HUGHES | FINANCIAL SERVICES, LLC

Q1'23

Economic *update*

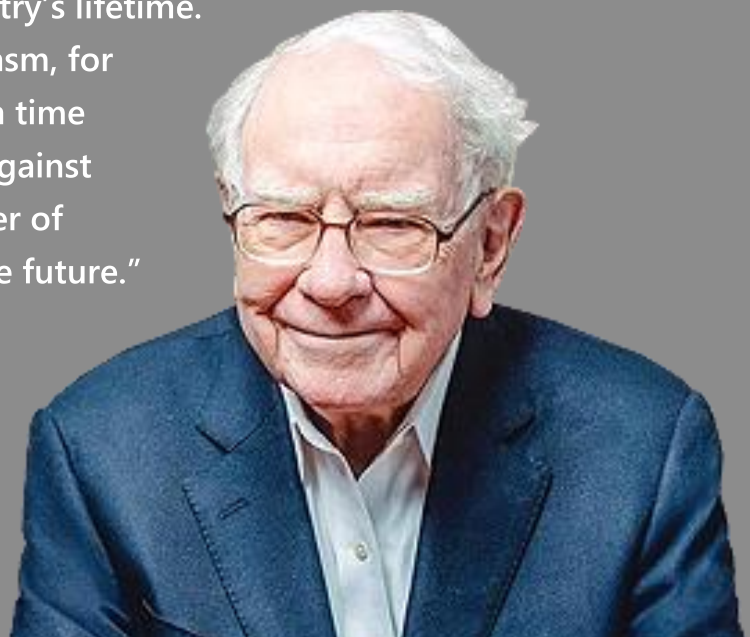
This quarter, Berkshire Hathaway CEO WARREN BUFFETT published his annual letter to company shareholders. For decades, this annual missive has been heralded as gospel among investors around the world who are eager to pick the brain of one of the richest people in the world and most successful investors of all-time.

Buffett's 2023 letter reinforced his view that investing is a long-term undertaking and revealed his secret sauce is ... TIME! His "lesson for investors: the weeds wither away in significance as the flowers bloom."

He quoted his business partner, fellow billionaire Charlie Munger, who mused on a recent podcast that, "the world is full of foolish gamblers, and they do not do as well as the patient investor."

Buffett shared that, "We count on the American Tailwind and, though it has been becalmed from time to time, its propelling force has always returned. I have been investing for 80 years – more than one-third of our country's lifetime. Despite our citizens' penchant, almost enthusiasm, for self-criticism and self-doubt, I have yet to see a time when it made sense to make a long-term bet against America. And I doubt very much that any reader of this letter will have a different experience in the future."

According to the Oracle of Omaha, when it comes to investing, discipline and patience can be very rewarding.



HIGHLIGHTS

- **The Fed raised interest rates again in the first quarter, ending in a target rate range of 4.75 – 5.00%**
- **The Fed is positioned to further increase rates in 2023 if necessary**
- **Inflation showed signs of slowing down, with a 6% rate for the 12-month period ending in February**
- **Treasury yields are providing favorable returns**
- **Volatility is a factor and likely will remain through 2023**
- **Staying the course and maintaining a well-devised, long-term focused plan has historically served investors well**

During the first quarter of 2023, investors were sitting on the edge of their seats as the equity markets took them for a bumpy ride. As the quarter closed out, U.S. stocks experienced a comeback following some positive news that the Federal Reserve's preferred inflation gauge took a dip in February after an uptick in January. The core Personal Consumption Expenditures (PCE) price index (excluding food and energy) increased 4.6% in February from a year earlier, slowing from a 4.7% 12-month annual pace in January. **This was a welcome sign that the Fed is gaining traction in its long battle against inflation.**

The first three months of 2023 were a classic example that volatility can be very prevalent in equity markets. However, despite a banking crisis, an initial uptick in inflation rates, additional increases in interest rates and economic uncertainty, **U.S. equities still managed to end the quarter on a high note.**

After a 3.2% increase in the last week of the quarter – its largest one-week gain since the week ending November 11, 2022 – the Dow Jones Industrial Average (DJIA) ended the quarter up 0.4% at 33,274. The S&P 500 rose 7.0% during the first quarter, which is its best three-month performance since the end of 2021. It closed the quarter at 4,109.

Despite the first quarter's strong performance, inflation rates remain well above the Fed's 2% target range. The U.S. annual inflation rate was 6.0% for the 12 months ending February 2023, following a rise of 6.4% in the previous period, according to U.S. Labor Department data published in March. Declaring victory and lowering interest rates now could prove to be too soon. Key indicators for the Fed are still showing strong, including the unemployment rate, which is at a 50-year low of 3.4%.

To sum up the first quarter of 2023, growth was modest, job gains increased at a strong pace, and unemployment remained low. While inflation is showing signs of slowing, it remains elevated and still poses a threat. With additional monetary policy changes and signs of slowing growth, it is safe to say that volatility should continue into the second quarter.

"Although inflation has been moderating in recent months, the process of getting inflation back down to 2% has a long way to go and is likely to be bumpy," Fed Chairman Powell stated before the Senate Banking Committee in early March.

During the next FOMC meeting May 2-3, there is the potential that another rate hike could be enacted.

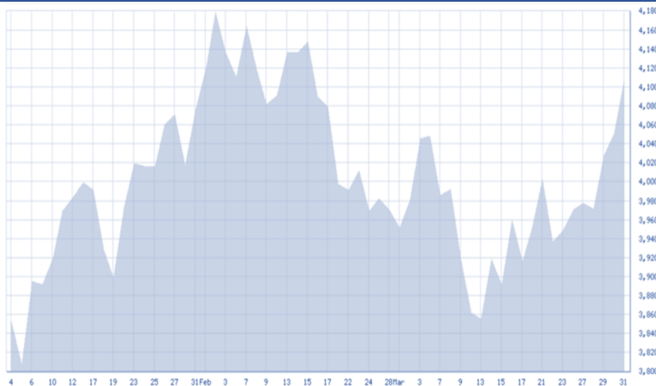
Equities are likely to continue to be hypersensitive, surging on positive news days, and retreating when negative economic data

is released. Most experts agree that while stocks are currently undervalued, we will need to see leading economic indicators satisfy the Fed's parameters before we see a move toward more fair values. We continue to abide by our belief that investing is a long-term commitment and can provide a better safety net than short-term trading and investing.

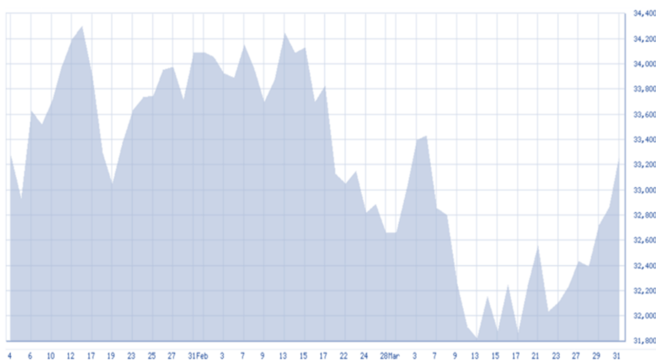
As your financial advisor, we are committed to keeping you apprised of any changes and activity that could directly affect you and your unique situation.

S&P 500 and DJIA Quarter 1 2023

S&P 500 4,109.31 + 7.0%



DJIA 33,274.15 +0.4%



MONEY RATES

(as posted in Barron's 4/3/2023)

	LATEST WEEK	YEAR AGO
Fed Funds Rate*	4.85%	0.34%
Bank Money Market^z	0.32%	0.07%
12-month Certif^z	1.61%	0.20%

Z – Bankrate.com (Source: Barron's; bankrate.com)

** - Average effective offer*

hughes NEWS

HFS is proud to announce that some of our team members have recently earned a series of prestigious professional industry designations!

SCOTT HUGHES and BERKELEY MEREDITH recently earned the Certified Private Wealth Advisor® (CPWA®) certification. The CPWA is an advanced professional certification administered by the Investments & Wealth Institute through the Yale School of Management for financial advisors who provide the breadth of specialized skills required to meet the needs of high-net-worth clients.

HEATHER WILSON has earned the prestigious Certified Financial Planner™ (CFP®) Certification. The CFP® marks identify those individuals who have met the rigorous experience and ethical requirements of the CFP Board, have successfully completed financial planning coursework, and have passed the CFP® Certification Examination.

Please join us in congratulating Scott, Berk and Heather on their wonderful achievements!

HFS has grown! In January, KRISTINA FERNANDES joined our team as a Paraplanner. She works closely with our financial advisors to assist in the formation of financial plans, as well as preparing for client and prospect meetings.

Kristina graduated from George Mason University, earning a Bachelor of Science in Financial Planning and Wealth Management. **Please join us in welcoming Kristina to our team!**

INFLATION

INTEREST RATES

After peaking in the summer of 2022, inflation has been on a downward trend but still isn't close to the Feds target rate of 2%. The bad news is the federal interest rate range continued to increase in the first quarter of 2023. The good news is the rate at which the Fed increased the range was not as steep as last year's rate hikes. On February 1, we saw a 0.25% increase, bringing the interest rate range to 4.50 – 4.75%. Then, in March, the rate was increased for the ninth time (since March 2022) by another 0.25%, to a range of 4.75 – 5.00%. The Federal Reserve aims to bring interest rates to 5.1% by the end of 2023, which means that they expect one more rate hike before they pause. Today's rates are currently at the highest level since September 2007.

With inflation slowly starting to show signs of improvement, the Fed may consider ending increases in interest rates at some point in 2023. We are close to the median projection among Fed officials for a final interest rate target range. With inflation at 6.0% in February, down from 6.4% in January and down 3.1% from the record high of 9.1% in June of 2022, it appears that progress is being made.

However, the Fed will continue to carefully monitor key economic indicators in addition to unemployment rates, including personal consumption expenditures (PCE), and consumer price index (CPI) before they stop the cycle. At the FOMC's February post meeting press conference, Chair Powell stated, "We're going to be cautious about declaring victory and sending signals that we think the game is won."

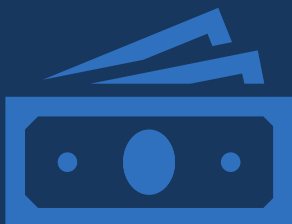
Following the March FOMC meeting, the Fed stated, "The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

The silver lining of these higher interest rates is certificate of deposits and even savings accounts are yielding some of the best returns investors have seen in a long time. It's not unusual to see some banks offering over 4% with CDs.

While we are closer to the end of the Fed hiking cycle than the beginning, there is the potential for tightening moving forward. The Fed will continue to monitor key indicators and has taken the position that, "rate cuts are not in our base case" for the remainder of 2023.

As your financial advisor, we are committed to keeping a vigilant eye on all aspects of financial planning that may affect you, including interest rates and inflation. If you'd like to know how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation.

Financial Literacy



We believe an educated client is the BEST client!

In today's fast-paced and ever-evolving financial environment, it's important to stay aware of changes that could impact your financial goals. That's why we frequently send out reports and articles to you because at our firm, clients come first!

Do you know someone who could benefit from our reports and articles? Let us know and we can add them to our mailing list.

The Bond Market & Treasury Yields

Bonds and interest rates move in the opposite direction. When interest rates rise, existing bond prices tend to fall, and conversely, when interest rates decline, existing bond prices tend to rise.

Treasuries took a hit when the shutdown of Silicon Valley Bank, the biggest bank failure since the financial crisis, triggered many investors to run for cover and find safety in assets such as government bonds. On the Monday after the SVB collapse, the 2-year Treasury yield posted its biggest 3-day drop since the aftermath of the 1987 stock crash. The benchmark 10-year Treasury note yield fell as well, settling at 3.543%.

2-year Treasury Rate January 2- March 29, 2023

Despite all of this, bond prices rose as investors suspected the Federal Reserve would not raise rates as high as previously expected due to the banking crisis.

Treasuries are yielding favorable returns in this high interest rate environment, but the recent wavering was a good reminder that things can take a turn at any moment. Yields move inversely to prices and one basis point equals 0.01%. In March, the 2-year rate traded in a widespread range of more than 150 basis points.

Volatility has been very prevalent in what is typically a less volatile sector for investors. Bonds are typically a good option for a conservative, diversified, and well-balanced portfolio as they are usually more stable than stocks. The window of opportunity may be narrowing to get lower-risk, higher yielding bonds if the Feds decide to cut rates, as bond prices and interest rates move in the opposite direction.

If you'd like to explore how bonds could fit into your retirement income strategy, please contact us so we can help you make the best decision for your portfolio. Please remember, while diversification in your portfolio can help you reach your goals, it does not ensure a profit or guarantee against loss.

We will continue to monitor how the Fed's movements and rising interest rates are affecting bond yields.

TREASURY YIELDS COMPARISON							
January 3, 2023				March 31, 2023			
5-Year	10-Year	20-Year	30-Year	5-Year	10-Year	20-Year	30-Year
3.94	3.89	4.06	3.88	3.60	3.48	3.81	3.67

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INVESTOR OUTLOOK

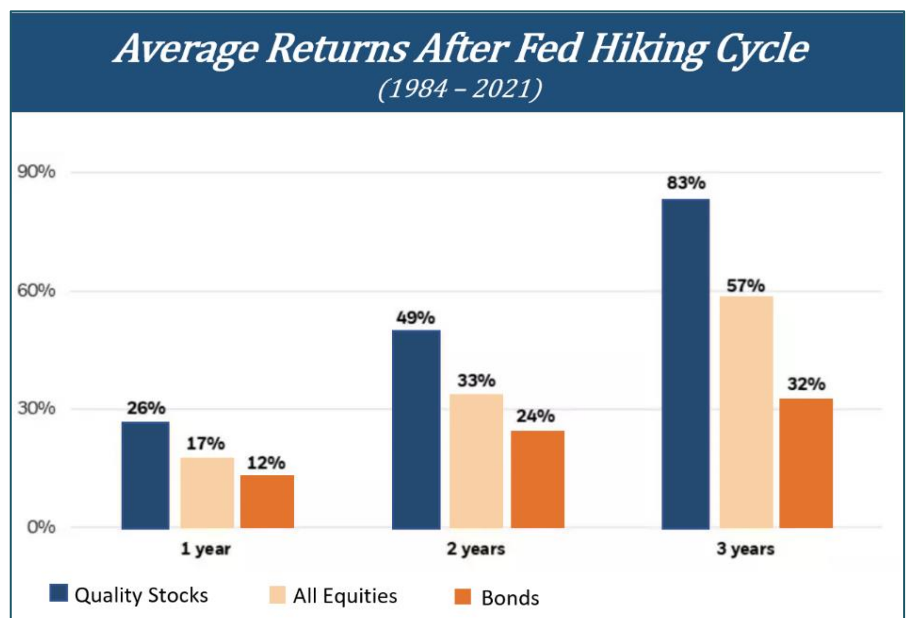
What does all this mean for investors?

It's fair to say that the first quarter of 2023 was filled with ups and downs. In January, we saw a decent upward trend in equities, mainly because of the prospect of future rate hikes to be slower or better yet, paused, and then pivoted to easing in the near future.

When the Fed raised rates by .25% in February, equity markets responded unfavorably. March saw another rate increase and faced the surprise collapse of three major financial institutions: Silicon Valley Bank, Signature Bank, and Credit Suisse. This triggered more market instability and uncertainty. Yet somehow, the quarter still ended on a positive note with some analysts saying the market's resilience despite a constant barrage of bad news could reflect the positive sentiment investors have about the near future.

What will the next quarter and beyond bring for investors? The past few years have certainly taught us that it's better to expect the unexpected and be prepared for anything the economic environment throws at investors, rather than trying to predict the future of equity markets. No one can predict what the future holds. **Our goal as your financial advisor is to not try to predict the future but provide you with a solid financial plan that is designed to best weather any market environment.** While past performance is not a guarantee of current or future results, history shows us that returns from equities after a recession have been fruitful.

The Fed still has a goal of a 2% inflation rate. However, even Fed officials can't agree on how many increases would help them reach this goal. While most officials anticipate one more rate increase in 2023, other official opinions range from no more rate hikes up to four. This confirms that even amongst Fed officials there is no consistency!



The Fed will continue to watch key economic indicators, including inflation rates, unemployment rates, and personal consumption expenditures. The collapse of sizable banks has created another element of concern for the Feds. They stated that they believed the "U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks."

We stand by our belief that investing in equities is a long-term commitment. While investors can expect to face a challenging market environment moving forward, we express the need to look at long-term stability and quality, practice patience, and proceed with caution will be key to your financial savviness. As this chart shows, the average return after a Federal Reserve hiking cycle ends can be rewarding.

As we continue into the second quarter of 2023, we will continue to monitor your advisory portfolios with a special focus on these three key areas: inflation rates, economic growth rates and the tightening of monetary policy.

Our advice of keeping a long-term investing mindset still stands. The coming months could be filled with uncertainty and more market volatility. Keeping your head down and your eyes and ears away from media magnification can help you as we enter the next quarter. Smart investing includes having a long-term mindset and staying the course of your well-devised and balanced financial plan. Loss-aversion can be a powerful motivator for investors to sell their stocks. However, as you may know, trying to time the market to reinvest is a very tricky game and can prove to be costly.

On troublesome days, it can be helpful to avoid too much exposure to the media and the news. News reports and headlines are largely intended to incite fear and ruffle the feathers of even the calmest of investors. Media magnification can cause anxiety and even cause investors to make emotionally charged decisions, which typically are not the wisest and could be costly.

We advise you to continue to pay down any debt that you may have and try not to incur any more during this higher interest rate environment. It is always wise to live within your means and minimize any borrowing, but it is recommended now more than ever.

Also, while high inflation may have put a crimp in your financial goals, consistently adding to your savings should be another priority. We are happy to discuss all opportunities with you including savings and checking accounts and Certificate of Deposits with decent yields.

Our goal as the steward of your wealth is to help you through uncertain times like these. We are always here to help you create a well-crafted plan customized for your unique situation and goals that takes into consideration how you will react to the markets ups and downs, including your time horizon, tax implications, liquidity needs, risk tolerance, and your overall personal objectives.

We take pride on offering our clients first class service that includes:

- A proactive, individually tailored approach to each client’s financial goals and needs
- Consistent and meaningful communication throughout the year
- A schedule of regular client meetings
- Continuing education for all our team members on issues that may affect our clients
- Proactive planning to navigate the changing investing and tax law environment

We always recommend discussing with us any changes, concerns, or ideas that you may have prior to making any financial decisions so we can help you determine your best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.

Please remember that as a valued client, we are here for you! Feel free to contact us with any concerns or questions you may have. We appreciate the trust and confidence you have placed in our HFS team and firm.

HUGHES | FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families in or near retirement to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- tax planning
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services proudly hold a variety of professional designations and certifications including the prestigious Certified Financial Planner™ (CFP®) certification and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the country.

2201 Cooperative Way, Suite 150 | Herndon, VA 20171 | (703) 669-3660 | F (703) 880-4905 www.h4fs.com