

Investment Outlook

- March 31, 2023

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The S&P 500 gained 7.5% over the first quarter of 2023, producing a positive return for the second straight quarter. As we begin April, the most extreme concerns surrounding the financial industry appear to have moderated. The swift action from federal agencies and some large banks has been reasonably successful in calming depositors and investors. Ultimately, we expect U.S. economic growth to continue to slow, impacted by higher inflation and higher interest rates.

Stock Valuations:

- Stock market valuations remain near historic averages, with only pockets showing over-valuation.

Bond Yields:

- Bond yields remain elevated from last year, providing fixed income investors an opportunity to earn income.

Inflation

- For the current cycle, inflation appears to have peaked, as many key inputs are dropping in price compared to last year.

Foreign Exchange:

- After strengthening last year, the U.S. Dollar has recently weakened vs. a basket of foreign currencies. FX comparison for U.S. based companies should start to look favorable soon.

Federal Reserve

- The U.S. Federal Reserve is expected to raise the Federal Funds interest rates above 5% in an attempt to slow inflation. Economic weakness and eventual interest rate cuts could soon follow.

China Impact:

- Following their most recent COVID lockdown period, China's GDP is set to accelerate over the next few years and have an outsized impact on global growth.

U.S. Consumer Challenges:

- Excess U.S. personal savings accumulated during COVID are being spent and are on a trend to be fully exhausted by year-end. Bank lending has started to tighten, which usually leads to a higher unemployment rate.

U.S. Corporate Earnings Growth:

- Corporate earning growth is projected to stall in 2023, as higher input costs pressure operating margins.

Banks:

- Consumer and business demand for higher interest rates on deposits (particularly from money markets) will likely pressure banks profitability measures soon.

Positives

Wild Cards

Concerns

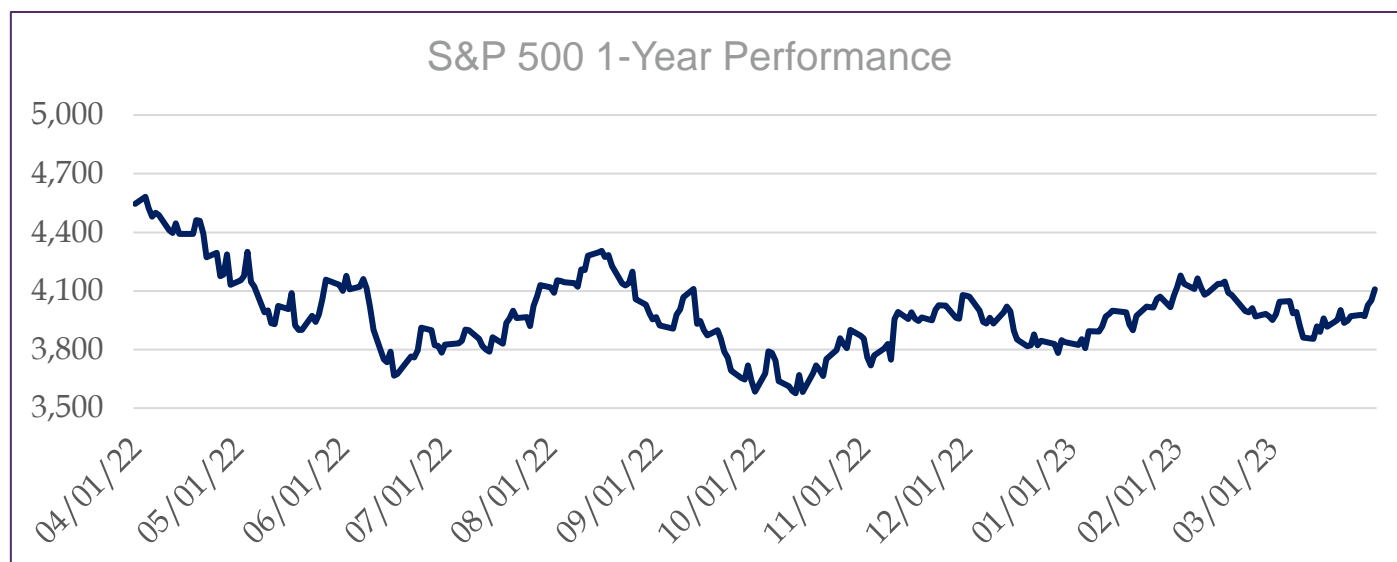
Index Performance

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Management

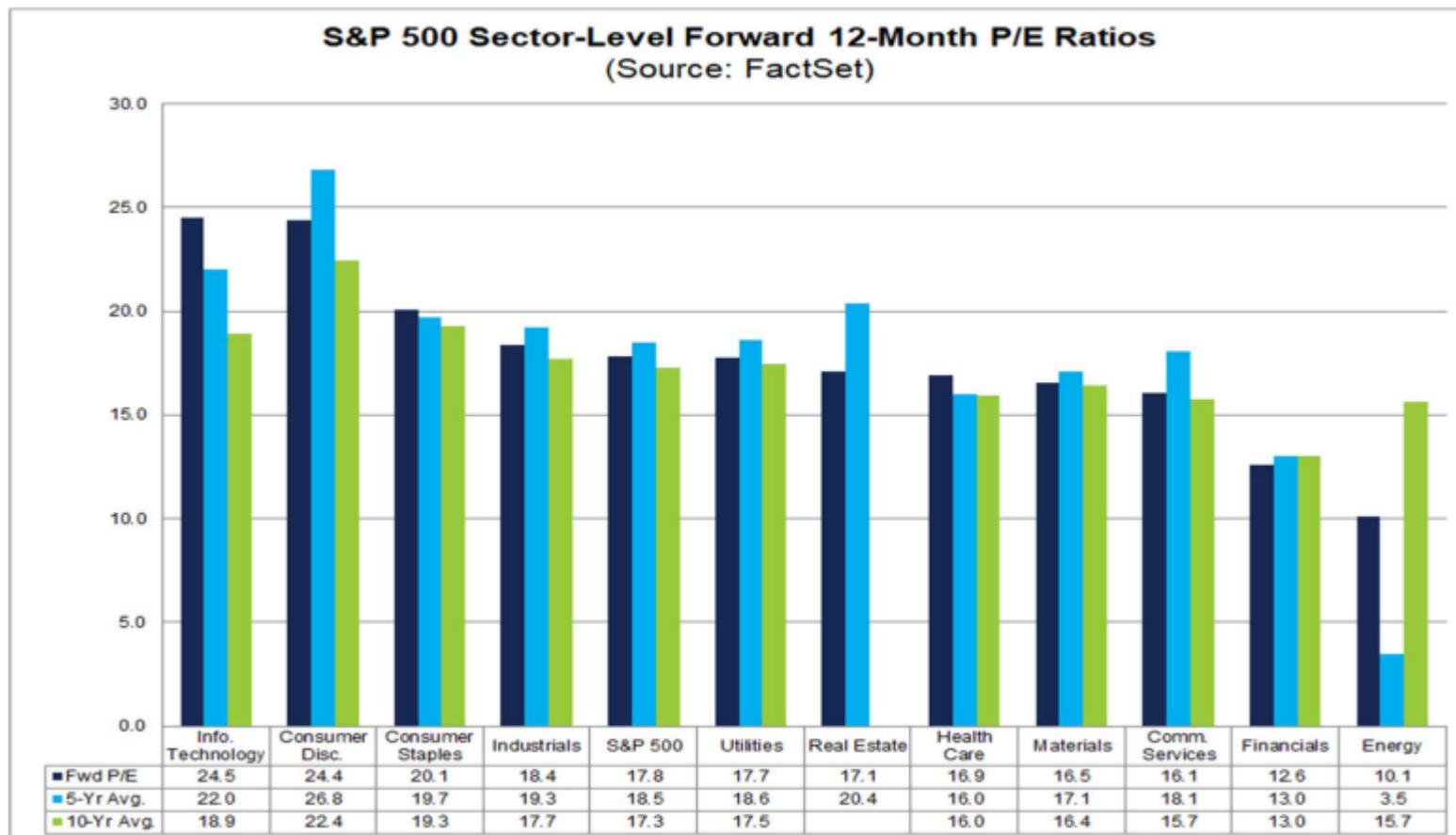
Asset Class	Trailing Returns (%) - annualized past 1-Year						Benchmark
	QTR	YTD	1-Year	3-Year	5-Year	10-Year	
U.S. Large Cap	7.5	7.5	-7.7	18.6	11.2	12.2	S&P 500
U.S. Mid Cap	4.1	4.1	-8.8	19.2	8.1	10.1	Russell Mid Cap
U.S. Small Cap	2.7	2.7	-11.6	17.5	4.7	8.0	Russel 2000
Developed International (USD)	7.7	7.7	4.4	15.2	6.8	7.9	MSCI EAFE (Developed International)
Emerging International (USD)	3.8	3.8	-6.2	9.2	2.3	5.4	MSCI EEM (Emerging International)
U.S. Intermediate-Term Taxable Bonds	2.3	2.3	-1.7	-1.3	1.4	1.3	Barclays Intermediate Govt./Credit
U.S. Intermediate-Term Municipal Bonds	2.3	2.3	2.0	0.8	2.2	2.1	Barclays 7 Year Municipal

Source: Factset. Performance is represented by the benchmark listed in the "representative benchmark" column. Performance is a total return index, or price return plus reinvested dividends. See important disclosures and definitions included with this publications.



Stock Valuations

- Stock market valuations remain near historic averages, with only pockets showing over-valuation.

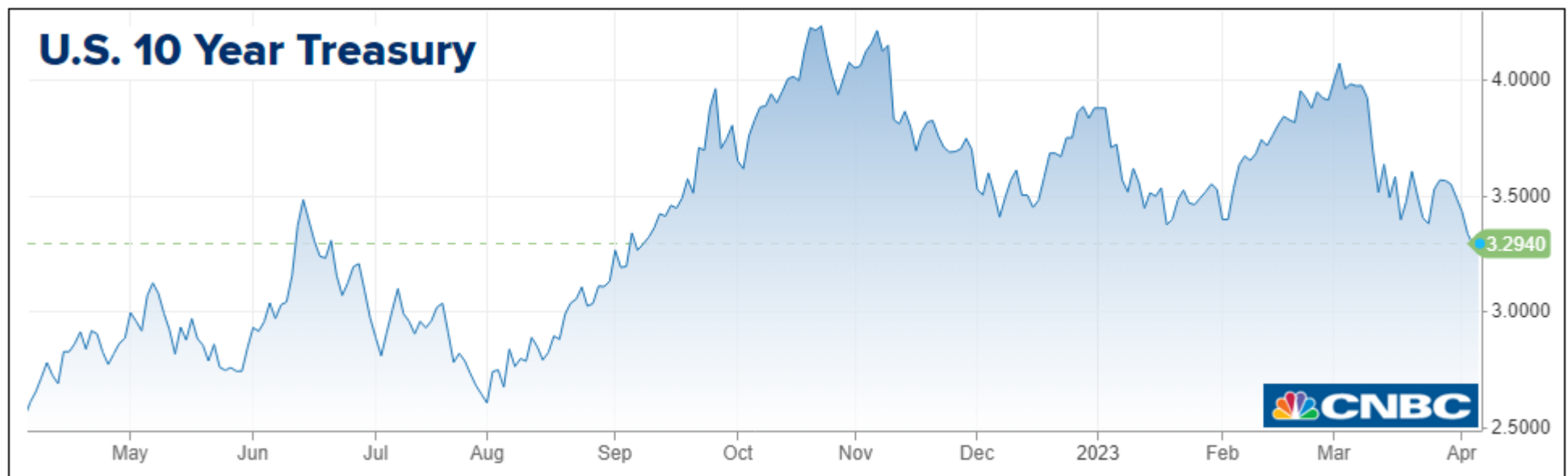


Bond Yields

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- Bond yields remain elevated from last year, providing fixed income investors an opportunity to earn income.

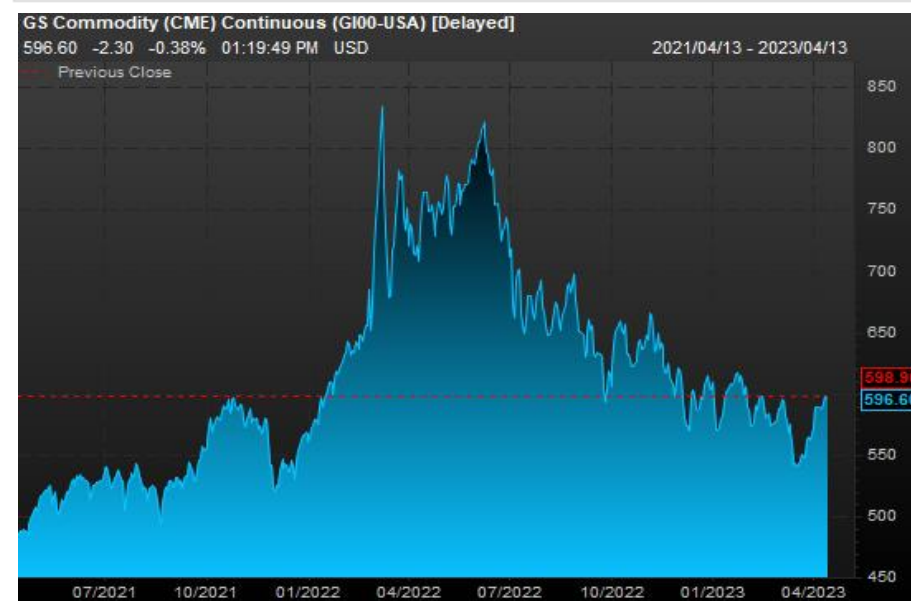
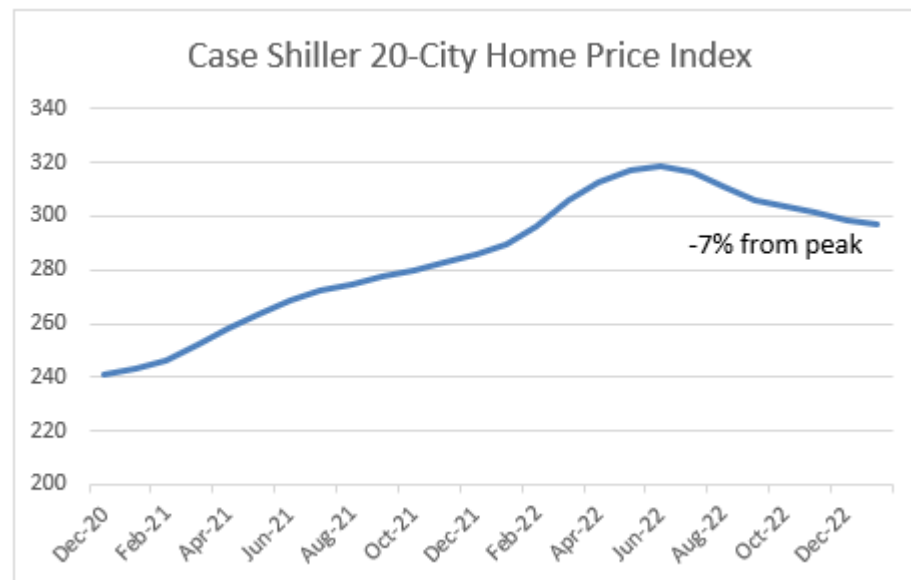
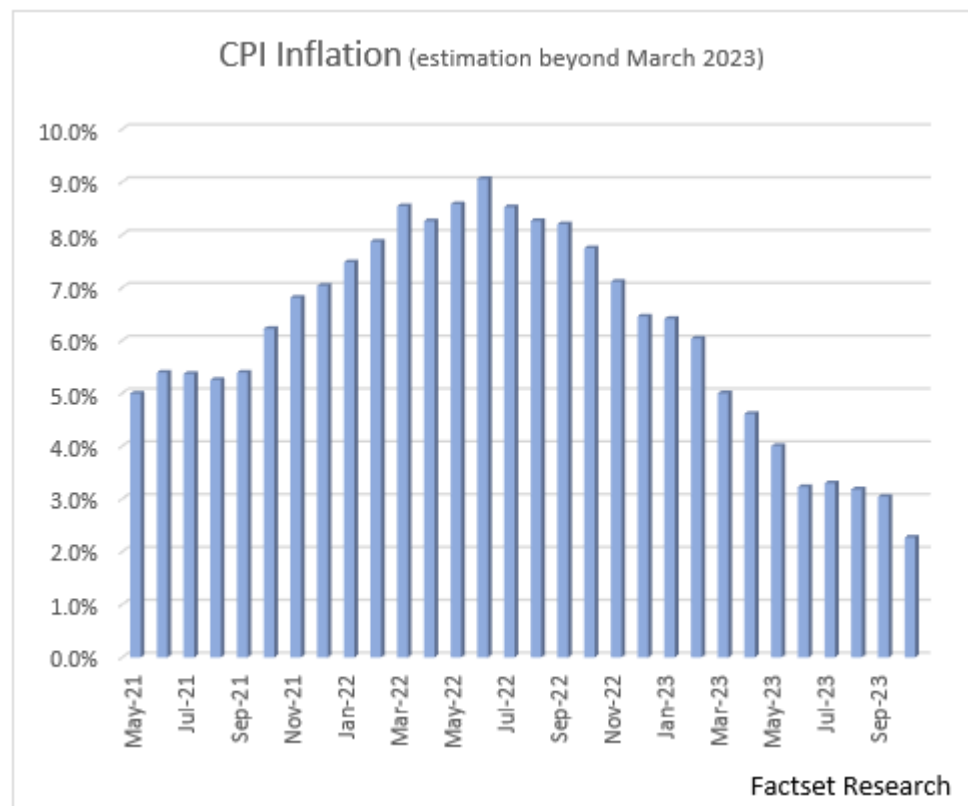


Inflation

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- For the current cycle, inflation appears to have peaked, as many key inputs are dropping in price compared to last year.



Foreign Exchange

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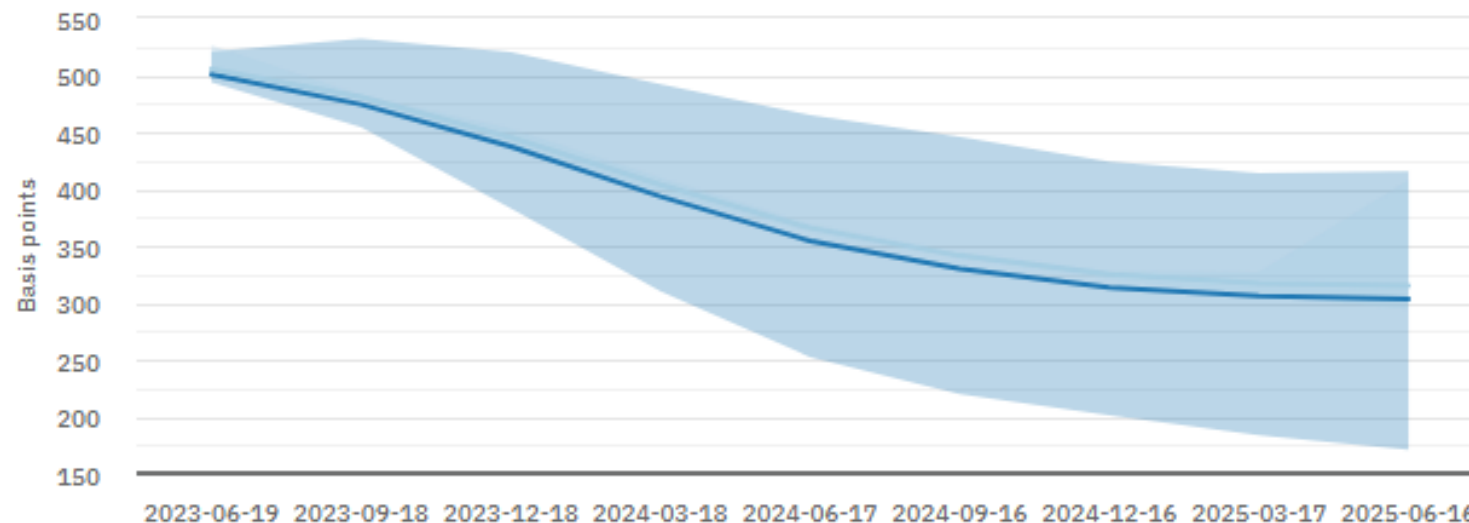
- After strengthening last year, the U.S. Dollar has recently weakened vs. a basket of foreign currencies.
- While the dollar is still elevated from a year ago, foreign exchange accounting for U.S. based companies should start to see favorable comparisons soon.



- The U.S. Federal Reserve is expected to raise the Federal Funds interest rates above 5% in an attempt to slow inflation.
- While slowing inflation, the Federal Reserve interest rate hikes are slowing the U.S. economy. Analysts expect the economy to slow to the point where interest rate cuts are needed by year-end.

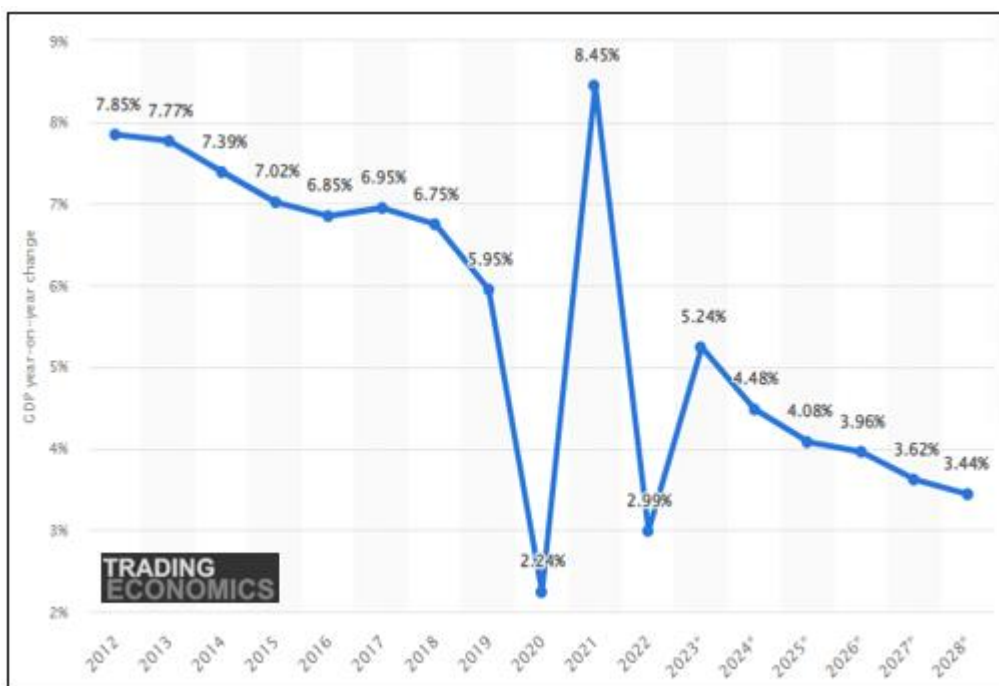
The Expected Future Path of the Three-Month Average Fed Funds Rate

Current target range: 475 - 500 basis points

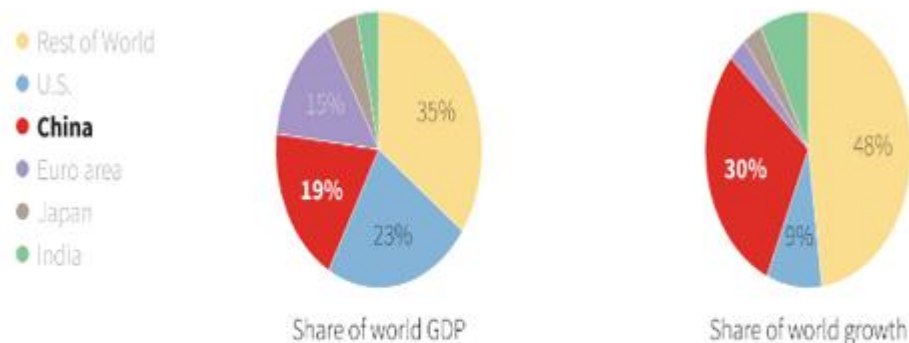


China Impact

- Following their most recent COVID lockdown period, China's GDP is set to accelerate over the next few years before returning to a ~3.5% annual growth run-rate.
- With more developed economies experience slow growth in 2023, China could have an outsized impact in global growth for 2023.



China is the biggest driver of global growth in 2023



T. Shum | Breakingviews | Source: IMF World Economic Outlook 2022, Breakingviews calculations
Share of world GDP based on 2021 nominal figures; Share of world growth calculated using forecast IMF real growth rates

Reuters Graphics Reuters Graphics

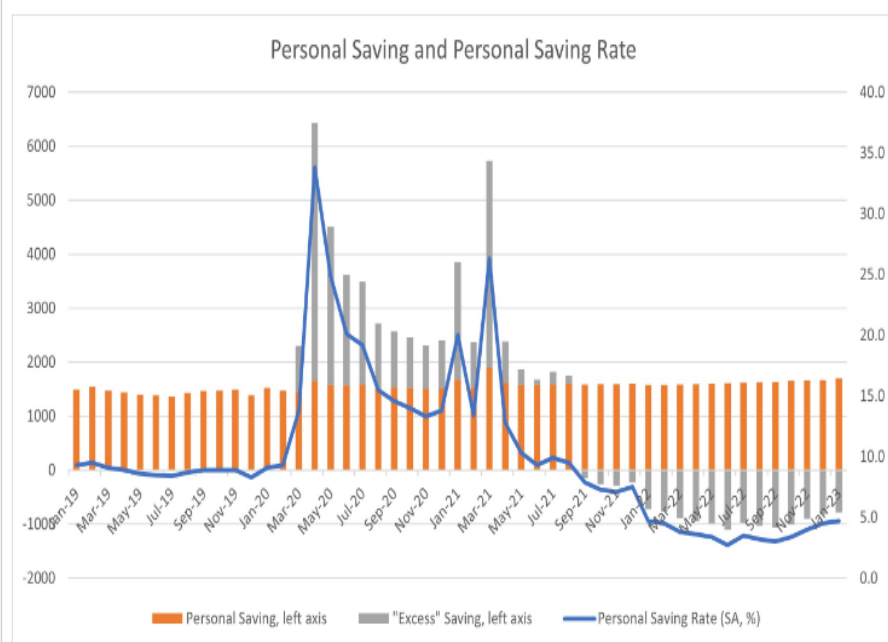
U.S. Consumer Challenges

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- Excess U.S. personal savings accumulated during COVID are being spent and are on a trend to be fully exhausted by year-end.
- Bank lending has started to tighten, which usually leads to a higher unemployment rate.

Figure 1: "Excess Savings" and the Personal Saving Rate

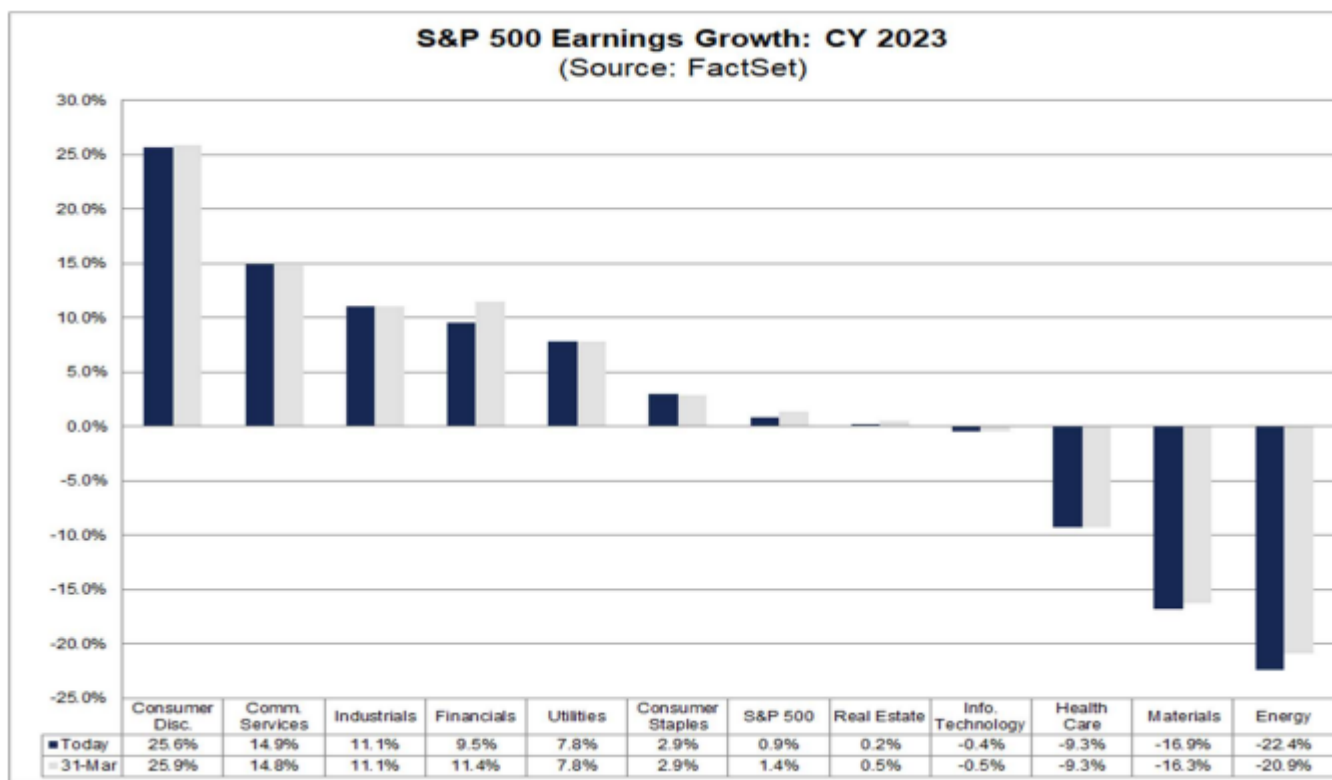


SOURCE: AUTHOR CALCULATIONS USING BUREAU OF ECONOMIC ANALYSIS DATA VIA HAVAR ANALYTICS

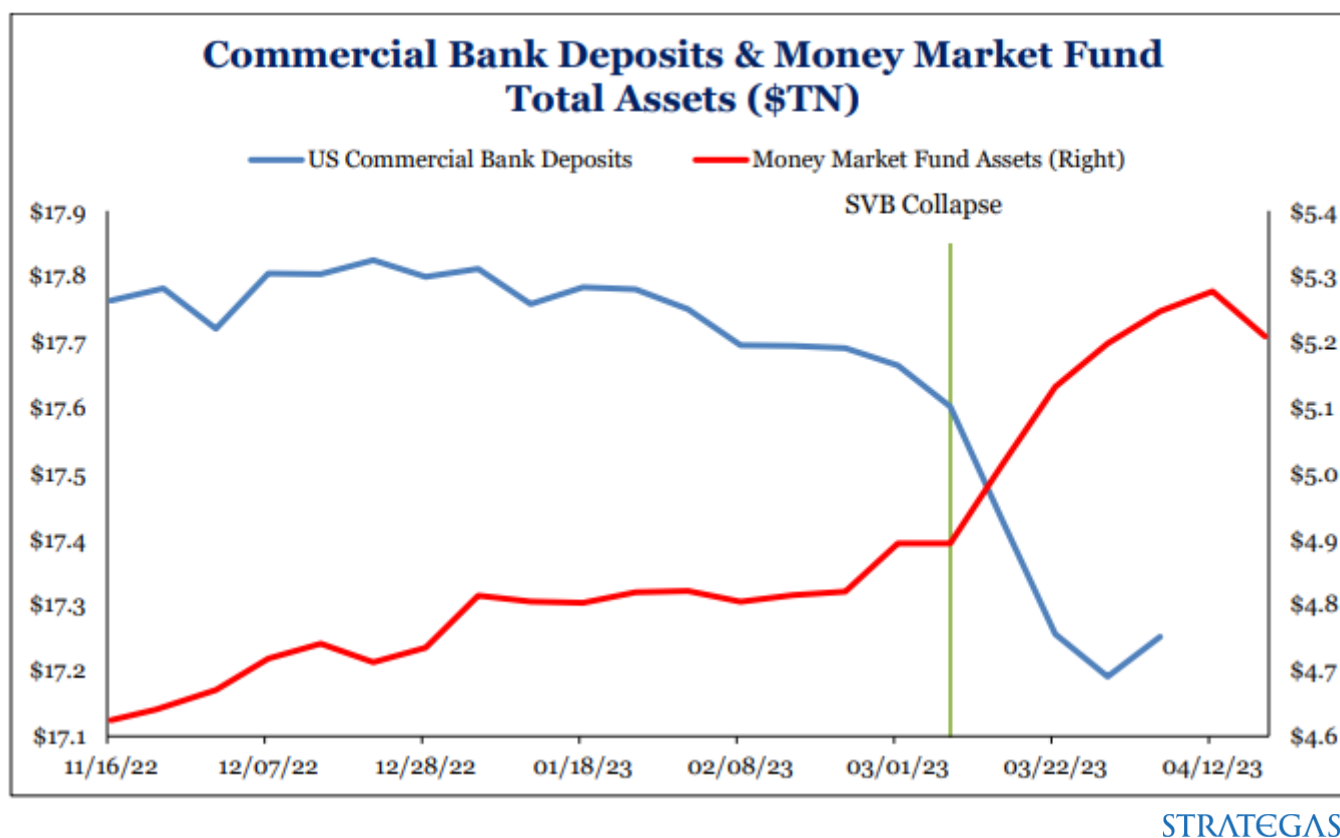


U.S. Corporate Earnings

- Corporate earning growth is projected to stall in 2023, as higher input costs pressure operating margins.



- Consumer and business demand for higher interest rates on deposits (particularly from money markets) will likely pressure banks profitability measures soon.



Important Disclosures:

Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index. All material presented is compiled from sources believed to be reliable, but the accuracy and completeness, and the opinions based thereon, are not guaranteed.

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Domestic Equity Benchmarks S&P500 ® Index: Are presentative sample of 500 leading companies in leading industries of the U.S. economy. Considered a large-cap index.

Russell Midcap ® Index: Measures the performance of the 800 smallest companies of the Russell 1000® Index, which represents approximately 36% of the total capitalization of the Russell 1000® Index. A mid-cap index.

Russell 2000® Index: Measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represent approximately 10% of the total market capitalization of the Russell 3000® Index. A small-cap index.

MSCI EAFE Index: A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. The MSCI EAFE Index consists of 21 developed market country indices in Europe, Australasia, and the Far East. An international index.

MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of February 2003 the MSCI Emerging Markets Index consisted of 26 emerging market country indices. An emerging markets index.

Barclays Intermediate Government/Credit Bond Index: Composed of approximately 3,500 publicly issued corporate and U.S. government debt issues rated Baa or better, with at least one year to maturity and at least \$1 million par outstanding. The index is weighted by the market value of the issues included in the index. The Index has duration of a little over 3 years and a maturity equal to slightly more than 4 years.