



Mid-year Market Outlook 2023

July 31, 2023

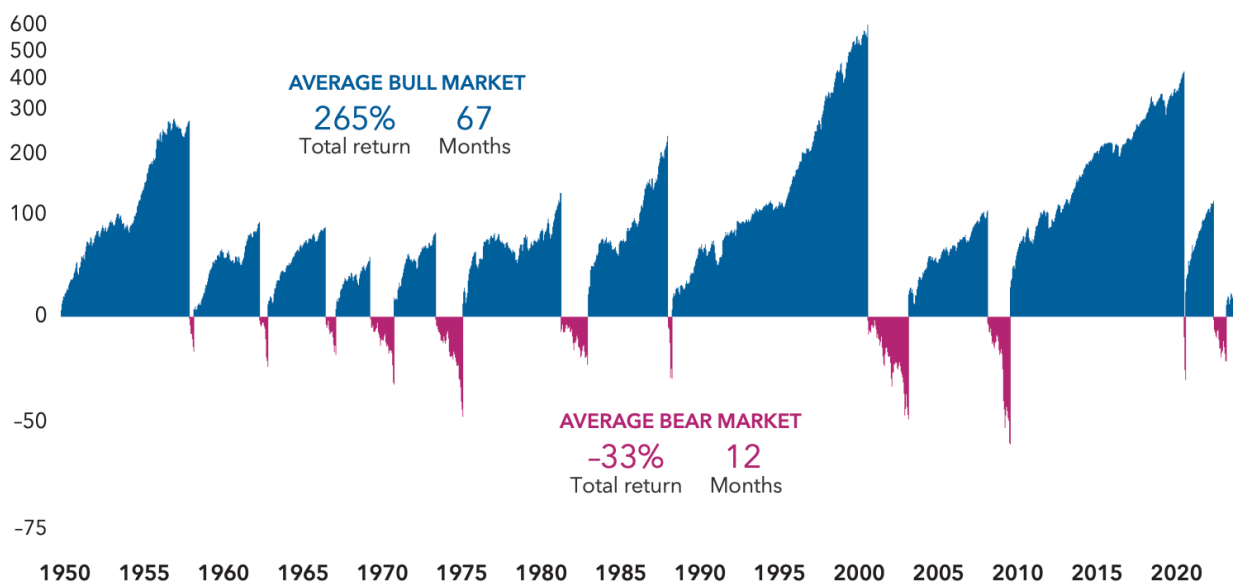
Recap

Equity markets have seen a recovery to start 2023. Although inflation, interest rates, concerns of a recession and uncertainty of the markets remain important factors for investors, recently it has been consumer confidence, a strong economy, and excitement around advancements in Artificial Intelligence that has contributed to the significant upside that we have seen so far in the markets. For the first half of 2023, the S&P 500 was up 16.89%, the Dow Jones by 4.93%, and the tech heavy NSDAQ increased by 39.35%. The U.S. Aggregate Bond Index was also higher by 2.09%¹. The Federal Reserve is still increasing interest rates, which has continued longer than what was originally projected. The June CPI (Consumer Price Index) report came in at 3.1% year over year, which is a vast improvement from last year's 8.9%¹. While these numbers give consumers optimism, with the CPI Headline number is decreasing, Core inflation CPI which includes more of rental prices and services, has remained sticky and will take more time to come down. This suggests that policy rates may stay higher for a longer period of time.

The current Fed Funds Rate sits at 5.50%, including the addition of a 25-basis point hike this month. Talk of a recession have continued to be in play, but there are a lot of positive indications to look at. Retail sales have been positive over the last three months, which contributes to 70% of the GDP. Unemployment has continued to remain under 4%, and labor force participation rate has remained around 62-65%, signaling to the FED that they can continue with rate hikes¹.

Bear markets have the tendency to be relatively short compared to recoveries. Although all market fluctuations and cycles have their unique characteristics, the average bear market since 1950 has lasted 12 months, while the average bull market has been more than 5 times longer². If there is any significant take away from the first half of this year, although we remain in uncertain territory, we have seen a good start to recovering from last year.

Cumulative price return for U.S. bull and bear markets (%)



Source: <https://www.capitalgroup.com/advisor/insights/articles/guide-market-recoveries.html>

Going Forward

For the rest of this year, our view is that interest rates have peaked or are near their peak, and that we most likely will see interest rates being cut starting in early 2024. In anticipation of interest rates decreasing, we are projecting an upcoming bull market.

We continue to favor Growth over Value and are adding to our technology exposure as we remain bullish on our views of technology, especially with the recent tech rally which was triggered by the roll-out of Chat GTP and other consumer friendly tools. We are also confident in the consumer discretionary sector, adding more to our position.

For Fixed Income, we have increased our duration as fixed income starts to look more attractive to investors this year, as the Fed's rate hike cycle starts to see an endpoint and rate cuts are being projected. Alternatives still play an important role in portfolios to reduce risk and increase diversification.

SUMMARY

We continue to remind investors that while bear markets and market volatility can be difficult, it's best to focus your long-term plans, as you are often rewarded when markets bounce back. We don't know exactly what the next recovery is going to look like but historically, stocks have recovered sharply following steep downturns. Looking at the 18 biggest market declines since the Great Depression, the S&P 500 has been higher 5 years later, with returns over those five-year periods averaging more than 18% per year². Therefore, we remain optimistic in our outlook, and looking ahead we continue to take a cautious approach to the markets making changes when necessary to reflect any changes in market conditions.

Five biggest market declines and subsequent five-year periods (1929-2023)

| Periods of decline | Decline | S&P 500 12-month returns | | | | | Average annual total return for the 5-year period |
|--------------------|---------|--------------------------|----------|----------|----------|----------|---|
| | | 1st year after low | 2nd year | 3rd year | 4th year | 5th year | |
| 9/7/29-6/1/32 | -86.2% | 137.6% | 0.5% | 6.4% | 56.7% | 16.5% | 35.9% |
| 3/6/37-4/28/42 | -60.0 | 64.3 | 9.0 | 31.1 | 32.2 | -19.9 | 20.0 |
| 1/11/73-10/3/74 | -48.2 | 44.4 | 26.0 | -2.9 | 11.8 | 12.8 | 17.4 |
| 3/24/00-10/9/02 | -49.1 | 36.2 | 9.9 | 8.5 | 15.1 | 18.1 | 17.2 |
| 10/9/07-3/9/09 | -56.8 | 72.3 | 18.1 | 6.1 | 15.7 | 23.6 | 25.3 |
| Average | | 70.9 | 12.7 | 9.8 | 26.3 | 10.2 | 23.1 |

Source: <https://www.capitalgroup.com/advisor/insights/articles/guide-market-recoveries.html>

Sources:

1. <https://ycharts.com>
2. <https://www.capitalgroup.com/advisor/insights/articles/guide-market-recoveries.html>
3. <https://www.ssga.com/us/en/intermediary/ic/insights/midyear-gmo-2023>
4. <https://www.invesco.com/apac/en/institutional/insights/market-outlook/mid-year-investment-outlook.html>
5. <https://www.blackrock.com/corporate/literature/whitepaper/bii-midyear-outlook-2023.pdf>

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