Market Commentary-Second Quarter of 2023

Second quarter returns for the major market indices were all positive marking the second consecutive quarter of gains. Year-to-date returns are notably strong with the 16.9% return of the S &P 500 being the second best first half performance since 1998. The table below shows year to date and second quarter returns as of 6/30/2023 (amounts are for total returns):

Time Period	Dow Jones Industrial Average	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
Year To Date	4.9	16.9	32.3	2.1
Second Quarter	4.0	8.7	13.1	-0.8

The first half of 2023 was a market that had significant divergence between the winning high-growth stocks of the Nasdaq and the high dividend paying stocks of the Dow Jones Industrial Average. The stocks that do not pay dividends collectively gained about 18% in 2023 compared to a roughly 4% return for high dividend paying stocks. Leading the way were the growth stocks that are in the Nasdaq of the likes of NVIDIA Corp., Meta Platforms (Facebook), Tesla and Amazon. In 2022 during the market's downturn investors looked for blue-chip dividend paying stocks for cash returns. Investors now see greater return potential in growth-oriented tech stocks that generally do not pay dividends. These investors are betting the boom in artificial intelligence will deliver significant profits for these tech companies in the future.

S&P 500 Strong First Half, Strong Second Half?

Historically, a strong first half for the stock market is correlated to a strong second half. Since 1980 the S&P 500 has been up 15% or more in the first half of the year 10 times, 10 out of 10 times it closed higher for the full year with an average gain of 23%. The Nasdaq had its third best first half ever. Be reminded that historical performance is never a guarantee of future results. What could make the S&P 500 decline in the second half of the year? The economy has been resilient for 2023 and the jobs data is strong, leading to a consensus view that a recession is unlikely this year. However, if future reports of inflation data and jobs come in disappointing, the soft landing could turn into a recession, which will likely have a negative impact on stocks.

The U.S. economy depends on the consumer continuing to spend. Consumers' savings account balances are depleting and are taking on more debt to maintain their current lifestyle. The proposed student loan forgiveness was not passed and prices on goods continue to rise. Corporate spending is also at risk, as the cost of goods for business is stabilizing but the cost of wages is still higher. Higher interest rates increase costs for businesses that borrow and higher monthly payments for mortgages and installment loans of consumers. The relationship between higher interest rates and lower inflation is occurring, but it takes time to unfold. While a company can lay off their employees to reduce costs, this tends to be a short-term solution to a longer-term problem. The unemployment rate is usually the lowest shortly before a recessionary time ahead. There is consensus of analysts and investors that the U.S. economy is slowing, and the outlook is murky for the second half of 2023.

The global economy has also performed remarkably well to date in 2023. Japan's economy is gaining steam with strong corporate earnings, lower interest rates and healthy GDP growth. We are adding an International Exchange Traded Fund (ETF) to our portfolio to obtain direct exposure to international companies. We also encourage savers to earn rates of 5% plus utilizing U.S. Treasuries and other high quality fixed income instruments. Given the attractive higher interest rates, it is a great time to evaluate the asset allocation of your portfolio (equity versus fixed income) and to consider a change. Please contact us if you would like to discuss the target asset allocation of your portfolio in more detail. We look forward to connecting soon with you via a live meeting, voice, or video call.