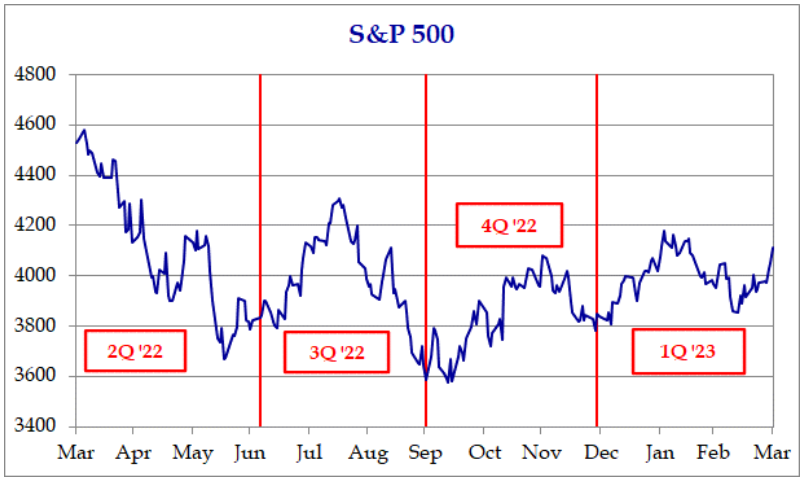
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Wealth Enhancement Group®
KINGS POINT TEAM

TO CUT OR NOT TO CUT? THAT IS THE QUESTION!
FIRST QUARTER REVIEW AND FORECAST

Chart I



Source: Strategas

We think the Federal Reserve will have a tougher time answering that rhetorical question in our headline than Hamlet did trying to answer his. The jump in inflation, the degree of which reminds us of the late 1970's, was caused in large part by the reopening of the global economies in 2021 forward as Covid vaccines allowed populations to return to normal activities. This surge in demand created a massive imbalance as global supply struggled to match the upswing in demand. As supply/demand imbalances return to a more normal equilibrium by the end of 2023, inflation pressures should materially ease. Currently, as manufacturers and service industries ramp up supply, consumer demand is gradually slowing. The anticipation of slowing cost pressures in combination with slowing demand growth in part explains why the stock market jumped sharply in the first quarter of 2023. However, we point out that the rise in the S&P 500 index was largely centered on a handful of large capitalization tech stocks. To put this in perspective, the following gives the investor a better picture of what happened "under the hood" in the first three months of the year.

Indexes	**Percent Change 1Q 2023**
S&P 500 Capitalization Weighted	7.5%
S&P 500 Equal Weighted	2.9%

Advisory services offered through Wealth Enhancement Advisory Services, LLC, a registered investment advisor and affiliate of Wealth Enhancement Group®.

Clearly the bulk of stock market equities rose at a much lower rate than large capitalization technology equities in the first quarter of 2023. The 2.9% equal weight return is somewhat tepid given the 18% decline in the equity markets in 2022.

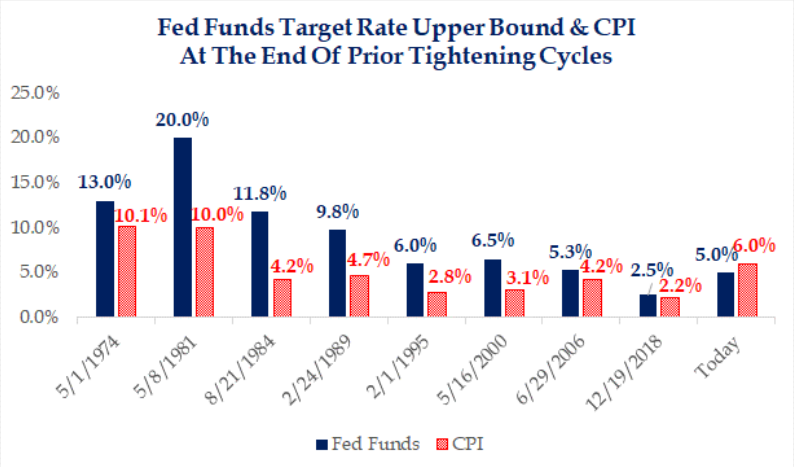
The market bounce also reflected a number of other factors. First, corporate profit expectations were better than feared in the final quarter of 2022. Within the tech space, the huge internet giants all announced significant cuts in employee headcount as the Covid induced boom in online demand shifted back to a more normal purchase pattern at stores and malls. The steady slowing in commodity and energy costs also added to the overall momentum in the market. Lastly, the surprise financial "crisis" in regional banks resulted in a sharp drop in interest rates which in turn allowed growth stock valuations to jump upwards. Importantly, the bank problems are significantly less severe than the 2008-09 financial industry crisis.

Recession or No Recession – That is the Other Question!

Whether the Fed will cut or not in the next few months is the question on most financial professionals' minds. To us, it's academic. If inflation remains sticky or rises again, the Fed will likely continue to raise rates and probably push the economy into a recession. This would ultimately lead to a rate cut in the future. Conversely, if the CPI continues to drop and the Fed halts or cuts interest rates by year end, a recession this year seems unlikely barring a dramatic slowing in consumer demand**. Either way, we believe interest rate increases are probably at or near a peak and should recede in the next 6-12 months.**

If inflation continues to slow, the Fed will likely stabilize or cut the Fed Fund rate by year end. In either scenario, interest rates are likely to go down before year-end 2023 with a recession or with a moderate decline in inflation. The 10-year government bond recently eased to about 3.4% currently. As Chart II indicates, when Fed funds match or exceed the CPI, the Fed stops or reverses course in rates.

Chart II



Source: Strategas

We believe inflation, as measured by the CPI (Consumer Price Index) is likely to fall below 5% (from the current 6%) by year end for the following reasons:

- Global supply chain issues are gradually improving as labor returns to work.
- Consumer demand should slow, and current signs suggest we are beginning to see demand cool.
- Commodity costs (including oil and natural gas) are down from their peak. Indeed, OPEC has announced production cuts to prop up oil prices. We find the argument of strong demand from China amusing since global oil demand remains stable. U.S. production is expected to ramp upwards into 2024.
- Early signs of a slowing in shelter costs are beginning to emerge.
- Finally, the recent problems of regional banks are somewhat of a blessing in disguise. Banks are becoming more restrictive in giving loans. This should also act as a breaking mechanism for the economy going forward.

We also think we may well avoid a recession in 2023[1]. Our unemployment rate remains unusually low at about 3.5%. Even a move up to 4.0 or 4.5% would be a return to a more normal unemployment rate from a historical perspective.

Overall, we will need to see a further deterioration in consumer demand and accelerated industrial layoffs of employees to anticipate a modest to moderate recession. This certainly is possible but little evidence of this is apparent today.

Valuation and Corporate Profits

While economists and various market observers ponder the economy, analysts are more focused on corporate profits.

S&P Earnings

	2022	2023 Estimated	Estimated 2023 P/E Ratio
Top-Down Forecasters	$222	$190 - $210	20.5x
Bottom-Up Forecasters	$222	$210 - $230	18.6x

Source: Bloomberg

Corporate profits have held up better than original estimates by many in the financial community. However, market expectations continue to focus on the global slowing in economic growth and the negative impact of higher interest rates on many corporate balance sheets. While commodity costs have come down, the slowdown in future GDP growth is weighing on profit expectations. Even the most optimistic financial community estimates have the market at about 18x projected profits. If inflation remains at 5% or more, the equity market is likely to correct by about 10%. Currently we believe the stock market is reflecting 5% or lower inflation, the Fed either maintaining or cutting interest rates at year end and corporate profits to be about flat from 2022. At this juncture, we see a modest growth in GDP but no recession for 2023. Conventional wisdom suggests otherwise. The bear case is simple:

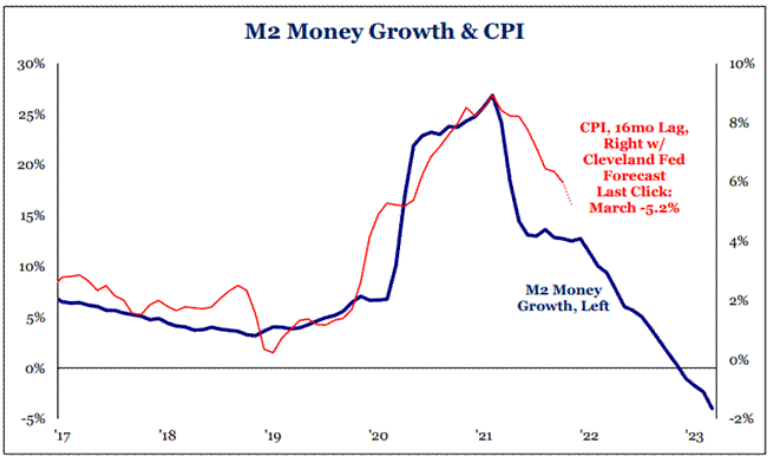
- We have an inverted yield curve. This usually leads to a recession.
- Rising interest rates should push the economy into a recession.

[1] Wealth Enhancement Group Investment Management's "base case" assumes a mild recession.

- Ultimately, a rising unemployment rate of 4.5% or so should have a negative impact on growth.
- Regional bank failures have led to restricting loan growth in the near future, adding to the economic slowdown.

We are somewhat skeptical of these arguments – for now. Inverted yield curves can last for well over one year. A 4.5% unemployment rate would only occur with large scale layoffs from industrial America. To date, it has centered on tech companies and the financial community. The banking crisis seems to have peaked with more oversight from the State and Federal government agencies and relief given by recent Federal Reserve actions. Additionally, money supply (as measured by M2) has dramatically declined (see Chart III). This is a leading indicator of inflation and thus should continue to be a slowing mechanism for the CPI in the second half of 2023 into 2024.

Chart III



Source: Strategas

Nevertheless, we think the next few weeks will likely be critical in assessing how the balance of the year turns out. At this juncture, the market, particularly for some tech and discretionary stocks, may be extended. However, if money supply continues to report flattish growth and our economy slows down further, the prospect of a moderate recession this year seems unlikely. The biggest factor is consumer demand. Barring a sharp decline in demand, corporate profits may well be around the levels of 2022.

Portfolio Changes and Current Investment Strategies

We made some changes to our core portfolio in 2023. We took off about half our position in Booking Holdings, recording a gain from our original investment. This reflects our expectation of a slowing in travel demand globally as the year progresses.

We also added two exciting growth stocks in the broad-based technology area. We have added CDW Corp., a mid-capitalization supplier of technology hardware, software and mobile devices to government, business, education and healthcare customers. We have also added Motorola Solutions, a manufacturer of data and telecommunication equipment which includes two-way radios, security cameras and data captive centers. This company is well

positioned to benefit from the growing demand for more security and communication services for law enforcement and private security services. Both companies generate significant free cash flow, strong ROIC and bring a management focus to long-term superior shareholder returns.

We are also focusing on the likelihood that total investment returns may be lower than the returns achieved in the past 10 years as interest rates remain more elevated versus the quantitative easing period of inflating asset values.

Chart IV

Dividend Contribution to Total Return

Decade	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg Payout Ratio
1930s	-41.9%	56.0%	14.1%	100.0	90.1
1940s	34.5%	100.1%	134.6%	74.4	59.4
1950s	257.3%	180.3%	437.7%	41.2	54.6
1960s	53.7%	54.2%	107.9%	50.2	56.0
1970s	17.2%	59.1%	76.4%	77.4	45.5
1980s	227.4%	143.1%	370.5%	38.6	48.6
1990s	315.7%	115.7%	431.5%	26.8	47.6
2000s	-24.1%	15.0%	-9.1%	100.0	35.3
2010s	189.7%	66.9%	256.7%	26.1	35.2
2020s*	22.3%	6.5%	28.8%	22.5	37.0
Average	**114.4%**	**87.8%**	**202.2%**	**59.4**	**52.5**

2020s* through 2/28/2023

Source: Strategas

As a result, while we continue to seek out great long-term growth stocks under our GARP parameters, we are also focused on investing in equities that have dividend growth as well as earnings growth. As Chart IV indicates, dividends normally generate 59% or more of total investment return historically. The exception was in the 2010 period forward when dividends generated about 24% of total returns on average. This reflects, in part, the huge jump in appreciation in tech stocks, many of which had little or no dividends. We believe the overall market is likely to return to 35% plus dividend contributions to total returns going forward as some of these tech stocks begin paying out more dividends and the overall equity market appreciation slows to mid to high single digits from the 10% plus pace of the last decade. While the equity market is likely to trade in a narrow range for most of 2023, we remain focused on preservation of capital and long-term tax efficient growth.

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