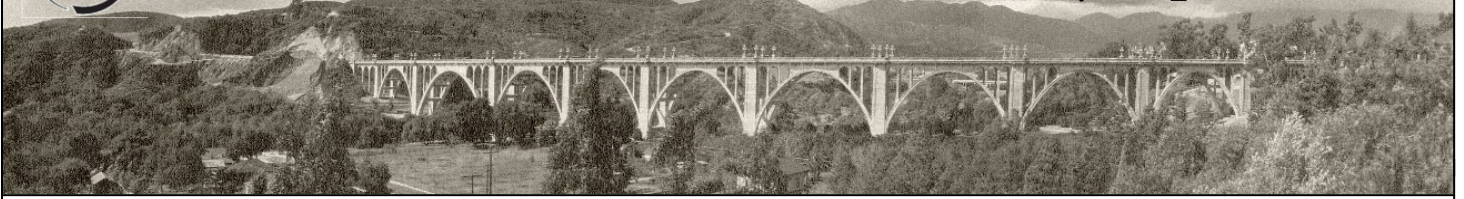




Osher Van de Voorde Quarterly Update



Climbing the Wall of Worry

July 2023

After hiking interest rates at ten consecutive meetings of the FOMC to a range between 5% to 5.25%, the Federal Reserve finally held rates steady in June to “allow the Committee to assess additional information and its implications for monetary policy.” At the same time, the Fed moved its “dot plot” higher with a projection for another two quarter-percentage point moves on the way, pushing the median expectation to a fed funds rate of 5.6% by the end of the year. This “hawkish pause” solidifies the Fed’s intentions after it stated in May that “some additional policy firming may be appropriate.” Unless inflation data surprises to the upside, markets are now pricing in one quarter-point hike in July and another before year end. Importantly, rates have firmed across the yield curve as investors pulled previous bets for rate cuts before year-end off the table.

Speaking more recently at the annual ECB Forum on Central Banking, Fed Chair Powell offered additional color on the Fed’s position and would not rule out the possibility that the Fed would hike rates again at consecutive meetings. The Fed Chair further testified that policy would remain restrictive as long as necessary for the Fed to feel more confident that inflation is “down sharply” and on a path to 2%. FOMC minutes further revealed the unanimous decision not to raise rates in June came in “consideration of the significant cumulative tightening in the stance of monetary policy and the lags with which policy affects economic activity and inflation.” While the Committee noted that “the economy faces headwinds that would likely weigh on economic activity,” those participants that favored a June hike cited a very tight labor market, stronger than anticipated economic activity, and few clear signs that inflation was on a path to return to the Committee’s 2% objective.

Meanwhile, the Consumer Price Index (CPI) increased just 0.1% in May, bringing the annual level down to 4% from 4.9%, the lowest level in two years. The core personal-consumption expenditure price index, also known as the core PCE deflator and the Fed’s preferred inflation gauge, came in below expectations at 0.3% in May, down from 0.4% in April, bringing the year-over-year increase in Core PCE down to 4.6% from 4.7%. While inflation is heading in the right direction, the question is begged as to whether a recession is necessary to bring inflation down to the Fed’s 2% target.

Economic data points are decidedly mixed with abundant signals that recession may be imminent. US Manufacturing activity shrunk to its lowest level since 2020 in June and has been in contraction now for eight consecutive months. Defaults and delinquencies on revolving credit have returned to pre-pandemic levels and the pace is likely to accelerate as interest rates creep higher. Cash savings built up during the pandemic have been nearly exhausted, which will likely lead to a reduction in spending for cash-strapped consumers. Though the failures of Silicon Valley Bank, Signature Bank and First Republic Bank now seem like a distant memory, left behind in their wake is a definitively fragile banking environment that will require higher

deposit rates and tightening lending standards for households and businesses. Small to mid-sized banks that are responsible for 70% of lending to firms with fewer than 100 employees are most at risk. Further, the FDIC estimates that banks currently hold almost \$600 billion in unrealized losses on Treasury investments, losses that will only grow larger as rates inch higher. A looming credit crunch would initially serve in aiding the Fed’s cause by slowing economic activity, but a slowdown in credit growth could snowball with more severe consequences. Corporate defaults rose in May, bringing the annual tally to 41 in the U.S. so far this year and more than double the same period last year; and the number of bankruptcy filings has risen sharply this year to 324, levels not seen since 2010.

Inverted since last July, the yield curve is now more inverted than at any time since the high inflation, rising rate recessions of the 1970s and early 1980s. An inverted yield curve occurs when short-term yields are higher than long-term yields, and the two-year to ten-year Treasury yield curve has inverted 6 to 24 months before every recession since 1955, offering only one false signal during that span. The existence of an inverted yield curve says nothing about the potential severity of any looming recession.

With so much evidence pointing to recession, it may be surprising that the Atlanta Fed’s GDPNow model is forecasting GDP growth of 1.9% for the second quarter. The anchor for the economy continues to be the U.S. labor market with employers creating 1.6 million jobs so far this year, a 2.5% annualized rate that is more than double the pace of increase since 2019. While the unemployment rate at 3.7% is historically low, the 0.3% increase in May from 3.4% is the sharpest one-month increase since 2010. Further, if the recent discrepancy between the May payroll survey (+339,00 monthly jobs) and household survey (-310,000 jobs) is vindicated by further declines in the household survey, it would become more likely that the labor market is at an inflection point.

With homeowners who locked in record-low rates amid the pandemic now reluctant to sell, the supply of single-family homes has diminished as millennial first-time buyers usher in a wave of new demand. Despite higher interest rates, the traffic of prospective buyers to new homes has doubled in the last six months and sellers are receiving an average of 3.3 offers for their homes, up from 2.2 in December. New homes sales jumped 12.2% in May and have risen for three consecutive months. Resilience in the housing market works against the Fed’s efforts to cool inflation and may keep rates elevated longer than otherwise expected. Ironically, higher rates will eventually discourage new construction and further depress the supply of new housing, driving up home prices in the future.

Taken altogether, it would be surprising if not shocking for the U.S. economy to avoid recession, shallow as it may be. While the signs pointing to recession seem to be at odds with the new bull market move in the S&P 500, it is increasingly probable that recession was already

discounted by the 2022 decline in stock prices. After the almost 20% decline in the S&P 500 last year, investors braced for the worst as bearish sentiment and cash levels reached historic levels. With the debt ceiling crisis averted and the economy and earnings faring much better than feared for the first half of 2023, enthusiasm for AI mega-caps served as kindling to lift stocks out of their trading range doldrums.

If history is any guide, the robust 15.91% first-half gain for the S&P 500 presents a strong case for a good second half. According to Bank of America, when the S&P 500 posts an above-average first half following a down year, second-half returns have also been positive 86% of the time and positive for the full year 100% of the time.

With approximately \$5.2 trillion in money market funds (institutional portfolio managers currently hold an average cash position very near the average peak of 6% and up from 4% in late 2021) and with total short interest in the U.S. market having topped \$1 trillion to its highest level since April 2022, there is ample fuel to power further gains in stock prices. As the stock market climbs the proverbial wall of worry, it is growing increasingly probable that investors were braced for a bear market that already happened.

While the performance of the Magnificent Seven has been nothing short of stunning, we expect market breadth to expand as offside investors look for more attractively priced exposure to equities. While we do believe that AI has the potential to unleash a new wave of productivity enhancement that may rival previous waves associated with the advent of the internet and widespread adoption of mobile broadband, we also believe that prices have become quite rich for this group.

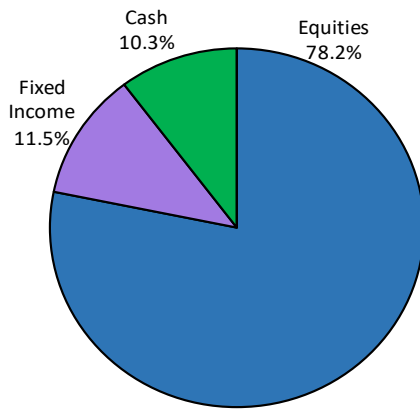
While the S&P 500 trades at just under 19x forward earnings, the forward PE ratio is much more attractive at 15x when the weight of the 50 largest companies is stripped out. While leading the stock market higher this year, mega-cap technology has obscured abundant bargain opportunities available in other companies and sectors. While we would not be surprised by a market pullback and support for the S&P 500 near 4,000, we believe the market is poised to reach the 5,000 threshold over the coming year or two, implying a respectable 12% upside over the short to intermediate term. With so much market weight attributed to the Magnificent Seven, we expect an equally weighted portfolio to deliver superior returns as market breadth expands and the average stock plays catch-up.

To be sure, the propensity for Fed policy error increases with every new rate hike and we expect volatility to persist as long as the Fed remains restrictive. That said, the Fed now has ample ammunition to fight the next recession by eventually cutting rates. While we have become more optimistic about the outlook for stocks, we will remain disciplined in our approach, especially with the risk-free return on money market funds at 5%.

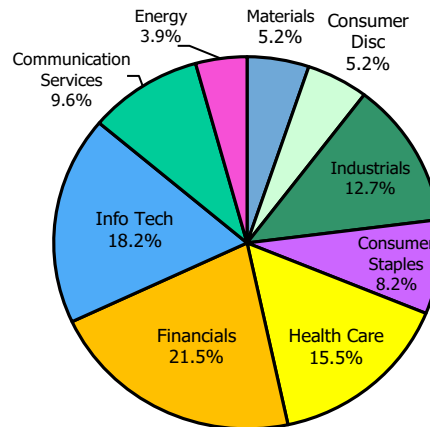
Investment Strategy Summary

As of June 30, 2023

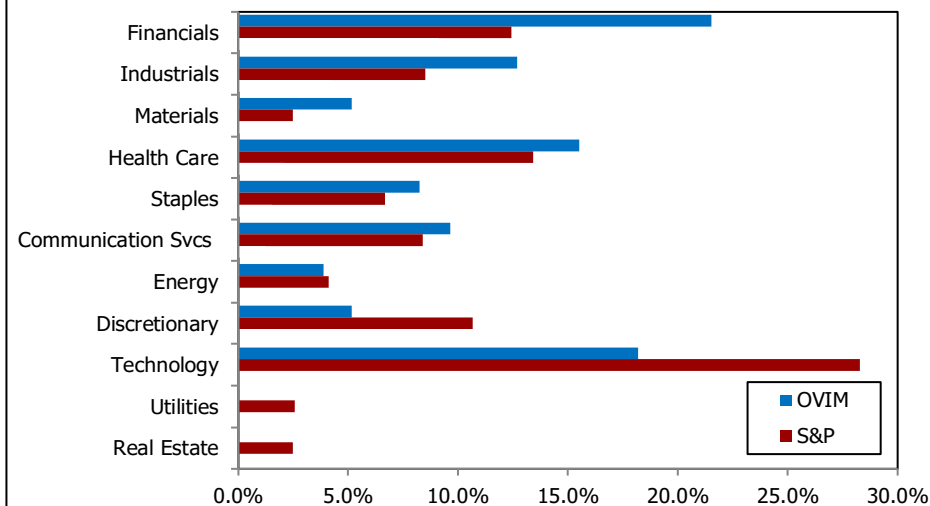
Firmwide Asset Allocation



Equity Sector Allocation



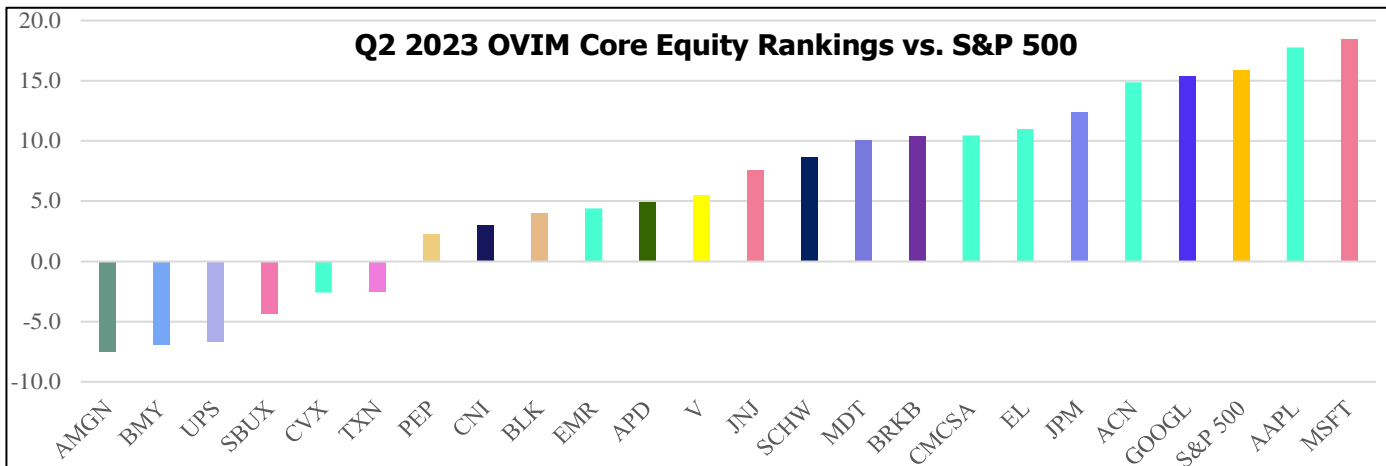
Sector Weightings Relative to S&P 500 Ranked by Largest Overweight



Top Core Global Equity Holdings

Air Products & Chemicals Inc.	APD
Visa Inc.	V
JP Morgan Chase & Co.	JPM
Alphabet Inc. Class A	GOOGL
Comcast Corp.	CMCSA
Berkshire Hathaway Inc. Cl. B	BRKB
Microsoft Corp.	MSFT
Starbucks Corp.	SBUX
PepsiCo Inc.	PEP
Apple Inc.	AAPL
United Parcel Service Inc.	UPS
BlackRock Inc.	BLK
Texas Instruments Inc.	TXN
Emerson Electric	EMR
Accenture PLC Class A	ACN
Amgen Inc.	AMGN
Canadian National Railway Co.	CNI
Medtronic PLC	MDT
Chevron Corp.	CVX
Johnson & Johnson	JNJ
Estee Lauder Companies Inc.	EL
Bristol-Myers Squibb Co.	BMJ
Charles Schwab Corp.	SCHW

Q2 2023 OVIM Core Equity Rankings vs. S&P 500

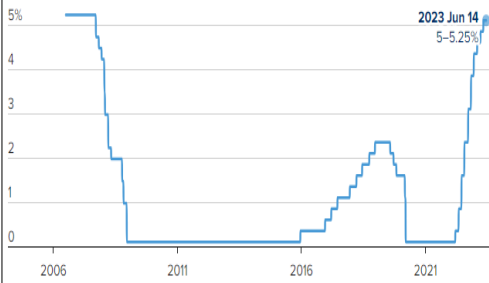


This presentation is solely for informational purposes. Data is pulled from sources believed to be reliable, but not independently verified. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Osher Van de Voorde Investment Management unless a client service agreement is in place. Please contact us at your earliest convenience with any questions regarding the content of this presentation and how it may be the right strategy for you. This data is representative of all equity securities held across Osher Van de Voorde's client accounts, however portfolios are tailored to meet specific client objectives and actual client holdings will vary.

The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 500 is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading. Note: Investors cannot invest directly in an index. These unmanaged indices do not reflect management fees and transaction costs that are associated with most investments.

Charting the Markets

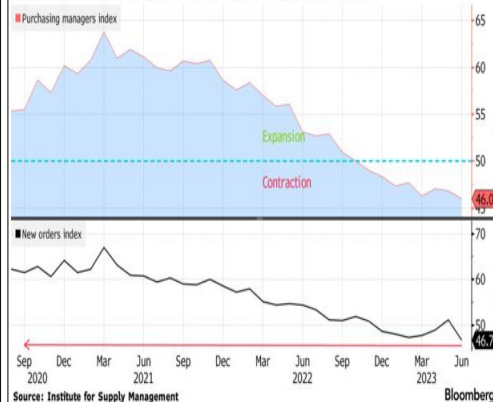
Federal funds target rate since 2006



Note: From December 2008 to present, the chart shows the midpoint of the Federal Reserve's target range.
Chart: Gabriel Cortes / CNBC
Source: Federal Reserve Bank of New York
Data as of June 14, 2023

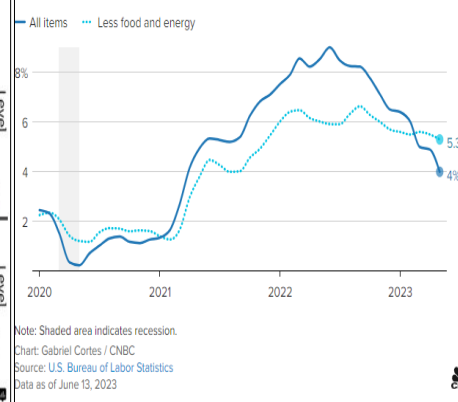
US Manufacturing Shrinks by Most in More Than Three Years

Gauge contracted for eighth month in June as production fell



U.S. consumer price index

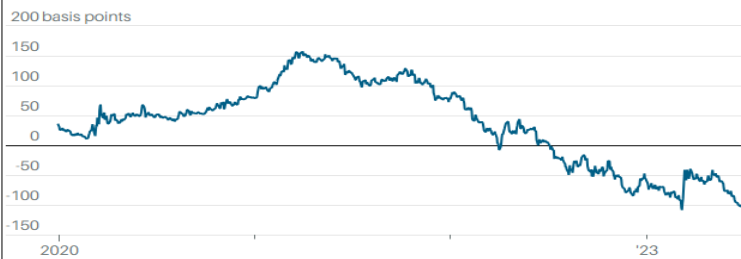
Year-over-year percent change through May 2023



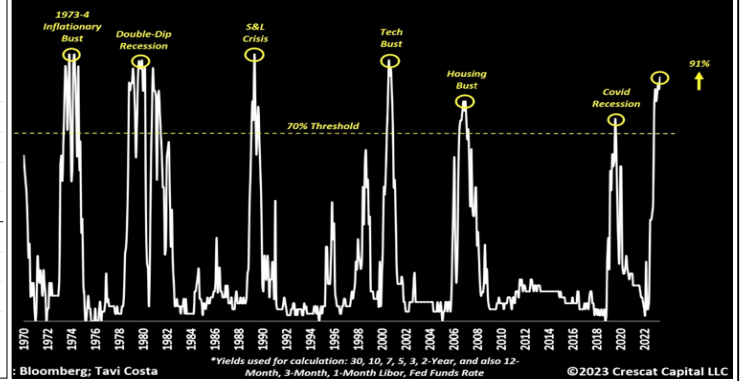
Reading the Curve

An inverted yield curve has preceded most recessions since the 1950s. But not all inverted yield curves lead to recessions.

Two-Year Versus 10-Year Yield Spread

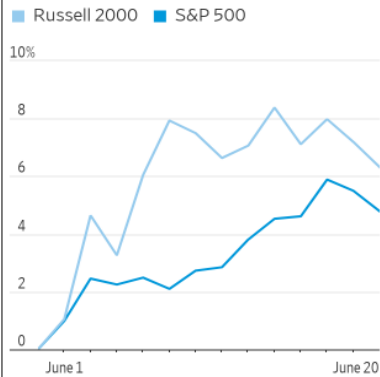


US % of Yield Curve Inversions

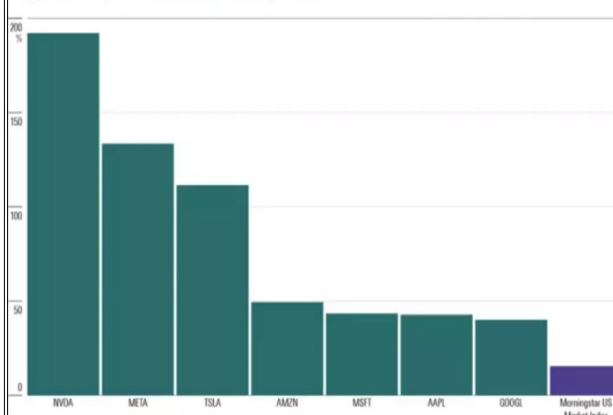


Market Broadens Out

Change this month

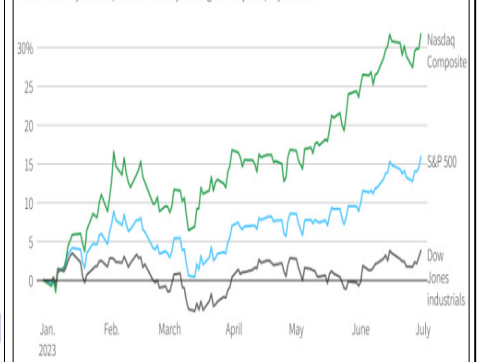


'Magnificent Seven' 2023 Stock Price Returns



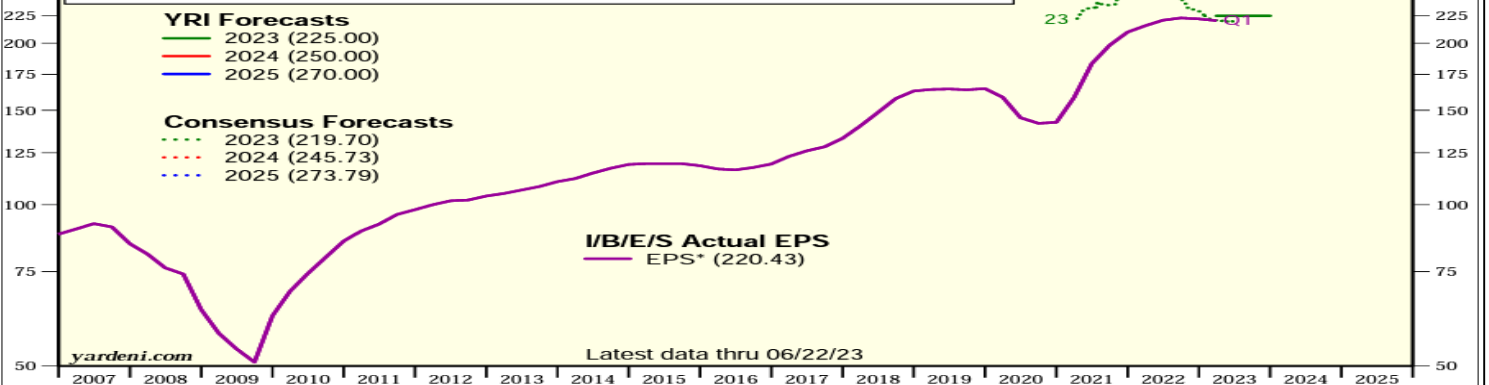
Strong first half for U.S. stocks

The tech-heavy Nasdaq has led the way among the major equity indexes



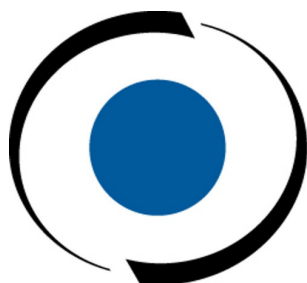
S&P 500 OPERATING EARNINGS PER SHARE & YRI FORECASTS

(dollars per share, ratio scale)



* Four-quarter trailing sum of operating earnings per share.
Source: I/B/E/S data by Refinitiv

*Empowering clients to realize
lifelong goals with confidence
and peace of mind.*



**Contact the Osher
Van de Voorde Team at:**

**125 North Raymond Avenue
Suite 309
Pasadena, CA 91103**

**Phone: 626-844-7184
Toll Free: 866-844-7184
Fax: 626-844-7185**

Or e-mail us...

jv@oshervandevoorde.com
an@oshervandevoorde.com
at@oshervandevoorde.com
dr@oshervandevoorde.com
mv@oshervandevoorde.com

Please visit us on the web:

www.oshervandevoorde.com
www.linkedin.com/in/jamesvandevoorde

The Importance of Reviewing Beneficiary Designations

Properly designating named beneficiaries is an essential aspect of estate planning. Major life changes including marriage, divorce, the birth or death of a family member, or a significant change in financial circumstances such as an inheritance or financial windfall require a detailed review of your named beneficiaries. The failure to regularly review beneficiary designations may result in problematic consequences and undesired outcomes.

Designating beneficiaries is only one aspect of properly managing one's wealth and estate plan, yet this critical aspect is often overlooked or forgotten. While most clients have created a will and trust as part of a well-crafted estate plan, a significant portion of one's assets may pass outside of the terms created by the trust through a named beneficiary designation.

The process of updating beneficiaries is often forgotten as the process involves working with a variety of financial institutions such as an insurance company, bank, or brokerage/custodian, and takes place account by account. Unless consistently reminded by a trusted financial advisor or other professional, there is no automatic reminder in place to name a beneficiary, and not all financial institutions even require the account holder to name one.

In the event an account holder passes away without a named beneficiary, the assets may be subject to the long, expensive, and public process of probate (a process that could have been avoided by naming a beneficiary) and may be passed to beneficiaries that would not have otherwise been selected. A thorough financial plan will include a list of all your accounts and investments and provides a great place to start the beneficiary review process.

Assets held in life insurance policies (including term life, whole life, and annuities), retirement accounts (including traditional IRAs, ROTH IRAs, SEP IRAs, SIMPLE IRAs, 401(k)s, 403(b)s, 457 plans, profit sharing plans), other employer-sponsored plans (including stock options, restricted stock, deferred compensation, and defined benefit plans), and bank accounts (including transfer on death (TOD) accounts, checking, and savings) may be distributed according to the named beneficiary on file at the time of death. The beneficiary designations apply to each specific account on which the beneficiary is named, as opposed to a will or trust which includes instructions for your entire estate. In the event of a discrepancy, the beneficiary designation may supersede the instructions expressed in your estate planning documents. Further, an executor or successor trustee does not have the authority to change beneficiary designations.

We encourage naming both primary and contingent beneficiaries on beneficiary eligible accounts. Primary beneficiaries are those you have named to receive your assets upon your death. If a primary beneficiary predeceases the account holder, the account distribution would be divided among surviving primary beneficiaries. If no primary beneficiary survives the account holder, the full value of the account would be distributed to the surviving named contingent beneficiaries in the manner provided in the beneficiary designation form. If no primary beneficiary survives the account holder and there are no named contingent beneficiaries, the assets in the account could be subject to probate.

A beneficiary designation form may ask for a Per Stirpes or Per Capita designation. The Per Stirpes designation causes the assets of a deceased beneficiary to pass to the deceased beneficiaries' heirs. The Per Capita designation causes the assets of the deceased beneficiary to be distributed among the remaining living beneficiaries.

We recommend reviewing your beneficiary designations annually or upon a major life change for all applicable accounts with your wealth manager or your estate planning attorney and recommend that you discuss the implications of naming your estate or trust as beneficiary with your estate planning attorney.

DeLynn Russell and James Van de Voorde