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QUARTERLY COMMENTARY

Since the beginning of 2022, economists and Wall Street strategists have repeatedly told investors that the probability of the Federal Reserve avoiding a recession was about the same as discovering gold in your back yard. To everyone's amazement, so far, the Fed has transitioned the U.S. economy and inflation to more sustainable levels while simultaneously maintaining full employment and economic growth. Supported by recent comments by Mary Daily, President of the Federal Reserve Bank of San Francisco, many forecasters now believe that the Federal Open Market Committee is finished raising interest rates. But can the Fed continue fighting the odds and keep maneuvering our economy to a soft landing without a recession by avoiding doing too much or too little? Many believe the answer to that question will determine the future direction for equities, fixed income, real estate, commodities, and most asset classes.

According to Princeton professor and former Vice Chair of the Federal Reserve Bank, Alan Blinder, there have been five economic periods in which the Fed successfully navigated an economic soft landing. The stock market experienced above average volatility in all five occurrences by moving more than 10%. In three of the five soft landings or 60% of the time the market was up whereas two were down. By comparison, in the past 100 years the U.S. stock market experienced annual positive returns 73% of the time. Therefore, from a historical perspective, economic soft landings may not be indicative of more favorable financial market conditions. But when the Standard & Poor's 500 Index gained at least 10% in the first half of the year as in 2023, market gains continued in the second half although at a more gradual pace. This phenomenon occurred eight of ten times since 1926, with an average return of 6.8% in the fourth quarter versus an average of 2.8% for all fourth quarters. It is always interesting to see whether upcoming market moves follow or break with tradition.

We rely on history because human nature does not change and history offers a record of peoples' actions. Investor reactions and ultimate decisions, stemming from conditions and events eliciting emotions of fear and greed, do not materially change over time either. This roadmap is an investor's guidepost for clues to the future, not gospel.

The bull market that started on October 13, 2022, has experienced some differences compared to others during the past three decades. This time gains have been concentrated in fewer stocks than ever before, with just ten companies responsible for all the bull market's appreciation to date. Most companies have not participated in this rise due to higher borrowing, labor, and materials costs that reduce corporate profits. The few exceptions are some of the largest companies with the flexibility and foresight to refinance debt at recent historically low rates. According to long-time Wall Street research firm, Birinyi Associates, "The concern over rising interest rates in this bull market's first year is overblown, and is the norm, not the exception. Interest rates are important but are by no means a bull market buster." This bull market has had to combat numerous market obstacles simultaneously: the U.S. growing national debt, unparalleled interest rate hikes, a dysfunctional federal government, student loan forgiveness,

unstable energy and other commodity prices, labor worker strikes from the automotive, healthcare, writers and actor's industries, and the wars in Ukraine and now the Middle East. Without a doubt financial markets have occasionally experienced pauses or temporary setbacks during such events.

Financial markets must work over time, not necessarily all the time, for the global economy to succeed. Sometimes financial markets deliver returns far above average. At other times, investment returns lag. Time has proven that investors are more often better off not interfering with the financial market's upward path than the costly experience of reacting to economic and market forecasts. Examples of inaccurate and costly predictions are endless, including timing recessions, the next stock or bond advance or decline, the direction of interest rates, and inflationary cycles. Columbia University professor Benjamin Graham, the father of value investing and mentor to Warren Buffett, said, "The individual investor should act consistently as an investor and not as a speculator." The lesson for those that choose to be investors, not speculators, is that it pays to ignore the daily worries, gyrations, and concern du jour and instead focus on the integrity and durability of their investment strategy and underlying holdings.

Because of the unpredictable nature of financial markets in the short-term, we firmly believe at ICC that it is always necessary for investors to maintain efficient diversification among all (not just some or most) of their financial assets. Many undesirable consequences can be avoided by remaining sensitive to overlapping investment strategies, unbalanced strategies, and asset diversification that moves excessively in the same direction. Similarly, inconsistent returns can also be mitigated by taking advantage of opportunities designed to cushion the volatility of other financial assets.

In the history of investing, there has never been an exact repeatable perfect strategy. Even the best strategies encompass both advantages and disadvantages. Every strategy reacts differently over new economic cycles that present evolving opportunities and challenges. As practitioners, we aspire to do our best, learn from the mistakes of others and ours, too, and consistently improve. Every team member of ICC is grateful for the opportunity to serve our clients and constantly strive to provide our maximum effort on their behalf.

Sincerely,

Randy Garcia
Chief Executive Officer

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