Newsletter

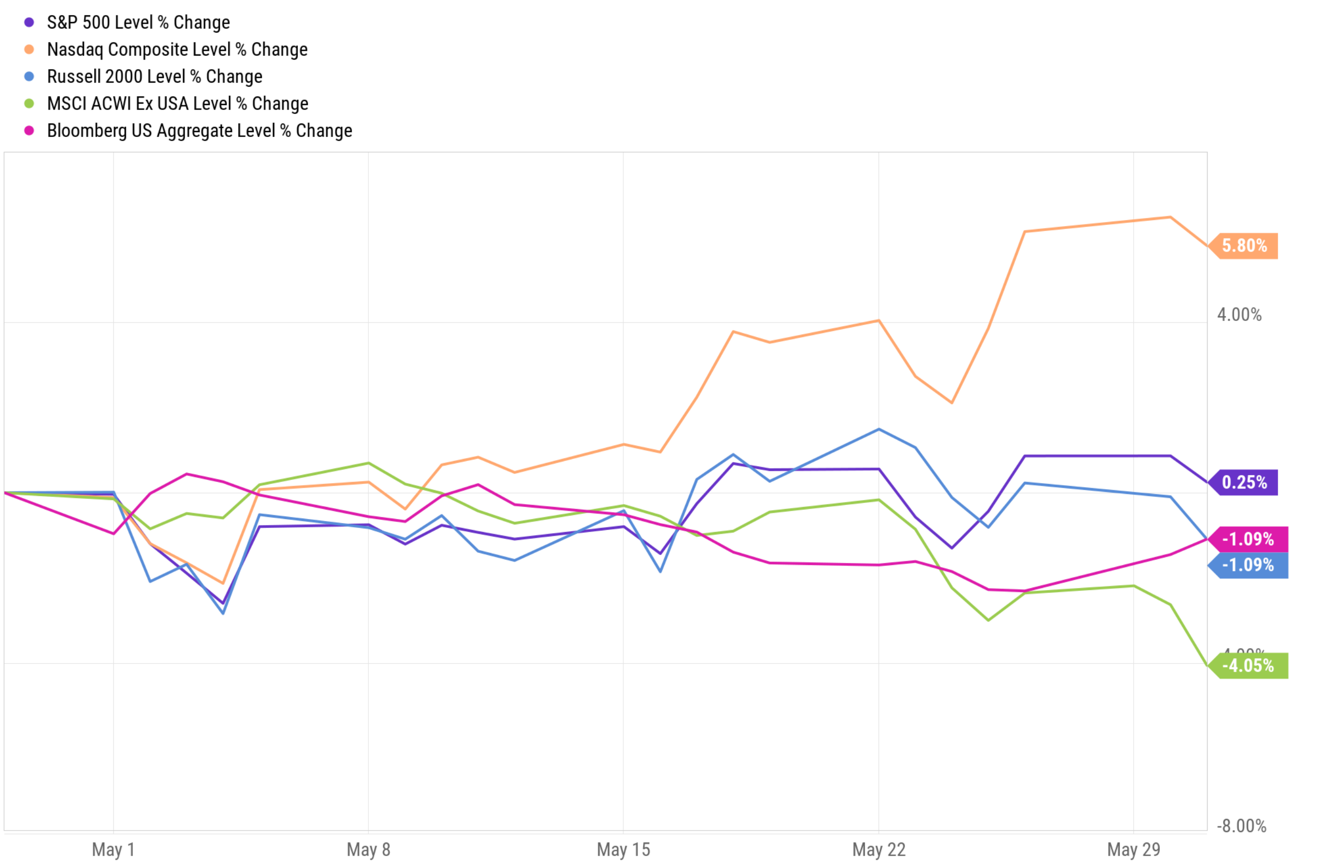
June 2023

Mixed, but Positive

Despite the continued chorus of negativity from politicians, news outlets and financial media, large cap stocks continue to deliver positive results while small caps underperformed due to continued weakness in regional banks. The information technology, communication services and consumer discretionary sectors have provided leadership for most of the year, which historically has occurred near the beginning of new bull markets. We continue to encourage our clients to be open to possibilities in 2023 as brighter days may be ahead.

The S&P 500 was up +0.25%, the NASDAQ Composite led with an impressive +5.80% gain, the Russell 2000 delivered a loss of -1.09% and the MSCI ACWI significantly lagged with a -4.05% loss during the month likely due to the strong U.S. Dollar. The bond market turned in poor results, likely due to fear around a possible default by the Federal government. The 10-year US Treasury rate increased from 3.45% last month to 3.64% at the end of May. Accordingly, the Bloomberg US Aggregate index lost -1.09% during the period. (CHART 1)

Chart 1 - Mixed Action in May



Source: yCharts and Portfolio Partners

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Context for Debt Limit

The recent situation involving the debt limit (ceiling) controversy has compelled us to look more closely at the definition of the debt limit. Our view is that facts and data can help reduce fear and anxiety when facing uncertain outcomes.

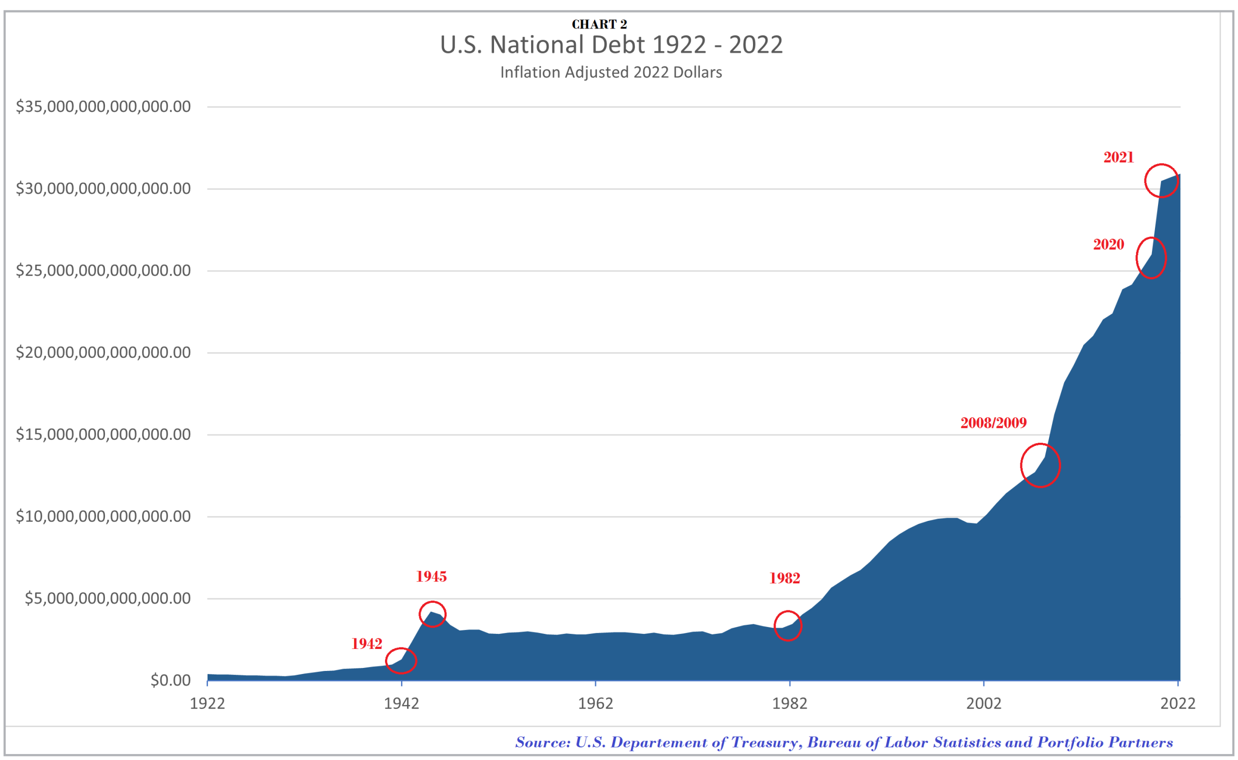
We think it may be appropriate to begin by defining the **debt limit** (ceiling). According to the U.S. Department of the Treasury, the debt limit is the total amount of money the government can borrow to meet *EXISTING* legal obligations. Adjusting the debt limit does not authorize any *NEW* spending. Further, the debt limit has been raised 78 different times since 1960 (49 times with Republican presidents and 29 times with Democratic presidents). It appears that borrowing increasing amounts of money is something for which both parties can agree. 😔

History of National Debt

Each year, the U.S. Congress passes a budget that includes an estimated amount of tax revenue to be collected and an estimated cost to pay for government services. A **budget deficit** occurs when the government spends more than they collect in taxes. The accumulation of these annual deficits (plus interest) is referred to as the **National Debt.**

The U.S. has a long history of using budget deficits to meet its obligations. For example, the U.S. increased debt spending from 1942 – 1945 to help pay for World War II. We then experienced 37 years of disciplined fiscal policy and relatively flat outstanding National Debt levels. That changed in 1982 with Reaganomics and the so-called "trickle-down" theory.

The spending spree accelerated around 2008/2009 and again in 2020 as a response to the Global Financial Crisis and the COVID-19 pandemic, respectively. It appears we may have found fiscal discipline again in 2021 as the economy has recovered from the pandemic. Our guess is that debt spending is likely to continue to slow down given the increased cost of borrowing due to higher interest rates. (CHART 2)



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What Could Be Next

As we write this letter, the U.S. House of Representatives is set to vote on a bill to suspend the debt limit until 2025. If it passes the House, it will go to the Senate for approval. The bill must pass to enable the U.S. to meet its financial obligations starting in early June 2023. Despite some last-minute rancor by some politicians, we think some form of compromise will ultimately be signed. We should know the outcome of these votes by the time you are reading this letter.

Once the debt limit is settled, we think investors will be looking to the June or July Federal Reserve (the Fed) Board meeting for another 0.25% increase in the federal funds rate. Given the roughly double-digit year-to-date returns for the major stock averages, we think the market may mark time for the next several weeks to assess the potential impact the Fed's 5%+ of rate increases may have on the economy.

We have recently added duration to the bond positions in most of our portfolios as we believe we are nearing the end of the Fed's rate hiking cycle. We have also increased equity exposure to our income-oriented portfolios to be better-aligned with our baseline allocations. We think brighter days may be ahead and will update our actions if necessary.

MARKET TRACKER – 5/31/2023

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	5.75%	2.92%	12.92%	11.01%
MSCI ACWI ex-USA	0.71%	-0.87%	7.75%	2.71%
BLOOMBERG US AGGREGATE	2.04%	-2.14%	-3.65%	0.81%

(Source: yCharts and Portfolio Partners)

MARKET TRACKER – 5/31/2023

S&P 500	4,179.83
DIJA	32,908.27
NASDAQ	12,935.29
WTI CRUDE OIL	$68.09 /BARREL
GOLD	$1,963.90 /OUNCE
10-YEAR TREASURY FIELD	3.64%
UNEMPLOYMENT	3.40%
GDP	1.30%
PPI	2.34% Year-Over-Year
CORE CPE (INFLATION)	4.70% Year-Over-Year

(Source: yCharts, Dorsey Wright and Portfolio Partners)

Thank you for your trust and support.
Stay focused on your long-term objectives.

The KBW Bank Index is designed to track the performance of the leading banks and thrifts that are publicly-traded in the U.S. The Index includes 24 banking stocks representing the large U.S. national money centers, regional banks and thrift institutions.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "growth" based on a multi-factor analysis.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "value" based on a multi-factor analysis.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.

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The S&P 500® Health Care comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

The S&P 500® Consumer Discretionary comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

The S&P 500® Utilities comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

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The S&P 500® Real Estate comprises stocks included in the S&P 500 that are classified as members of the GICS® real estate sector.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The S&P 500® Consumer Staples comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

The S&P 500® Materials comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

The S&P 500® Industrials comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

The S&P 500® Financials comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

The S&P 500® Energy comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

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Past performance does not guarantee future results.

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman Aggregate

Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The MSCI All-Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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