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August 2023 Updates – Let the good times roll? Or get defensive away from large tech stocks?

Positive Economic News and Market Outlook: Despite higher interest rates, stocks continued to gain in July. Gains are broadening into the relatively undervalued value sector and small caps. But is the AI Tech sector like the Dot-com Bubble of the late 1990s?

It's a great, great time for bulls: Soft-landing views solidify.

Highlights of MarketWatch article 7/28/2023. One of many similar reports as July ended.

"Trillions of dollars that have been cautious now may be deciding to come into the market," said Phil Toews, chief executive of Toews Asset Management.

Thursday's better-than-expected US durable goods report is one of the pieces of data giving investors hope. After more than a year of debate over whether the economy could slip into a downturn, investors conclude that the US can manage to dodge one.

The Federal Reserve's favorite inflation measure, the personal consumption expenditures index, eased to an almost two-year low [of 4.1%, but still well above the 2% target]. It followed a stronger-than-expected GDP report [2.4% annualized in the second quarter, well above the 1.8% economists had forecast and above 2% in the first quarter]. This decline is translating into more optimism than previously seen during the current cycle.

Optimism initially emerged as the consumer price index showed the annual headline rate of inflation easing to 3%, versus a 9.1% peak in 2022.

Even after the Fed pushed interest rates to a 22-year high, investors seem to be increasingly on board with Chairman Jerome Powell's view that the Fed no longer foresees a US recession.

"It feels like just a great, great time for bulls. The combination of an unexpectedly benign CPI number, a good GDP report, still-strong employment, and a strong consumer is adding up to a realization that we may not have a recession. That is the most important 'new' news and takes the key bear argument off the table," said Phil Toews.

GDP Appears Surging in 3rd Quarter The Atlanta Fed's real-time GDPNow tracker estimates GDP growth of a staggering 3.9% annualized rate in the third quarter. CNN Business 8/6/2023

Consumer Spending & Confidence Strong Consumer sentiment tracked by the University of Michigan rose 11% in July from the prior month, reaching its highest level since October 2021. Consumer spending grew 0.5%, beating expectations. Personal consumption expenditures (PCE) rose in each of the first six months of the year. CNN Business 7/28/2023

Early August Interest Rates Higher on Fitch Downgrade - Tech Stocks Plunge.

Treasury yields marched higher the first week of August, in the wake of rating agency Fitch stripping the US of its top AAA rating, mainly due to the holding hostage of the debt-ceiling bill by the Republicans for their agenda, instead of just a clean bill to pay our incurred debts. (Denmark is the only other country with a debt process requiring agreement from political parties to raise the debt limit after previously authorized expenditures.) Congress left for an extended August recess without resolving conflicts over spending issues, raising the risk of a government shutdown when federal funding runs out after Sept. 30.

The 10-year Treasury traded above 4.2%, near its highest level in over a decade. 30-year mortgage rates again topped 7%. There will be further upward pressure on interest rates as the Treasury

estimates it will need to raise \$1.13 trillion in funding, a huge amount, largely to refill the Treasury cash account run low by the long-long debt-ceiling battle. [MarketWatch 8/4/2023](#)

The tech sector had its worst week of the year for the week ended 8/4/2023 as the S&P Tech Index lost 4.27% [Worldwide Exchange 8/7/2023](#). Typically high-interest rates hurt growth stocks, whose future higher profit expectations are needed to justify their lofty valuations that are discounted to present values.

S&P500 Earnings Decline - Overall, 84% of the companies in the S&P 500 have reported actual results for Q2 2023 to date, with a blended earnings decline of -5.2%. If -5.2% is the actual decline for the quarter, it will mark the largest year-over-year earnings decline of the Index since Q3 2020 (-5.7%). It will also mark the third straight quarter in which the index has reported a year-over-year decrease in earnings. [FACTSET 8/4/2023](#)

'AI-Driven Bubble' May Burst - JPMorgan Says

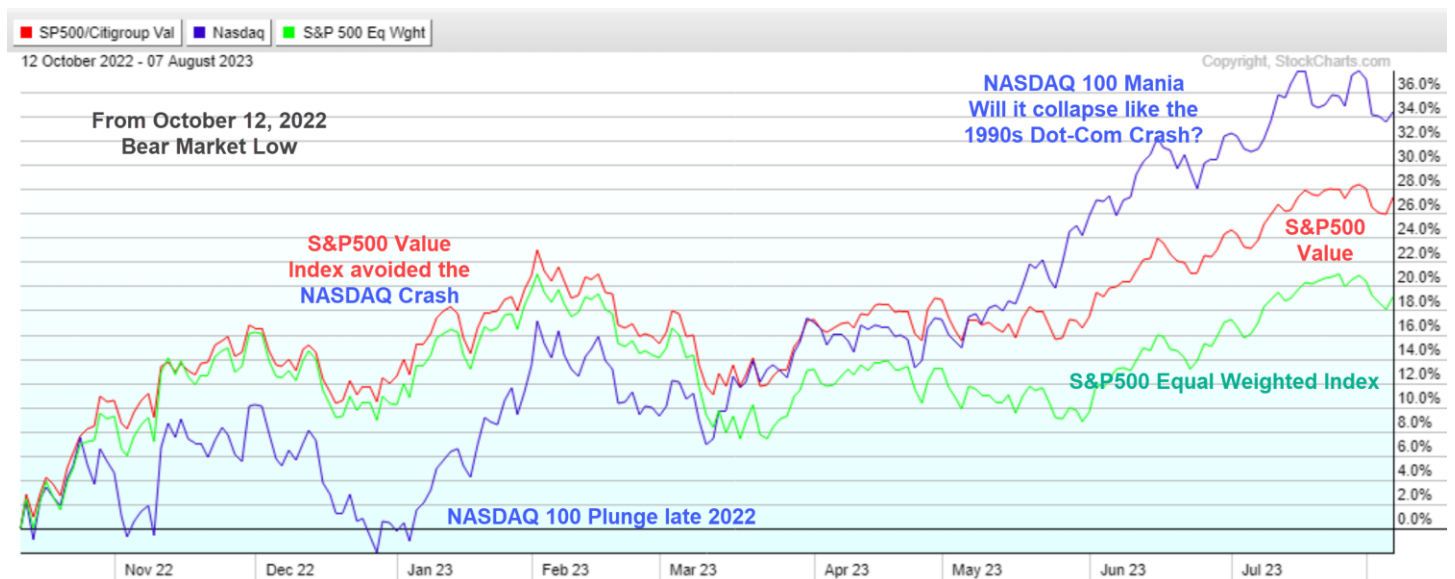
Highlights of [Forbes](#) article 7/25/2023.

Strategists at JPMorgan Chase warned that stocks' broad rally fueled by artificial intelligence intrigue could soon come tumbling down as the world's largest bank throws cold water on the AI frenzy, sending stocks surging despite not yet materially impacting most corporate bottom lines. The rally, led by the largest technology companies, is "indicative" of "an AI-driven bubble," as the hype surrounding the technology was triggered by the "popularization of chatbots that often fail in basic questions," rather than concrete evidence of AI-powered earnings growth, according to the bank.

I suggest caution and lowered allocations to the high-valuation AI-driven large tech sector – at least for the short term. I would not eliminate all large-cap tech, however, since many have long-term growth potential from other than just AI. Careful selection is needed by proven managers & analysts looking for growth at a reasonable price. Instead of chasing the latest fad, many investors may wish to look for "steady Eddie" companies with more consistent growth at more reasonable valuations - often in the value sector.

Another headline: **Small-cap stocks set to shine as tech giants top out** [Investmentnews 7/19/2023](#).

CHART Large Cap Tech stocks which are most of the NASDAQ 100 index, have defied the gravity of higher interest rates due to what some call the AI – Artificial Intelligence - Mania. The S&P500 Value index has beaten the S&P500 equal-weighted index without the bubble-like valuations of the huge tech companies (some call the "Magnificent Seven"), which dominate the regular S&P500 index, weighted by market cap.



Oil prices rising again - The late July cuts announced by Saudi Arabia are tightening oil markets after the earlier OPEC cuts have been extended. [CNN 7/28/2023](#)

China's 'tortuous' recovery - China's Politburo, the top decision-making body of the Chinese Communist Party, met on 7/24/2023. Acknowledging the country's disappointing economic data, the

Politburo said, "the economy is facing new difficulties" and that the economic recovery will be "torturous." [CNBC 7/24/2023](#)

Japan Ending Ultra-Easy Interest Rate Policy **Bloomberg, Barrons, and AP 7/28/2023 Highlights**

The Bank of Japan's (BOJ) decision to adjust yield curve control sent a shudder across asset classes on Friday in Asia - even after rumors of such a move had roiled trading desks in New York.

Japan's central bank opted to keep its benchmark interest rate at minus 0.1%. However, given the "high uncertainties" facing the world's third-largest economy, it fine-tuned its bond purchases to allow greater policy flexibility. The BOJ said it needed a nimbler approach to keep financial markets stable as it works toward a goal of inflation near 2%, which is required for sustained economic growth.

After the BOJ's announcement, the yield on the 10-year government bond surged to 0.575% - the highest since former BOJ Governor Haruhiko Kuroda unleashed his second "bazooka" of monetary easing at the end of October 2014. The decision also rippled across global bond markets. The yield on the 10-year US Treasury rose over 4%.

Capital Economics said in a research note that given signs that prices are rising along with wages, "the risks of the Band Of Japan tightening policy in earnest are rising."

The gap between Japan's negative benchmark rate and rates in the US has caused the Japanese yen to weaken against the US dollar. That has amplified price pressures in Japan, raising costs for consumers and manufacturers given the country's heavy reliance on imports, for which prices have risen sharply since the pandemic.

The potential implication for US bonds is that Japanese investors may view domestic bond yields as more attractive and alter their positions in US fixed-income assets.

Bonds may continue to lose value as interest rates rise but might become a good potential option in 2024 or 2025. The Morningstar US 10+ Yr. Treasury Bond index lost 29.4% in 2022. As of 8/7/2023, it is down another 2.5% YTD. [Morningstar](#)

Some fixed annuities with high-interest rates for 3-5 years may be worth considering.

Annuities selling at a record level – Alternative to bonds without interest rate risk.

Annuity sales have rocketed to record levels this year. Fixed annuities, with total sales of \$134.5 billion for the first half of the year, up 54% from the same time last year. *Investmentnews 7/25/2023*

I continue to recommend from previous pdf reports on hutchisonria.com:

Reasons to Stay Invested in Volatile Times <https://dhutch.news/StayInvested>

Include Value and Growth in Portfolios: <https://dhutch.news/ValvevsGrowth>

Required Disclosures: Past performance does not assure future results. There is no assurance that objectives will be met. Investments in securities do not offer a fixed rate of return. Principal, yield, and/or share price will fluctuate with changes in market conditions, and when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future results.

Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

Small-cap equities may be subject to higher market risk than large-cap funds or more established companies' securities. Furthermore, the small-cap market's illiquidity may affect an investment's value, so when redeemed, shares may be worth more or less than their original cost.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P500 Value Index measures the performance of value stocks within the S&P500 index, considering book value, earnings, and sales-to-price valuations. It previously was a Citigroup Index.

The Nasdaq-100® is one of the world's preeminent large-cap growth indexes. The companies in the Nasdaq-100® include 100-plus of the largest non-financial companies listed on the Nasdaq Stock Market based on market capitalization. The Nasdaq Composite Index is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. It is heavily weighted toward the technology sector.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

Morningstar US 10+ Year Treasury Bond Index measures the performance of fixed-rate, investment-grade USD-denominated Treasury bonds with maturities greater than ten years. It is market-capitalization weighted. This index does not incorporate Environmental, Social, or Governance (ESG) criteria.

Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards.

All guarantees associated with annuities are backed by the claims-paying ability of the issuing insurance company.

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