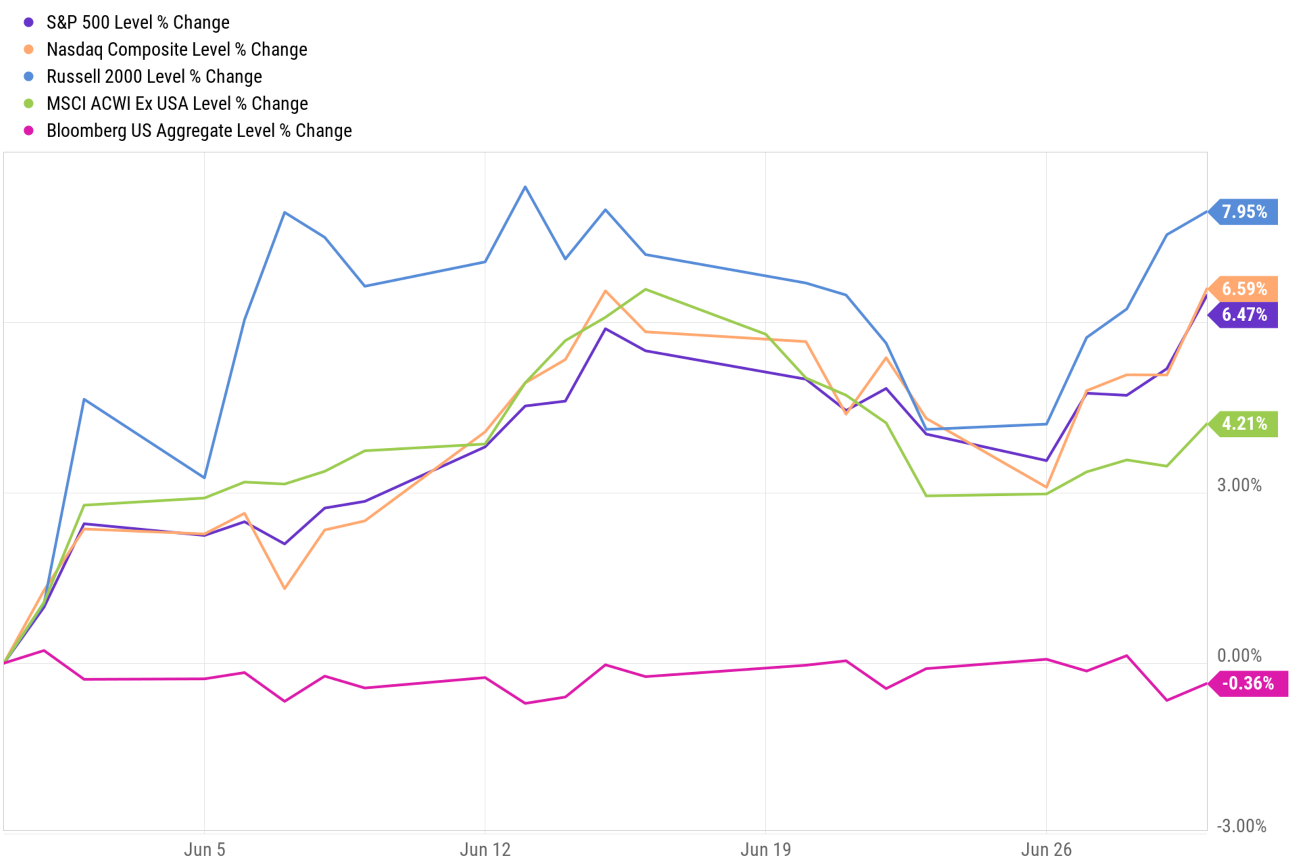
# June was Impressive

The month of June had an impressive start with the release of payroll data that was much stronger than investors anticipated. The economy added 339,000 jobs during the month compared to expectations for around 190,000. In addition, the US Congress passed the ironically named "Fiscal Responsibility Act of 2023" that suspended the debt limit until 2025. (See our *June 2023 Newsletter* for additional context relating to the debt limit.) These events combined to create a positive environment for stock returns during the month.

The S&P 500 increased +6.47%, the NASDAQ Composite gained +6.59%, the Russell 2000 jumped +7.95% and the MSCI ACWI index rose +4.21% during the month. The bond market slipped modestly due to the stronger-than-expected economic data that renewed fears of continued hikes by the Federal Reserve Board (the Fed). The 10-year US Treasury rate rose from 3.64% last month to 3.82% at the end of June. Accordingly, the Bloomberg US Aggregate index lost -0.36% during the period. (CHART 1)

**Chart 1 - Positive Returns in June**




Source: yCharts and Portfolio Partners

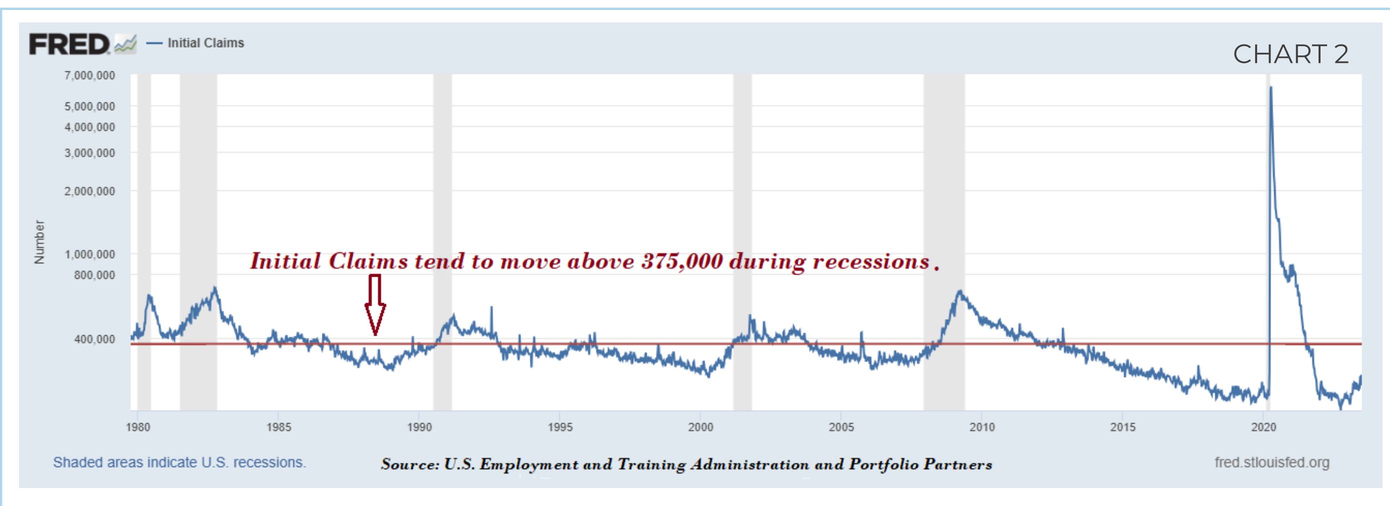
Jul 03 2023, 11:10AM EDT. Powered by YCHARTS

## Eyes on Unemployment

Recall from our *May 2023 Newsletter* that we suggested to our clients that unemployment was an important data point they could follow on their own to help assess the progress of the economy. It is not the only data point that should be watched, but we proposed to our clients to keep it simple, and we will do the dirty work. We will watch the plethora of economic data, corporate earnings, geopolitical events, debt ceiling debates, monetary signals, fiscal budgets, and myriad market data points for them so they can enjoy other areas of life.

It is in that spirit that we will introduce "initial claims" data to our readers this month. According to the U.S. Employment and Training Administration, initial claims are filed by an unemployed individual after separation from an employer. In other words, it is the number of people filing for unemployment insurance for the first time. The report is issued weekly by the Department of Labor and is widely considered a "leading indicator" of unemployment. This usually means that declining initial claims could foretell a positive economic environment and rising initial claims could presage a negative economic environment.

The chart below demonstrates that initial claims have been declining since the peak in April 2020 related to COVID-19. This declining trend continues to imply a continued positive economic environment. We like to watch the direction as well as the absolute number of claims. As stated, the direction is currently positive, and the low number of claims is also encouraging. For example, the total number of initial claims was 239,000 for the week of June 25, 2023, whereas claims during past recessions have tended to be above 375,000. That level is also marked on the chart, and we will continue to monitor that for you. (CHART 2)




## Behavior, Math, and Market Returns

Behavioral psychologist, Daneil Kahneman, demonstrated over 40 years ago that humans feel more pain associated with losses compared to the pleasure associated with gains. This tendency has played out before our eyes in the stock market for the last 18 months or so. The S&P 500 is up +16.89% so far this year, but the pain of the -18.11% loss in 2022 seems to weigh disproportionately on the minds of investors. There is a good explanation for that as explained by Kahneman, but we think some straightforward market math could help illuminate the point as well.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**Newsletter**

July 2023

Simple math would suggest that since we lost -18.11% last year we need to gain +18.11% this year to break even. Since we have gained +16.89% so far this year it may seem like we should only be down about -1.22% total over the two years. Sadly, that is not how market math works and investors are still feeling the pain.

Market math uses geometric returns to calculate cumulative gains and losses. For illustration, I will demonstrate the math and provide the conclusion below:

2022 GEOMETRIC RETURN = 1 + (-18.11%) = 1 + (-0.1811) = 0.8189

2023 GEOMETRIC RETURN = 1 + (16.89%) = 1 + (0.1689) = 1.1689

CUMULATIVE RETURN = 0.8189 X 1.1689 = 0.9572 – 1 = -0.0428 X 100 = -4.28%

Despite the strong year-to-date performance, the cumulative return of the S&P 500 is still a loss of -4.28%. As a matter of fact, we would need the S&P 500 to be up +22.12% this year to make up for the -18.11% loss last year. We think this may help explain why the gain experienced so far in 2023 may not have made investors feel as "good" as the 2022 losses made them feel "bad". Please stay patient, though, and the math will return to your favor over time.

### Context for Second Half

As stated, the S&P 500 is up +16.89% through the first half of the year. If the market were flat for the remainder of the year, it would be the 19th best finish of the last 50 years. Viewed a different way, the current return could be cut in half from here and still match the long-term average annual return of roughly 8% per year for the S&P 500.

In other words, let's be realistic about the upside potential for the last six months of the year. Let's not be surprised if we experience a 5%+ drawdown at some point. Let's instead stay focused on our time-tested investment philosophy and process. Let's continue to work to protect capital when the market is trying to take it, but prudently grow capital when the market is paying. We will stay diligent and provide updates as our thoughts evolve.

**MARKET TRACKER – 6/30/2023**

| INDEX | 3 mo | 1 yr | 3 yr | 5 yr |
|---|---|---|---|---|
| S&P 500 | 10.32% | 19.59% | 14.60% | 12.31% |
| MSCI ACWI ex-USA | 3.13% | 13.33% | 7.75% | 4.01% |
| BLOOMBERG US AGGREGATE | -0.38% | -0.94% | -3.96% | 0.77% |

(Source: yCharts and Portfolio Partners)

**MARKET TRACKER – 6/30/2023**

| | |
|---|---|
| S&P 500 | 4,450.38 |
| DIJA | 34,407.60 |
| NASDAQ | 13,787.92 |
| WTI CRUDE OIL | $70.64 /BARREL |
| GOLD | $1,921.10 /OUNCE |
| 10-YEAR TREASURY FIELD | 3.82% |
| UNEMPLOYMENT | 3.70% |
| GDP | 2.00% |
| PPI | 1.09% Year-Over-Year |
| CORE CPE (INFLATION) | 4.62% Year-Over-Year |

(Source: yCharts, Dorsey Wright and Portfolio Partners)

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

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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.

The S&P 500® Communication Services comprises those companies included in the S&P 500 that are classified as members of the GICS® communication services sector.

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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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