JENSEN
PRIVATE CLIENT

First Quarter
2023

Quarter In Review

Jensen Private Client

Firm Update

From our office in the Pacific Northwest, we watch as Winter and Spring battle for our attention. So far, the jury is out!

Tuesday, April 18th is Tax Day. If there is anything you need that we can provide as the deadline approaches, please let us know.

We would also like to remind everyone that Required Minimum Distributions (RMDs) have been calculated by your custodian. RMDs are required to be taken by December 31st every year, but we encourage you to complete this task sooner rather than later. If you have not yet taken your RMD and are ready to do so, please give us a call.

As you may know, we have been coming to our office regularly and welcome the opportunity to meet with you in person again! If you would like to visit us in person, we'd be delighted to schedule a meeting. It is always lovely to see our clients!

First Quarter 2023 in Review

The first quarter of 2023 ended with positive returns from the U.S. equity markets, though investors continued to be somewhat cautious as they processed many of the same variables which created so much uncertainty in 2022. Layered on top of the already frothy environment of rising interest rates, tightening monetary policy and stubbornly high prices, investors also had to process the failure of two prominent U.S. banks. While we are not overly concerned by the recent bank failures (and do not believe there will be a 2008-like contagion effect), investors remain hyper-focused on Fed policy, which now finds itself in a tug-of-war between battling inflation and supporting financial institutions and the need for liquidity in the economy.

Looking Ahead

While market returns in 2023 have gotten off to a strong start, we maintain a more cautious outlook for the remainder of the year. The challenges facing global economies remain unchanged: inflation rates not seen in decades, high interest rates (the full effects of which have not yet impacted the economy), and tensions that threaten the global geopolitical status quo of the last forty years. Added to these concerns is the recent banking crisis, their resulting bailout and ultimate forced sale of one of the world's largest financial institutions in Switzerland.

In addition to, or perhaps because of, these factors, we note that corporate business performance and recent market return patterns could influence the outlook and results over the balance of the year. It could also reverse the "risk on" character of the first quarter. Currently, 2023 earnings growth for S&P 500 Index companies are expected to increase by almost 11%. We acknowledge that the comparisons to 2022 are easier, but an earnings rebound of this magnitude, and current investor expectations may prove to be overly optimistic. The Federal Reserve is maintaining its tightening posture with the goal of meaningfully reducing inflation. Additionally, the first quarter earnings period for the S&P 500 index companies is anticipated to deliver less than a 2% earnings increase. This suggests that substantially all the expected 2023 earnings increase is predicted for the remaining three quarters. This will likely be altered as actual business performance unfolds.

Concurrently, the fixed income market is signaling increasing concerns about a U.S. recession in the coming year. The treasury yield curve – the yield difference between 10-year and 2-year treasury bonds – has been inverted since early July 2022. Yield curve inversions occur when the yields on short-term bonds are higher than those on long-term bonds. Such occurrences are relatively rare and have accurately predicted the ten most recent economic recessions. Moreover, recent debate appears to be more focused on the depth and length of a recession rather than whether one will occur. Consequently, market returns in the first quarter may not have adequately accounted for the myriad of issues confronting global economies, raising the risk of a significant repricing event.

Given this backdrop, we are encouraged by the opportunity provided for higher-quality, more resilient businesses to garner favor from investors looking for lower volatility in the face of the aforementioned issues, be they episodic or more systemic. We remain confident in the high-quality businesses owned in the Jensen Portfolios because of our deep and fundamental research. We favor companies we believe have strong and resilient business models, durable competitive advantages, pricing power, steady operating margins and strong free cash flow generation. Historically, these companies have consistently reinvested in future growth opportunities and rewarded shareholders in the short term via growing dividends and stock buybacks.

While the economic uncertainty going forward may require more fortitude when making investment choices, the Jensen Investment Team remains convinced that the strategy and process guiding our management of the Portfolios is sound. Our goal remains to be the owners of quality companies positioned to grow and accrue business value. We seek to participate in this value creation via the long-term ownership of what we believe are fairly-priced, high-quality stocks. We believe these attributes enable quality companies to generate business returns consistently above their cost of capital, ultimately resulting in shareholder value creation.

Connect With Us

Thank you for your continued confidence in Jensen. We are tremendously grateful for your ongoing support, and as always, please do not hesitate to contact us with any questions you may have.

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