NEWPORT
PRIVATE WEALTH

Q1 2023 – The Quarter That Was

PROTECTING CAPITAL IN CHALLENGING MARKETS

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After a challenging 2022, equity markets enjoyed a relief rally in January. The Standard & Poor's 500 Index (S&P 500) finished the month with a gain of just over 6%, as investors were optimistic that declining inflation signalled a potential end to interest rates hikes.

Sentiment reversed in February as strong employment data stoked inflation fears. Equity and bond markets softened after a strong start to the year.

Beware the ides of March

March saw the biggest banking crisis since 2008. In the span of 10 days, three regional U.S. banks failed, and UBS completed an emergency takeover of Credit Suisse in Europe. Unsurprisingly, equity markets sold off until it appeared as though regulators had contained the fallout. Bonds rallied in March as U.S. Treasuries are viewed by investors as a safe harbour in times of crisis.

Despite all this turmoil, stock and bond markets proved resilient and posted positive returns in the first quarter. Both asset classes endured historically challenging years in 2022, so a degree of rebound seemed inevitable. Typically, the average annual S&P 500 gain for any year is approximately 9%, but when the prior year is negative, the following year has had an average return of 14%.

While it remains to be seen how the year will play out, the ability of the market to power through a banking crisis and ongoing economic concerns was particularly noteworthy.

Joined at the hip

Like peanut butter and jam or Hall & Oates, interest rates and inflation are inexorably linked. They will also continue to drive the economic and market outlook for 2023.

Consider the following:

- Inflation has been buoyed by a strong labour market, which drives consumer spending and can push prices higher.
- In response, central banks have increased interest rates to counteract this reality.
- An economic "soft-landing" that curbs inflation without derailing the economy would be the ideal outcome for the remainder of the year and beyond.

The first quarter earnings season was closely monitored. Higher prices and interest rates have yet to have a material impact on corporate earnings. A reversal in this trend would be a negative signal for the economy. A slowdown in corporate growth could weigh on the equity markets and result in a widening of credit spreads in the bond market.

If we only took our cues from the performance of the equity markets, it could be inferred that peak inflation is behind us, interest rate hikes will stop (or maybe reverse), and the banking crisis has been contained.

While we would prefer things to be this simple, we know that is not realistic.

Regardless of how 2023 unfolds, history shows that Newport participates in upward trending markets while protecting capital in challenging environments.

Taking a long-term view

All five of Newport's mandates posted positive returns in the quarter. We are comfortable with our asset mix and are investing with a long-term view.

Our Investment Committee engaged in due diligence on a handful of opportunities across a variety of asset classes. Particular attention was focused on making strategic allocations to both the equity and bond markets.

Our diversified yield strategy – including investments in real estate, private debt, mortgages, and infrastructure – provide predictable and attractive cash flows. These options afford us the ability to be opportunistic in our approach to the bond market. With uninvested cash in our mandates currently earning a premium on interest, we can also afford to be selective.

When unpredictability seems to be the only market constant, Newport remains committed to sticking with its strategy in the quarters ahead.

To find out more about Newport's unique investment approach, **GET IN TOUCH**.

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