MH MacFarland Hicks Financial Group of Raymond James

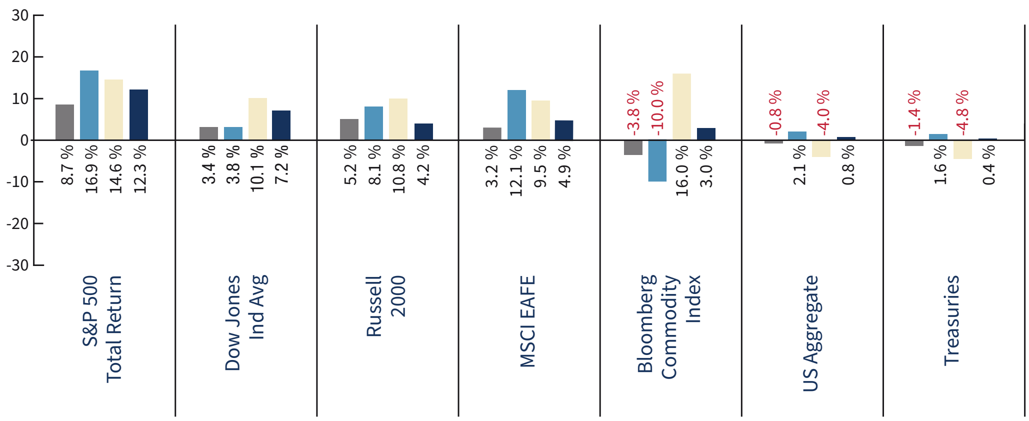
JULY | 2023

market UPDATE

"If everyone is thinking alike, then somebody isn't thinking."

– *George S. Patton*

Asset Class Returns (as of June 30, 2023)



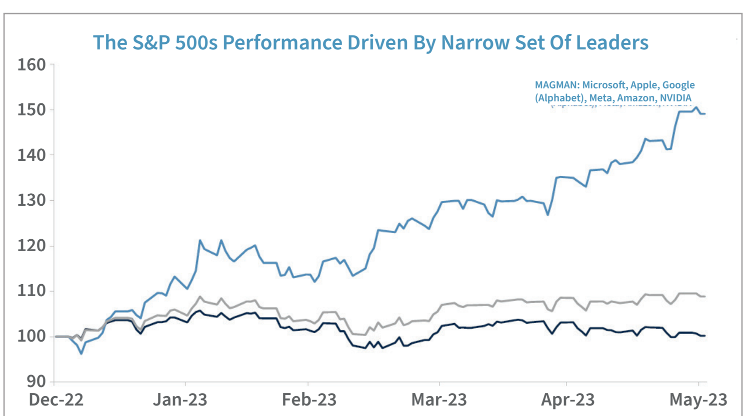
Market & Economic Synopsis

- The Federal Reserve (Fed) raised the fed funds rate by 500 basis points (5%) over the last 15 months with more potential rate hikes by year end. The June dot plot signaled a fed funds rate of 5.6% by year-end.
- Headline inflation pressures continue to ease to the lowest levels since March '21, but core inflation (minus energy and food) remains sticky at 4.6% for the last 6 months.
- Banking sector turmoil has subsided after three US banks and one Swiss bank collapsed (Silicon Valley Bank, Signature Bank, First Republic Bank, Credit Suisse).
- Oil prices continue to decline – Crude oil is now down 43% off its peak.
- Unemployment rate remains at 3.7%, while the historical average is over 5%.
- Mega-cap technology stocks were responsible for the majority of equity gains for the first half of the year, but the rally has broadened to other sectors (i.e. Industrials and consumer discretion).
- The debt ceiling was suspended though January 2025. This marks the 79th time since the 1960s that the debt ceiling has been raised or suspended.
- India overtook China to become the most populous nation on the planet, consequently becoming the world's largest pool of labor.

Market Update

The first half of 2023 has seen a complete market reversal from a year ago. Growth has outperformed value and technology has had the best first half of a year in decades on the back of the artificial intelligence euphoria. The equity markets hit every pitch thrown its way, building confidence and momentum as the middle of the year approached –better than expected corporate earnings, the US government avoided default, and the banking sector stabilized. The S&P 500 index finished June at 4,450 which is slightly above our year-end price target of 4,400. However, we expect more challenging and volatile equity markets for the second half of the year, with potentially unexpected curve balls. Usually when confidence and optimism is this high, disappointment is an inning or two away.

Fixed income yields continued higher which weighed on bond prices, but generous yields across the curve still make bonds attractive for many investors. Although the Federal Reserve is near the end of its tightening cycle, we still expect one or two more interest rate hikes before year end. Locking in these generous rates with longer maturities is a recommended strategy before rates begin to fall.



Source: *FactSet, Data as of 5/31/2023*
Source: *Monthly CIO View – June 2023*

Consumer Financial Health – The Good, the Bad, & the Ugly

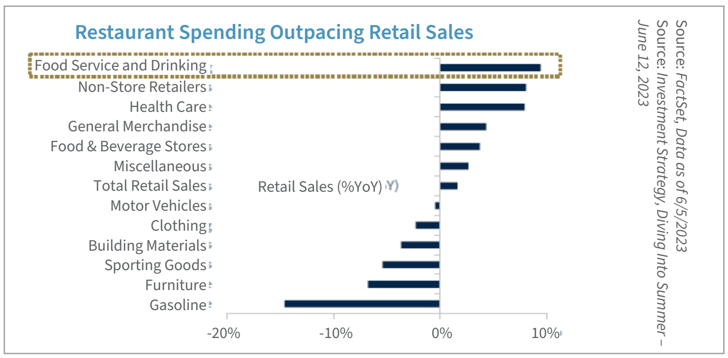
Consumer spending has driven economic growth over the last year. With savings rates at historical highs coming out of the pandemic, the average person did not hesitate to spend. Many signals still point to a resilient, confident consumer. The labor market remains historically tight driving wage growth across industries. Restaurants are packed – good luck walking into a highly rated restaurant these days without a reservation. But recently, there have been conflicting and concerning messages on the consumer's true financial health. Buyers are showing signs of retail fatigue by cutting back on big ticket items and premium brands. Credit card debt has reached record highs while excess savings is simultaneously evaporating. A weakening consumer may drive down inflation, but are these warnings a flashing sign that a recession is just around the corner? We have not jumped to such a conclusion, but we continue to monitor closely the health of the American household.

Positives

- Wage growth above historical average
- Real Disposable Income Increasing
- Gasoline prices down year over year
- Consumer confidence reached its highest level since Jan'22
- Travel, restaurant, and hotel spending at record highs

Negatives

- Record Level of Credit Card Debt
- Savings Rate Near Multi-Decade Lows
- Auto Loan, Mortgage and Credit Card Rates at Multi-Year Highs
- Dollar General cut outlook as customers cut spending

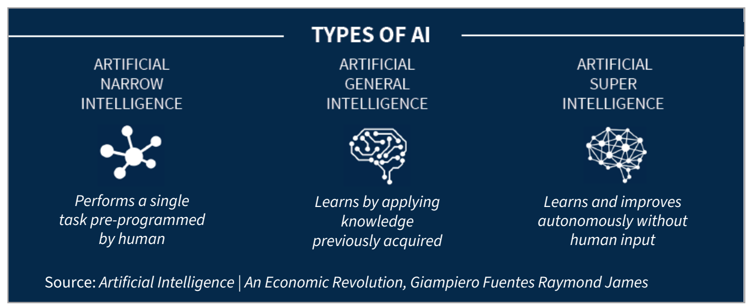


Artificial Intelligence (AI) – A New Technology Frontier

"If every person on earth completed one calculation per second, it would take 305 days to do what the world's most powerful computer can do in one second"

– International Business Machines (IBM)

Historically, a machine's computational capability was dependent on human programming, but the modern computer can acquire and apply knowledge independent of human input. This is considered artificial intelligence or AI. AI has the potential to transform the global economy on a scale never seen before making it the new buzzword on and around Wall Street. So much so, that analysts and investors track how many times a CEO or CFO uses the word on an earnings call. Their reasoning: just as the assembly line and internet increased productivity, AI is expected to improve workforce efficiency and accuracy, driving profitability and ultimately a stock price. Throughout history, the composition of the stock market has been dominated by the innovation of the time-period. During the 19th century, the transcontinental rail system transformed America, and railroad companies made up over half the entire stock market. By the 20th century, oil was king to fuel cars and planes, so unsurprisingly oil companies comprised the majority of the stock market. As we look back on the last twenty years, computer and software innovation has dominated the start of the 21st century economy and consequently technology is about 26% of the S&P 500 Index – healthcare is a distant second at 14.5%. As we progress through this century, it is assumed the companies that embrace and successfully implement artificial intelligence, will become the most successful and valuable to investors and society. Many of the largest most recognizable companies in the world have been using AI for years not only in their business operations, but also in the products we as consumers use every day. These include Google search, Iphone's Siri voice assistant, Uber maps, Amazon's Alexa, and Netflix. As with all new frontiers, there will be winners and losers but for the companies that can effectively traverse this new horizon, the future is bright.



Around the Office

MESSAGE FROM MAC

On December 31, 2023, I will be retiring.

While I look forward to my coming years with great anticipation, it will be a bittersweet moment as well. After 37 years in this amazing industry, I look back and realize this is not what I've done with my life but rather it's who I was for so long.

To know that I've had my fingers on the economic pulse of the world for so long is amazing to me. What a privilege I have been given; a front seat to witness both the most prosperous years and the least prosperous as well. At times we cheered. Others, we looked into the abyss of financial calamity.

I'll be communicating more in the coming months.

In the meantime, May I simply say, Thank You!

Mac

RAYMOND JAMES®
9900 Clayton Road, St. Louis, MO 63124

Raymond James & Associates, member New York Stock Exchange/SIPC

Harold MacFarland, Senior Vice President, Investments
314.214.2130 / harold.macfarland@raymondjames.com

Tadd Hicks, CFP®, CIMA®, First Vice President, Investments
314.214.2144 / tadd.hicks@raymondjames.com

Lukas O. Bridenbeck, CFP®, Financial Advisor
314.214.2172 / lukas.bridenbeck@raymondjames.com

Margaret Noel Senior Client Service Associate
314.214.2131 / margaret.noel@raymondjames.com