



Cultivating
relationships
for over
35
Years
Since 1984

VALICENTI ADVISORY SERVICES, INC.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

Asset management
as individual as you

An on-line publication by
The Investment Committee

Everything Is In The Eye of The Beholder

The last two months have seen the S&P 500 trade in a range between 4,200 on the upper end and 3,800 on the lower end. Stepping back a bit further in time to the end of the third quarter of last year, the S&P 500 has since rallied 14.1%. The intraday low of 3,491 was reached on October 13, 2022. All of this has happened amid signs of cooling inflation intensity in commodity and goods prices which has combined with some signs of stronger labor market dynamics. This has, perhaps, softened expectations that there might be an immediate cyclical economic downturn around the corner and the near term equity market performance is a welcome relief for investors following a more difficult 2022.

Commodity and goods prices are slightly less than half of the equation when it comes to the inflation dynamic. Services (less energy services) and rent of shelter combine to make up just over half of the CPI index and prices in these areas are proving to be stickier. Large sub categories within services include things like medical care, transportation, recreation, education and communications services.

Moving from inflation year-over-year with a 9% handle towards January's year-over-year CPI inflation reading of 6.4% is certainly a move in the right direction. However, the topic of regaining confidence in a price stable environment again is probably a more complex one. Policymakers will likely need to see disinflation appear in these stickier areas before pausing their tightening actions or changing their hawkish rhetoric too much. As a result, examining housing and labor market dynamics as the weeks and months roll on is likely to be key to understanding whether or not the services sectors will experience the same disinflation already seen across commodity and goods sectors.

Bearish arguments for equities are generally formed behind the idea that in order to fully vanquish the threat of higher inflation, these stickier areas of inflation will ultimately require aggregate job and income loss in order to soften. In other words, a recessionary condition is what will ultimately put it in check. Upon this type of realization, the earnings expectations for many companies would likely have to contract further, along with equities.

Bullish arguments generally depend on a disinflationary trend continuing without corresponding job losses ever materializing in earnest. It may be that for this type of outcome to occur, consumer credit fueled spending would likely have to slow enough to decrease demand even if aggregate income from wages and salaries do not. Current company cost structures would have to rely on a mix of input cost containment, supply chain efficiency, selling, marketing and capex discipline to preserve the earnings profile.

Now back to that near-term equity rally. The S&P 500 upturn that began last fall has continued quite strongly into the new year. The S&P 500 is currently up almost 8% year to date through mid-February. There has not been a general broad based rally driving this market. Simplistically, some of last year's worst performers in the large cap space have bounced and rebounded sharply as the year turned. Mega Cap companies like Tesla, Meta and Nvidia were down 65%, 64% and 50% respectively in 2022. This year they quickly turned to contribution leaders rallying 64%, 43% and 48% year-to-date. Looking deeper into the drivers of recent risk asset performance show that lesser quality companies which may rely on the continuation of the cycle for longer have also performed quite well out of the gate in 2023.

Summing it all up, we believe the ultimate outcomes as we head further into 2023 remain more on the uncertain side. If a first half contraction in the economy is now less likely given recent data trends, then perhaps the near-term rally in risk assets simply corroborates this. However, whether the economy will ultimately land softly, hard, or not at all is still being hotly debated. This likely corroborates a range bound market until we receive additional data.

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ["Valicenti"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Valicenti. Valicenti is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the Valicenti's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.valicenti.com. Please Remember: If you are a Valicenti client, please contact Valicenti, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Valicenti account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Valicenti accounts; and, (3) a description of each comparative benchmark/index is available upon request. *Please Note: Ranking Limitations. Neither rankings nor recognitions by unaffiliated rating services, publications, media, or other organizations, nor the achievement of any professional designation, certification, degree, or license, membership in any professional organization, or any amount of prior experience or success, should be construed by a client or prospective client as a guarantee that the client will experience a certain level of results if the investment professional or the investment professional's firm is engaged, or continues to be engaged, to provide investment advisory services. A fee was not paid by either the investment professional or the investment professional's firm to receive the ranking. The ranking is based upon specific criteria and methodology (see ranking criteria/methodology). No ranking or recognition should be construed as an endorsement by any past or current client of the investment professional or the investment professional's firm. ANY QUESTIONS: Valicenti's Chief Compliance Officer remains available to address any questions regarding rankings and/or recognitions, including the criteria used for any reflected ranking.