July 2023 **QUARTERLY COMMENTARY**

It's official…the U.S. stock market made its way back into bull market territory, meaning a rise of 20% or more from previous lows recorded last fall. Furthermore, the S&P 500 posted its second-best performance since 2000. Notably, three sectors (groups of related industries), Consumer Discretionary, Technology, and Communications Services led the market's performance so far this year, carrying the other eight that underperformed -Consumer Staples, Industrials, Materials, Real Estate, Energy, Financials, Health Care, and Utilities. Narrow market leadership like this, with only a few stocks in a handful of sectors driving results, are not as uncommon as investors may think. The stocks that appreciated 100% or more during the first half of the year were AppLovin, Builders Firstsource, Carnival Cruise Line, Coinbase, Draft Kings, Meta, Mongo DB, Nvidia, Palentir, Royal Caribbean Cruises, Soltera Health, Spotify, and Tesla. Interestingly, most of these names are unfamiliar to many and bounced from depressed levels, while only a few hit new highs.

A great deal can be learned by examining recent investor crowd behavior. Achieving double-digit positive results in 2023 for the U.S. stock market was a surprise to almost all Wall Street experts. For the first time since its inception in 1999, a Bloomberg survey of 25 investment strategists showed a negative S&P 500 outlook at the beginning of the year. Many of the same reasons have held back investors. Despite repeated claims of an impending recession, the U.S. economy has shown strength and resilience during the fastest and steepest interest rate rise in a generation. Predictions of inflation remaining stubbornly high have proved false, too. And calls for contagion and collapse in the banking industry have not materialized either. Unlike many cynics with negative forecasts, our research pointed to Wharton School Professor Jeremy Siegel, who argued throughout the year that the probability of stellar returns was far higher than other financial pundits would concede.

In times like this, stock prices often "climb a wall of worry." This event occurs when investors are highly skeptical and as a result temporarily hold excessive cash. Some investors eventually start to move money back into the stock market, nudging prices marginally higher. Then "FOMO" (Fear of Missing Out) kicks in, which pressures more investors to add money to stocks. This cycle helps stocks continue to "climb a wall of worry." There are still many who remain focused on short-term investment opportunities at the expense of longer-term, more attractive alternatives. Over time, defensive investors ultimately have little choice but to move more of their liquid money back into the stock and bond market, striving to earn higher returns, helping fuel further upside in prices.

What to look for in the second half of the year? Thus far, the Federal Reserve has guided the economy toward a soft economic landing as inflation continues to cool moderately. Energy prices have softened and delays in getting goods to market have shortened, but labor and housing price inflation remains. But the Fed's work to attain a two percent inflation target in the next year or two may not be finished. The chance of further interest rate hikes to achieve this outcome and its impact to our economy remains uncertain. The risks of raising interest rates too much and

causing a severe recession are still present. The Fed's job is tough – walking a tightrope without leaning too little or two much in either direction with its monetary policy decisions. Other global central bankers such as Jerome Powell are fighting a similar battle, combatting excessive inflation, and are expected to find the next six months more challenging than the first six. However, higher bond yields favor economic resiliency, pushing recession risks further away. As long as current conditions persist and companies continue to report earnings above forecasts, the momentum in the U.S. stock market supports prices approaching new all-time highs by year-end and bonds holding relatively steady. The Wall Street saying that best applies to the current market environment is "Make the trend your friend."

What experienced investors have learned over decades is that financial markets often do what is necessary to prove the majority of investors wrong. This adage implies that costly mistakes often occur when an investor is overly influenced by extreme popular opinion. Combining independent thinking and a more rigorous process can go a long way in avoiding common investment errors in judgment. This philosophy has enabled our company and clients to avoid the worst of major financial and economic events that have plagued the financial services industry throughout its history. Your interests and welfare always remain our priority and focus. We look forward to continuously improve how we can serve you best. Thank you for this opportunity.

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