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Perspective on Second Quarter 2023 Economic & Market Events

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Last year, initial expectations for a soft landing in the U.S. economy were quickly abandoned as the war in Ukraine, the summer surge in food and energy prices, the rapid pace of Fed rate hikes and crashing asset markets led to the year-end consensus view that we were headed for a hard landing in 2023. However, a steady string of positive economic surprises during the first half of 2023 has led forecasters to reconsider their prior calls for a U.S. recession this year. Actually, financial media proclaimed in June 2023 a "new bull market" had started.

The domestic equity market demonstrated impressive returns in the second quarter of 2023 with the S&P 500 advancing by 8.7%. With the explosive enthusiasm around Artificial Intelligence (AI), the technology sector led the charge. Giants such as Apple, Microsoft, Alphabet and Meta once again dominated performance. Additionally, the NASDAQ posted its best first half of a year since 1983 and its third best since its inception in 1971. Positive developments included easing of banking sector stress, a resolution to the debt ceiling, continued moderation in inflationary pressures, and another quarter of better-than-expected corporate earnings results. [1]

Clearly, there have been positive macro developments so far in 2023 that have helped the stock market rebound. However, it is important to remember that risks do remain for the economy and markets. The historic predictions keep falling flat and the indicators keep failing to indicate. In fact, the surprising resilience of the U.S. economy has led economists to reevaluate the relevance of traditional recession indicators. For example, an inverted yield curve — which occurs when short-term yields are higher than longer-term yields — has a good track record of predicting recessions. The spread between the 10-year and 2-year T-notes has been negative since July 2022, and the spread between the 10-year T-note and the 3-month T-bill has remained negative since October 2022.

Similarly, with high inflation and the Federal Reserve's response to it by increasing interest rates, most predications have projected a possible recession in the U.S. for almost two years now. Higher interest rates and the intensity at which they were increased "should" have led to slowing economic activity in the form of weaker employment and moderating business activity. Yet, the economy has performed better than expected with stronger employment and GDP, and the stock market performance has been an event that most, if not all prognosticators were unable to forecast.

We must remember, indicators are based on past market data and may not work well when the market is behaving in unexpected ways or undergoing major changes. Market volatility or

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unexpected news can cause sudden and unpredictable changes in stock prices that may not be reflected in the indicators. We live in clearly unprecedented times. JPMorgan Chase CEO Jamie Dimon recently reflected that we have “tailwinds” in the economy, including the strength of consumer spending amid fiscal and monetary stimulus and “headwinds”, which include inflation, high U.S. government debt, high interest rates, the Federal Reserve’s efforts to shrink its balance sheet and the war in Ukraine. [2]

We understand the risks facing both the markets and the economy and are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint. Difficulties arise along the way but staying the course keeps you on track toward reaching your goals. Thank you for allowing us to be a partner in your financial journey.

1. https://www.nasdaq.com/articles/the-nasdaq-had-its-best-first-half-in-40-years:-history-says-this-will-happen-next
2. https://www.cnn.com/2023/07/17/investing/premarket-stocks-trading/index.html

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