First Quarter Report 2023

LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

"Smart Decisions About Serious Money"

Meet our Team

Thomas Twombly
President

Mark A. Ward, CFP®, ChFC®, RICP®
VP, Operations
Chairman, IPC

Chris Vasquez, ChFC®
Senior Advisor Associate

Raymond Krisanda
Trading, Bookkeeping, Custodial Interface

Daisy Lopez
Staff Accountant

Diane Hunley
Receptionist and Client Service Specialist

Contact Us

7800 N Mopac Expy Ste 340
Austin, Texas | 78759

512-458-2517

www.lsggroup.com

A Message From The President

Thomas G. Twombly

I've been musing a lot recently on the subject of **stewardship**.

Much of this, no doubt, springs from how I was raised and how I was expected to behave in my formative years. As the oldest child and the oldest grandchild on both sides of my extended family, the almost daily exhortation of my growing-up experience was to "be responsible." And it was made clear to me from the get-go that that responsibility encompassed a heck of a lot more than simply caring for my interests alone. It was caring for things that came *before* me, and for things that had better *survive* me.

These thoughts also emanate from how I've been conditioned to think by the profession I chose 39 years ago, and the huge weight of fiduciary obligation and responsibility anybody in my position should always feel towards the welfare and well-being of other people's critical interests.

But there's no question that the recent impetus for these musings comes from the stunning *lack* of stewardship evident in the behavior of so many people whom we should expect, and demand, to know and **do** better. There are stunning numbers of people in leadership positions nowadays who are failing miserably at good stewardship. It is endangering everything we hold dear.

As one might guess, I'm certainly referring to the breathtaking lack of stewardship displayed by leaders of the handful of banks that have been brought down by recent events. But I'm also referring more broadly to the disingenuous, hyperbolic media feeding frenzy that has surrounded these events and many others we're witnessing today, and to the winner-take-all political chicanery and cynical gamesmanship that has contributed to their gestation. We all must insist on better stewards – in every facet of our lives. It's critical for us to demand better of ourselves and others. It's time to restore trust.

Wikipedia defines stewardship as "an ethical value that embodies the responsible planning and management of resources." It notes that the word derives originally from *stig* (meaning house or hall) and *weard* (meaning ward, guard, guardian, or keeper) and states that "stewardship is now generally recognized as the acceptance or assignment of responsibility to shepherd and safeguard the valuables of others."

Obviously, money and financial assets such as stocks, bonds, and real estate are some of the first things that come to many people's minds when "valuables" are mentioned. And because of that we've created a significant legal and regulatory infrastructure that governs the proper handling of those kinds of assets in the banking and investment worlds. Yet still we have breaches of trust because you can't legislate morality and ethical behavior. Instead, we must demand and *choose* moral and ethical leaders.

But is it only money and financial resources that we should value? Is it only what we *own* minus what we *owe* (our net worth) that defines our full and complete *worth*? Is it only bankers and financial advisors that we should expect to be diligent stewards held to a fiduciary standard? Or are there other elements of our wealth and well-being, both as individuals and as a nation, that deserve equal levels of attention and safeguarding? And are there others who should be held to similar standards? I think so.

I have written before about other, deeper, dimensions of wealth that are much harder to define and identify than those that show up on somebody's balance sheet or income statement. (https://www.lsggroup.com/articles/2017/7/7/how-do-you-define-wealth ; https://www.lsggroup.com/articles/2017/8/11/stewarding-social-wealth ; https://www.lsggroup.com/articles/2017/9/8/reflections-on-personal-wealth) In my view, these dimensions of wealth are ultimately much more meaningful and much more precious. They are not easily converted to cash, nor quickly sold to a stranger, nor readily accepted as collateral for a loan. And yet they often comprise the core of who we are, what we truly stand for, and perhaps what we're even prepared to fight and die for.

In the realm of *social* wealth, consider your personal influence with other people - your reputation for honesty, decency, integrity, and your commitment to straight-dealing. Consider your ability to build and maintain deep trust, and your willingness to selflessly put someone else ahead of you. Think about the people for whom you'd be willing to drop whatever you're doing right now, and instantly go to their aid. Think about the people who'd instantly do the same for you, no matter what the circumstances. How *valuable* are relationships like that? It's not the sheer number of connections you have, but their strength and durability that truly matters. Successfully building and protecting wealth like that demands vigilant **stewardship** – for each of us as individuals, and for us as a country.

In the realm of *personal* wealth, think about the experiences, lessons, and acquired values that define who you are as an individual. Consider the pillars of your belief system. Who do you love? Who loves you? What's the most important lesson you've ever learned? What's the biggest challenge you've ever overcome? What drives you? Deep down inside, what are you most proud of becoming? What's the worst mistake you've ever made? What's the one thing you will *never* do again? What will your *legacy* be? And how do you wish to be remembered?

The happiest and most contented people I know think deeply about all of these questions – and more. The answers they arrive at comprise the foundation on which every other aspect of their sense of wealth and well-being rests. They never think solely of themselves. They think of *others*. Because they know that true wealth requires constant, vigilant **stewardship**, especially if it's going to survive them.

There is so much more to this discussion than can ever be covered in the space allowed here. And there are many more nuances of our individual sense of wealth and well-being to be explored. I hope to do more of it in the future, and I would gladly welcome your personal thoughts and insights as prompts.

Thank you again for your confidence and trust.

Thomas G. Twombly
President

Investment & Economic Views

Despite any number of anxiety-creating events and headlines during the opening quarter of 2023, financial markets overall held up well, and have continued to reward patient, broadly diversified investors since October of last year.

US stock markets, which get the vast majority of the media attention in this country, rose solidly during the period. The small company Russell 2000 index provided total returns of 2.7% in the first three months of the year, while the S&P 400 mid-cap index delivered total returns of 4.1%, and the large cap S&P 500 posted gains of 7.5%.

In a fairly dramatic reversal from the experience of much of 2022, the value components of each of those equity indices lagged the growth components by a fair margin. The differences ranged between 7% and 13%, depending on the index, and provided investors who maintained a disciplined allocation across the spectrum, in spite of last year's particularly challenging experience for growth companies, a welcome reward for their poise and equanimity under pressure.

In another point worth noting, the Technology, Communication Services, and Consumer Discretionary sectors of the S&P 500, which had been the three worst performing sectors during all of 2022 (all down over -28%) completely flipped the script in the first quarter of 2023 and provided the strongest start to the year so far, generating total returns of +21.8%, +20.5%, and +16.1% respectively for the period.

At the same time, the Energy sector, which had led 2022 by a wide margin, fell by -4.7% in the first quarter of 2023. It was eclipsed in its decline only by the financial sector (-5.6%) which was negatively impacted in March by the much-ballyhooed collapse of Silicon Valley Bank and Signature Bank, in what can only be described as egregious examples of poor governance and failed risk management on behalf of the leadership of those institutions.

In another noteworthy reversal, the worst performing asset class for 2023 so far has been Commodities, which declined by -8% overall during the first quarter, compared to a chart-topping result of +16.1% for all of 2022. All of these examples illustrate the crucial importance of patience, discipline, and maintaining a long-term perspective in navigating the investment world.

Bonds in the US also fared far better to start 2023 than they had throughout 2022. The Barclay's US Aggregate Bond Index provided total returns of almost 3% for the first quarter, while 10-year US Treasuries delivered 3.76%. With current yields of 4.4% and 3.5% respectively as of 3/31/23, fixed income investors are nevertheless concerned that the prospect of inflation remaining stubbornly high could erode the value of those income streams moving forward. Only time will tell.

Turning attention outside the United States, developed market international stock indices fared better still, and allocations to this asset class helped almost all of our clients in the first quarter. The Europe Asia Far East Index (EAFE) of large company stocks rose by +8.6% in US dollar terms, aided by a continuing decline in the greenback against a basket of foreign currencies. Despite the war in Ukraine, European stocks rose by +12.2% in US dollar terms during the quarter. This result was boosted substantially by German equities which climbed by +14.8%, and by French markets, which also rose by an impressive +14.7%, illustrating further the importance of maintaining a long-range view and broad asset class allocation.

Emerging market equities also provided a solid showing for the quarter, rising by +4.0% overall when converted to US dollars. Though modest in overall asset allocation, most of our clients' portfolios have exposure to these areas and have benefited as a result.

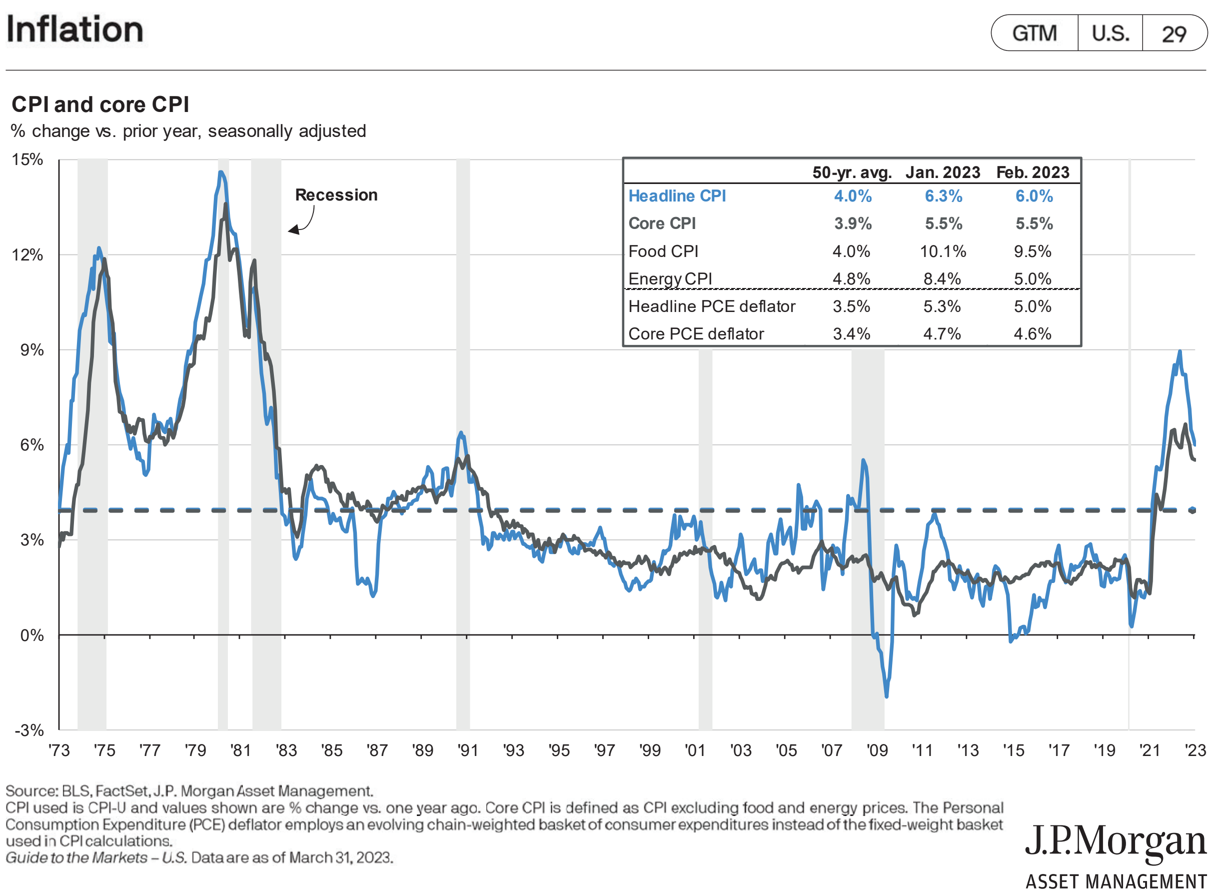
It remains to be seen whether these trends will continue in the short run, and we encourage everyone to remain buckled up and prepared for additional turbulence. The future is unknown and unknowable, but there are certainly reasons for caution. In addition to war, interest rates, and inflationary uncertainties, the political climate remains deeply divided and fraught with tension – with threats of default possibly looming over US government obligations if one side or the other doesn't blink in this idiotic game of chicken. At the same time, new focus on the health of the banking industry is leading to increasing volatility of the deposit base across the spectrum and contributing to a state of hypervigilance and skittishness among depositors towards an area that has tended to be considered safe and stable.

Nonetheless, there are also plausible reasons for long-term optimism. Inflation, while still high, shows continuing signs of slowing. As the chart below from JP Morgan demonstrates, the Headline Consumer Price Index has fallen sharply since peaking at 9% in June of 2022, and as of this writing in mid-April has fallen further still to a level of 5.6%.

Also important for long-term investors to keep in mind, especially those with assets prudently invested in solid businesses domiciled throughout the world, is that the US Dollar is also showing signs of weakening after a long uptrend, as the chart on page 4 reveals.

In fact, since the September 2022 peak, dollar weakness has resulted in a relative outperformance of +12% for US Investors in international equities relative to US equities. If this were to continue, which we think may be likely due to the negative trade balance and the big interest rate differentials between the US and international bond markets detailed above, it could prove beneficial for large US corporations that export substantial goods and services to the rest of the world. It could also continue to benefit US investors in the shares of non-US businesses, as the value of those investment assets translated back into dollars gain a tailwind they have not enjoyed for some time. It's worth noting that past peaks in the dollar in March of 1985 and February of 2002 led to subsequent cumulative outperformance of international equities vs US equities of +33% and +71% respectively. Only time will tell, but these possibilities provide strong underpinnings to the argument for continued diversification into non-US holdings.

Please give us a call if you'd like to discuss our perspective or your personal situation.



Dollar drivers

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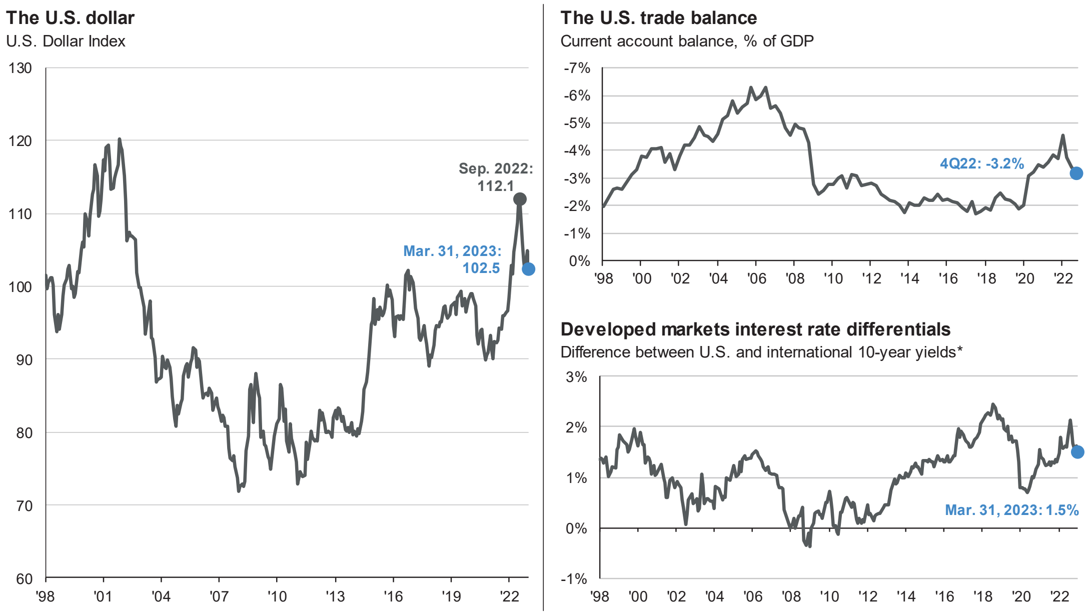

Source: J.P. Morgan Asset Management; (Left) FactSet, ICE; (Top right) Bureau of Economic Analysis, FactSet; (Bottom right) Tullett Prebon. Currencies in the DXY Index are: British pound, Canadian dollar, euro, Japanese yen, Swedish krona and Swiss franc. *Interest rate differential is the difference between the 10-year U.S. Treasury yield and a basket of the 10-year yields of each major trading partner (Australia, Canada, Europe, Japan, Sweden, Switzerland and UK). Weights in the basket are calculated using the 10-year average of total government bonds outstanding in each region. Europe is defined as the 19 countries in the euro area.
Guide to the Markets – U.S. Data are as of March 31, 2023.

J.P.Morgan
ASSET MANAGEMENT

General Market Results

	1st Quarter	3 Month	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	2.96	2.96	-4.78	-2.77	0.91	1.36
S&P 500 TR USD	7.50	7.50	-7.73	18.60	11.19	12.24
DJ Industrial Average TR USD	0.93	0.93	-1.98	17.31	9.01	11.15
S&P MidCap 400 TR	3.81	3.81	-5.12	22.10	7.67	9.80
Russell 2000 TR USD	2.74	2.74	-11.61	17.51	4.71	8.04
NASDAQ Composite TR USD	17.05	17.05	-13.28	17.56	12.60	15.30
MSCI EAFE NR USD	8.47	8.47	-1.38	12.99	3.52	5.00
MSCI EM NR USD	3.96	3.96	-10.70	7.83	-0.91	2.00

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7800 N Mopac Expy Suite 340 | Austin, Texas 78759
Phone: 512-458-2517 | Fax: 512-458-3120
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