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SECOND QUARTER 2023 NEWSLETTER

Reversal

Both stocks and bonds delivered positive returns in an up and down Q1 as markets reversed the slide that persisted throughout 2022.

The true villain in the 2022 tearjerker was the bond market as the US Aggregate Bond Index declined by 13%, the worst year ever for US bonds. Prior to 2022, the worst year ever was 1994 which suffered a decline of just 2.9%. We'll explain below why it was unlikely such historically bad performance would persist.

Equities suffered last year as well, however the 18.1% decline in the S&P 500 was within the bounds of a garden variety stock market selloff. Nonetheless, the Q1 lift-off was most heartening for weary market participants.

The salt in the wound in 2022 was the simultaneous misery experienced by stocks and bonds which historically don't correlate so closely as they did last year.

The different sort of correlation characterized by Q1 represented a most welcome change.

Review of Previous Quarters:

	12/31/2021	12/31/2022	03/31/2023	YTD Change as of 03/31/2023
S&P 500	4,766.18	3,839.50	4,109.31	+ 7.03%
Dow	36,338.30	33,147.25	33,274.15	+ 0.38%
NASDAQ Composite	15,644.97	10,466.48	12,221.91	+ 16.77%
Russell 2000	2,245.31	1,761.25	1,802.48	+ 2.34%
MSCI EAFE	2,334.61	1,943.92	2,084.49	+7.23%
10-Year Treasury Note	1.51%	3.87%	3.48%	- 39 basis points
3-Month T-Bill Rate	0.06%	4.30%	4.77%	+ 47 basis points
Price of Gold (COMEX)	$1,830.30	$1,829.70	$1,987.60	+ 8.84%
Crude Oil (NYMEX)	$75.44	$80.41	$74.37	- 5.72%
US Dollar Index	95.64	103.48	102.57	- 1.33%

Inclusion of these indexes is for illustrative purposes only. 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. Individual investor's results will vary. Past performance does not guarantee future results.

- *A **basis point** is 1/100th of one percentage point.*
- ***Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.*
- ***Treasury Notes** are marketable U.S. government debt securities with a fixed interest rate and a maturity between one and ten years.*
- *The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S .stock market.*
- *The **NASDAQ** composite is an unmanaged index of securities traded on the NASDAQ system.*
- *The **Russell 2000** is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.*
- *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 **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.*
- *The **US Dollar Index** measures the value of the U.S. dollar relative to a basket of top 6 currencies: EUR, JPY, GBP, CHF, CAD and SEK.*

Bonds were Bound to do Better

Think back to a year ago. Bond investors were collecting only meager coupons and then rates went up. When rates go up, bond prices fall. Those meager coupons were no match for falling bond prices, resulting in poor total returns for bond investors.

Today, coupons are substantially higher. Should rates rise further, more robust coupons will help offset lower prices. The higher rates today are especially attractive to those reinvesting monthly distributions from bond mutual funds. The ability to earn and compound at higher rates is a recipe for better results.

Cross Currents

The US economy marches along amid forecasts of a looming recession. US GDP growth clocked in at +2.6% in Q4 2022 and the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters shows a median forecast of +.6% GDP in Q1 2023.

Kiplinger observes US unemployment at 3.4% now and forecasts a range of 3.7% -4.2% at year-end.

The Fed has continued down the path of higher rates, even after the headline grabbing failure of Silicon Valley Bank, which most agree will have a dampening effect on the economy.

As a point of interest, it should be known that Silicon Valley Bank failed, not because of poor lending practices, but rather due to a failure in managing interest rate risk on its portfolio. Selling bonds at substantial losses to meet withdrawal requests from its unstable deposit base presaged its undoing.

One point of view is that the resiliency demonstrated by the economy, and relatively constructive market action, suggest a mild recession or perhaps, no recession at all.

The alternative point of view believes the rapid reduction in the M2 measure of money supply portends a recession in the US within the next few quarters. This group sees a Federal Reserve determined to rein in inflation and predicts rates higher for longer than the markets are discounting at this time.

The key issues for equity investors are the degree to which current earnings estimates accurately account for the slowing economy, and the multiple of earnings buyers are willing to pay for companies in a higher rate / slower growth environment.

Another thing to keep in mind is the forward-looking nature of markets. Should a recession occur, markets may already be anticipating lower interest rates and better profits to come in an improving economy.

Market Wisdom

There are always a few clouds on the investment horizon. It is rare that signals and indicators are not mixed. Bull markets will follow bear markets and vice versa. The crystal ball is invariably hazy.

None of these are reasons not to stay invested. Rather, these are all reasons to invest intelligently and in concert with your goals and time horizon.

Patience is perhaps the most important quality exhibited by successful investors. In the short-term markets fluctuate greatly driven by emotion. In the long-term markets rise, reflecting the true value of underlying businesses.

For most of us, our investment time horizon is the rest of our lives and portfolios should be constructed accordingly. Liquidity and cash flow needs must be addressed from the outset. Beyond that, a well-conceived mix of bonds and stocks provides the potential for achieving adequate returns to accomplish long-term goals while dampening the effects of short-term volatility.

We are the masters of our own destiny. In large part, our future success depends on our ability to stay the course with a sound long-term plan.

MCM Notes

Undaunted by the lack of snow in the northeast, **Orlando Diaz** took advantage of the opportunity to travel with a group of close friends to Jackson Hole, Wyoming. The boys were greeted by two feet of new snow, enjoying a fantastic week snowboarding in the fresh powder. Upon his return, Orlando embarked on the Certified Financial Planner (CFP) program and is preparing to sit for the first of a series of challenging exams. Orlando has also become quite active with his alma mater, The University of Rhode Island, assisting in the creation of a New Jersey Alumni Network.

Dan Long escaped the rigors of winter in New Jersey with some quality time in Florida. He was able to visit several MCM clients and enjoy some vacation time with girlfriend, Erica, and her family in lovely Naples. After several rounds in Florida, Dan anticipates a stellar NJ golf season this year! He concluded his journey by attending the Raymond James Winter Symposium in Orlando, where he learned valuable insights on resiliency and healthy living.

Always the high-energy individual, **Kerry Mellott** persisted with her relentless schedule of MCM and family activities. Her son, Gavin (8), has become quite the hockey player. Kerry and husband, Garrett, have enjoyed traveling with the team and making friends with all the other hockey families. A particular highlight this season was a weekend long tournament in Niagara Falls. Kerry also traveled south, visiting MCM clients and family members on both coasts of Florida.

As you know, **Bob Burke** serves as both our equity market and college basketball expert. Bob was happy to see the constructive results produced by equity markets in Q1 but disappointed that his NCAA brackets were busted just like the rest of us! Bob also made it to Florida, visiting MCM clients in several regions of the state.

Not to be outdone by the rest of the team**, Bill Burke** spent some productive, enjoyable time in Florida as well. Bill visited MCM clients all over the state and attended two Raymond James conferences; the Winter Symposium mentioned previously and a Cash and Lending Solutions Conference. It is worth noting that Raymond James offers a variety of safe, short-term fixed income solutions paying attractive rates of interest. We have gathered quite a sum of new assets seeking safety and yield in the wake of recent banking woes.

Our practice continues to grow, in large part from referrals from our valued clients. We would be honored to take care of a friend, colleague, or family member in the same fashion we have served you.

Thank you for your continued trust and support.

Sincerely,

Bill

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