



July 5, 2023

Dear Valued Investor,

As we finalize the log on the first six months of 2023, we believe there's value in reflecting on recent months gone by. Doing so can help crystallize key learnings and help chart a course through the rest of the year. Looking back on the first half of 2023, it's probably fair to say the outcome has been a bit better-than-expected for the stock and bond markets, especially compared to 2022's tumult.

So, what major points have we learned through the first half of the year?

1. Inflation's path is not endlessly higher. The return to some post-COVID-19 supply/demand normalcy and an ease in input costs have helped push the inflation rate down—which has helped both stock and bond markets bounce back.
2. Still-strong consumer spending and a stubbornly tight jobs market have helped the U.S. avert a recession...so far. The Federal Reserve continued to raise interest rates, but we believe they may begin reducing rates as early as Q4 2023 or Q1 2024.
3. Bonds look like bonds again. After enduring a generational period of weakness in 2022, bonds are back and should be considered important ballasts in a multi-asset portfolio.

Given what we have noted so far, we can now focus on the second half of the year. We've seen improvement in the bond market and positive returns, and believe there are still plenty of opportunities for both capital appreciation and attractive income generation—assuming both inflation and interest rates continue to glide lower, as we believe they will. For income-oriented investors, the bond market could offer an opportunity that has not existed in over 15 years.

Turning to stocks...the market has already put in some notable gains for the year. With recession risks still looming, investors may consider being less aggressive with their portfolios than they were the first half of the year. This doesn't mean stocks cannot go up from here, but rather that the risk/reward equation in stocks and bonds looks evenly balanced.

The key issue here is recession. We have already seen a push lower in corporate earnings expectations. Some weakening in manufacturing and services indicators, and early signs that the consumer could be slowing down, point to the likelihood of a mild recession to come. This view is reinforced by the expectation that the jobs market could weaken modestly through the end of this year.

Overall, the opportunities in the second half of the year may not be as robust as in the first half. However, after a bumpy 2022, investors should be encouraged that wading back into the market could bear some fruit in the coming months. In fact, the difficulty we witnessed last year likely helps lay the groundwork for further market stabilization as we press ahead. Despite our mild recession outlook, we believe there are still definitive investment prospects to uncover.

Please reach out to me if you have any questions.

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All data is provided as of July 3, 2023.

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