**Insights and Observations: First Quarter 2023**

The demand for personal computers has softened, and chip makers are cutting production. The smartphone marketplace has basically peaked, as have the markets for wireless services and video streaming.

The largest technology stocks – Apple, Microsoft, Alphabet, and Amazon – grew a collective 1% in the fourth quarter of 2022. Revenues are stalling or on the decline, as the headlines speak of layoffs and efficiency instead of innovation and opportunity.

> **Silicon Valley could use a reboot … The Justice Department just can't stop filing antitrust suits. The initial public offering market is closed. Venture-capital investments are plunging, along with valuations of pre-public companies.**
>
> ***Maybe they should try turning the whole thing on and off.***
>
> **Eric J. Savitz – Barron's 3/5/23**

Total student loan debt is now at $1.7 trillion, while the average graduation rate has dropped to 60% for four-year colleges. Not surprisingly, a recent survey found 56% of Americans believe a college degree is not worth the cost. The most concerned are people between the ages of 18-34, as well as people who already have college degrees.

Similar polls were taken in 2013 and 2017. In 2013, 40% of Americans were not bullish on college. By 2017, 49% of Americans did not see the value in a college education. The more recent survey, conducted by the National Opinion Research Center (NORC) at the University of Chicago, found 42% of people with college degrees were negative on college … up by more than 10% from the previous polls.

**These findings are indeed sobering for all of us in higher education, and in some ways, a wake-up call. We need to do a better job at storytelling, but we need to improve our practice, that seems to me to be the only recipe I know of regaining public confidence.**

**Ted Mitchell, American Council on Education – WSJ 3/31/23**

In yet another research study by NORC, 4 out of 5 respondents viewed the current economy as not so good or poor, and nearly half said they expected it to get worse. Forty-four percent said their financial situation is worse than they expected for this stage in life, and more than a third were not happy with their overall financial circumstances.

In addition, 78% said they are not confident that their children's generation will be better off … the highest level since the survey began asking that question in 1990.

**The survey showed pervasive economic pessimism underpins Americans' dim hopes for the future.**

**Janet Adamy – WSJ 3/24/23**

The Social Security trust fund will run out of money by 2034, according to a recent report by the program's trustees. Without Congressional action, beneficiaries would receive only about 80% of scheduled benefits after that date.

Retiring baby boomers and lower birthrates continue to pressure the solvency of Social Security. There were 2.8 workers for every beneficiary in 2022, down from more than three workers per beneficiary from 1974 to 2008. The ratio is expected to drop to 2.3 by 2035.

In a separate report, Medicare's hospital insurance trust fund is projected to be able to cover benefits until 2031 … a full three years longer than forecast just last year.

Mass testing and lockdowns during China's zero-Covid campaign saddled its cities with billions of unplanned expenditures.  In addition, China's restrictions on the property markets hurt land sales, which are a major source of city revenues.  S&P Global calculates that two-thirds of local governments are in danger of breaching unofficial debt ceilings set by Beijing.

China's 31 provincial governments owe about $31 trillion according to official data.  But that data does not include off-balance sheet debts, which according to the International Monetary Fund, are expected to reach nearly $10 trillion this year.

According to a survey by Rhodium Group, about a third of China's major cities are having trouble just paying the interest on their debts.

China's economy is on the rebound after almost three-years of Covid-19 controls.  The economy, usually known for being an export-driven machine, is currently being led by consumption.  The durability of this rebound is in question, however, as the Chinese economy is still struggling with weak housing and job markets. Unemployment, for example, is now over 18% for workers between the ages of 16 to 24.

> **A better 2023 seems assured, but the long-term outlook still depends on the country's ability to create high-quality jobs for its new graduates.**
>
> **Nathaniel Taplin – WSJ 3/15/23**

China continues to have a significant oversupply of unsold apartments. About one-third of all newly completed apartments in 2022 were unsold, according to China Real Estate Information Corp (CREI).

The CREI estimates that it would take 20 months to absorb the excess housing in the 50 cities that they monitor. In comparison, the National Association of Realtors estimates the U.S. has a 2.9-month supply of existing homes and an 8.2-month supply of new homes.

**In the longer run, the need to absorb the market's excess housing could mean a prolonged period of depressed new-home construction, depriving China of one of its biggest growth drivers and job creators.  New-home construction is also critical for China's heavily indebted local governments, which rely on income from land sales to developers to balance their budgets.**

**Stella Yifan Xie – WSJ 4/4/23**

Oil production in the U.S. jumped from 7.2 million barrels per day a decade ago to about 13 million barrels per day before the pandemic.  But the growth in oil output that made the U.S. the world's largest producer is starting to fade.

Frackers are hitting fewer big gushers, and the average well is putting out 6% less oil than the prior year.  Without technological advances and successful exploration, inventory constraints will require higher prices to tap lower-quality wells.

**The world is going back to a world that we had in the '70s and the '80s.**

**Ryan Lance, CEO ConocoPhillips – WSJ 3/9/23**

According to a recent report from Vanguard, low-cost bond funds have four major advantages:

1. Greater return opportunities
2. Lower transaction expenses
3. Better diversification, and
4. Higher liquidity

Larger trade sizes in corporate and municipal markets translates into lower costs for bond funds. Vanguard estimates the effective spread for transactions less than $100,000 to be just over 56 basis points (0.56%), while the spread for transactions over $1 million are only about 20 basis points. Also, diversification allows bond funds to take on more credit risk which potentially leads to higher returns.

**Given the higher risks and costs associated with portfolios of individual bonds, and the time they take to manage, most investors are better served by low-cost mutual funds and ETFs.**

**Vanguard Research Center – ThinkAdvisor 2/17/23**

Some believe that active management skills are most valuable in declining markets, but last year that wasn't the case. The S&P Indices vs. Active report (SPIVA) found that the majority of active managers underperformed their benchmarks in 2022. It was the 13th straight year that so-called passive management beat active management. A similar report by Morningstar came up with the same conclusions.

> **A dreadful year for stocks and bonds tested the conventional wisdom that active funds navigate difficult markets better than their passive peers. Overall, active funds did little to affirm the validity of that narrative in 2022.**
>
> **Morningstar Inc. – Barron's 3/7/23**

We have been fortunate to personally know and benefit from the research of Michael Arone, State Street Global Advisors' Chief Investment Strategist. We consider the following to be one of his most important investment insights:

**Despite overwhelming influence to the contrary, investors desperately want to believe that there are so called experts who can accurately and consistently forecast investment outcomes.**

**That's why each year I take this opportunity to remind investors that while outcomes are always highly uncertain, a consistent, disciplined and repeatable investment process is firmly within their control … stay the course and trust the process.**

**Michael Arone, SSgA – Uncommon Sense 3/23**

Staying humble and maintaining a disciplined process has always been the recipe for success. And with the April tax season just wrapping up, our process will soon shift to updating our clients' financial plans.

Enjoy the warmer weather, and as always, thanks for your support.

**Daniel G. Corrigan, CPA/PFS, CFP®**