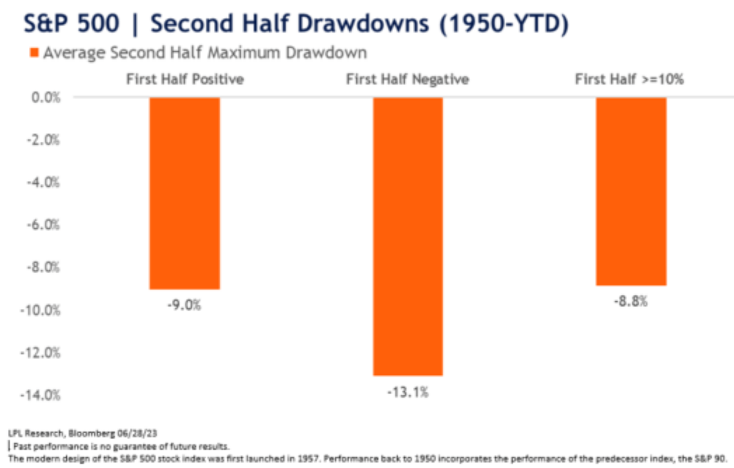
June 2023

As we move into the year's second half, we are sending a longer letter than normal to recap the first six months of 2023 and provide a more in-depth rationale for your current positioning.

U.S. STOCK MARKET BEHAVIOR.

The first half of 2023 is a classic example of how movement in the prices of stocks or bonds does not closely relate to the headlines describing the economy, politics, the Federal Reserve posture, and more. Higher interest rates, a series of bank failures, down to the last-minute debt-ceiling drama, elevated inflation, war in Europe, and the most widely predicted recession in recent history defined the first half of 2023. And with that, stock prices in the U.S. shrugged off the concerns. Most major averages are coming into the second half with impressive returns. History suggests the momentum could continue.

Since 1950, the S&P 500 has historically followed a positive first half, as we have had this year, with a mid-single-digit gain in the year's second half. Bull markets are not linear, and pullbacks (or even a correction) should also be expected in the second half. This is not a bold call but a reflection of history. The chart to the right shows that since 1950, even a positive start to the year undergoes a decline within the second half of the year of about 9%.



For these reasons, Zuma Wealth client accounts hold some exposure to buffered ETFs. These are outstanding investments that achieve a set of outcomes offering the upside of the S&P 500 up to more than 15-20% while buffering against the first 9-15% of losses, depending on the ETFs selected. This is in addition to unbuffered U.S. stock market exposure.

THE OTHER SIDE OF THE POND.

This brings us to the international stock asset class. Almost half of the stock market opportunity set is found outside of the U.S. Right now, international stocks are trading at a significant discount relative to the U.S. and, on average, offer higher yields. That said, valuation metrics are poor timing tools; however, relative earnings growth is a very good one. Recently, U.S. earnings expectations have been coming down, while they have been more resilient (and even positive) in other areas of the world. We continue to monitor the potential for a turning point in earnings growth in international regions versus the U.S., which combined with discounted valuations, make the case for greater exposure to international stocks.

Portfolios currently benefit from low double-digit exposure to international developed market stock ETFs. The ETFs create exposure across a wider set of countries, poising accounts to participate in the strength that non-U.S. stocks have shown so far in 2023.

HIGHER FOR LONGER.

The Federal Reserve remains concerned about the level of inflation and continued to raise interest rates in the first part of 2023, as it has aggressively since March 2022. The rapid increase in the Federal Reserve's interest rate is the steepest in 50 years. Core inflation, the problem the Fed is seeking to solve, is moving in the right direction, but it continues to do so at a very slow rate. Because of this, most members of the Federal Reserve expect rates to continue to rise during the second half of this year. While this creates problems in certain ways, including likely job losses for many Americans, higher rates present opportunities that are reflected in your portfolio. We regularly buy one-year and shorter Treasury bonds on your behalf to benefit from the roughly 5% interest rates available.

Accounts are invested in safe, short-term Treasury bonds delivering about a 5% return. Until their maturity, the values of these holdings are marked "at a discount" to the value they will ultimately pay on maturity. We are confident that your bond holdings will mature at their face value, providing locked-in gains over the holding period.

Thank you for your continued loyalty. We are growing! Please let us know if there is someone you know that needs help to guide, grow and guard wealth. We are happy to help.

Terri Spath

Terri Spath, CFA, CFP®
Founder & Chief Investment Officer
Terri@ZumaWealth.com

Kevin D. Steele

Kevin D. Steele, Ph.D
Strategy Architect & Client Concierge
Kevin@ZumaWealth.com