Wealth Management

QUARTERLY PERSPECTIVE

SUMMER 2023

2023 Mid-Year Review

In our 2023 Outlook from January, we noted several keys to the upcoming year. The first was to keep an eye on the economic fallout that was sure to follow the Fed's historic set of rate increases, with the assumption being that job openings would go down, unemployment would go up, and GDP would slow considerably. Not normally items on a wish list, but it's what the Fed was hoping for in order to ease inflationary pressures. Much to their chagrin, it's not how the first half of the year played out. Job openings have come down from their peak, but remain significantly above the level of available workers. In addition, the unemployment rate actually fell as low as 3.4% before ticking upwards in June on an increasing labor force participation rate. GDP growth has slowed, but remains solidly positive, coming in ahead of expectations at 2.0% in the first quarter, and trending at roughly the same level for the second quarter.

So where does this leave the Fed? Inflation is well below its peak and has generally continued trending lower, but decreases have slowed, and the core PCE inflation rate is still at 4.6%- well above the Fed's 2% target. First, it's quite possible we'll see another 0.5% in rate increases this summer, taking the Fed Funds target rate to 5.5% - 5.75%. It also means that rates are likely to stay there for longer than most anticipated (or hoped). Through much of the first half of this year, markets assumed the Fed would be cutting rates by year-end, which now appears unlikely.

The question for investors is how much of this is currently priced into equity markets. Equities are up strongly through the first half of the year, despite negative earnings growth in the first quarter, and a second quarter that isn't expected to fare any better. This leaves valuations for most stocks above their historical averages, and the returns that we have seen this year have come from a very narrow set of stocks, mainly in technology. But the market is forward looking, and with rate hikes likely near the end, and earnings expected to bounce back by the end of this year, equities may be able to continue their rally through year-end. One key to watch will be whether the rally can broaden out, with better returns in value and small cap stocks. Increased participation from other sectors of the market outside of technology could well lead to a continuation of the rebound.

Index Returns as of 6/30/23	Q2 2023	YTD
S&P 500	8.74%	16.89%
Russell 1000 Growth	12.81%	29.02%
Russell 1000 Value	4.07%	5.12%
Russell 2000 Value	3.18%	2.50%
Dow Jones US Real Estate	2.43%	4.04%
MSCI EAFE (net)	2.95%	11.67%
MSCI Emerging Markets (net)	0.90%	4.89%
Bloomberg US Aggregate Bond	-0.84%	2.09%
Bloomberg Municipal Bond	-0.10%	2.67%
Bloomberg High Yield Bond	1.75%	5.38%

Source: Morningstar

Market Review

Overall, U.S. equity markets performed well in the second quarter, with the S&P 500 Index up 8.7%, and up 16.9% through June 30th. Larger stocks, especially in the technology sector, led the way with heavy flows into anything related to artificial intelligence (AI). This pushed the Russell 1000 Growth Index up 29.0% through the end of the quarter, while on the value side, fallout from the three large bank failures continued to weigh on the financial

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Brian is a member of CNB Wealth Management's Investment Committee, where he is responsible for providing the research and analysis necessary to oversee the firm's investment portfolios. Additionally, Brian coordinates the firm's due diligence process, which monitors and evaluates all existing and prospective investment managers.

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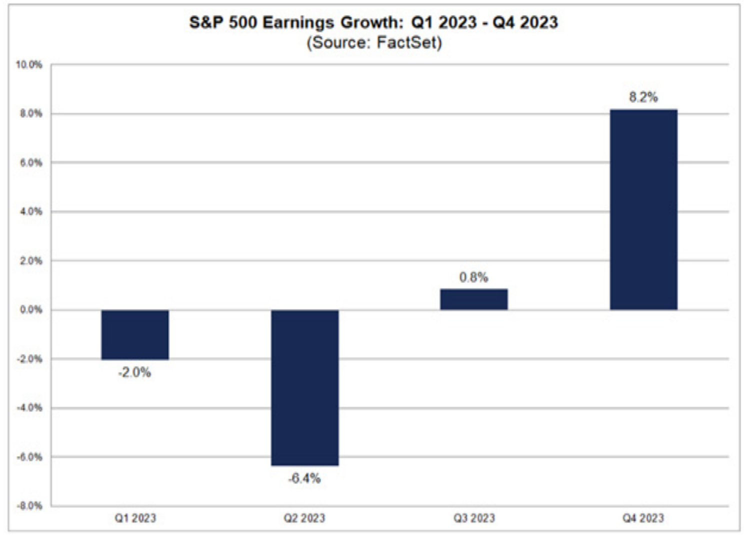
sector and led to a modest return of 5.1% for the Russell 1000 Value Index.

Developed international stocks were up 11.8% through first half with economic growth in Europe coming in better than expected, while emerging markets lagged with a return of 4.9%, primarily on weaker than expected growth out of China.

Bonds were down over the quarter as rates continued to rise, especially at the short end of the yield curve. Overall, the Bloomberg U.S. Aggregate Bond Index was down -0.8% for the quarter but managed a positive return of 2.1% year-to-date through June 30th. With at least one and potentially two more rate hikes expected, we'll likely see short-term rates continue to drift higher through the summer.



Source: FactSet; as of June 9, 2023

Looking Ahead

As we go through year-end, all eyes will continue to focus on the economic horizon for any signs of a recession. So far, the economy has been resilient in the face of inflation, rate hikes, bank failures, and a war in Europe. With unemployment at historic lows, and excess savings still on hand from pandemic stimulus programs, the voracious American consumer continues to fuel GDP growth. But the Fed is bent on breaking inflation, and a mild recession may be the only thing that finally brings price pressures back in line. A central bank misstep that goes too far remains a significant concern both here and abroad.

For investors, much of the focus will likely be on earnings and whether the remainder of the year brings a rebound in profit growth. If earnings come in as expected, and this year's rally broadens out to a wider range of sectors, we could potentially see a strong finish to the year.

As always, CNB Wealth Management is here to help you navigate the investment landscape. We will work with you to design a plan, and then implement and track your plan, to ensure that it continues to meet your financial goals and objectives. We encourage you to reach out to your advisor with any questions or concerns you may have.