

QUARTERLY MARKET COMMENT Second Quarter 2023



The markets continued their upward trend in the 2nd quarter despite widespread negative reports rolling out in the news. Two-thirds of the return in the 2nd quarter is attributed to just 10 mega technology stocks. The buzz was all around artificial intelligence which provided the rocket fuel to propel anything associated with AI higher. This very narrowly driven move in technology left the remaining market in the dust, underperforming significantly. Overall the US equity markets posted positive returns for the 2nd quarter and outperformed both non-US developed and emerging markets. International developed markets did experience positive returns with emerging markets flat to down. Value continued to underperform Growth and small cap underperformed large caps. US bonds posted flat to negative returns for the quarter but are in positive territory year to date. Real Estate posted positive low single digits and gold was negative for the quarter but positive year to date. A brisk rise of a narrow few stocks does not move a market from a Bear (negative) to a Bull (positive) market without a broadening of participation from diverse sectors and a rally from smaller stocks. As we move into the 3rd quarter, we are starting to see other sectors of the markets moving in a positive direction. The best-performing sectors in Q2 were Information Technology, Communication Services, and Consumer Discretionary. Energy and Utilities experienced negative returns for the quarter.

The US economy remained resilient in the 2Q, suggesting a soft landing later this year into 2024 or that we have been experiencing a rolling recession (the jury is still out on this one). As was mentioned last quarter, the macro headwinds of 2022 have pretty much run their course. To combat an inflation rate of 9.1% (a four-decade high rate) in June 2022, the Federal Reserve swiftly raised short-term interest rates 10 times since March 2022 before pausing last month. Earlier this week, it was reported that inflation for June 2023 was 3.0%, better than expected. This is a positive development, however, it is still higher than the Fed's 2% annual target, meaning there are more rate increases projected in the second half of 2023. Given the steep rise in interest rates, the economy is showing signs of absorbing this rise by slowing its pace of expansion. The housing market appears to be stabilizing, consumers have reduced their spending, and unemployment continues to remain low with wage growth slightly higher. Business spending is one area of concern as lending has tightened for many companies which could constrain capital expenditures. Commercial real estate is another area showing weakness. Overall, it is projected that the US economy should continue to grow at a tempered pace from here and international economies often follow the US.

The markets have had quite a ride over this last year which underscores the importance of sticking to your (knitting) long-term plan, even when it's difficult to ignore the constant negative market noise and news sound bites. It is a reminder that markets historically have fluctuated and recovered; this is nothing new.

Significant market volatility (as we have experienced over this last year) is a great exercise in checking your internal risk tolerance. Could you sleep at night given the decline you were experiencing in your portfolio? This may be a time to revisit your overall asset allocation to determine if the risk and return of your portfolio is still appropriate or needs adjusted.

Please let us know if you have any questions or concerns. We truly value you as our client and we are grateful for the trust you have placed in us.

Asset Index Category	2Q 2023 %	YTD Average %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	8.30	15.91	10.36	10.73
S&P 400 Index-Mid-size Companies	4.39	7.90	6.09	8.49
Russell 2000 Index-Sm Companies	4.79	7.24	2.83	6.81
US Real Estate Funds	2.09	4.44	3.84	5.78
Gold	-2.52	5.38	7.80	3.78
US Commodities	-3.33	-6.75	4.91	-0.52
Global Real Estate Funds	0.21	1.34	0.44	3.08
MSCI EAFE-Developed International	1.87	9.66	1.71	2.66
MSCI EM Index-Emerging Markets	-0.08	3.46	-1.54	0.51
Barclays US Aggregate Bond Index	-0.84	2.09	0.77	1.52
Long US Government Bond Index	-3.08	2.09	-3.55	-1.23
Emerging Market Bond Index	2.39	5.37	0.29	0.72

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