



# SAPPHIRE

FIDUCIARY ADVISORS

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an Independent Community Bancorp, Inc. affiliate

April 10, 2023

Dear clients and friends of Sapphire,

During the first quarter of 2023 the S&P 500 index delivered a total return of 7.5% and the U.S. Aggregate bond index increased 3.0%. These results provided some relief after dismal returns for these stock and bond indices during 2022.

The first quarter of 2023 produced some noteworthy extremes. We saw the difference between short- and long-term interest rates reach its deepest inversion since 1981 (as measured by the two-ten spread). In plain English, the two-year Treasury note recently yielded in excess of 1% *more* than the ten-year Treasury note. Interest rate volatility rose to its highest level since the great financial crisis. In related news we witnessed two of the largest bank failures in the history of the United States.

At the risk of sounding like an economist, *on one hand*, the US economy seems to be strong. Payroll numbers have exceeded expectations and the labor force participation rate has been on the rise. *On the other hand*, the economy (and employment) might be too strong for the Fed to declare victory over inflation in the US. Wage inflation and various measures of consumer prices have receded from recent highs, but inflation persists well above the Fed's target of 2%. The Fed has indicated that it is likely to continue to increase the Fed Funds rate beyond 5%, which increases the risk of a recession – and the inverted yield curve appears to anticipate trouble ahead. That said, although yield curve inversions often foretell recessions, they also have a history of false-positive diagnoses.

At Sapphire we remain alert to ever-changing macro-economic conditions but acknowledge that they are completely beyond our control. We focus on maintaining a collection of quality stocks and bonds in our clients' portfolios that we believe will mitigate the risk of *permanent loss* irrespective of macro-economic conditions. By maintaining a shared understanding of factors including anticipated near- and long-term cash needs, we construct portfolios that are tailored to each of our clients.



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Please contact Sapphire at any time if you would like to discuss your portfolio or to learn more about how we can be of service to you.

Respectfully,

Paul Stropkay, CFA

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#### Sources

- J.P. Morgan Asset Management *Guide to the Markets*® U.S. 2Q 2023 as of March 31, 2023

#### Disclosures

*Past performance is no guarantee of future results. No guarantees are implied. The views in this letter are intended to assist investors in understanding the firm's present investment methodology and do not constitute investment advice. For more information including additional disclosures, please visit our website.*

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