Liberty Private Client 2nd Quarter 2023 Investment Insights

After a 2022 that investors were happy to see in the rear-view mirror, 2023 began with economists and media convinced recession was imminent. While it may be too early to say we're in the clear, recent positive data certainly suggests we may avoid those doom and gloom predictions. The most recent GDP data was stronger than expected, employment numbers continued to be strong, and energy prices are significantly lower than last year. Inflation, while still elevated, has started to come down from peak levels as well. The Federal Reserve has a goal of a 2% inflation rate and inflation has persistently remained above that target despite multiple increases in interest rates over the last year and rates at their highest level in years. Although the Fed's outlook remains slightly hawkish and they are expected to raise rates twice more this year, long term rates have come off their highs suggesting we are nearing the end of the tightening cycle. One important factor that remains is an inverted yield curve, where short term interest rates exceed long term rates. Currently, the 2-year US Treasury note yields a full percentage point more than the 10-year note (4.85% versus 3.85%), indicating bond markets are predicting lower rates in the longer term. Though an inverted yield curve has historically been a good indicator of upcoming recessions, the other strong economic data suggests the likelihood of a mild recession if it does occur.

At the halfway point for the year stocks and bonds were both in positive territory, a welcome change from 2022 when both suffered. The S&P 500 ended the first half up over 16% with a gain of almost 9% in the second quarter, it's 3rd consecutive quarter with gains over 7%. The Dow Jones Industrial Average was up only about 4% with almost 50% of the 30 stocks underwater for the first half of 2023 and only 5 of the components posting double digit positive returns. Comparatively the NASDAQ market exploded upward, led by technology, rewarding investors with a nearly 33% gain so far this year. The top 8 companies in the Index dominated the market with Alphabet (GOOGL) posting the lowest return with a 38% gain and Nvidia (NVDA) delivering the highest return of the group with an incredible 190% gain and an average return of 85% for the "Elite Eight". Those 8 companies now represent about 58% of the market-cap weighted index and 29% of the S&P 500. Apple (AAPL) & Microsoft (MSFT) alone are now almost 25% of the NASDAQ and over 14% of the S&P.

The Barclays US Aggregate Bond Index declined (0.84%) on the quarter but remained positive for the year with gains of about 2.1%. The yield on 10-year US Treasury Note was 3.81% at quarter-end, up from 3.49% the previous quarter. Corporate bond spreads tightened, driven by attractive yields and relief after the government debt ceiling agreement. Fixed income investors are finally finding attractive yields after years of extreme low rates.

Overall, we remain optimistic in our views for both equity markets and the economy, however, investors should keep in mind that we've achieved significant returns already this year. Expectations for the second half should be tempered and a correction should be considered likely as markets are non-linear and progress is seldom made in a straight line. The volatility of the past two years has demonstrated that having a plan and portfolio allocation consistent with your goals, risk level, and time frame are paramount.