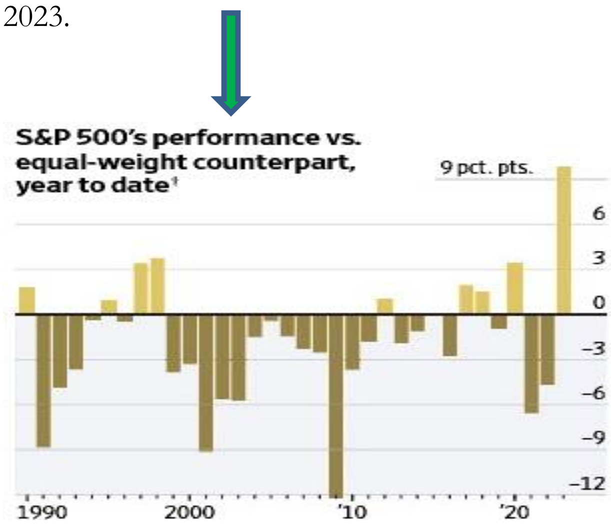
Thoughts from the Holy City –June 2023

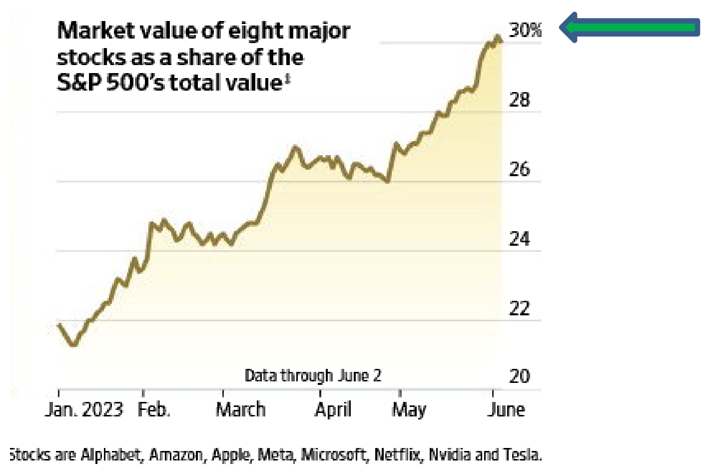
"Today's victories come from a steady accumulation of habits and principles that were planted long ago. Today's preparation is tomorrow's victory."

~ Shane Parish

As we enter the month of June and look toward the end of the first half of the year, the pace of life seems to slow a bit as it always does during the summer months. Summer is officially here, kids are out of school, and Congress continues to kick the can down the road between their vacations and mis prioritizations. Fortunately, after weeks of drama, the White House and House Speaker McCarthy came to an agreement on the debt ceiling. The debt ceiling debacle is one that we revisit every couple of years and, frankly, is more of a political play than anything else. It is just the latest of the doomsday scenarios that have been at the forefront of the news, but stock and bond markets have remained resilient, and have held their ground climbing higher despite the noise and fearmongering.

Despite all the political drama, the domestic economy has remained stronger than expected. As of month ending May 31st, the DJIA is down a mere 0.72%, the NASDAQ positive 23.59%, and the S&P 500 up 8.86%. The international markets as measured by the MSCI EAFE are in positive territory by 6.79%, and bonds, as measured by the Bloomberg Aggregate Bond Index, are up 2.08%. There have been concerns around the mini banking crisis, the debt ceiling debate, and worries of a recession in Europe, but markets have climbed higher. However, the rally has been narrow. Eight stocks in the S&P 500 have accounted for most of the returns for 2023, with those eight stocks making up nearly 30% of the market cap of the S&P 500. As illustrated below, in comparing the performance to the equal weight performance of the S&P 500, only a handful are driving the returns thus far in 2023.





Sources: FactSet, Dow Jones Market Data, Wall Street Journal

The Fed is set to meet June 13th & June 14th with a fed rate hike (or not) decision on the table, and the announcement of said decision Wednesday afternoon. This Fed meeting is also accompanied by a summary of economic projections. This "summary" occurs four times a year and is when the Fed releases a summary of Federal Open Market Committee (FOMC) participants' projections for GDP growth, the unemployment rate, inflation, and the appropriate policy interest rate. Fed officials have signaled that they are likely to hold rates steady at the June meeting before preparing to raise them again later this year. The Fed has lifted rates by five percentage points since March 2022 to combat high inflation, most recently on May 3 to a range between 5% and 5.25%, a 16-year high. As mentioned in a recent article in the Wall Street Journal, Fed governor Philip Jefferson was recently quoted in a speech stating "A decision to hold our policy rate constant at a coming meeting should not be interpreted to mean that we have reached the peak rate for this cycle. Indeed, skipping a rate hike at a coming meeting would allow the committee to see more data before making decisions about the extent of additional policy firming." There is currently a 35% chance of a June rate increase, down from 70%. But, as always, there is still a chance…

The looming Debt Ceiling crisis that has been at the forefront over the past several months seems to have been averted. This "crisis" is nothing new, as it is something that we have dealt with for decades. The difference is that this time, ***no debt ceiling limit was set*** until January 1, 2025, essentially giving the government unlimited spending capabilities, a bit scary. To put that in perspective, in the 93 times since 1940 that the debt ceiling has been raised, only 4 times has no debt limit been set (twice in 2013, 2015, & 2019). This recurring crisis is due to the U.S. government spending more than it receives in taxes, and therefore they must borrow the remainder to pay their bills. President Biden signed the legislation averting a US debt default on June 3rd. The passing of the legislation is a net positive for the equity markets and yields on government debt have since come down.

We can now turn our attention to the more fundamental factors of inflation, economic growth, the Fed, and earnings. Inflation has come down YoY, earnings estimates have stabilized, and the economy remains resilient, which should all bode well for the stock market the remainder of the year. The most recent debt ceiling debacle is a perfect example as to why we are long term investors and avoid making knee jerk reactions to our investment strategy and philosophy of managing capital in a prudent manner. We continue to manage capital by managing risks and ensuring that our clients can continue to live the lives that they so desire. Now, onto the next headline and crisis. Just remember to ignore the noise.

Be Well,

Grier

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