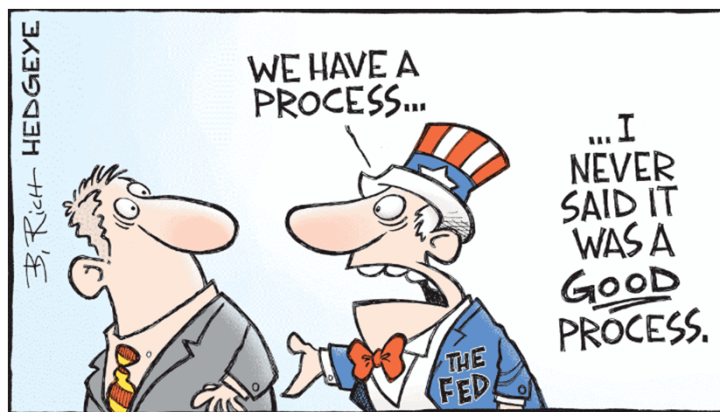
6

Silicon Valley Bank & The Fed

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The Fed's Rate Approach

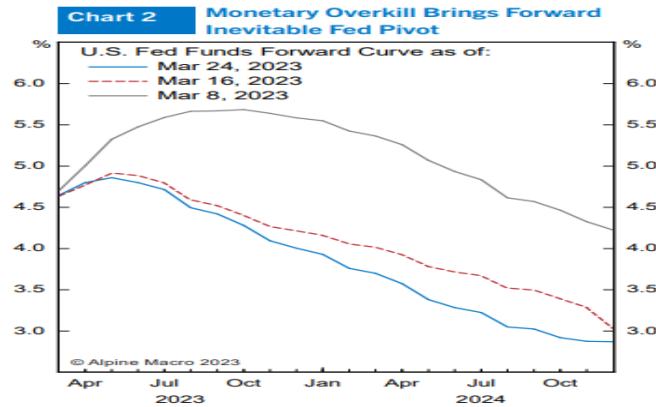


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Immediate Impact of Silicon Valley Bank Collapse

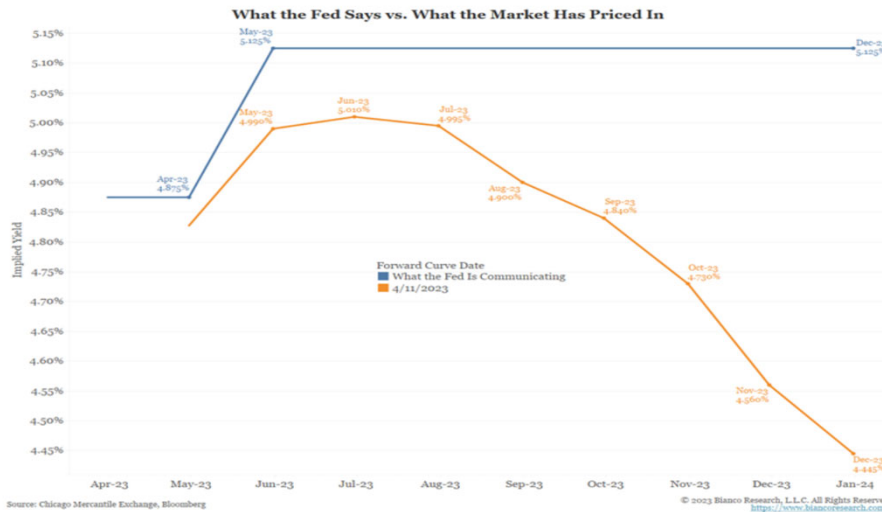
Market Expected Policy Rates



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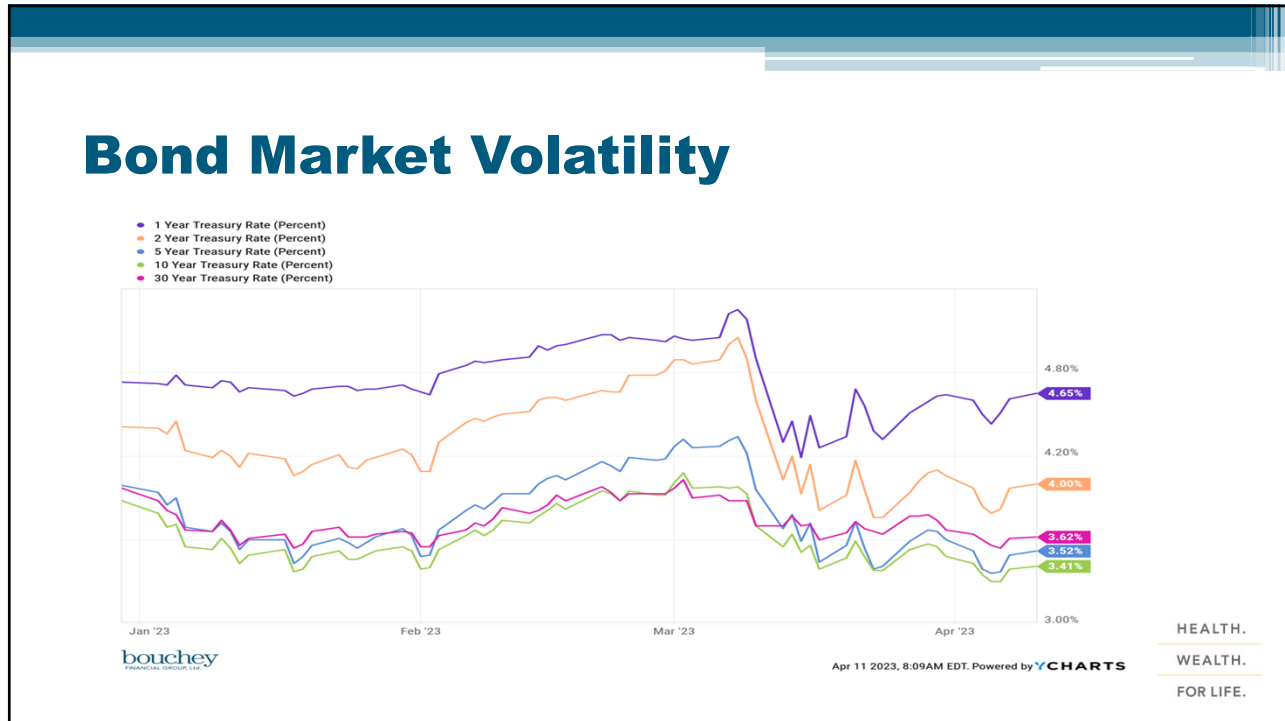
9

What the Market Says VS What the Fed Says

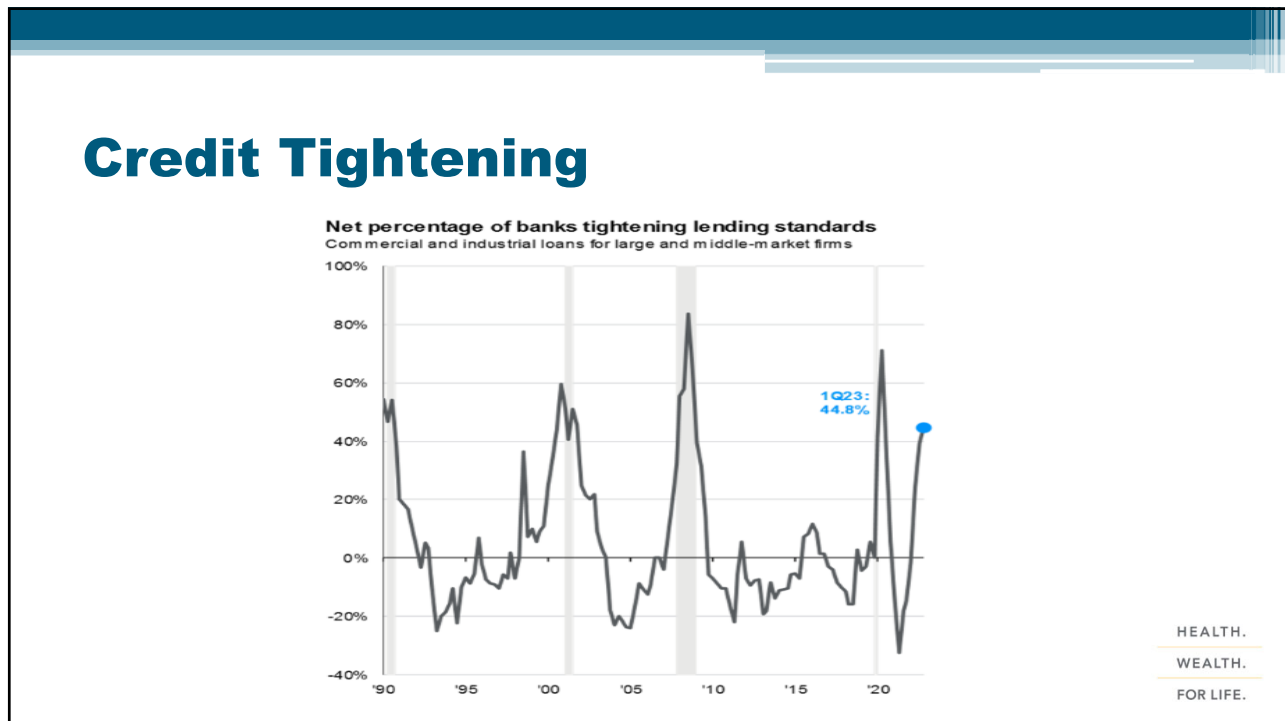


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11



12

Recap

- **Silicon Valley Bank was a unique situation**
 - Customers were unlike many regional banks
 - Poor risk management
 - Not a sign of larger banking crisis, although could lead to credit tightening
- **Fed has been reactive since the start**
 - They have stated they will continue to be reactive, not proactive
- **SVB collapse felt like the first sign of the Fed's rising rate impact**
- **Market still isn't sure what happens next with the Fed**
 - Feels like a pivot is coming sooner than later
 - Labor market & economic strength could push it back if it continues

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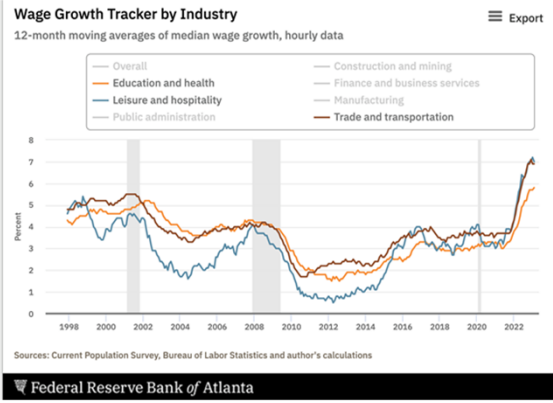
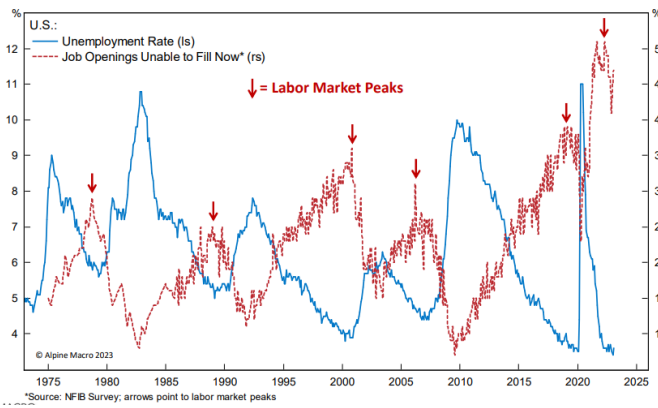
13

Economic Overview

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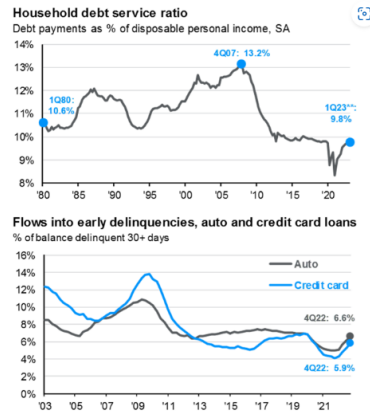
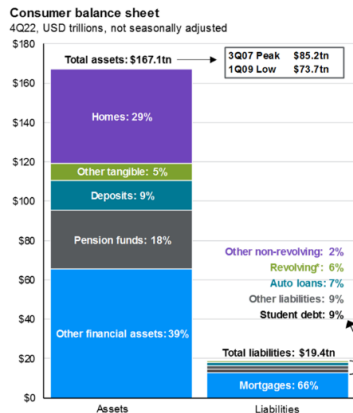
14

Labor Market Still Tight



15

US Consumer Balance Sheet



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Limited Housing Supply

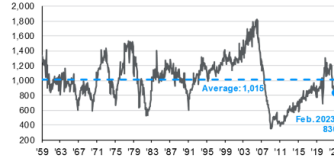
Housing inventories

Inventory of new and existing single family homes for sale, thous. SA*



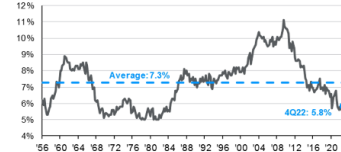
Single-family housing starts

Seasonally adjusted annual rate (SAAR), thous houses



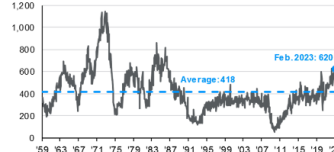
Rental vacancy rate

Percent



Multi-family housing starts

Total multi-family, SAAR, thous houses



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Where's Inflation Heading?

Consumer Price Index, components

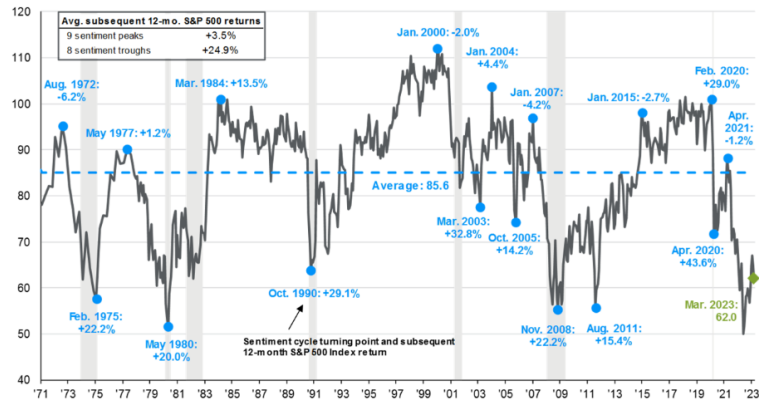
m/m % change, seasonally adjusted

| | Weight | 2021 | | | | | | | | | | | | 2022 | | | | | | | | | | | | 2023 | |
|---------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|------|------|------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|--|
| | | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | | |
| Headline CPI, y/y | 100.0 | 2.8% | 4.1% | 4.9% | 5.3% | 5.2% | 5.4% | 6.2% | 6.9% | 7.2% | 7.6% | 8.0% | 8.5% | 8.2% | 8.5% | 8.9% | 8.4% | 8.2% | 8.2% | 7.8% | 7.1% | 6.4% | 6.3% | 6.0% | | | |
| Core CPI, y/y | 79.5 | 1.7% | 3.0% | 3.8% | 4.4% | 4.2% | 3.9% | 4.0% | 4.6% | 5.0% | 5.5% | 6.1% | 6.4% | 6.5% | 6.1% | 6.0% | 5.9% | 6.3% | 6.6% | 6.3% | 6.0% | 5.7% | 5.5% | 5.5% | | | |
| Core svcs. ex-housing PCE, y/y* | - | 2.9% | 4.3% | 4.3% | 4.2% | 4.4% | 4.4% | 4.3% | 4.4% | 5.0% | 5.0% | 4.9% | 4.8% | 4.7% | 4.5% | 4.5% | 4.6% | 4.6% | 4.2% | 4.5% | 4.7% | 4.4% | 4.3% | 4.7% | 4.7% | | |
| Headline CPI, m/m | 100.0 | 0.3% | 0.7% | 0.7% | 0.8% | 0.4% | 0.4% | 0.4% | 0.9% | 0.8% | 0.8% | 0.6% | 0.7% | 1.0% | 0.4% | 0.9% | 1.2% | 0.0% | 0.2% | 0.4% | 0.5% | 0.2% | 0.1% | 0.5% | 0.4% | | |
| Core CPI, m/m | 79.5 | 0.3% | 0.8% | 0.7% | 0.7% | 0.5% | 0.2% | 0.7% | 0.6% | 0.7% | 0.6% | 0.5% | 0.3% | 0.5% | 0.8% | 0.6% | 0.3% | 0.6% | 0.6% | 0.3% | 0.3% | 0.4% | 0.4% | 0.4% | 0.5% | | |
| Core svcs. ex-housing PCE, m/m* | - | 0.6% | 0.9% | 0.4% | 0.4% | 0.5% | 0.3% | 0.2% | 0.2% | 0.6% | 0.5% | 0.2% | 0.3% | 0.5% | 0.3% | 0.3% | 0.6% | -0.1% | 0.5% | 0.5% | 0.4% | 0.3% | 0.4% | 0.6% | 0.3% | | |
| Energy | 6.9 | 3.5% | 0.2% | 0.3% | 1.5% | 1.7% | 2.8% | 1.0% | 3.0% | 2.6% | 2.4% | 0.8% | 2.7% | 8.2% | 1.0% | 3.4% | 6.8% | -4.7% | -3.9% | 1.7% | 1.4% | -3.1% | 2.0% | -0.9% | | | |
| Gasoline | 3.2 | 6.3% | -0.9% | -0.1% | 2.5% | 2.5% | 4.5% | 1.0% | 4.1% | 4.2% | 3.8% | -0.3% | 4.7% | 13.2% | -3.1% | 3.2% | 10.3% | -8.1% | -8.4% | -4.2% | 3.4% | -2.3% | -7.0% | 2.4% | 1.0% | | |
| Electricity | 2.5 | -0.1% | 0.9% | 0.4% | 0.0% | 0.2% | 0.7% | 1.0% | 1.0% | 0.7% | 0.9% | 2.7% | -0.3% | 1.7% | 0.9% | 1.3% | 1.5% | 1.2% | 0.8% | 0.5% | 0.5% | 1.3% | 0.5% | 0.5% | | | |
| Utility Gas | 0.9 | 2.4% | 1.6% | 1.1% | 1.2% | 2.0% | 1.6% | 2.2% | 6.7% | 0.5% | 0.1% | 0.5% | 2.0% | 0.6% | 2.5% | 7.2% | 7.5% | -3.8% | 3.5% | 2.2% | -3.7% | -3.4% | 3.5% | 6.7% | 8.0% | | |
| Food | 13.5 | 0.1% | 0.3% | 0.4% | 0.7% | 0.6% | 0.4% | 0.9% | 0.9% | 0.8% | 0.6% | 0.6% | 1.0% | 0.9% | 0.9% | 1.1% | 1.0% | 1.1% | 0.8% | 0.8% | 0.7% | 0.6% | 0.4% | 0.5% | 0.4% | | |
| Food at home | 8.7 | 0.1% | 0.3% | 0.3% | 0.8% | 0.5% | 0.4% | 1.2% | 1.0% | 1.0% | 0.6% | 0.9% | 1.2% | 1.3% | 0.9% | 1.2% | 1.0% | 1.3% | 0.9% | 0.7% | 0.5% | 0.6% | 0.5% | 0.4% | 0.2% | | |
| Food away from home | 4.8 | 0.1% | 0.3% | 0.6% | 0.7% | 0.8% | 0.4% | 0.5% | 0.8% | 0.6% | 0.6% | 0.7% | 0.4% | 0.3% | 0.6% | 0.7% | 0.9% | 0.7% | 0.9% | 0.9% | 0.5% | 0.4% | 0.6% | 0.6% | 0.6% | | |
| Core goods | 21.4 | 0.1% | 1.9% | 1.7% | 1.9% | 0.3% | 0.3% | 0.3% | 1.3% | 1.1% | 1.4% | 0.9% | 0.3% | -0.4% | 0.1% | 0.8% | 0.6% | 0.1% | 0.4% | 0.0% | -0.1% | -0.2% | -0.1% | 0.1% | 0.0% | | |
| Apparel | 2.5 | 0.1% | 1.0% | 0.8% | 0.8% | 0.0% | 0.3% | -0.5% | 1.0% | 0.7% | 0.9% | 0.7% | 0.6% | 0.3% | 0.1% | 0.4% | 0.7% | -0.1% | 0.3% | 0.0% | -0.2% | 0.1% | 0.2% | 0.8% | 0.8% | | |
| New vehicles | 4.3 | 0.0% | -0.1% | 1.1% | 1.0% | 1.4% | 1.2% | 1.3% | 1.5% | 1.0% | 1.8% | 0.3% | 0.1% | 0.1% | 0.4% | 0.8% | 0.5% | 0.5% | 0.8% | 0.7% | 0.8% | 0.5% | 0.6% | 0.2% | 0.2% | | |
| Used cars | 2.7 | 0.6% | 9.8% | 7.7% | 9.1% | -0.4% | -1.3% | -0.5% | 3.1% | 3.2% | 3.9% | 1.4% | -0.8% | -3.8% | 0.7% | 1.9% | 0.5% | -0.8% | -0.2% | -1.1% | -1.7% | -2.0% | -2.0% | -1.9% | -2.8% | | |
| Medical care commod | 1.5 | 0.1% | 0.8% | 0.0% | -0.4% | 0.2% | -0.2% | 0.3% | 0.8% | 0.1% | 0.0% | 0.9% | 0.3% | 0.2% | 0.1% | 0.3% | 0.4% | 0.8% | 0.2% | -0.1% | 0.0% | 0.2% | 0.1% | 1.1% | 0.1% | | |
| Core services | 58.2 | 0.3% | 0.4% | 0.4% | 0.3% | 0.3% | 0.1% | 0.2% | 0.4% | 0.4% | 0.4% | 0.4% | 0.5% | 0.6% | 0.6% | 0.6% | 0.6% | 0.4% | 0.6% | 0.8% | 0.5% | 0.5% | 0.6% | 0.5% | 0.6% | | |
| Shelter | 34.4 | 0.3% | 0.4% | 0.3% | 0.4% | 0.5% | 0.2% | 0.4% | 0.4% | 0.5% | 0.4% | 0.3% | 0.6% | 0.5% | 0.5% | 0.5% | 0.5% | 0.6% | 0.7% | 0.7% | 0.7% | 0.6% | 0.8% | 0.7% | 0.8% | | |
| Rent of primary res. | 7.5 | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.3% | 0.4% | 0.4% | 0.4% | 0.4% | 0.5% | 0.6% | 0.4% | 0.6% | 0.6% | 0.6% | 0.8% | 0.7% | 0.7% | 0.8% | 0.7% | 0.8% | 0.7% | 0.8% | | |
| CEER | 25.4 | 0.2% | 0.2% | 0.3% | 0.3% | 0.3% | 0.3% | 0.4% | 0.4% | 0.4% | 0.4% | 0.5% | 0.5% | 0.5% | 0.6% | 0.7% | 0.6% | 0.7% | 0.8% | 0.8% | 0.7% | 0.8% | 0.7% | 0.7% | 0.8% | | |
| Medical care services | 6.7 | 0.1% | 0.0% | -0.1% | -0.1% | 0.1% | 0.2% | 0.0% | 0.8% | 0.5% | 0.5% | 0.5% | 0.1% | 0.6% | 0.5% | 0.4% | 0.7% | 0.4% | 0.7% | 0.8% | -0.4% | -0.9% | 0.3% | 0.2% | -0.7% | | |
| Transportation services | 5.8 | 1.1% | 1.3% | 1.9% | 0.9% | -0.8% | -0.7% | -0.9% | 0.8% | 1.2% | 0.5% | 0.7% | 1.1% | 2.1% | 2.2% | 1.0% | 1.8% | -0.4% | 1.0% | 1.9% | 0.6% | 0.3% | 0.6% | 0.9% | 1.1% | | |

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Consumer Sentiment

Consumer Sentiment Index and subsequent 12-month S&P 500 returns

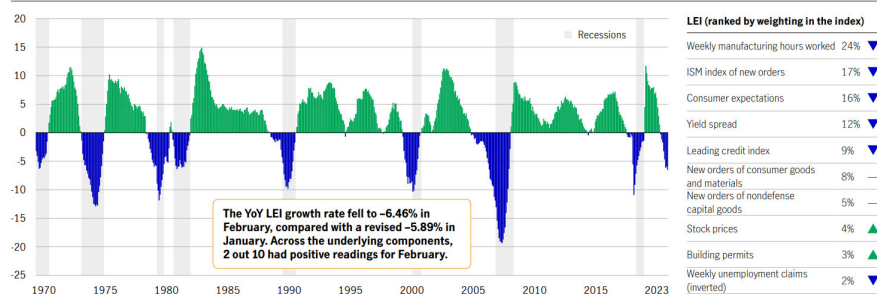


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Leading Indicators

YoY change in the Leading Economic Indicators (%)



Source: The Conference Board, as of 2/28/23. The Composite Index of Leading Indicators (LEI) is published monthly by The Conference Board and tracks 10 economic components whose changes tend to precede changes in the overall economy. It is not possible to invest directly in an index. YoY refers to year over year. Past performance does not guarantee future results.

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Recap

- US Consumer is still in good shape but inflation showing affects
- Housing market remains stable due to lack of supply
- The fight against inflation is continuing to make progress but still ways to go
- Consumer sentiment is low but could be a good sign for market returns
- Recession may come but one size doesn't fit all

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Potential Path(s) Forward

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Headline Narratives



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23

What's the Market Telling Us - Earnings

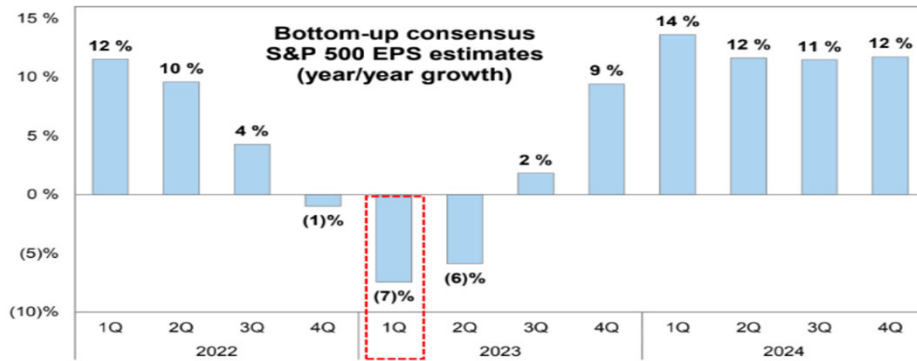


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What's the Market Telling Us - Earnings

Exhibit 1: Quarterly path of consensus S&P 500 EPS growth
as of April 4, 2023



Source: FactSet, Goldman Sachs Global Investment Research

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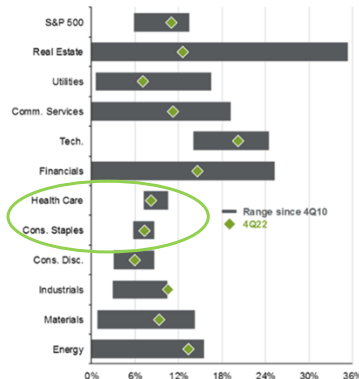
25

Profitability is Key

S&P 500 profit margins
Quarterly operating earnings/sales



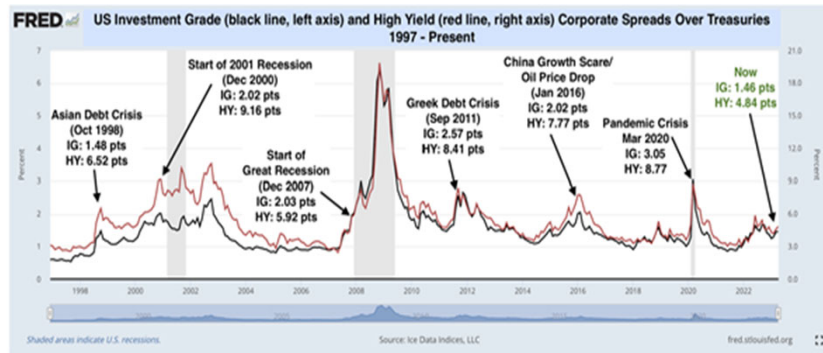
S&P 500 operating margins by sector
Current operating margins versus historical range*



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What's the Market Telling Us - Bonds

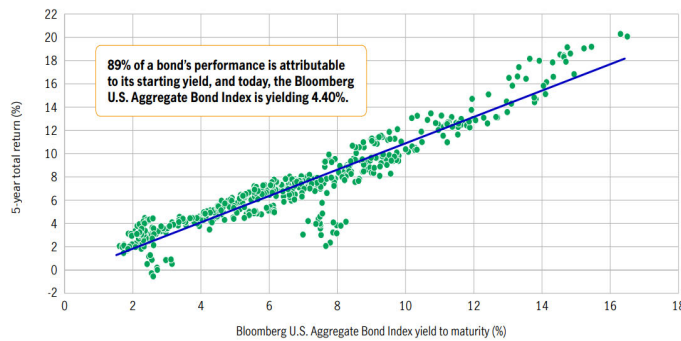


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Bond Market Outlook

Correlation of 5-year total return vs. starting yield to maturity for the Bloomberg U.S. Aggregate Bond Index



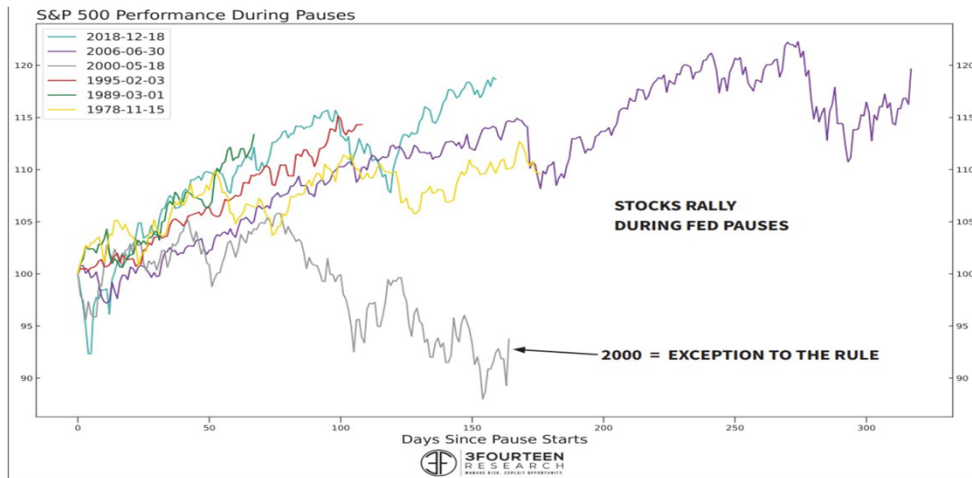
Largest Bloomberg U.S. Aggregate Bond Index drawdowns

| Month ended | Drawdown (%) |
|----------------|--------------|
| November 2016 | -3.28 |
| July 2003 | -3.55 |
| August 2013 | -3.67 |
| October 2008 | -3.83 |
| May 1984 | -4.88 |
| September 1987 | -4.90 |
| June 1994 | -5.15 |
| August 1980 | -12.74 |
| October 2022 | -15.72 |

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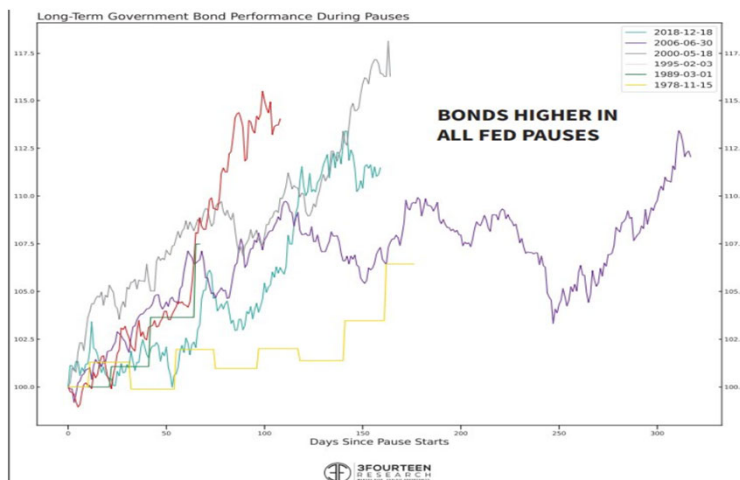
What a Fed Pivot Looks Like - Stocks



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What a Fed Pivot Looks Like - Bonds



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The 60/40 Outlook

60/40 annual return decomposition
Total returns, 1950 – present



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Closing Thoughts

- **Lots of uncertainty & headwinds**
 - Economy is slowing
 - Credit tightening effect yet to be seen
- **2022 stock market returns were reflective of a slowing economy**
 - Earnings recession started last year
 - Expectations have been falling since last summer
 - Earnings slowdown this year is well known – market is still up
- **Paths Forward**
 - 1) Strong/Stable economy, rates higher, longer, valuations are supported
 - 2) Weakening economy, slowing earnings, mild recession, Fed pivot
 - 3) Economic catalyst – unknown risks, hard to avoid, financial planning is key

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