Monthly Investment Report

March 2023

Simmons Bank PRIVATE WEALTH

The U.S. market ended the month of February on a negative note after a strong start to the year. Despite the decline, the S&P 500 Index is still positive for the year. Most major international markets underperformed the U.S. market. Bond prices fell too, pushing Treasury yields across all maturities higher. Commodities and REITs were also under pressure. The U.S. dollar appreciated against major currencies. Companies reported positive sales growth, but their earnings fell. Mortgage rates rose, resulting in a decrease in mortgage applications. Despite growth in retail sales and an above-50 reading for the U.S. Composite PMI, a rise in inflation created concerns for investors. It sparked fears that the Fed may revert to accelerated rate hikes in the coming months.

Markets

After a strong start in January, U.S. stocks declined in February. The S&P 500 Index fell -2.4% while the Dow Jones Industrial Average fell -3.9% for the month. The S&P 500 is still up 3.7% this year. During the month Energy, Utilities, and Real Estate stocks were affected the most. The S&P 500 Energy sector stocks fell -7.1% driven by a -2.3% drop in crude oil prices. Crude oil prices had corrected -1.7% in January as well. Although the 23 energy stocks in the S&P 500 reported average earnings growth of 54.7% for the last quarter, lower oil prices may hurt their earnings for the current quarter. The only sector that managed to produce a positive return was Information Technology, rising 0.5% for the month. Most of the S&P 500 companies have reported their fourth-quarter results. While the companies reported sales growth of an average of 5.7%, their average earnings dropped by -2.6%. Notably, analysts were expecting the earnings decline, as reflected by a slim average earnings surprise of 0.97%.

U.S. markets outperformed most international markets. China and other emerging markets underperformed developed markets. The MSCI Developed World ex-US Index fell -2.3% while the MSCI Emerging Market Index and MSCI China index fell -6.5% and -10.4%, respectively, in U.S. Dollar terms. Chinese equities dropped despite favorable China PMI data for the month. All major markets remained in the negative except for the U.K. The MSCI-Japan, MSCI-Pacific ex-Japan, and MSCI-Europe ex-UK declined by -3.8%, -6.5%, and -0.9%, respectively. The MSCI-UK Index rose modestly by 0.2%. In the U.S., stocks of smaller companies (by market capitalization), including both value and growth stocks, outperformed large-cap stocks. For example, the S&P 600 Small Cap Value Index fell -1.7%, compared to a -3% fall for the S&P 500 Large Cap Value Index. Large-cap stocks underperformed mid-cap stocks too. In a reversal of the trend observed in January, growth stocks across all market caps outperformed value stocks.

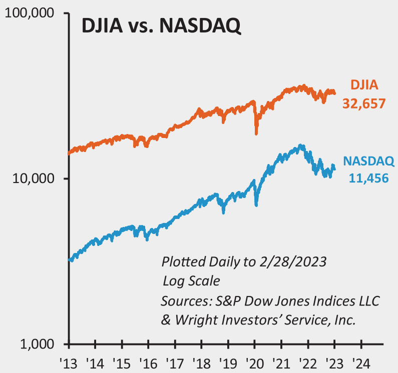
Bond prices declined, pushing Treasury yields across all maturities higher. The Bloomberg US Aggregate, a broad index of investment-grade, taxable, dollar-denominated bonds, fell by -2.6%. It is still up 0.4% for the year. High-yield bond prices dropped -1.3%. The yield curve remains inverted with yields on longer-maturity Treasurys lower than those on shorter maturities. A 0.6% month-on-month rise in core PCE hinted at steeper rate hikes going forward, causing the sell-off in the markets. The Fed raised the Funds rate by a quarter percentage point on February 1.

Commodities and Real Estate Investment Trusts weren't spared the negative sentiment. Both commodities and REITs declined for the month. Crude oil prices fell -2.3%, while gold and copper prices dropped by -4.8% and -3%, respectively. In February, the U.S. dollar appreciated against all major currencies. It appreciated significantly against the Japanese yen, rising 4.7% during the month.

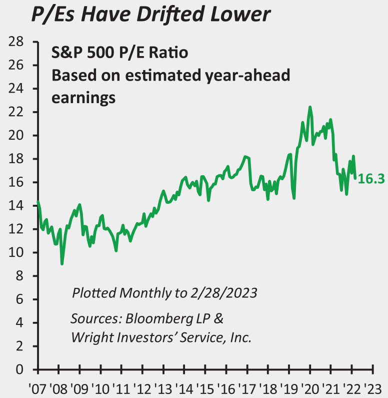
U.S. Economy

The S&P Global U.S. Composite PMI Index was slightly above 50 for the first time in eight months, indicating broadly unchanged output for the month. PMI readings above 50 are indicative of expansion and hence economic growth. The index improved to an 8-month high of 50.2 in February. Service sector businesses registered slight growth in activity while manufacturers reported a slower decline in output.

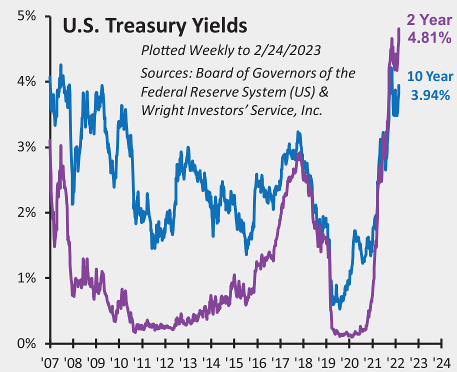
US Equities Mixed in February



P/Es Have Drifted Lower



2 Year & 10 Year Yields Resume Rise



Total Investment Returns—2.28.2023

	February	Last 12 Mos.
Dow Jones Industrial Average	-3.9%	-1.6%
Nasdaq Composite	-1.0%	-16.0%
S&P 500 Composite	-2.4%	-7.7%
S&P MidCap 400	-1.8%	-0.6%
S&P SmallCap 600	-1.2%	-3.5%
MSCI World ($)	-2.4%	-7.3%
MSCI World ex U.S. ($)	-2.3%	-3.8%
Bloomberg U.S. Aggregate	-2.6%	-9.7%
90-Day Treasury Bills	0.3%	2.2%
Consumer Price Index NSA* (Jan 2023)	0.5%	6.4%

*NSA: Not Seasonally Adjusted
Sources: Bloomberg LP & Wright Investors' Service, Inc.

Although manufacturing performance deteriorated, it was the smallest drop in four months. Manufacturing activities, as represented by the S&P Global Manufacturing PMI Index, remained below 50 (at 47.8) for the fifth consecutive month. However, although marginal, service activities grew and the S&P Global Service PMI Index ended slightly above 50 (at 50.5) for the first time since June 2022. New orders across the private sector contracted again in February because of consumer hesitancy as a result of higher inflation and interest rates, though the rate of decline eased to its slowest level since last October. Due to weak global demand conditions, new export orders also contracted during the month.

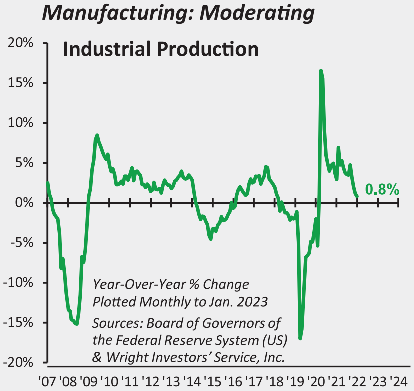
Real GDP expanded at an annual rate of 2.7% in the fourth quarter, according to the second estimate. This growth was supported by a large gain in inventory investment and contribution from exports –both of which tend to be volatile. Although real GDP grew stronger than expected, real Private Domestic Final Product (PDFP) growth was weaker. The PDFP increased at a slower annual rate of 0.2% during that quarter. The labor force participation rate and employment-population ratio were unchanged in January at 62.4% and 60.2%, remaining below the pre-pandemic February 2020 levels of 63.3% and 61.1%, respectively. The unemployment rate remained at a historical low of 3.4%, indicating a continued tight U.S. labor market. Retail sales rose a robust 3% in January, driven by an increase in auto sales, sales of electronics and furniture, and spending at restaurants.

The weekly average 30-year mortgage rate rose to 6.5% during the month. This rise resulted in the Mortgage Bankers Association's (MBA) mortgage applications falling 13.3% and the purchase application index dropping by 18% to its lowest level since 1995. Sales of new single-family houses increased by 7.2% to 670,000 during the month of January. However, housing starts were down 4.5% month-on-month and building permits didn't change much. The Personal Consumption Expenditure price index and Core PCE index increased to 5.4% and 4.7%, respectively, in January. A rise in core PCE – a measure closely watched by the Fed – gives a negative signal as it remains at an elevated level versus the central bank's 2% inflation target.

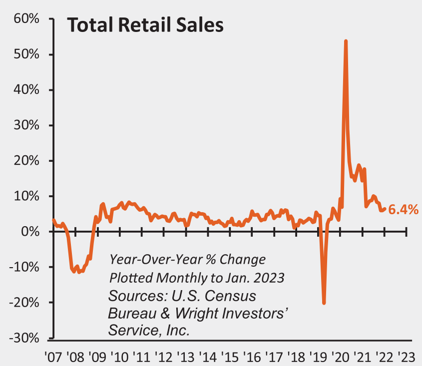
Investment Outlook

While economic indicators seemed to be moving in the right direction in January, they can at best be termed as mixed in February. The biggest concern is the unexpected increase in inflation. However, with a healthy employment situation in hand, the Fed is deemed to have some latitude to increase the Funds rate beyond previous expectations. This may result in a more hawkish stance by the Fed which in turn increases the risk of pushing the economy into a recession. On the positive side, GDP growth, improved service activity, and growing retail sales indicate some robustness of the economy. In uncertain times like these, it is more important than ever to invest for the long-term in a well-diversified portfolio of high-quality stocks and bonds, while further diversifying portfolio exposure through alternatives.

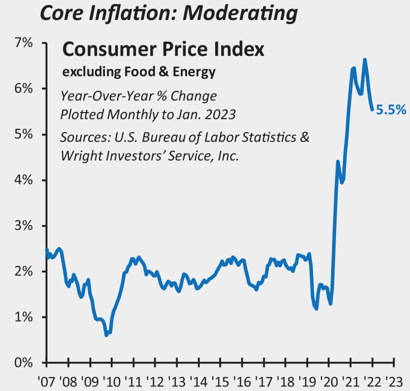
Manufacturing: Moderating



Consumer Spending: Moderating



Core Inflation: Moderating



Source: Bloomberg Index Services Limited. "Bloomberg®", "Bloomberg Commodity Index" and the Bloomberg Bond Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Wright Investors' Service, Inc. Bloomberg is not affiliated with Wright Investors' Service, Inc. and Bloomberg does not approve, endorse, review, or recommend Wright Products. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Wright Products.