CAPITAL MANAGEMENT GROUP

The Hefter Report – March 2023

In our view, the risk to equities is rising and the potential reward is diminishing. The recent failure and near failure of several US and European banks indicates to us that the Fed's persistent interest rate increases are slowing down the economy. With rates rising, inflation hovering around 6% and earnings estimates expected to ease, equity valuations look less attractive to us. Currently, the S&P 500 earnings for 2023 are expected to be around $220 per share. At this level, the index is now trading at an 18x multiple, which is high for the current economic conditions.

We believe US stocks currently have limited upside, especially considering that fixed income is now an attractive alternative. For example, today (March 17th), a 6-month T-bill yields approximately 4.7%, and we consider that a healthy alternative for some cash and stocks.

The Fed meets this week and although a 50-basis point increase was initially expected, the banking crisis could cause the Fed to reduce that to 25 basis points or even pause. While the market may react positively to a pause, we believe further rate hikes may be in store for the Fed to reach its 2% inflation target.

It may be prudent to consider cash or cash alternatives should the market decline to around 3600 in the S&P 500. This would put a more reasonable 16 multiple on expected earnings and is approximately 9% lower than current prices.

Given that the economy is slowing we think technology and other areas that can grow on their own will do better than cyclical sectors like industrials, materials and energy which depend on economic growth. Generally, it could make sense to consider tactical shifts as well as keeping some cash on the sidelines.

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***Index return information is provided for illustrative purposes only*. Index returns do not represent investment returns or the results of actual trading nor are they forecasts of expected gains or losses a fund might experience. Index returns reflect general market results, assume the reinvestment of dividends and other distributions, and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. Past performance does not guarantee future results**

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