Spring 2023 Newsletter

Farewell to Spring and here comes Summer!

As most locals would agree, Spring in New England is as brief as Cam Newton's tenure with the Patriots and predictably unpredictable as Bill Belichick's personality! Much like the season, the US economy and market conditions have been nothing but mercurial and volatile. With the looming threat of the debt ceiling (now subsided) and dissolution of regional banks like the Silicon Valley Bank debacle , the markets have weathered through it all. Nevertheless, the S&P 500 has bounced back from the sharp downturn last year to roughly eight percent gain year-to-date. Moreover, despite news headlines of massive job layoffs in the tech industry, job growth remains resilient and, in turn, consumer spending and confidence level is holding steady. We have more market updates and mid-year outlook for the economy prepared for you in this newsletter.

The spring season proved to be a highly productive period for the VPF team, marked by notable personal and professional achievements. David, having returned invigorated from his vacation in France, displayed a strong eagerness to implement the valuable insights he gained during his time abroad. His commitment to mastering the French language continues unabated, as he aims to achieve fluency before his next visit.

Amidst the bustling dynamics of her family of four (including the 11-month-old puppy, Bronco), Ashley has embraced the busy lifestyle it entails. Additionally, she received invitations to attend two industry conferences, with the added honor of being offered a speaking opportunity at one of them.

Joanna's accomplishments have been nothing short of impressive. In addition to successfully completing a series of licensing exams, she achieved the remarkable distinction of graduating magna cum laude, ranking at the top of her class for her undergraduate degree. As evidenced by her exceptional speech at the graduation ceremony, Joanna demonstrated her remarkable eloquence and captivating presence.

Paul has been diligently preparing for various licensing exams and is approaching the culmination of his first year with VPF. The team anticipates his successful completion of these exams, further enhancing his professional capabilities.

At VPF, we firmly believe that personal and professional triumphs contribute to a deeper comprehension of our clients' needs, allowing us to serve them more effectively. We place great value on the mutual sharing of experiences, recognizing the significance of including you, our esteemed clients, in our journey.

Sincerely,
Vantage Point Financial

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Community and Team Development

Joanna's Graduation

Joanna graduated from Boston College summa cum laude and spoke at the ceremony as the student speaker, representing the Boston College, Woods College of Advancing Studies' Class of 2023. Congratulations Joanna!

Ashley & Joanna at Women's Conference in Charlotte

Ashley and Joanna attended the Women's Conference in Charlotte, hosted by our dealer-broker, Commonwealth Financial Network. During the event, Ashley led a panel discussion with guest speaker, Nedra Glover Tawwab, a New York Times bestseller author and therapist

Community and Team Development

VPF Open House

To kick off Spring and introduce our clients to the new office space, VPF hosted an Open House event. It was a great day of catching up with clients visiting the new office for the first time and enjoying each other's company!

NEW TEAM PHOTO

photographed by Nicole at Photo Fabulous You

2023 Midyear Update: A Healthy Outlook Despite Negative Headlines

As we enter the second half of the year, we've had several shocks. Inflation is still too high, even as the Federal Reserve (Fed) has continued to raise interest rates in repeated attempts to combat rising prices. We just resolved the debt ceiling confrontation, which could've rattled both the economy and the global financial system. The war in Ukraine grinds on, and the U.S. relationship with China remains a wild card. Even though we dodged the debt ceiling bullet, a recession is still widely expected. Looking at the headlines, you might expect the economy and markets to be in very bad shape.

On the contrary, though, the news is surprisingly good when you look at economic data. Job growth remains strong, and the labor market is still very tight. Consumers are still shopping despite a lack of confidence caused by the headlines. Businesses, driven by consumer demand and the labor shortage, continue to hire as much as they can and invest when they can't. In other words, despite the headlines, the economy is still chugging along.

This is the big picture for the rest of 2023. Now let's dive into the details.

Economic Fundamentals

Financial markets are ratifying the good economic news, as well. The S&P 500 was up almost 10 percent through May, and the Nasdaq was up by much more. If financial markets look ahead, as they tend to, this should give us some comfort that the recent solid performance will continue.

A solid performance, however, is not guaranteed. With so much in flux, what does the rest of the year hold? As always, the answer is to look at the fundamentals, not the headlines. The foundations of the economy—consumers and businesses—are solid. The weak areas are not as weak as headlines would suggest, but we can expect growth to slow through the rest of the year. Slow growth is still growth, however, and that likely will continue through the end of the year.

Job growth. With so much momentum in place, the economy will likely keep growing through the rest of the year. Job growth has been strong and should stay that way given the high number of vacancies. At the current job growth rate of about 300,000 per month over the last six months, and with more than 10 million jobs unfilled, even if job growth slows somewhat, the economy will keep growing. This is the key to the outlook for the rest of the year.

Consumer spending. When employment opportunities increase, confidence and spending stay high. Confidence is down from its peak but is still above the levels of the mid-2010s, as well as above those of 2007. With people working and feeling good, consumers will keep the economy moving through 2023. For businesses to keep serving those customers, however, they need to hire. This is proving difficult in the current climate.

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The thing to watch going forward will be consumer spending. While it remains healthy, interest rate-sensitive segments such as housing or autos will show if higher rates are starting to slow growth. So far, the trend remains positive, but the higher the Fed hikes rates, the greater the risk over time.

Inflation. As we analyze the current state of the economy, the main area of concern is inflation and monetary policy. While inflation is down from the peak, it is still much too high—and recent data suggests it may be starting to increase again. Given this fact, the Fed, which was widely expected to cut rates this year, is now expected to either keep them stable or even hike further. With the effects of the prior rate increases still filtering through the economy, this could be a rising headwind through the rest of the year.

The Financial Markets

As noted, there has been a good start to the year, but will a slowing-but-growing economy be enough to keep the markets rising? That depends on two things: how companies can navigate the slowdown, and how interest rates move.
Earnings. If company earnings drop on a slowing economy, the market should pull back. That shouldn't be the case here because earnings are still expected to grow at a healthy rate through 2023, and, as discussed earlier, the economy should support that. So, the risks are really about valuations (the prices investors are willing to pay for those earnings). Here, we can do some analysis.

Valuations. In theory, valuations should vary with interest rates. Higher rates generally mean lower valuations. Looking at history, this inverse relationship holds true in the real data. When we look at valuations, therefore, we need to look at interest rates. If rates hold, so should current valuations, and if rates rise further, valuations may decline.

Although the Fed is now expected to continue raising rates, those increases are already priced into the market. Rates would need to rise more than expected to cause additional market declines. On the contrary, it appears rate increases may be stabilizing as economic growth slows. One such sign comes from the yield on the 10-year U.S. Treasury note. Despite a recent spike at the end of last year, the rate has declined since then and remained under 4 percent. If rates stay in this range, so should valuations, and so will markets.

In addition to these effects of Fed policy, rising earnings from a growing economy will offset any potential declines and will provide an opportunity for growth during the second half of the year. Just as with the economy, much of the damage to markets has been done, so the second half of the year will likely be positive as well.

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What About Those Headlines?

It was a tough start to the year with the news affecting expectations more than the actual economy. With inflation, politics, bank failures, and everything the headlines kept screaming, even as the economy chugged along.

Bank failures. The first half of the year saw the first wave of major bank failures in some time. Silicon Valley Bank, Signature Bank, and others collapsed suddenly, seemingly out of nowhere. The headlines screamed about fears of a new financial crisis. Indeed, the risks seemed real. Rising rates eroded banks' capital bases, leaving them less solvent even as deposits fled from the riskiest banks. Although only a couple of banks went down, more seemed vulnerable. Another 2008 seemed possible.

The system will survive and be stronger for the elimination of the weakest members. What caused the 2008 crisis was a sudden collapse in confidence, which threatened the system as a whole. In 2023, the government has laid the groundwork to resolve the problems with systemic risk. While we are likely to see more individual bank failures, we won't see a rerun of 2008.

Interest rates, politics, and inflation. As we enter the second half of the year, despite the headlines and rate increases, the economic fundamentals remain sound. Longer-term interest rates have pulled back a bit, and they show signs of stabilizing. Politics, at least the threat of default due to a debt ceiling crisis, is off the table for the year. Even the headline risks—inflation and war—are showing signs of stabilizing and may get better. Much of the damage is likely in the past, and the downside risk for the second half is largely already incorporated. That is not to say there is no risk, but the existing risks are unlikely to keep knocking markets down.

During the second half of the year, growth will likely slow, but it will keep going. The Fed will keep raising rates, but maybe more slowly than expected. That combination should keep the economy and the markets on a positive trajectory. It probably won't be a great finish to the year, but if we get more slow growth, which is what we expect, a win will still be a win.