



Quarterly Economic Update Second Quarter 2023

The second quarter of 2023 tested even the most seasoned of investors. It was a quarter that included the U.S. reaching a debt ceiling agreement, the Federal Reserve pausing their aggressive interest rate hikes, and bank failure fears starting to subside. During the quarter, equity markets continued to defy odds by staying strong, and the major indexes ended the second quarter higher than they started. With the support of mega-cap tech stocks and the artificial intelligence (AI) buzz, the S&P 500 officially began a new bull market in June, rising over 20% from its low in October 2022.

Led by a handful of large tech stocks, the S&P 500 rose 8.3% during the second quarter, logging its third straight quarter gains. The S&P 500 closed the quarter at 4,450, ending the first half of 2023 up 15.9%, for its best half since 2019. The Dow Jones Industrial Average (DJIA) ended the quarter up 3.4%. The DJIA closed on June 30, 2023, at 34,407. (Source: cnbc.com, 6/30/23)

Some experts are arguing that the S&P 500 bull market could be a temporary stroke of luck before an impending recession. "This recent bull market move is no guarantee we are out of the woods from the downturn," Jeremy Siegel, Wharton School Professor and renown economist, said in his commentary piece for WisdomTree. "I remain cautious, and I do not think we have the start of a major up move here," he added.

However, other experts, like Tom Lee, Head of Research for Fundstrat, believe that stocks are not extended and that big tech, "did the heavy lifting." He also shared, "if we are slipping into an expansion, a lot of other groups are going to participate." (Source: markets.businessinsider.com, 6/17/23)

While we can speculate and deliberate on what the economy will do, no one has predictive powers and, as the last few years have shown us, anything can happen. What investors do know is that uncertainty remains a key

S&P 500 and DJIA Quarter 2 2023

S&P 500

4,450.38 +8.3%



DJIA

34,407.60 +3.4%



Chart source: bigcharts.com

MONEY RATES (as posted in Barron's 6/26/2023)

| | LATEST WEEK | YR AGO |
|--------------------------------------|--------------|--------------|
| Fed Funds Rate* | 5.09% | 1.59% |
| Bank Money Market² | 0.32% | 0.09% |
| 12-month Certif² | 1.70% | 0.37% |

² - Bankrate.com; * - Average effective offer
(Source: Barron's; bankrate.com)

theme. It was just over a year ago that you could borrow at historically low, near zero percent rates. In January 2021, the inflation rate was at only 1.4%. Since then, the cost of necessities and living expenses has increased significantly. For example, the average price of a loaf of white bread has increased 23.19% since 2020. (Source: www.in2013dollars.com)

During the quarter, investors faced the possibility that the U.S. was on the verge of a major default. We breathed a huge sigh of relief on June 1, when the Senate passed the debt ceiling agreement, putting some caps on federal spending until January 2025.

Although the second quarter was kind to investors, this is not the time to become complacent. With geopolitical unrest, political pressures and continuing changes in monetary and fiscal policy, equity market volatility could remain very prevalent. This is a time to concentrate on your personal financial plan. Having a long-term-focused plan that is well diversified can help position you to manage volatility in the markets. We are available to review our clients' investments and make sure they are still congruent with your time horizon, risk tolerance, and goals.

We continue to abide by our belief that investing is a long-term commitment and can provide a better safety net than short-term trading and investing. As your financial professional, we are committed to keeping you apprised of any changes and activity that could directly affect you and your unique situation.

Inflation & Interest Rates

In the second quarter, we saw some easing of inflation numbers. In May 2023, prices increased by 4% compared to 8.6% in May 2022 according to the 12-month percentage change in the consumer price index (CPI). (Source: [statista.com](https://www.statista.com), 6/19/23)

In response to the slowing of inflation, after 10 consecutive interest rate hikes, the Fed took a much-anticipated pause in June. As of June, the Federal Funds target rate range is 5.0 – 5.25%. The bad news is that the Fed's made it very clear that future hikes are still a high probability. While inflation is more moderate than it was 12 months ago, it is still being relentless and inflation pressures continue to put a strain on the economy. In mid-June, Chairperson Jerome Powell repeated that interest rate hikes are likely to continue at least one more time, if

KEY TAKEAWAYS

- **The Fed raised interest rates once in May, but halted rate increases in June, keeping the 5.0 – 5.25% target rate range.**
- **A debt ceiling agreement was made in June - ending a potential economic crisis.**
- **Inflation is continuing to slow down, reaching 5% in May.**
- **The S&P 500 officially entered a bull market.**
- **Cash levels are at all-time highs, with money market assets the highest seen in decades.**
- **Volatility in the economic environment remains.**
- **Staying the course and maintaining the consistency of a well-devised, long-term focused plan has historically served investors well.**
- ***We are here for you to discuss any concerns you have.***

not two, in 2023, indicating that we could see another half percentage point of increases through the end of 2023. There are four more FOMC meetings in 2023, in July, September, Oct/Nov, and December. (Source: [cnbc.com](https://www.cnbc.com), 6/28/23)

Investors seeking returns from Certificate of Deposits (CDs) and even saving accounts are currently benefiting from the higher interest rate environment. For almost a decade there was very little return on these types of investments, but now, it is not unusual to see some banks offering CDs with yields over 4%.

Like all aspects of financial planning that may affect you, we are keeping a vigilant eye on interest rates and inflation. If you'd like to know how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation. While we cannot predict what the Fed's next move will be, we are keeping a watching eye on key economic indicators, such as the CPI.

The Bond Market and Treasury Yields

In early 2022, most treasuries yielded at near record lows. In contrast, today an investor can now get some interest from bond yields. Earlier in 2023, there were a few bank failures, which drove investors to treasuries in very large numbers.

All in all, the second quarter of 2023 was mixed for bonds. As of June 30, 5-year treasury notes yielded 4.13%, 10-year notes yielded 3.81%, 20-year notes yielded 4.06%, and 30-year notes reached 3.85%. While treasuries are yielding favorable returns in this high interest rate environment, if in the future the Fed decides to ease up or reverse interest rates, that would narrow the opportunity to get lower-risk, higher yielding bonds quickly.

If you'd like to explore how bonds could fit into your retirement income strategy, please contact us so we can help you make the best decision for your portfolio. Please remember, while diversification in your portfolio can help you pursue your goals, it does not ensure a profit or guarantee against loss.

We will continue to monitor how the Fed's movements and how rising interest rates are affecting bond yields.

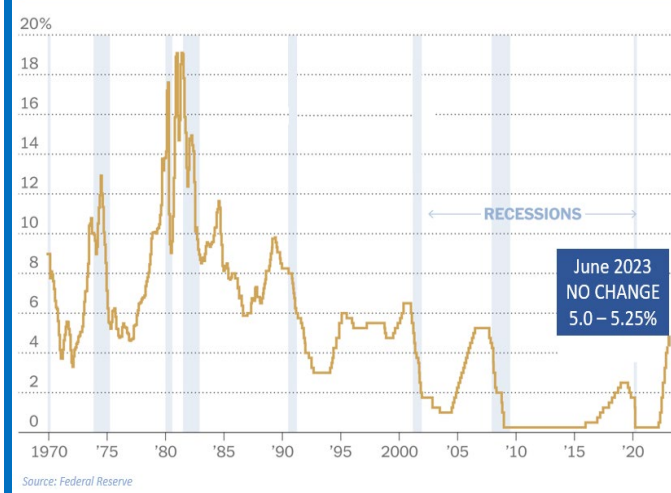
Investor's Outlook

There is much talk in financial circles about the possibility that the U.S. will experience a recession in 2023. According to the New York Fed, the U.S. has a 70% chance of falling into a recession by May of 2024. Obviously, no one can completely tell for sure if this will happen, and if so, at what level of severity. (Source: markets.businessinsider.com, 6/17/23)

When asked about the possibility of a recession during the monetary policy session in Portugal in June, Chair Powell stated that, "There's a significant possibility that there will be a downturn," Powell said, adding that it's not, "the most likely case, but it's certainly possible." (Source: [cnn.com](https://www.cnn.com), 6/28/23)

As a reminder, like downturns, recessions are not new concepts. The S&P 500 has weathered 17 recessions in the last century and never failed to recoup its losses. Please keep in mind that the S&P 500 historically starts to rebound before the end of a recession, which makes market timing a poor investment strategy.

Federal Funds Target Rate Range (1970 – June 2023)



Right now, cash levels are at an all-time high. As of May, money market assets are the highest they have been in decades. This makes guessing about market moves even more difficult. While there is a high amount of cash on the sidelines currently, that could change and affect equity pricing. With this, investors should not try to out-guess what the markets will do.

Instead of trying to predict whether a recession may happen, we suggest you proactively plan to ensure you have your financial plan set up to best weather anything the economy may throw at you. The past few years have taught investors that it's better practice to expect the unexpected.

Should the U.S. experience a recession, it is wise that you remain financially liquid. This means that you should make sure you can meet your financial obligations. You should also anticipate any large cash commitments you foresee, such as funding a wedding, purchasing a home, or buying a recreational vehicle.

Heading into the third quarter, we will continue to keep an eye of inflation rates, economic growth data, and monetary policy moves. Since the conclusion of the debt crisis, we are hopeful that this upcoming quarter brings less surprises and cliffhangers. Our goal as your financial professional is to not try to predict the future but provide you with a solid financial plan that is designed to best weather any market environment. While past performance is not a guarantee of current or future results, history shows us that returns from equities after a recession have been fruitful.

We stand by our belief that investing in equities is a long-term commitment. Investors can expect to continue to face a challenging market environment and the need to look at long-term stability and quality, practicing patience, and proceeding with caution are key to your financial success.

We know that loss aversion can be a powerful motivator for investors to back out of equities during uncertain times. Please remember, historically, investors with a long-term plan that stayed the course and remained diversified and invested were rewarded. We believe this still holds true for today's investors. Savvy investors have a long-term mindset and have well-devised and diversified financial plans.

The coming months could be filled with uncertainty and more market volatility. A few tips to help you through uncertain times are:

- Keep your head down and do not make decisions based on what you hear from the media.
- It is always sound judgement to live within your means and to not incur any more debt than necessary.

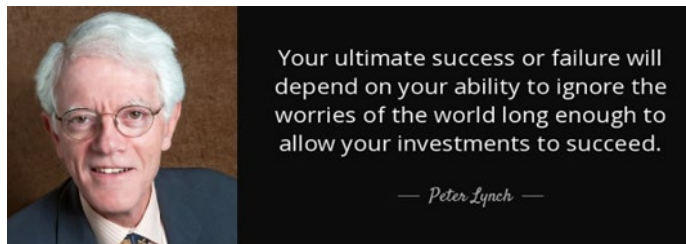
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This material contains forward-looking statements and projections. There are no guarantees that these results will be achieved. All indices referenced are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

The S&P 500 is an unmanaged index of 500 widely held stocks that is general considered representative of the U.S. Stock market. The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90. Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the Russell 3000 Index. It is a large-cap, market-oriented index and is highly correlated with the S&P 500 Index. Past performance is no guarantee of future results. CDs are FDIC Insured and offer a fixed rate of return if held to maturity. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. There is no guarantee that a diversified portfolio will enhance overall returns outperform a non-diversified portfolio. Diversification does not protect against market risk. Sources: www.cnbc.com; www.statista.com; www.barrons.com; www.markets.businessinsider.com; www.in2013dollars.com; www.finance.yahoo.com; www.blackrock.com; www.awealthofcommonsense.com; www.currentmarketvaluation.cpm; Contents provided by the Academy of Preferred Financial Advisors, 2023©



- During uncertain economic times and higher interest rate environment, it is even more wise to pay down your debt and try not to incur any more.
- If possible, continue to add to your savings.
- If you need to, review your financial plan with us.

Our goal as the steward of your wealth is to help you through uncertain times like these. We always attempt to help you create a well-crafted plan customized for your unique situation and goals that takes into consideration how you will react to the equity markets ups and downs, including your time horizon, tax implications, liquidity needs, risk tolerance, and your overall personal objectives. **Please remember that as a valued client, we are accessible to you! Feel free to contact us with any concerns or questions you may have.**

Complimentary Financial Check-up

Our goal this year is to help others with their financial decisions.

If you are currently not a client of **TriOak Financial Group**, we would like to offer you a complimentary, one-hour, private consultation with one of our professionals at absolutely no cost or obligation to you.

To schedule your financial check-up, please call (409) 832-7308.