KS Trust
Wealth & Investment Management

Quarterly Economic Commentary

April 2023

Market Returns

	12/31/2022	3/31/2023	% Gain/Loss
Dow	33,147	33,274	0.9%*
S&P 500	3,840	4,109	7.5%*
NASDAQ	10,466	12,222	17.0%*

**Total Return Including Dividends*

By Jim Watts, KS Trust Senior Portfolio Manager

The first quarter of 2023 has been a very nice relief rally. As you see above, the stock market has performed well thus far. In addition, fixed income has as well, with the 10-year Treasury up 3.8%; US Bonds up 3.0%, and municipals up 2.8%, all a welcome change from 2022. So are we off to the races, onward and upward? Not so fast. Keep reading.

The Fed, as expected, raised rates in March following some concerning news, several inflation indicators were hotter than predicted, and we were facing the possibility of a banking crisis. While the banking crisis is not anticipated to become a contagion, inflation still has not been contained. I expect inflation indicators to show some volatility over the next few months, keeping the Fed engaged. We expect the Fed to pause later this year but sit tight at least until early next year.

Recent positive market moves have been based on some ideas offering some optimism. First is that the banking crisis is not widespread. This is primarily true, but we will probably see more pain here. Second, the Fed will begin to reduce rates later this year. I believe this idea is terribly flawed. The Fed has clearly stated that they are raising rates and expect them to be higher for longer. I think they are near the end of the tightening cycle but at least 12 months away from lowering rates.

One of the most significant contributors to inflation is the cost of oil. Yes, from Core Consumer Price Index (CPI), they remove food and energy because they are considered highly volatile. However, oil, which has increased in price by almost 20% in the past two weeks, contributes to the cost of everything. If you think a 20% increase in oil prices doesn't affect the inflation rate, wait and see. This morning I saw a report increasing the US GDP expectations from 1.3% to 1.4%, not what typically happens in a recession. As our economy continues to progress, the demand for oil stays strong here. As China continues to recover, its need for oil will increase, helping push prices higher. In addition, the Organization of the Petroleum Exporting Countries (OPEC) just announced a significant production cut. All are adding to higher oil prices.

Interest rates have come down significantly so far this year. As I am writing this, the 10-year Treasury is yielding 3.31%, and the 2-year Treasury is yielding 3.76%. Two weeks ago, I purchased a block of 2-year Treasury yielding 5.01%. A big change in just a couple of weeks, probably overdone. For another example, a couple of weeks ago, I purchased a block of a 12-month CD paying 5.45% with multiple offerings in the 5.25% to 5.35%. Now the best rate on a 12-month CD is 4.90%. As we see the volatility in inflation ebb and flow over the next several months, we will see rates move back up, maybe not to the point they were a couple of weeks ago, but much higher than they are now.

Let's see where we are so far in our expectations for 2023.

We are expecting the following to materialize in 2023 as we move through the year:

1. Volatility will continue, at least through the first half of the year.
2. The Fed will continue to raise rates through at least the first quarter.
3. The inflation number, CPI, will show at least one increase, instead of continuing the downward trend.
4. The Fed will pause, but not pivot in 2023.
5. Energy prices will rise, with oil reaching at least $100 per barrel and prices at the pump at roughly $4 per gallon, driven by increased demand from Europe and China.
6. The war in Ukraine will continue to wreak havoc on the international community and economy.
7. We expect that the bond market will turn around and see a strong 2023 performance.
8. North Korea will become more emboldened in their military endeavors.
9. Iran will once again come to the forefront as a global threat.
10. The stock markets will end the year with a mid-to-high, single-digit return.

Several have materialized, and a few are in the process of materializing.

Whether you believe it or not, I try to be an optimist, but I would rather be a realist. 2023 will be a much better year than 2022. How could it be worse, right? We will see positive performance from stocks and bonds this year; we have so far. However, between now and December 31st, I expect we will see some opportunities to improve our positions and take ad-

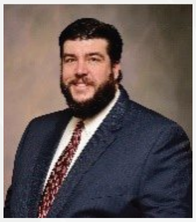
-vantage of prices for a strong finish this year. While the previous information may not seem very encouraging, being honest, we believe these items are very likely to happen. We believe the equity markets are poised for positive news and are ready to build on that. We also predict that the continued reductions in year-over-year inflation will drive the markets, so the Fed will pause. While we expect inflation to be stubborn, especially given the Fed's target of 2%, we believe the market will accept as much as 3.50% inflation as reasonable. So, the markets should improve as we move forward in the year.

During 2022, we increased our cash allowance to provide protection from the storm. We have been employing short-term T-Bills to "park" funds until we see the opportunities that we expect to materialize this year. As such, the excess cash will most likely be reversed during the year as the negative sentiment in the equity markets presents us with an opportunity to position portfolios for the market moves we anticipate later in 2023.

We appreciate each client's uniqueness and will always strive to do what is best for each individual client. Please do not hesitate to ask us questions or express your concerns. This is your money, and we are your stewards.

We are committed to maintaining a clear focus on building and preserving client's wealth and enhancing their quality of life, both now and in the future. Working in a fiduciary capacity, the KS Trust team provides a single point of contact for a full array of investment services.

Our team's collective knowledge and experience forges our ability to serve our clients more extensively and develop a clear path. It allows us to address the increasingly complex challenges of today's landscape and provide comprehensive financial advice with a clear vision for the future.



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