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## **SECOND QUARTER MARKET REVIEW**

### **Markets at the Midway Point**

We are now at the midway point of the year and stocks and bonds are both in positive territory. This is a welcome change from 2022 when both stocks and bonds were negative, interest rates were still poised to increase, and inflation had taken hold of the economy.

By no means are we all in the clear but let us reflect on where we are.

From an asset perspective, the S&P 500 is significantly above the recent bottom in September 2022. Further, bonds have had positive year-to-date performance and yields provide a much higher base of income generation now.

From an economic perspective, investors continue to wait for the widely predicted recession while also looking with an optimistic lens that we may be able to avoid one altogether. Recently, more positive economic data points lend some credence to this idea. The most recent GDP data was stronger than expected and certainly not reflecting a current recession. US employment continues to be relatively robust and wages, while slowing, are still growing in most industries. Also, inflation is still elevated but has begun to come down from peak levels and oil prices are significantly lower than this time last year.

From a company perspective, there are several things that are providing investors with some level of positivity. First and foremost, artificial intelligence ("AI") as a true driver of future business and economic performance has taken hold of the markets. Companies that are

leveraged to benefit from AI have rocketed upward this year as the business ramifications, while still largely in theory more than application, are as wide-reaching as the internet was in the mid-1990s. Second, recent data shows that US manufacturing is experiencing a bit of a renaissance as infrastructure building has coalesced with a trend toward “onshoring” for businesses to create a more secure supply chain. Lastly, the housing market continues to hold up stronger than expected due to resilient demand and still very low supply compared to long term historical averages.

Further, corporate earnings estimates have begun to stabilize. According to FactSet, corporate earnings are expected to be flat in 2023 before re-accelerating positively in 2024. Over longer periods of time, the stock market tends to be correlated with corporate earnings growth. If estimates of double-digit 2024 growth are accurate, markets could continue to trend upward from current levels.

Based on the above, there have been significant reasons for the markets to be more positive about the road ahead and stock performance has largely followed this trend. Concerns, however, are a consistent theme in stock and bond markets. Here are the items we continue to watch as we progress throughout the year:

- **The Federal Reserve:** Investors are anticipating that the US Fed is closer to the end than the beginning of interest rate increases. On the other hand, Fed Governors have maintained that they will continue to raise rates until they feel they have done enough to control inflation. The risk is that an overly aggressive Fed could push the US economy into a recession.
- **Jobs:** The fact that jobs have been resilient has, in our opinion, been the saving grace of the US economy. When consumers have jobs, they spend money. If the US economy faces severe job loss, then spending will likely reduce, and our spending-based economy will likely slow and potentially go into recession.
- **Corporate Earnings:** Companies will begin to report earnings starting in Mid-July. If trends weaken, or if company outlooks for the remainder of the year soften, stocks are likely to face some difficulty.

- **Politics and Conflict:** An ever-present concern and risk, the Russia-Ukraine conflict and US-China relations have the potential to exacerbate concerns in stock and bond markets. This is partnered with the beginning of the election trail that will also begin to heat up and will likely be contentious.

Our opinion remains optimistic overall, understanding that investors have achieved significant 2023 returns in the first half of the year. Upward progress in the markets is rarely a straight line. There will be corrections in the future, but even if US investors face a short and shallow recession, we believe falling below the S&P 500 low in September 2022 is unlikely. The primary items we will continue to monitor are job health and corporate earnings. If these remain resilient, we would likely be buyers of any future weakness.

Finally, it is important to remember that we are in a different place than 2021. During that period, when the stock market was working well as interest rates were near zero, a prevalent theory was based on T.I.N.A. (There Is No Alternative). It simply meant that safer assets like money market accounts or bonds were providing very little income, so investing in the stock market was the only way to generate return.

This is no longer the case. Investments with very little risk now have yields that benefit savers and allow them to properly balance their portfolios to be consistent with their risk tolerance while still achieving returns. Further, buffered index solutions can protect capital from some level of downside loss while still participating in upside up to a pre-determined cap level. As a result, there are alternatives to investing only in the stock market to generate return.

It is our opinion that investors should utilize all tools in their toolbox to achieve their objectives but also to properly align their risk. Bonds and safer assets are tools that can be used to generate return with lower volatility than the stock market. This does not, however, mean eliminating stock investments from portfolios. Investing in the stock market carries higher risk but has historically achieved higher returns and has been the primary tool for long-term growth. In our opinion, the ability to properly align portfolios to protect from downside loss, take advantage of a recurring income stream in bonds, and achieve long-term growth from stocks is a much better scenario than the T.I.N.A. markets of prior years.

## Markets By The Numbers

US Stocks	1m Returns	Last 12m Returns	Bonds	1m Returns	Last 12m Returns
S&P 500 Index	6.61%	19.59%	Bloomberg Barclays Aggregate Index	-0.36%	-0.94%
Dow Jones Index	4.68%	14.23%			
Nasdaq Composite	6.65%	26.14%	Interest Rates	Current Rate	Rate 1 yr Ago
Russell 2000 Index (US Small Cap)	8.13%	12.31%	2yr US Treasury	4.87%	2.92%
			10yr US Treasury	3.81%	2.98%
International Stocks	1m Returns	Last 12m Returns	Alternatives	1m Returns	Last 12m Returns
MSCI EAFE (Intl Developed)	4.55%	18.77%	Gold	-2.83%	4.96%
MSCI EM (Emerging Markets)	3.80%	1.75%	U.S. Real Estate	5.36%	-4.39%

Data as of 6/30/2023. Following Data Sourced from Morningstar: S&P 500 Index represents S&P 500 Total Return, Dow Jones Index represents Dow Jones Industrial Index, Nasdaq Composite represents NASDAQ Composite Total Return, Russell 2000 Index (US Small Cap) represents Russell 2000 Total Return, MSCI EAFE (Intl Developed) represents MSCI EAFE Net Return, MSCI EM (Emerging Markets) represents MSCI EM Net Return, Bloomberg Barclays Aggregate Index represents BBgBarc US Agg Bond Total Return, Gold represents LBMA Gold Price AM USD, U.S. Real Estate represents FTSE Nareit All Equity REITs Total Return. Following Data sourced from Treasury.gov: 2yr US Treasury represents 2yr Treasury Rate, 10yr US Treasury represents 10yr Treasury Rate.