Beacon Trust Client Webinar:
2023 Q2 Market Review and Outlook

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Beacon Trust

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Calculation methodologies are available upon request. #111728 #113612
For one on one presentation only.

2023 Q2 Market Recap

Equities
- S&P 500: +8.7%
- R1000 Growth: +12.8%
- R1000 Value: +4.1%
- Russell 2000: +5.2%
- MSCI Int'l: +3.0%
- MSCI EM: +0.9%

Fixed Income
- Barclays Agg: -0.8%

Alternatives
- Gold: -3.5%
- HFRX Global HF: +0.2%
- U.S. REIT: +2.7%
- Bloomberg Commodity: -2.6%

Reminder on 2022 (Full Year)
- S&P 500: -18.1%
- Barclays Agg: -12.0%

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Beacon 2023 Forecasts: Midyear Report Card

Forecasts published in December of each year.

2023 Forecast	Midyear Assessment	Comment
Stocks rebound from 2022 losses and deliver positive returns	Correct	S&P 500 up 17% YTD
Bonds rebound from 2022 losses and deliver positive returns	Correct	Barclays Agg up 2.3% YTD
The Fed will raise rates and then pause	Correct	Fed raised and paused
Inflation will fall but remain ahead of the Fed's 2% target	Correct	Current CPI = 3.0%
There will be a stock market correction	Incorrect	Max YTD drop 7%
Real estate prices decelerate due to rise in rates	Correct	Case Shiller up ~ 1% YTD
The U.S. economy will enter a recession in 2023	Incorrect	Signs of recession still here
The U.S. dollar will weaken after Fed pauses	Correct	DXY down 3% YTD
Tech stocks rebound from disastrous 2022	Correct	Grand slam; QQQ up 40% YTD

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GDP Was Sluggish <u>Before</u> The Banking Crisis

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q2
Quarterly percent change (SAAR)

Atlanta Fed GDPNow estimate

Blue Chip consensus

Range of top 10 and bottom 10 average forecasts

Date of forecast
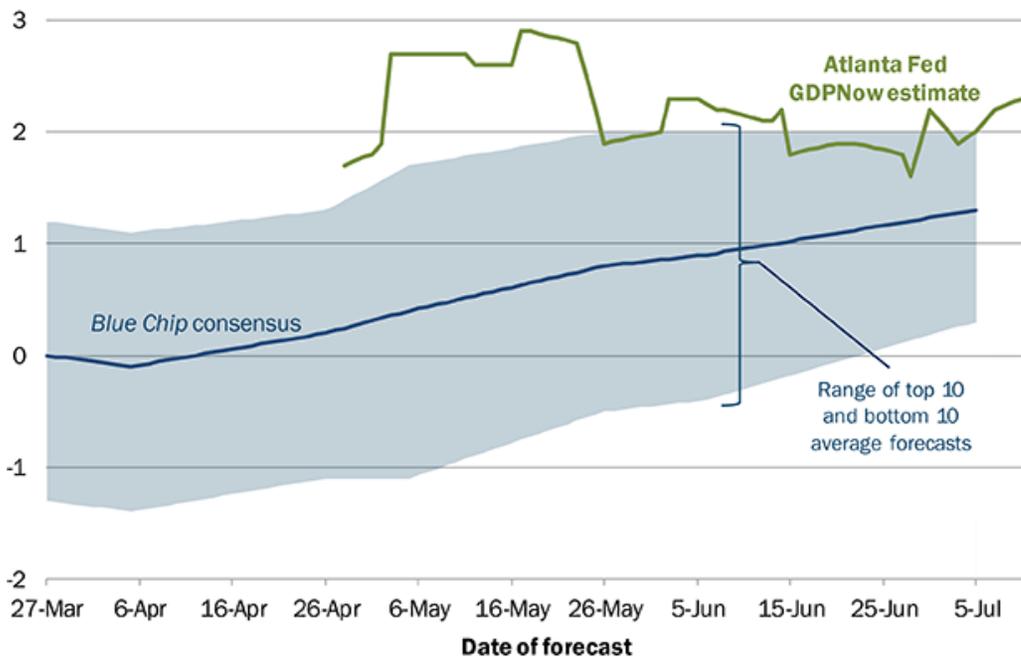
Weekly Economic Index (WEI)

Latest Release 11:30 a.m. July 13, 2023

☑ WEI (GDP growth units) ☑ Annual real GDP growth (four-quarter moving average) ☑ WEI 13-week moving average

From Dec 31, 2019 To Jul 8, 2023

— WEI — GDP — WEI 13-week

Percent

Jul 8, 2023
■ WEI 1.37%
Jul 8, 2023
■ WEI 13-week moving average 1.01%
Mar 31, 2023
■ Annual real GDP growth 1.80%
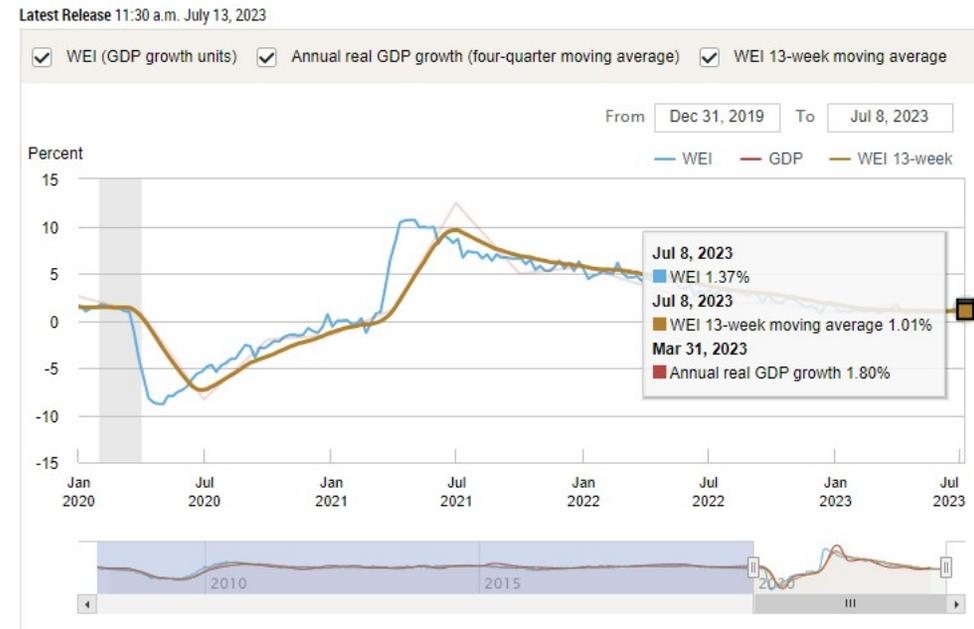
Headwinds for 2023/4: Resumption of student loan payments, dissipation of excess savings from the pandemic, tightened lending standards, higher interest rates, and a possible UPS labor strike.

LEI Falls for 14ᵗʰ Consecutive Month

Conference Board Leading Economic Index

VettaFi Advisor Perspectives

advisorperspectives.com
As of May 2023

Composite Index of 10 Leading Indicators (2016=100)

Last 12 Months

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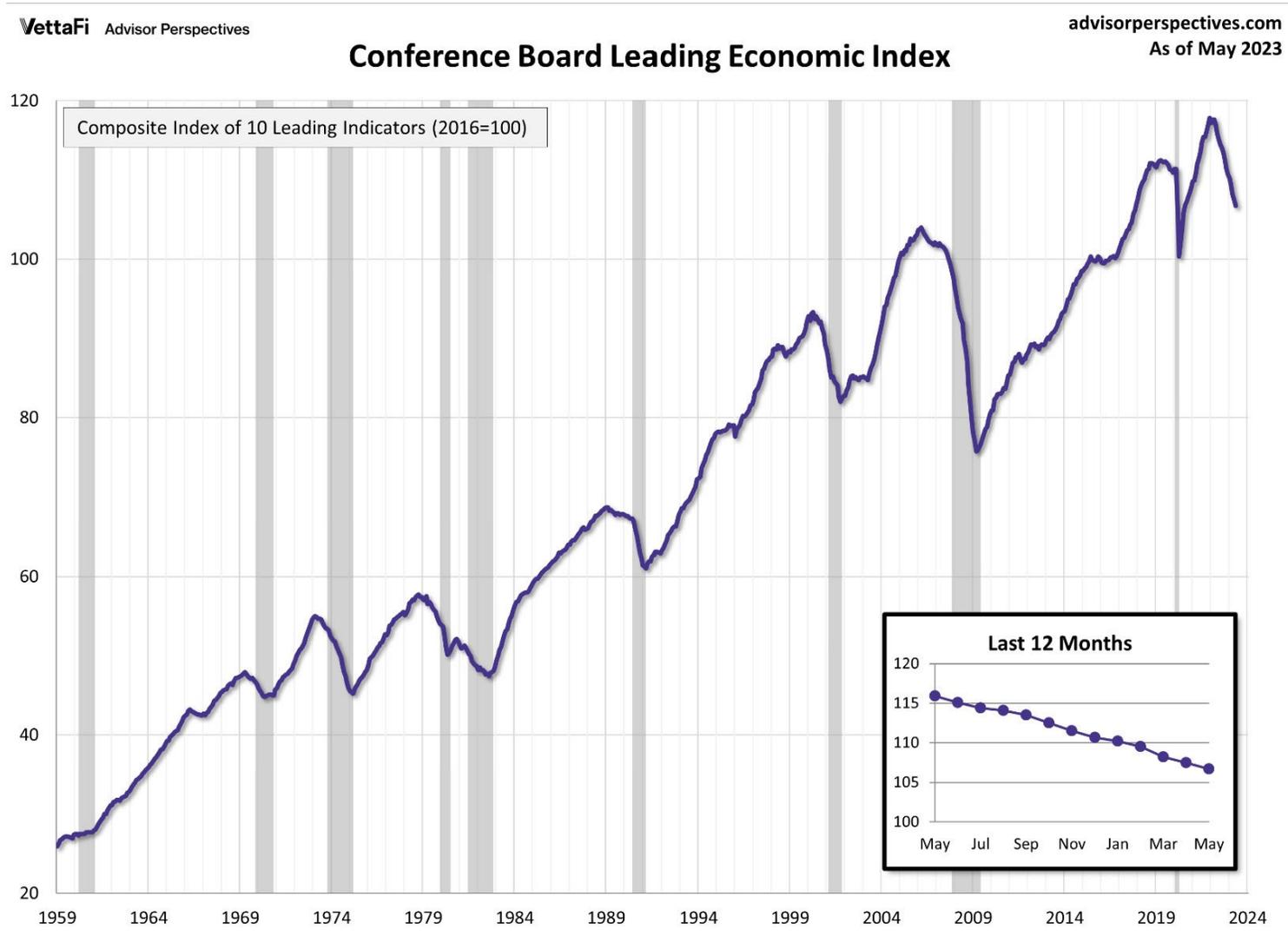
ISM Manufacturing → Expected Contraction
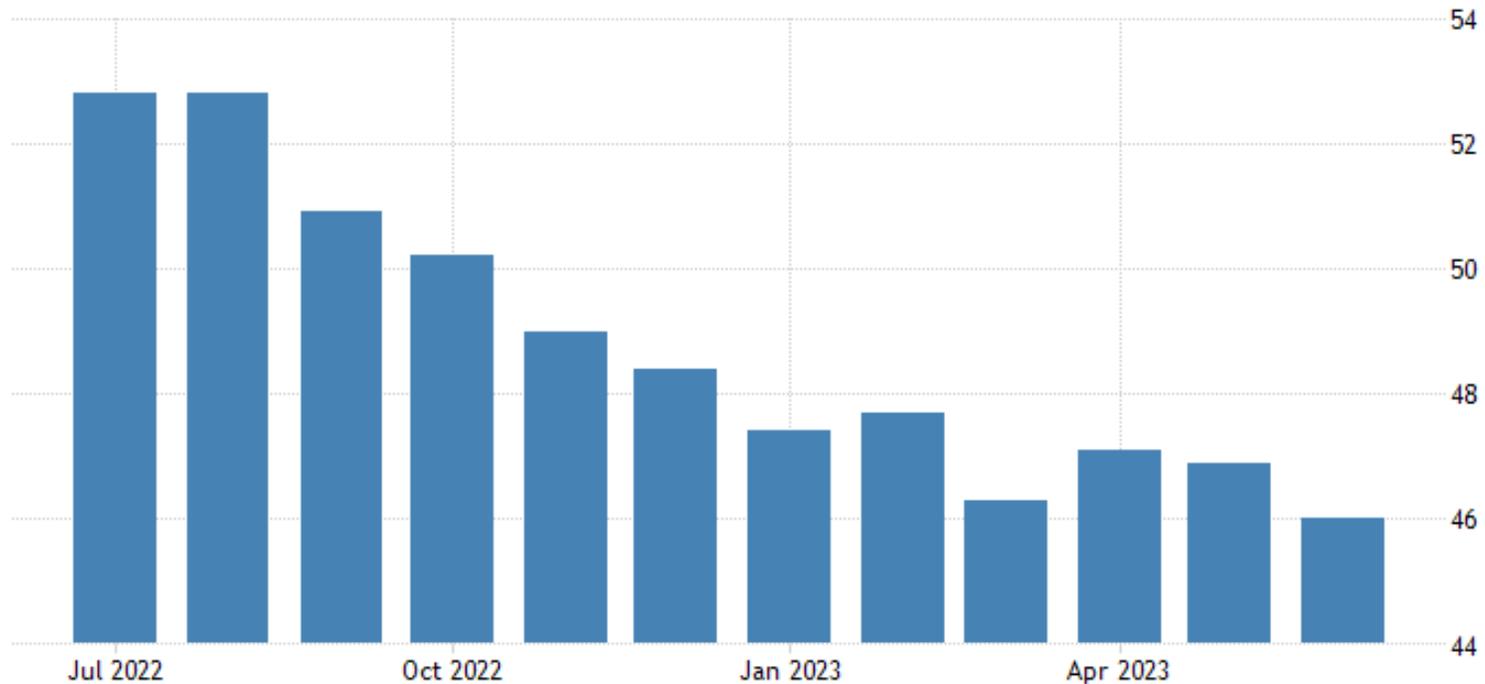
The ISM Manufacturing PMI in the United States fell to 46 in June 2023, from 46.9 in May and below forecasts of 47. The reading pointed to a faster rate of contraction in the manufacturing sector since May 2020, with companies managing outputs down as softness continues and optimism about the second half of 2023 weakening. "Demand remains weak, production is slowing due to lack of work, and suppliers have capacity. There are signs of more employment reduction actions in the near term", Timothy Fiore, Chair of the ISM said. In June, declines were seen in new orders (45.6 vs 42.6), production (46.7 vs 51.1), employment (48.1 vs 51.4), inventories (44 vs 45.8) and backlog of orders (38.7 vs 37.5). Also, price pressures eased (41.8 vs 44.2) and the supplier deliveries index increased to 45.7 from 43.5, a sign manufacturing lead times improved again. On the other hand, the customers' inventories index dropped into 'too low' territory (46.2 vs 51.4), a positive for future production. source: Institute for Supply Management

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Source: TradingEconomics.com

ISM Services → Expected Growth
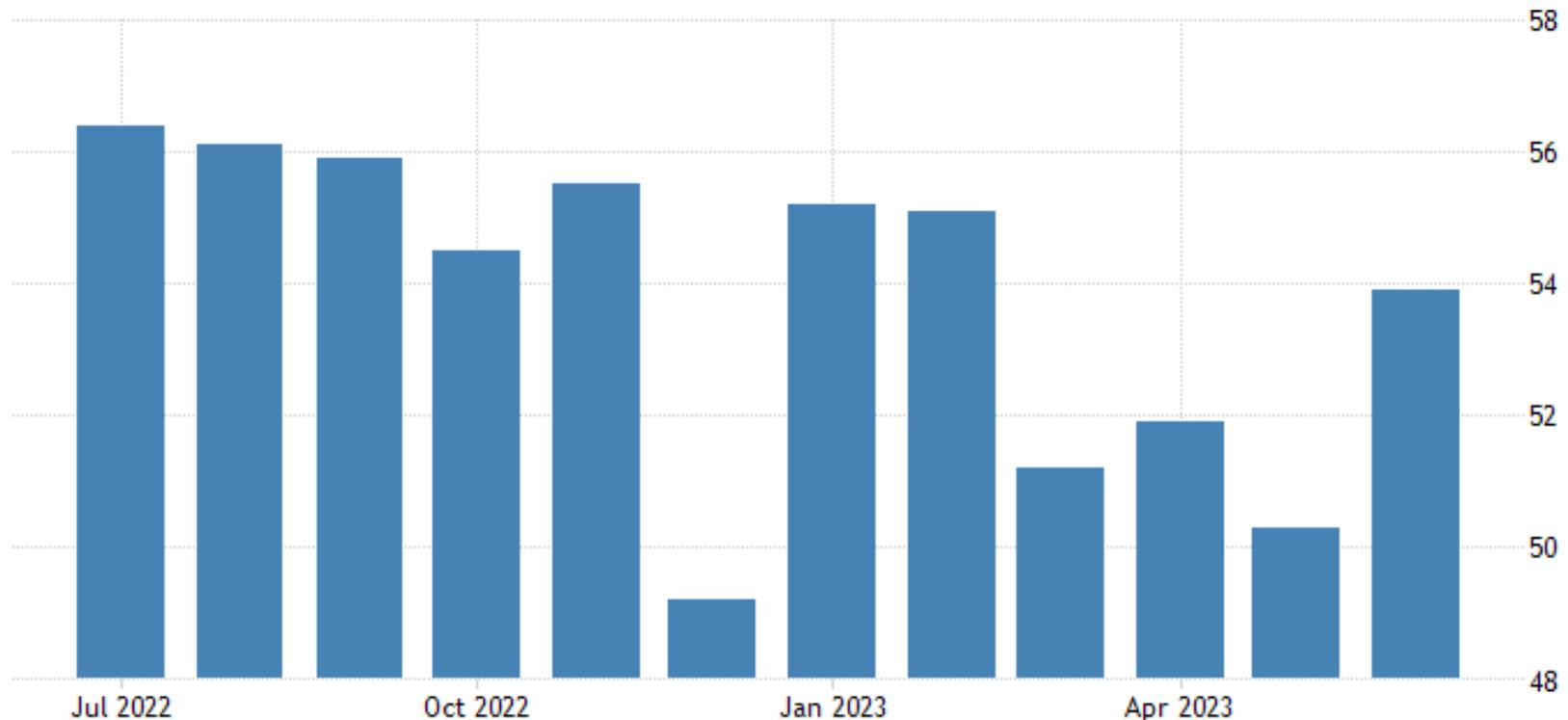
The ISM Services PMI unexpectedly jumped to 53.9 in June of 2023, pointing to the strongest growth in the services sector in four months, and well above 50.3 in May and forecasts of 51. Production (59.2 vs 51.5) and new orders (55.5 vs 52.9) rose much faster while employment rebounded (53.1 vs 49.2) and price pressures eased (54.1 vs 56.2). Also, the supplier deliveries index improved and registered 47.6 percent, 0.1 percentage point lower than in May and inventories rose for a second month (55.9 vs 58.3). Meanwhile, "the majority of respondents indicate that business conditions remain stable; however, they are cautious relative to inflation and the future economic outlook", Anthony Nieves, Chair of the ISM Services Business Survey Committee said. source: Institute for Supply Management

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Factors Used To Determine Recession

Variables used by the NBER in making recession determination*
% change month-over-month
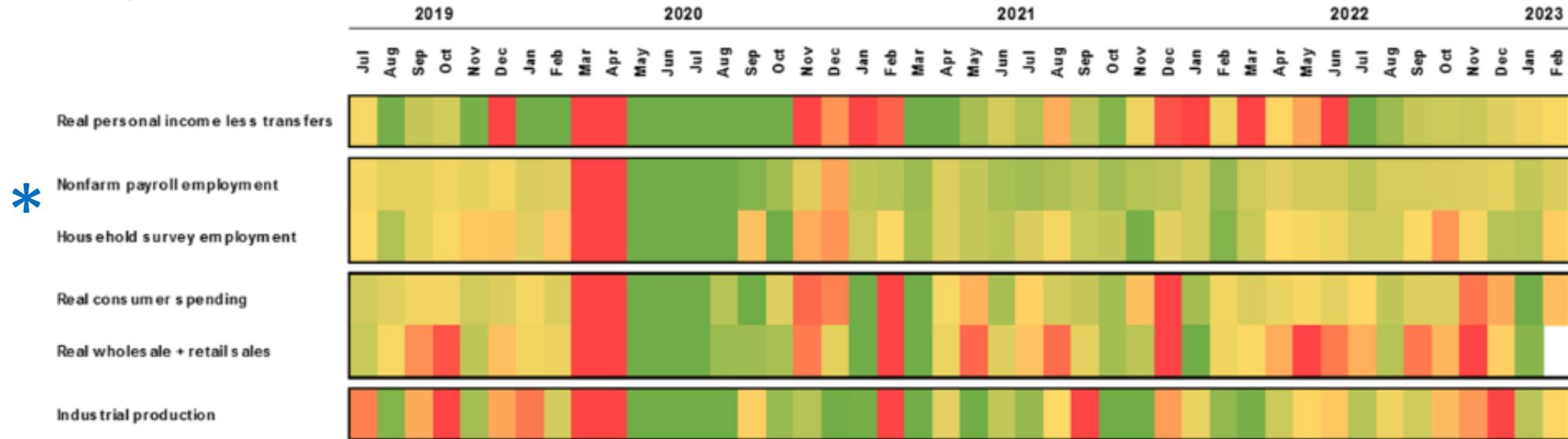
Unemployment Rate Is Still Very Low

16.00 %
14.00 %
12.00 %
10.00 %
8.00 %
6.00 %
4.00 %
2.00 %

1950   1965   1980   1995   2010

TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

The unemployment rate in the US decreased slightly to 3.6 percent in June 2023, which is lower than May's seven-month high of 3.7 percent and in line with market expectations. The jobless rate has fluctuated between 3.4 percent and 3.7 percent since March 2022, indicating a consistently tight labor market and allowing the Federal Reserve the flexibility to continue raising interest rates as a means to combat inflation. The number of unemployed people decreased by 140 thousand to 5.96 million and employment levels rose by 273 thousand to 160.99 million. The so-called U-6 unemployment rate, which also includes people who want to work, but have given up searching and those working part-time because they cannot find full-time employment, rose to 6.9 percent in June from 6.7 percent in May. The labor force participation rate was unchanged at 62.6 percent, remaining at its highest level since March 2020.

source: U.S. Bureau of Labor Statistics

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Not All Recessions Are The Same

The Great Depression and post-war recessions
Length and severity of recession
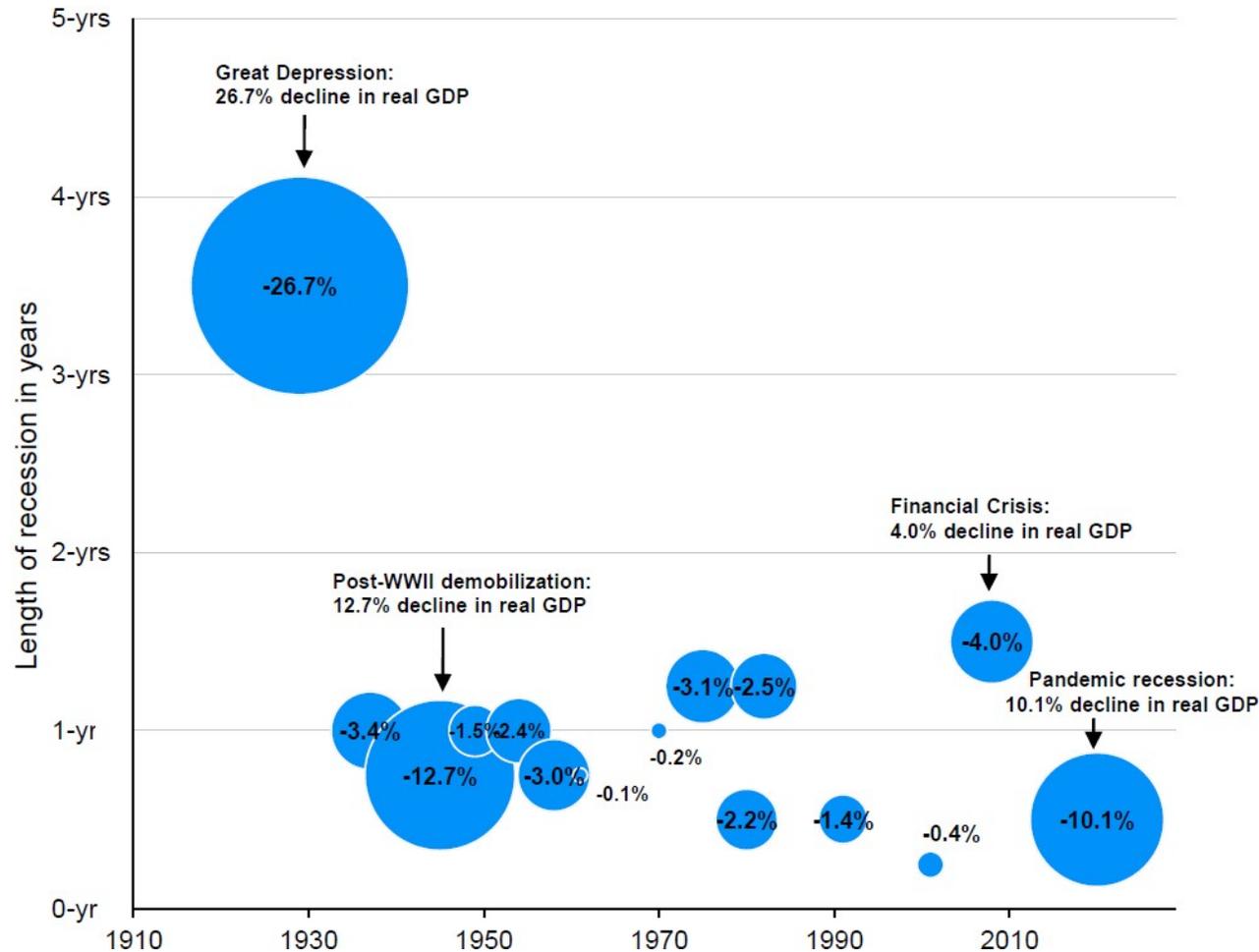
Based on history, the odds of a "soft landing" are roughly 25%.

Great Depression:
26.7% decline in real GDP
-26.7%

Post-WWII demobilization:
12.7% decline in real GDP
-12.7%

Financial Crisis:
4.0% decline in real GDP
-4.0%

Pandemic recession:
10.1% decline in real GDP
-10.1%

-3.4%   -1.5% 2.4%   -3.0%   -0.1%   -0.2%   -3.1% -2.5%   -2.2%   -1.4%   -0.4%

Length of recession in years: 0-yr, 1-yr, 2-yrs, 3-yrs, 4-yrs, 5-yrs

1910   1930   1950   1970   1990   2010

Source: JP Morgan

Inflation Continues To Decelerate
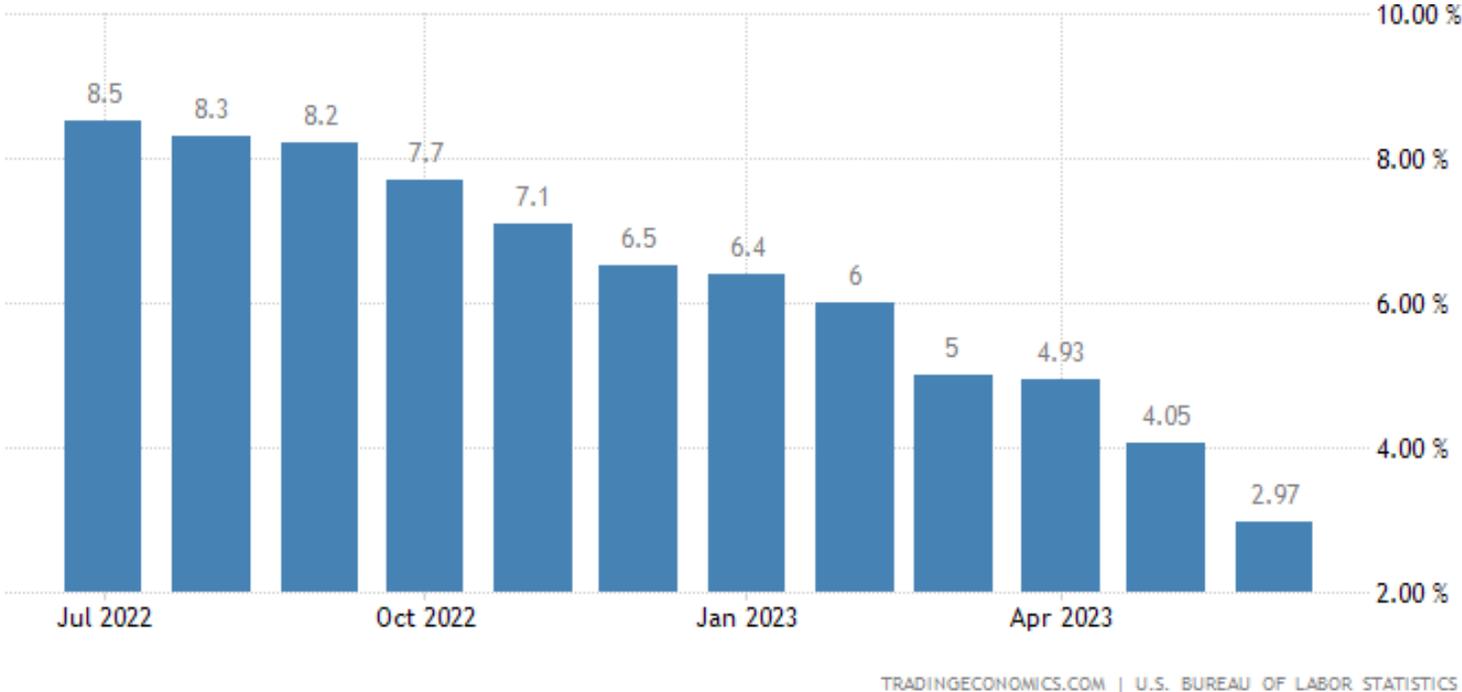
The annual inflation rate in the US slowed to 3% in June of 2023, the lowest since March of 2021 and compared to 4% in May and expectations of 3.1%. The slowdown is partly due to a high base effect from last year when a surge in energy and food prices pushed the headline inflation rate to 1981-highs of 9.1%. Energy cost slumped 16.7% (vs -11.7% in May), with prices falling 36.6% for fuel oil, 26.5% for gasoline, and 18.6% for utility gas service. Electricity prices increased by 5.4%. Also, inflation slowed for food (5.7% vs 6.7% in May) and shelter (7.8% vs 8%). Smaller price increases were also recorded for new vehicles (4.1% vs 4.7%), apparel (3.1% vs 3.5%), and transportation services (8.2% vs 10.2%). The cost of medical services was down 0.8% and prices of used cars and trucks declined 5.2%. The core inflation rate dropped to 4.8%, the lowest since October of 2021. source: U.S. Bureau of Labor Statistics

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PPI Falls Sharply → Future Inflation Contained

Annual producer inflation in the US slowed to 0.1% in June of 2023, the lowest since deflation in 2020 and below forecasts of 0.4%. source: U.S. Bureau of Labor Statistics

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3Q 2023 Federal Reserve Outlook

July projection → 95% chance of a 25bps rate hike

Dec. projection → < 20% chance of 1 more 25bps rate hike
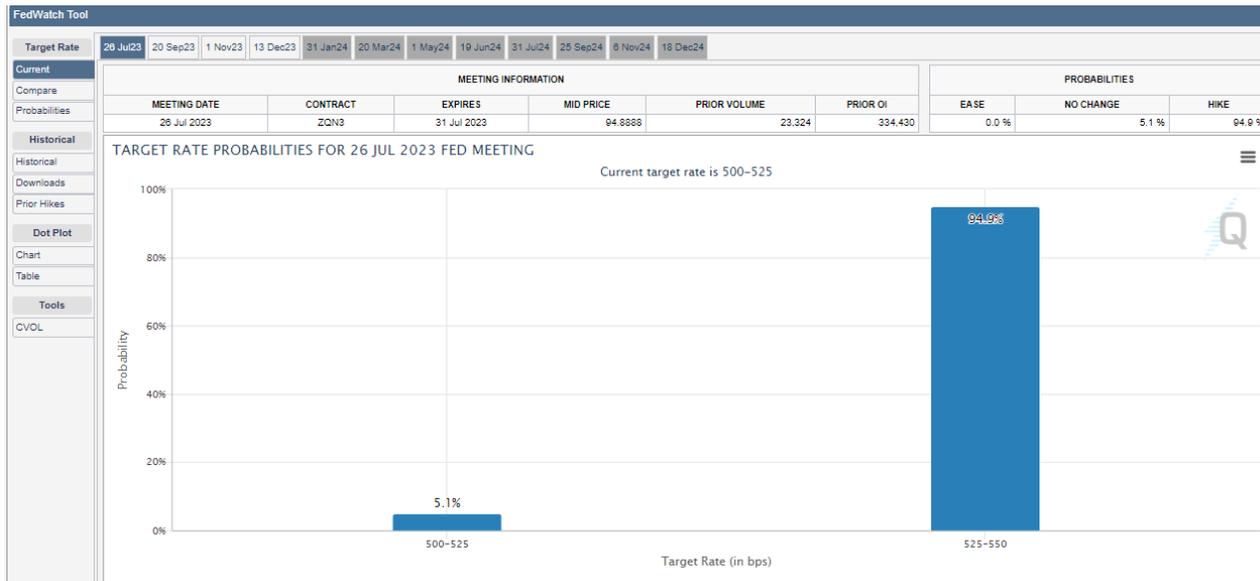
Summary: Fed will likely raise rates in July. A rate *cut* is unlikely until some time in 2024

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Source: CME Group

Narrow Stock Market Leadership (YTD - 7/12/23)

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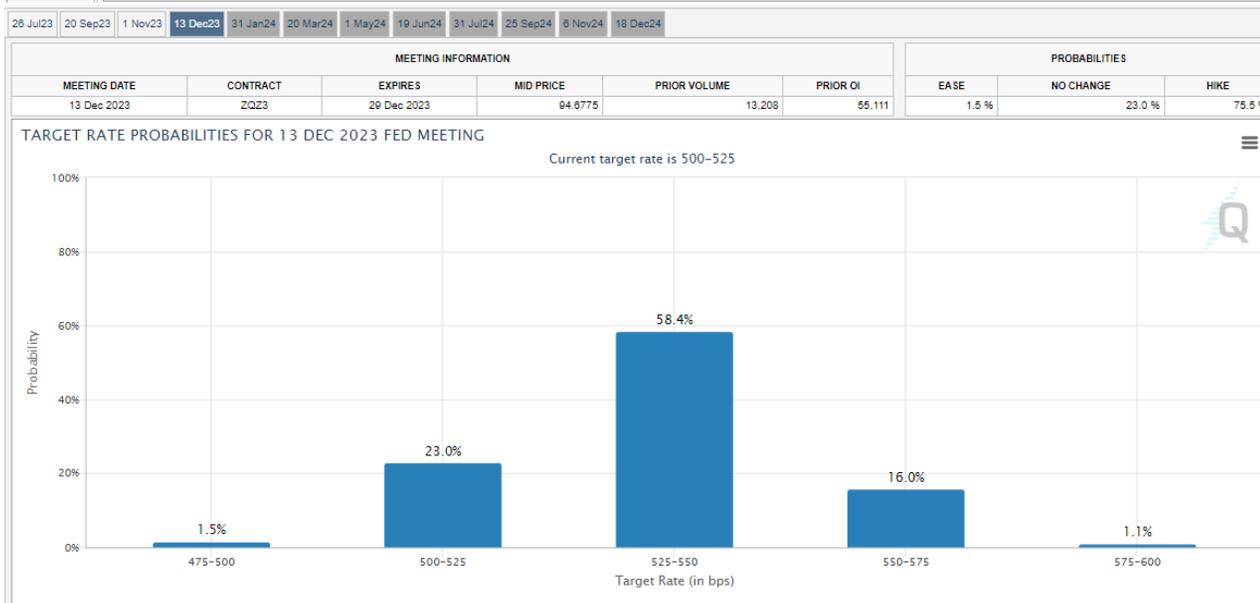
Narrow Leadership: Dividend Paying Stocks Lag

Investors Spurn Dividend-Paying Stocks as AI Booms

The shares have suffered their worst first-half performance relative to nonpayers since 2009

Dividend payers performance minus nonpayers through the first half of a year
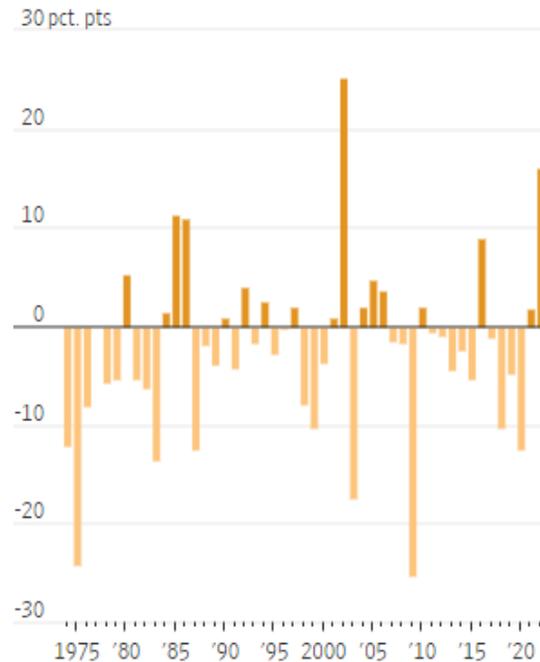
Note: Indexes are equal-weighted, arithmetic indexes.
Source: S&P Capital IQ Compustat, Refinitiv and Ned Davis Research

Source: WSJ.com

Small Caps Showing Recent Signs of Life (6/1-7/12)

Source: Yahoo! Finance

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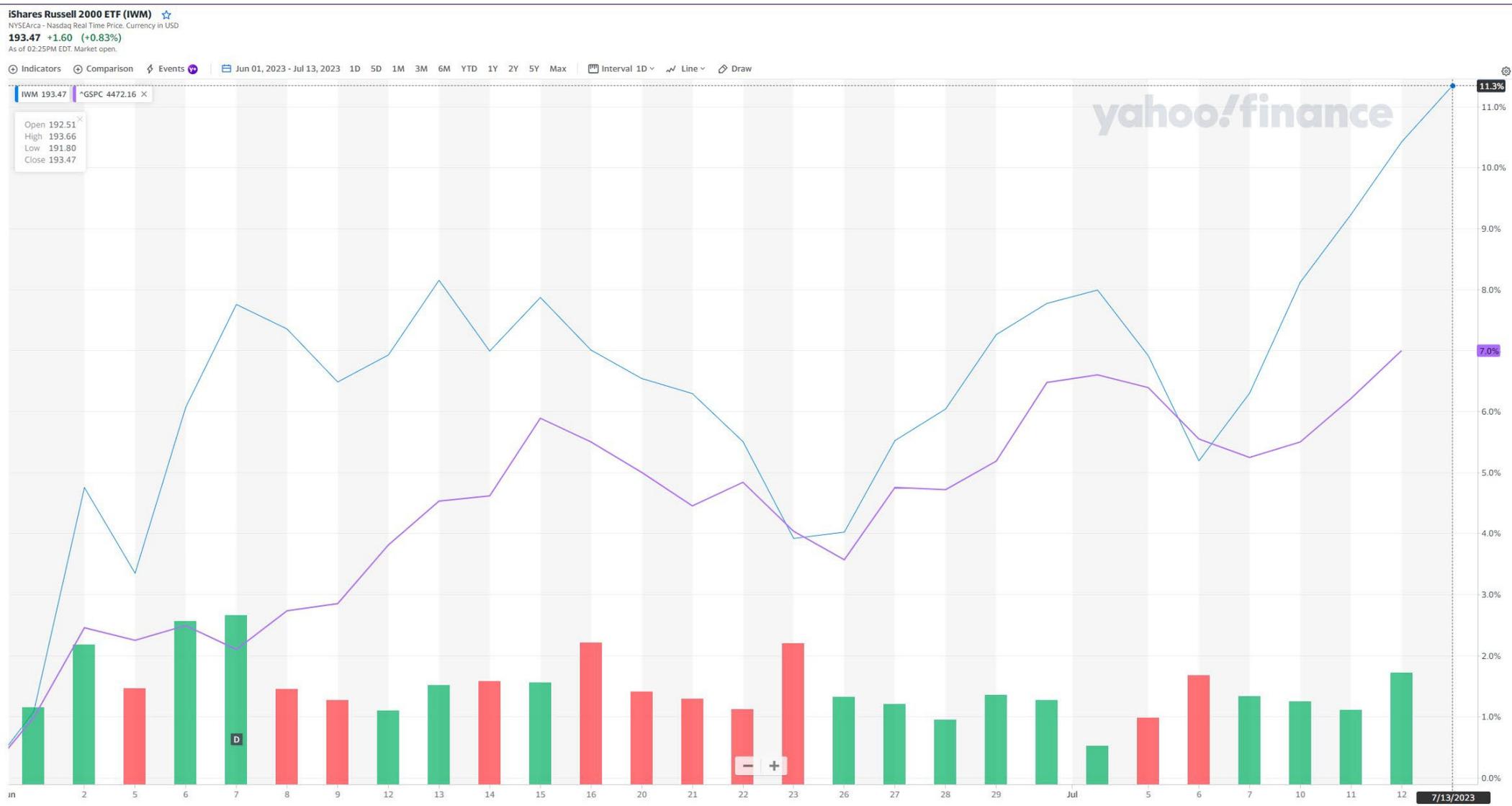
Future Stocks Gains Est. ~ EPS Growth + Dividends

S&P 500 Index: Forward P/E ratio

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	19.21x	16.78x	0.73
CAPE	Shiller's P/E	30.88x	27.79x	0.49
Div. Yield	Dividend yield	1.59%	1.98%	1.15
P/B	Price to book	3.85x	3.09x	0.94
P/CF	Price to cash flow	14.74x	11.25x	1.59
EY Spread	EY minus Baa yield	-0.62%	0.32%	0.49

+1 Std. dev.: 20.09x

25-year average: 16.78x

-1 Std. dev.: 13.47x

Jul. 12, 2023: 19.21x

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Source: JP Morgan

Some Pockets of Value in Stocks (7/12/23)

S&P 500 Stocks: Forward P/E Ratio

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S.T. Caution: Fear Greed Index Swings To Greed
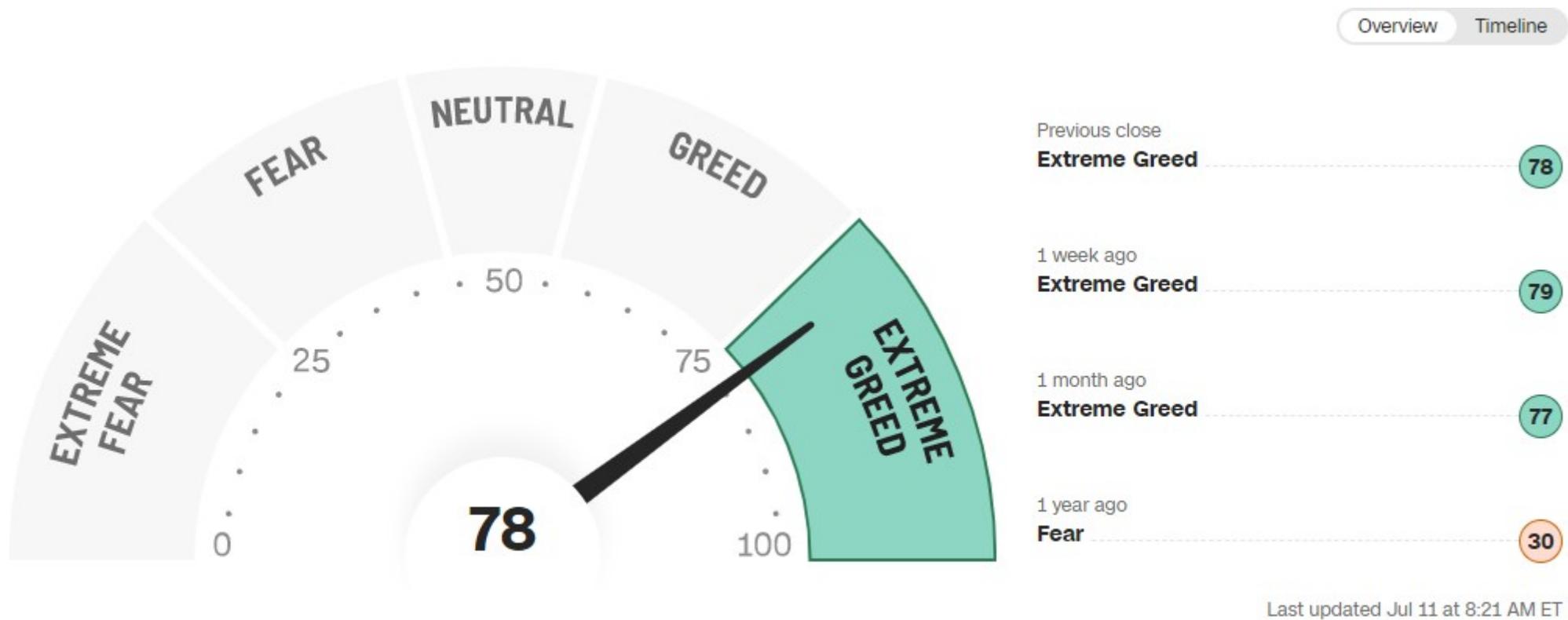
Don't Forget Great Returns Since 2008/2009

S&P 500 Price Index

Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	7/12/2023
Index Level	1,527	1,565	3,386	4,797	4,472
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	19.2x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.6%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.9%
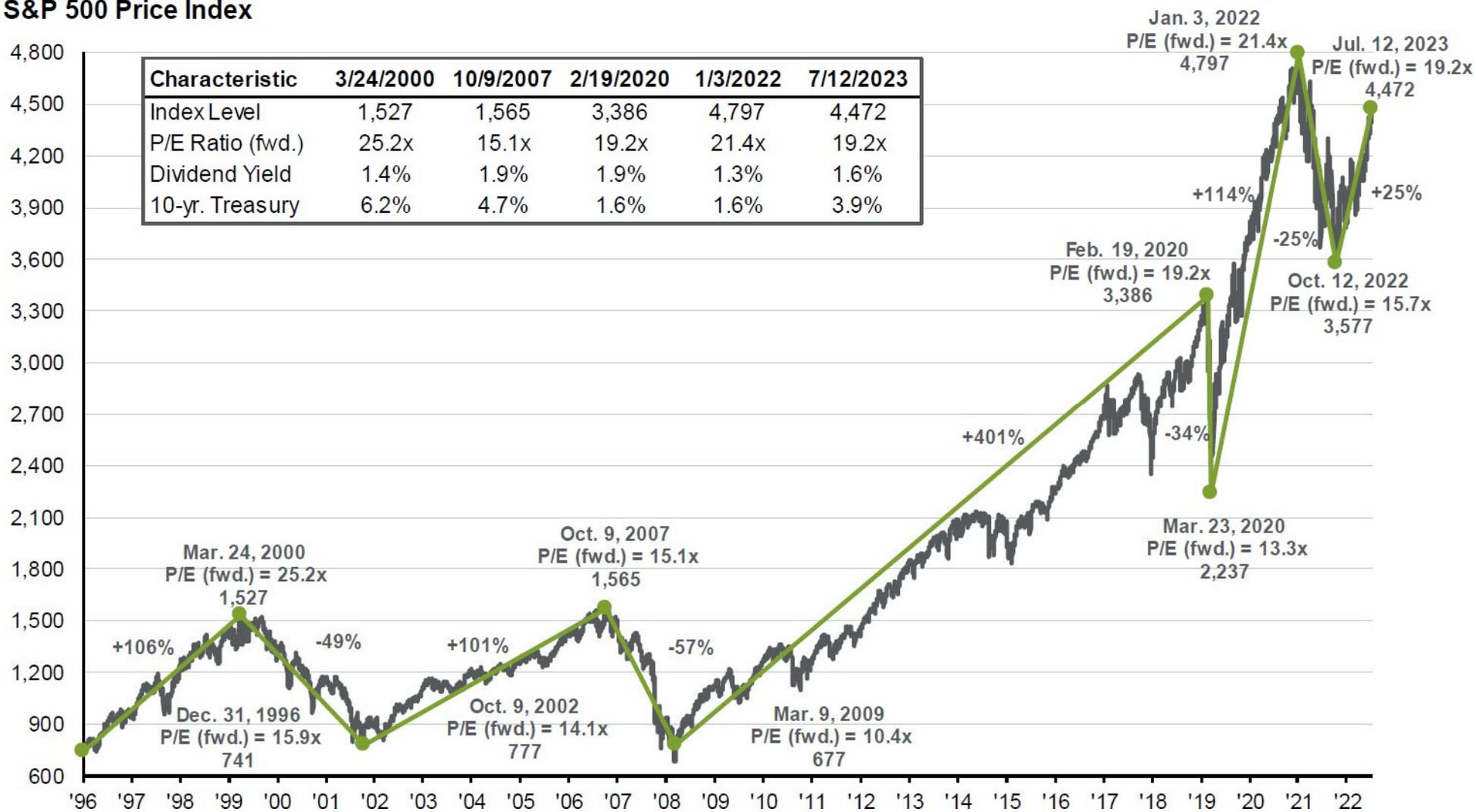
Artificial Intelligence (AI) In Action

An ancient language with nearly a million undeciphered texts just got a translator that does the job in seconds: A.I.

Dead languages are famously hard to decipher. It took 23 years to crack the Egyptian hieroglyphics on the Rosetta Stone. It took nearly two centuries to understand Mayan glyphs. And it took over 3,000 years to reveal Linear B, the earliest form of Greek. When techno-optimists talk about the game-changing potential of A.I., they cite difficult problems like this, and even for languages that have already been translated, challenges remain. Consider Akkadian cuneiform, one of the world's oldest written languages. There are so few people who can read the extinct language that nearly a million Akkadian texts still haven't been translated to date—but now an A.I. tool can decode them within seconds.

An interdisciplinary group of computer science and history researchers published a journal article in May describing how they had created an A.I. model to instantly translate the ancient glyphs. The team, led by a Google software engineer and an Assyriologist from Ariel University, trained the model on existing cuneiform translations using the same technology that powers Google Translate.

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Source: Yahoo! Finance

Questions?

Source: Shutterstock