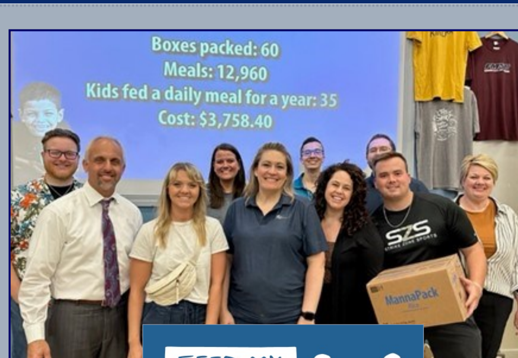
OUT OF THE BOX

INVESTMENT COMMITTEE UPDATE

Faith | Trust | Excellence | Care

2023 QUARTER 3

OUR TEAM



This quarter BFA team members came together for a service project to pack food at **Feed My Starving Children** (FMSC).

FMSC is dedicated to providing nutritious meals to children worldwide. For more information about this organization, please visit www.fmsc.org.

5 MARKET AND ECONOMIC INSIGHTS FOR THE SECOND HALF OF 2023

Major stock market indices made significant gains in the first half of the year due to improving inflation, slowing Fed rate hikes, the absence of a recession, a more stable banking sector, and a strong rally in tech stocks. The S&P 500 has climbed 16.9% with reinvested dividends this year, while the Nasdaq and Dow have returned 32.3% and 4.9%, respectively. Markets have recovered much of their losses from last year with the S&P 500 now 7% from its all-time high. Interest rates have also been steady after their sharp jump last year with the 10-year Treasury yield hovering around 3.8%, helping bond prices to recover as well. How can investors keep this recent market performance in perspective as we enter the second half of the year?

Given this strong year-to-date performance, many investors may be wondering whether this is truly the beginning of a new bull market or is instead a "bear market rally." This is a shift from the concerns investors and economists faced at the start of the year when bear markets and recessions were top-of-mind.

Our Mission is to help people with complex financial needs experience an **EXCEPTIONAL** life.

Our Investment Committee meets each quarter to review the markets and economy. Three voting members review significant market data and hear from current advisors and appropriate support staff. When necessary the Committee adjusts the model portfolios managed by the firm.

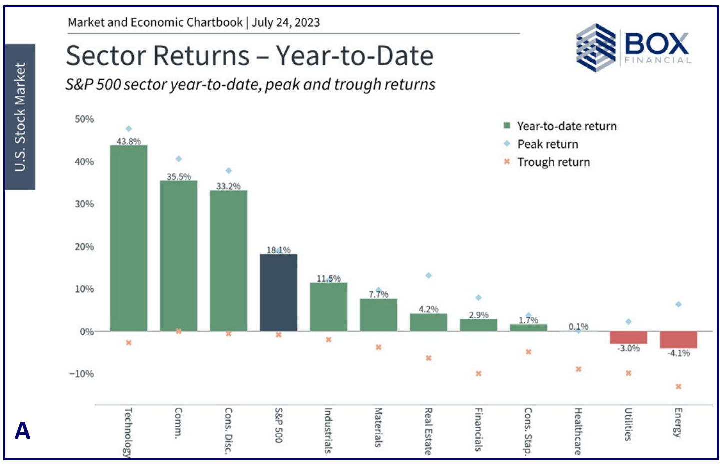
Our Quarterly Newsletter represents the Committee's general thoughts behind any adjustments.

INSIGHTS CONTINTUED...

1. Strong returns over the past three quarters have surprised many investors.

The S&P 500 has now notched three consecutive quarters of strong returns, beginning with the fourth quarter of 2022. This is a 180-degree shift from the bear market returns experienced during the first three quarters of last year and is happening at a time when sentiment is still negative. While there is no guarantee that markets will continue this strong trajectory, it underscores the idea that markets can change direction without notice.

2. Sector returns have differed across the market and compared to last year.

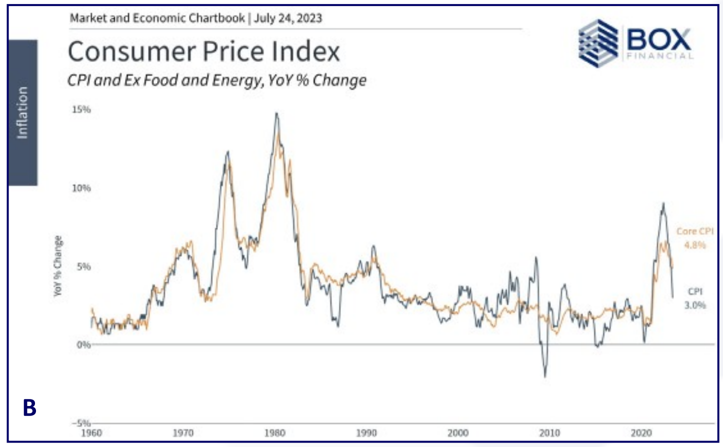


While the market rally has benefited most investors, not all stocks have participated equally. Under the surface, mega-cap stocks have led the way. Specifically, the tech sector has outpaced the broader index this year.

Thus, one investor concern is whether this year's returns have been "distorted" by tech returns. Unfortunately, it is a fact that the largest stocks have only grown in importance over the past decade. This is due to the increasing economies of scale due to technology across the economy. More recently, enthusiasm for artificial intelligence has driven greater gains in these sectors..

However, this year's gains in these areas are not only due to these trends. The returns among these companies also represent a rebound from last year when these were the hardest-hit stocks as rates were rising and the future looked increasingly bleak. Taking the last two years together, returns are still outsized but look much more reasonable.

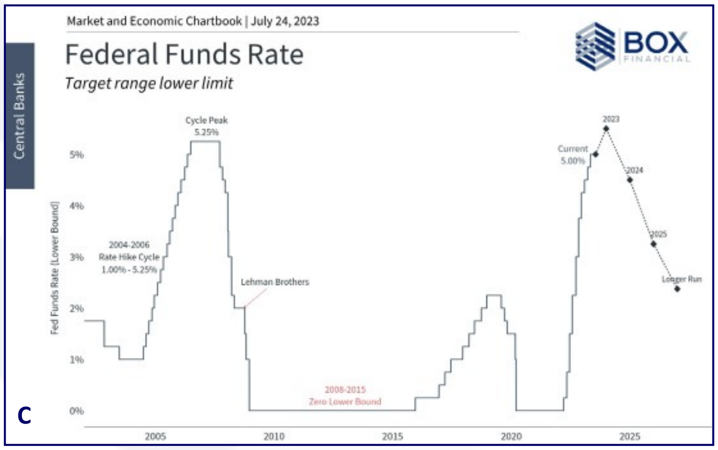
3. Inflation is improving even as core measures remain sticky.



One reason for the reversal from last year is that inflation has shown signs of improvement. The headline Consumer Price Index has decelerated from a peak of 9.1% a year ago to 3.3% today. This is primarily due to deflation in energy prices and other categories such as used cars. However, core inflation remains sticky due to shelter prices.

The Fed and other economists believe that these prices will improve as rent prices stabilize, and new leases are signed. Investors should also maintain their perspective on further inflation improvements. At best, both headline and core inflation will likely remain high through much of 2024. In the meantime, it's possible that year-over-year inflation figures will worsen due to comparisons to last year's levels.

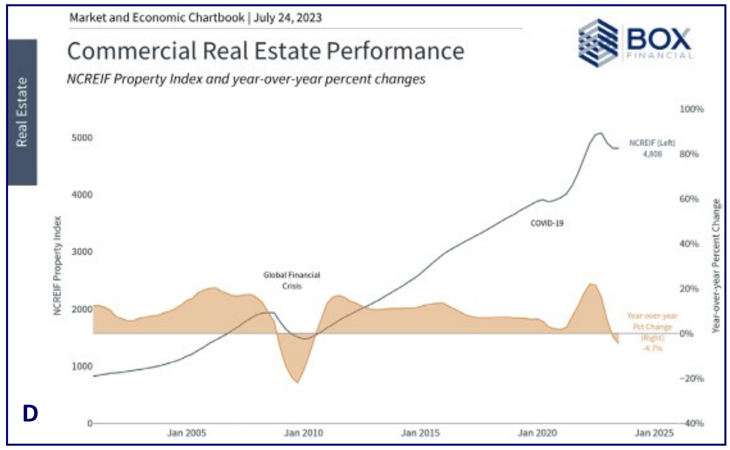
4. The Fed has slowed its pace of rate hikes.



Improving inflation alongside a strong economy allows the Fed to slow its pace of rate hikes. The Fed has raised rates 10 consecutive times from zero to 5%. The size of each increase has decelerated over the past year from a peak of 75 basis points (0.75%) every meeting to perhaps 25 basis points every other meeting.

The Fed has made it clear that they are committed to returning inflation to their 2% target by keeping rates higher for longer. Market-based expectations have shifted this year from believing the Fed will cut rates later this year to agreeing that rates could rise further.

5. Rate-sensitive areas such as commercial real estate face challenges.



Of all the areas impacted by rising rates and financial instability, commercial real estate is seen as the biggest source of risk among investors. This is not only because CRE has struggled with post-pandemic shifts in office usage and occupancy, but because trillions of dollars in loans will need to be refinanced in the coming years. Higher interest rates and tighter lending standards may make this more difficult, creating both liquidity and solvency issues among CRE companies.

SUMMARY OF INSIGHTS

So far, greater stability in the banking system over the past few months, along with Fed and government support, have helped to reduce some of these risks. Market participants will continue to watch this sector closely in the months to come.

The bottom line? Markets rebounded in the first half of the year, catching many investors off guard. While markets never move up in a straight line, investors who focus on long run fundamentals and avoid trying to time the markets will likely be in a better position to take advantage of market opportunities in the second half of the year.

SOURCES

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