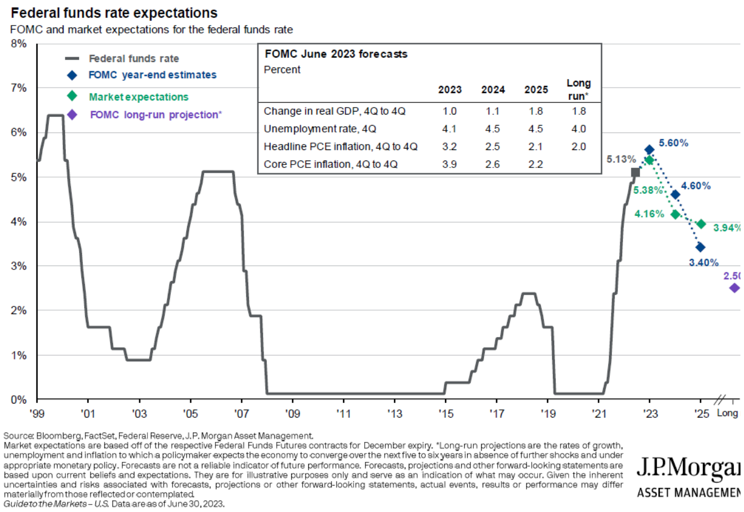
Q2 2023 Commentary

Higher for Longer

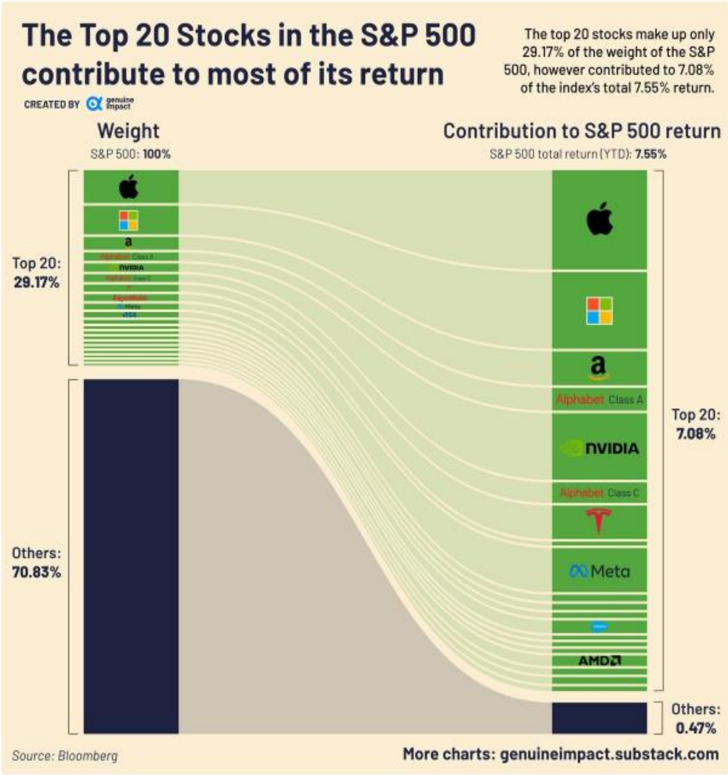
During the Federal Open Market Committee (FOMC) meetings, held eight times a year, the equity and bond markets seem to hang on every word that Federal Reserve Governor Powell says. The historic rise from nearly 0% on the Fed Funds rate, which is determined by the FOMC, to over 5%, created a new paradigm for lower equity and fixed income valuation. Each economic leading indicator is being closely watched as investors, both institutional and individual, are eager to call the end of Fed tightening.



Numerous forecasts based on isolated indicators have suggested the death of inflation, and that the tightening cycle is over. However, just as Mark Twain famously stated, "The reports of my death are greatly exaggerated!" The term 'Higher for Longer' used to apply only to hippies in Colorado, but now seems to be appropriate when describing inflation and the Fed's commitment to keeping rates elevated until inflation is firmly under control.

Through the many years that our team has been observing and studying the markets, we never cease to be surprised by market reactions. At the beginning of the year, we discussed the possibility of persistent inflation, which we had predicted coming in early 2021. We have continued to sound the warning siren in two subsequent updates of the Brechnitz Group Brief. The latest, just a month ago, can be accessed at *Brechnitz Group Brief 6.7.23*. (www.raymondjames.com/thebrechnitzgroup/webinar/2023/06/07/brechnitz-group-brief-4-30-23)

Before we pound our chests because we have been right-on-track on inflation, we have to concede that the equity market move with this backdrop has been surprising. The S&P 500 at the time of this writing is up over 15%. When you take a look under the hood, the narrowness of market move is reminiscent of 2019, with only a few mega-cap tech stocks driving the train.



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The May chart above shows that the top 20 stocks in the S&P 500 contributed 7.08% of the S&P 500 index total return of 7.55%. This trend has continued to present with indices that are not mega-cap tech-heavy, and have been lagging through 7/10/23.

S&P	+15.8
Dow Jones Industrial	+3.04
Small Cap 600	+8.04

We appreciate your continued confidence and trust!

The Brechnitz Group

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All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss. It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager.

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You cannot invest directly into any index and past performance doesn't guarantee future results.

This is not a recommendation to purchase or sell the stocks of the companies pictures/mentioned.

The 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 S&P SmallCap 600 Index is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index. To be included in the index, a stock must have a total market capitalization that ranges from $850 million to $5.2 billion.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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