Quarterly Economic Update
Third Quarter 2023

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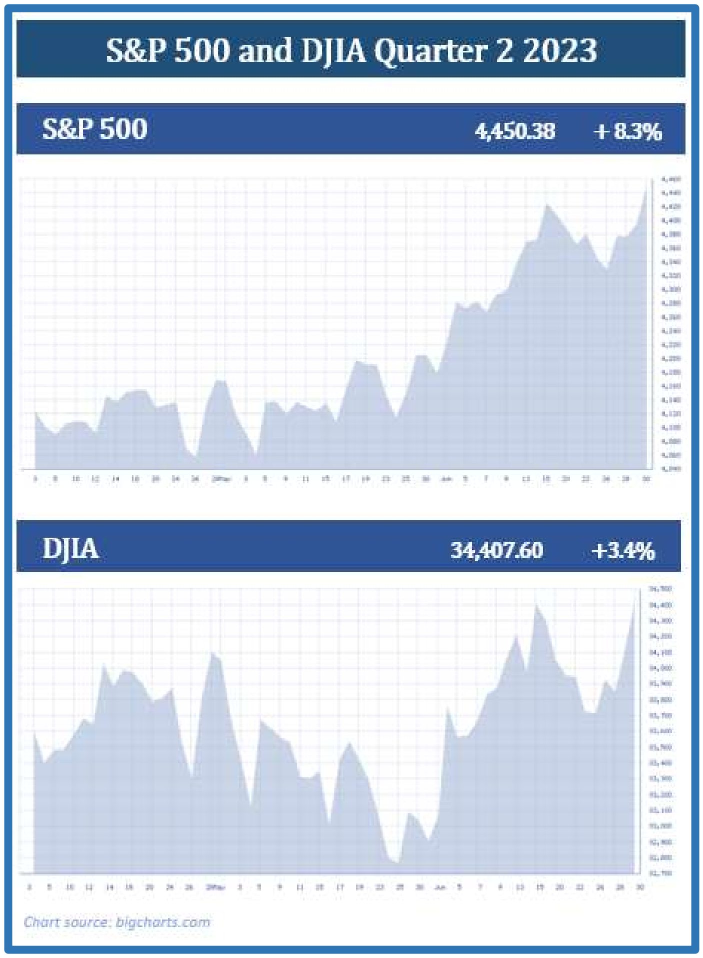
The second quarter of 2023 tested even the most seasoned of investors. It was a quarter that included the U.S. reaching a debt ceiling agreement, the Federal Reserve pausing their aggressive interest rate hikes, and bank failure fears starting to subside. During the quarter, equity markets continued to defy odds by staying strong, and the major indexes ended the second quarter higher than they started. With the support of mega-cap tech stocks and the artificial intelligence (AI) buzz, the S&P 500 officially began a new bull market in June, rising over 20% from its low in October 2022.

During the quarter, investors faced the possibility that the U.S. was on the verge of a major default. We breathed a huge sigh of relief on June 1, when the Senate passed the debt ceiling agreement, putting some caps on federal spending until January 2025.

Uncertainty remains a key theme. It was just over a year ago that you could borrow at historically low, near zero percent rates. In January 2021, the inflation rate was at only 1.4%. Since then, the cost of necessities and living expenses has increased significantly. For example, the average price of a loaf of white bread has increased 23% since 2020. *(Source:* www.in2013dollars.com*)*

As we look across the landscape of market indices since the top of the bull market in December of 2021, we see that nearly everything has arrived at the same place in terms of performance. This is the yin and yang of market cycles where we recognize that adding risk to one's portfolio often just leads to adding volatility and not necessarily long-term returns. The following chart of the Nasdaq Composite (*more risk)* and New York Composite (*less risk*) reflects this. Both are still trying to recover the losses that occurred in 2022. In the end, after a full market cycle, the two may end up coming together in total returns:

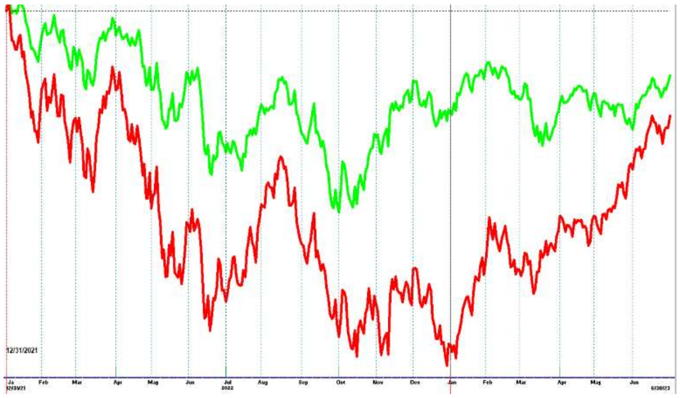


MONEY RATES *(as posted in Barron's 6/26/2023)*

	LATEST WEEK	YR AGO
Fed Funds Rate*	**5.09%**	1.59%
Bank Money Market[z]	**0.32%**	0.09%
12-month Certif[z]	**1.70%**	0.37%

*Z – Bankrate.com; * - Average effective offer*
(Source: Barron's; bankrate.com)

Chart: Nasdaq (*Red*) and New York (*Green*)
12/31/21 to 06/30/23



With geopolitical unrest, political pressures and continuing changes in monetary and fiscal policy, equity market volatility could remain very prevalent. This is a time to concentrate on your personal financial plan. Having a long-term-focused plan that is well diversified can help position you to manage volatility in the markets. We are available to review our clients' investments and make sure they are still congruent with your time horizon, risk tolerance, and goals.

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

Inflation & Interest Rates

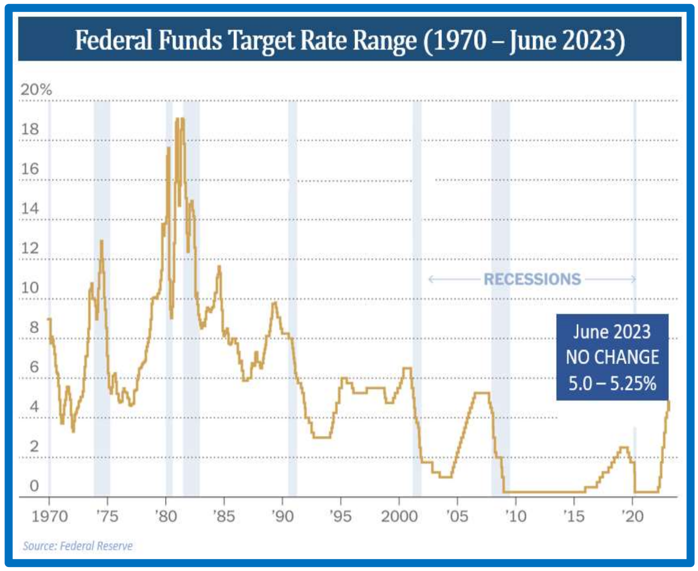
In the second quarter, we saw some easing of inflation numbers. In May 2023, prices increased by 4% compared to 8.6% in May 2022 according to the consumer price index (CPI). While inflation is more moderate than it was 12 months ago, it is still being relentless and inflation pressures continue to put a strain on the economy. *(Source: statista.com, 6/19/23).*

In response to the slowing of inflation, after 10 consecutive interest rate hikes, the Fed took a much-anticipated pause in June. As of June, the Federal Funds target rate range is 5.0 – 5.25%.

While they decided to leave rates unchanged at their meeting in June, the Fed warned of additional rate hikes this year before starting to lower rates next year. If that sounds like a strange course of action to you, you are not alone. It leaves in place the concern that the Fed will raise rates too high and/or keep rates high for too long, resulting in a recession later this year or next year. Eventually, the Fed will signal that rates are too high and must come down. That will be very bullish for both stocks and bonds.

Investors seeking returns from Certificate of Deposits (CDs) and even saving accounts are currently benefiting from the higher interest rate environment. For almost a decade there was very little return on these types of investments, but now, it is not unusual to see some banks offering CDs with yields over 4%.

Like all aspects of financial planning that may affect you, we are keeping a vigilant eye on 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.



A Tale of Two Markets

The story in stocks continues to be the tale of two markets. A handful of technology stocks continue to push the S&P 500 and Nasdaq 100 indices higher.

If we had to pick just one thing that represents the greatest systematic risk to investors today, it is the overwhelming concentration of wealth in just a few names, 8 of them to be exact. These are names that you hear every day in the media: Microsoft, Apple, Google, Meta (Facebook), Netflix, Nvidia, Amazon, and Tesla. These are great companies, make no mistake, but they are now some of the most expensive, overpriced securities in the world today. Crescat Capital recently noted that the median year over year sales growth among these "FAANG" names has just gone negative for the first time in two decades.

At their current prices, priced to perfection is an understatement. Beyond valuations, there are headwinds coming now from changes in privacy regulations, diminishing dollar volume of on-line advertising, anti-trust regulations, global tensions, and competition. The AI frenzy offered a nice boost in recent months, but we're not convinced these same names will necessarily be the leaders in the end. According to Seeking Alpha in mid-June, the 8 names listed above account for slightly more than 100% of the gain YTD in the S&P 500. The other 492 stocks in the index have an average return of -1%. Wow!

The breadth of the stock market is an important indicator when looking at its health. A positive long-term environment for stocks occurs when more than half of the stocks are above their 200-day moving average (*in a long-term uptrend).* Narrow market advances have the potential to fail dramatically. Should the June rally continue, however, our hope is this indicator will rise above 50% (*after being below this threshold for much of the past year).* This would be good for all investors – and offer opportunities for returns without outsized risks (*as of this writing in early July, this indicator has just crossed over the 50% threshold!)*.

Investor's Outlook

The Fed is likely at or near the end of the cycle of rate hikes. Now it is a matter of waiting to see how quickly the economy weakens to bring inflation down enough for the Fed to start the inevitable process of lowering rates. When that happens, bonds will almost certainly trend up strongly. Stocks may also trend up at that point, but not necessarily. It all depends on how much the economy weakens. If the economy weakens quickly and heads for a hard landing recession, stocks could trend down while bonds trend up. That is really the basis for the current trading range environment. Investors want to see the effect of the interest rate hikes that are already in place and see how the Fed responds to a weakening economic environment. In the meantime, investors don't have to remain on the sidelines, but patience is required and a focus on risk management is paramount.

KEY TAKEAWAYS

- **The Fed raised interest rates once in May, but halted rate increases in June, keeping the 5.0 – 5.25% target rate range.**
- **A debt ceiling agreement was made in June - ending a potential economic crisis.**
- **Inflation is continuing to slow down, reaching 5% in May.**
- **Cash levels are at all-time highs, with money market assets the highest seen in decades.**
- **Volatility in the economic environment remains.**
- **Using risk management techniques while staying the course has historically served investors well.**
- ***We are here for you to discuss any concerns you have.***

As a reminder, like downturns, recessions are not new concepts. The S&P 500 has weathered 17 recessions in the last century and never failed to recoup its losses. Please keep in mind that the S&P 500 historically starts to rebound before the end of a recession, which makes trying to pick tops and bottoms a poor investment strategy.

Right now, cash levels are at an all-time high. As of May, money market assets are the highest they have been in decades. This makes guessing about market moves even more difficult. Instead of trying to predict whether a recession may happen, we suggest you proactively plan to ensure you have your financial plan set up to best weather anything the economy may throw at you.

Should the U.S. experience a recession, it is wise that you remain financially liquid. This means that you should make sure you can meet your financial obligations. You should also anticipate any large cash commitments you foresee, such as funding a wedding, purchasing a home, or buying a recreational vehicle.

The coming months could be filled with uncertainty and more market volatility. A few tips to help you through uncertain times are:

- Keep your head down and do not make decisions based on what you hear from the media.
- It is always sound judgement to live within your means and to not incur any more debt than necessary.
- During uncertain economic times and higher interest rate environment, it is even more wise to pay down your debt and try not to incur any more.
- If possible, continue to add to your savings.
- If you need to, review your financial plan with us.

You have entrusted us to manage your money by allocating your assets appropriately to investments that offer attractive risk and return characteristics – i.e., to find that right balance and avoid catastrophic, unrecoverable losses. Today the markets have rewarded only a very thin slice of the investment landscape that now has less than stellar risk reward characteristics looking forward. We understand it may be difficult to watch a couple of market indexes run up as they have while your portfolio seems to be moving at a milder pace. This is one of those times when emotions can get in the way of rational, disciplined, needs based, investment decisions.

Fear of Missing Out (FOMO) is loud, we get it. However, chasing returns has never been a good investment strategy. As always, we choose to stay disciplined and follow our system as we have done for the last 30 years. Patience now is critical as the second half of 2023 is queuing up to be very different than the first half.

Our goal as the stewards of your wealth is to help you through uncertain times like these. We always attempt 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 equity markets ups and downs, including your time horizon, tax implications, liquidity needs, risk tolerance, and your overall personal objectives. As always, our mission continues to be helping you live your best life!

Please remember that as a valued client, we are accessible to you! Feel free to contact us with any concerns or questions you may have.

"We Cannot Direct the Wind, But We Can Adjust the Sails."

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