First Quarter 2023 News

As we begin the second quarter of 2023, I have great news to share about Bernard Wealth Management Corp.

My colleague, Andy Niedermeier, has become a partner in BWM and assumed the position of Chief Investment Officer. Andy brings 20 years of financial services experience to this role after leading teams in mutual fund accounting, financial planning and analysis, and business strategy at Citigroup and Charles Schwab. He enjoys working closely with clients and building long-term relationships while helping make investment decisions that are designed to meet their goals.

As Chief Investment Officer, Andy leads activities relating to investment decisions and the investment process. This includes the research, due diligence, analysis, strategic and tactical decision making, and monitoring of those investment decisions.

When not working, Andy enjoys spending time with his wife and two kids on the slopes, soccer fields, and swimming pools in Colorado. He is also a dog dad to a border collie/doodle mix. He holds a Bachelor of Science in Finance from The Ohio State University and a Master's in Business Administration from Otterbein University.

In addition, Deanna Harless has returned to BWM as Director of Financial Planning. Deanna Harless initially joined BWM in 2018 as our Client Service Manager and now serves as our Director of Financial Planning and Wealth Advisor. Deanna has almost 20 years of experience in the financial services industry, with a strong focus on client service and holistic financial planning. In this new role, Deanna will oversee the planning process for our firm, while helping shape our clients' financial futures.

Deanna has passed FINRA exams including the Series 7, Series 63, and Series 65. She also has her Michigan Life and Health license. She is a CERTIFIED FINANCIAL PLANNER™. She holds a Bachelor of Science degree from Oakland University.

While not at work, she enjoys reading, playing the piano, and spending time with her husband and two sons in Rochester Hills, Michigan.

Andy and Deanna bring tremendous competence and experience to BWM. They share a passion for helping our clients achieve their financial goals. I would trust them to take care of my family. Their work here strengthens our firm today and builds continuity for the future. I know that you will enjoy working with them as much as I do.

In addition to your quarterly statements and the quarterly commentary, enclosed is a copy of BWM's Privacy Policy, which we must share with clients annually. In addition, SEC regulations require that we provide a copy of our Form ADV Part 2 upon request, and that we notify clients of any material changes. In our most recent update we disclosed the following material change:

January 1, 2023: Andrew Paul Niedermeier, Chief Investment Officer, became a Principal and equity holder in Bernard Wealth Management Corp.

If you wish to receive a copy, please contact us at (248) 556-2900 or ken@bernard-wealth.com, or visit www.bernard-wealth.com/compliance.

Figure 1 – S&P 500

Figure 2 – U.S. 10-Year Treasury Yield

Market Recap

Markets rose again in the first quarter of 2023 continuing the tenuous recovery that begun at the end of 2022. The S&P 500 index (**Figure** 1) posted a total return of 7.5%. Other U.S. broad indices also gained, with the S&P MidCap 400 index 3.8% and the Russell 2000 index of small caps 2.7%. Foreign stocks also rallied. Developed economies, including Europe and Japan, again topped U.S. markets, up 8.5%, while emerging markets added 4.0%. U.S. growth stocks, which suffered the most in 2022, jumped 9.6% and value stocks rose 5.2%. The Bloomberg U.S. Aggregate Bond index gained 3.0%, showing stability after 2022's record losses.

Corporate earnings reported in January and February were strong enough to steady investor nerves, and guidance was generally not as bad as feared. After a rough 2022, large cap technology and communication services companies including Microsoft and Alphabet snapped back as investors and traders looked for potentially oversold bargains. In contrast, the industrials and other value stocks that led in the fourth quarter dropped, as fears about the economy took center stage. In early March, markets were stunned when Silicon Valley Bank and Signature Bank collapsed, requiring FDIC support for depositors. The financial sector, which had performed well in January, was hit hard by the loss of confidence and fell sharply. In response, the Federal Reserve established a new lending program for banks which helped to steady markets. In the second half of March stocks moved up again and the S&P 500 almost reached February's high.

In the fourth quarter of 2022, corporate earnings fell 5.8%, the first year-over-year drop since the pandemic in 2020. This was slightly better than the 7.3% decline expected at the beginning of the last earnings season. Once again, sector earnings results varied greatly. Energy, aerospace and transportation had strong quarters, while retail, materials and technology posted large declines. Without the big drop in the outsized tech sector, earnings were close to flat (-0.8%). The strong tech sector stock performance in the quarter showed the willingness of investors to look past current results to anticipated future growth. First quarter forecasts call for further earnings decline of 9% with modest revenue growth of 1.9%. However, analysts currently expect earnings to improve each quarter for the rest of the year, which seems to conflict with calls for a recession in the coming quarters. As companies report, investors will be watching for signs that earnings have truly troughed.

Economic Perspective

In the fourth quarter of 2022, the U.S. economy grew 2.6%, slower than the annual rate of 3.2% in the third quarter and weaker than the 3.8% growth had been expected. Consumer spending grew only 1%, but business investment growth of 4.5% was much stronger than anticipated. The manufacturing and services sectors both grew for the second consecutive quarter. Forecasts for first quarter GDP now call for annualized growth of 1.5%, an estimate that has been declining. Purchasing manager surveys in the manufacturing sector, which have weakened since the end of 2021, suggest further slowing may be ahead. The outlook in the services sector, which accounts for about 70% of our economy, has also softened, but still supports modest growth.

While job cuts in technology and finance companies dominated the headlines, employment remained strong. U.S. employers added an average of 344,000 jobs the past 3 months and the unemployment rate remained at 3.5%. Labor force participation rose slightly as more potential workers sought jobs. Annual growth in the Employment

Index returns taken from Morningstar.com

Cost Index, while still very strong (+5.1%), dropped in each of the last two quarters. The increase in potential employees may be slowing the pace of wage growth, which should aid the Fed in its struggle with inflation.

The consumer price index has also fallen to 6.0% since its peak of 8.9% in June 2022. While still above the Fed's long-term target of 2%, the steady decline has raised investor hopes and allowed the Fed to slow its interest rate increases. The Federal Reserve raised rates 0.25% in February and again in March. The increase in March, following the previously mentioned bank collapse, was a sign of confidence in the banking system and the larger economy. This week's consumer price index report will of course be closely scrutinized. The recent OPEC oil production cut and subsequent rise in crude prices may lead to higher gasoline prices, stretching out the decline in inflation, but the trend down in a slowing economy seems clear.

Looking Ahead

European stocks (**Figure 3**) have had surprisingly strong returns in the past two quarters. After years of underperformance, fears over the war between Russia and Ukraine have helped drive valuations, particularly relative to the U.S., to attractive levels. While these stocks may be due for a pullback, long-term prospects for international markets, particularly if the war grinds to a halt, look promising. Within the U.S., financials (**Figure** 4) sold off with the recent bank failures. As confidence returns, investors may find the solid dividends in this sector appealing.

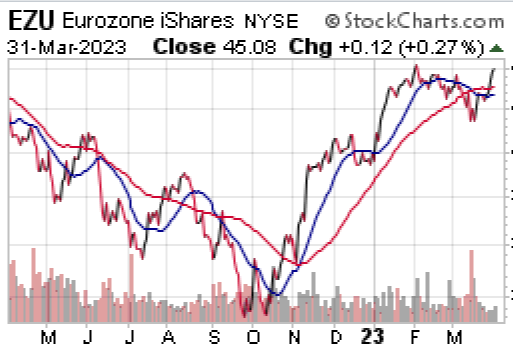

Figure 3 – Eurozone iShares

Figure 4 – Financial Services iShares

With interest rate increases slowing, fixed income has produced positive returns for the past two quarters. If the economy weakens further, high yield bonds may come under pressure. Investment grade paper, both government and corporate, offers yields around 5%, which may exceed inflation as the year progresses. In addition, money market funds now pay more than 4%, a very good return on cash.

The past quarter underscores the difficulty of predicting stock market moves. Stocks finished with gains for the second consecutive quarter, even after bank failures dominated headlines. It's often said that markets climb a wall of worry and there has been plenty to worry about. One key to long-term investing success is staying the course through difficult times.

If you have questions about your financial journey please let us know. We hope that you're enjoying spring weather wherever you are and look forward to speaking with you soon.

Best regards,

Kenneth M. Bernard

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Index returns taken from Morningstar.com