BARRETT CAPITAL PARTNERS

1st Quarter 2023 **Newsletter #7**

	Q1	YTD
S&P 500 TOTAL RETURN	+7.51%	+7.51%
US AGGREGATE BOND TICKER: AGG	+2.73%	+2.73%

Positive returns

The first quarter was a nice change of pace compared to last year. It was a strong quarter for the market as a whole, but there were some notable sector returns:

- Technology gained 20%
- Consumer discretionary gained 16%
- Financials lost 6%
- Regional banks lost 25%

For the investment nerds

Interesting to note that the Dow Jones Industrial Average is only up 1% this year, versus 7.5% for the S&P 500. The Dow is made up of 30 "Blue Chip" style companies chosen by the *Wall Street Journal* as a way to track the broader economy. The S&P 500, on the other hand, is made up of 500 of the biggest companies in the country weighted by market cap, so it has a healthy technology allocation.

Banking is hard

The first victims…

of higher interest rates were the equity and debt markets in 2022, with losses of 18% and 13%, respectively. We found the second victims this March. Over the course of one week, *three US banks failed* and others like First Republic were lucky enough to be saved by their own competitors.

The biggest banks in the United States scrounged up ***$30 billion*** to save First Republic in a nice show of strength and unity. This helped instill some confidence in the banking system that was pretty fragile after an eventful weekend.

As if that wasn't enough excitement, Credit Suisse was sold to UBS in a deal brokered by the Swiss government to avoid failure.

I know this is hard to believe…
but the ratings agencies were **nowhere to be found** in the weeks and months running up to these bank failures. In fact, Moody's didn't change their rating on Silicon Valley Bank until the *day that it failed!* Prior to that, they had rated the bank 'Investment Grade'!

Long story short…
the banks failed because the value of their investment assets fell as interest rates rose, and they couldn't continue to process withdrawals without incurring huge losses. It's important to note that this was contained to a short list of banks that did business with startups and crypto companies—a volatile market at its core. The good thing to come from this is the Fed will be less likely to keep raising rates, at the risk of putting the entire banking system on edge.

Let's go yachting

There have been *very* few people more optimistic about the economy than we have been. While just about every investment bank has been calling for a recession in 2023, we are more optimistic. On February 19th, the whole Barrett family headed to the Boat Show in Boston (for some 'on the ground' due diligence) and when we got there, we had to park down the street because the lot at the Seaport Convention center was full. That doesn't exactly scream "recession."

One part of the Boat Show that *did* instill a little fear is the new way of advertising how much a boat costs. The old way was with a poster: "Only $50,000!" The new way: "Only $1,500 a month!" without any mention of the actual price you are paying. If we *do* see a recession, or even a little economic slowdown, there are going to be a lot of boats looking for new homes.

On the same note

16% of new car purchases have a monthly payment north of $1,000, according to Bloomberg. Ally Financial said car loans 60+ days overdue rose to .89% in Q4/22, which is double from the year before. Axios reports that "subprime" auto loans that were at least 60 days late rose to more than 6% in December, more than the rate in 2008-09.

Inflation hits lower incomes

With all of that said, we are starting to see the beginning stages of a *recession for the lower income*. Household savings rates have plummeted, and inflation is eating into the discretionary incomes and savings of lower-income families. I think this is going to be important to watch, especially heading into the summer where we will have a debt ceiling fight, and likely higher gas prices and higher unemployment.

Summer is coming

Hit the beach. Go fishing. Play golf. Go for a hike.

Enjoy it.

As usual, feedback is appreciated!

See you soon,

Patrick and Joe

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