



2Q 2023 – ChartPack

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Looking back on the 2nd Quarter of 2023

- Stock market positive – led by US large cap growth
- Growth stocks outperform
- International performs well
- Dividend payers flat to down
- Inflation falling – fed funds rate still rising
- US banks decline as depositors move to money market funds

Performance – Major Asset Classes

<u>Asset Class</u>	<u>Index</u>	<u>2nd Q</u>	<u>YTD</u>	<u>1yr</u>	<u>3yr*</u>	<u>5yr*</u>
US Large Cap Stocks	S&P500	8.74%	16.89%	19.59%	14.60%	12.30%
US Mid Cap Stocks	Russell Midcap	4.76%	9.01%	14.92%	12.50%	8.45%
US Small Cap Stocks	Russell 2000	5.21%	8.09%	12.31%	10.82%	4.21%
Dow Jones Industrial Avg	DJIA	3.97%	4.94%	14.23%	12.30%	9.58%
US Dividend Paying Stocks	DJ Select Dividend	-2.54%	-4.32%	0.47%	16.41%	7.20%
NASDAQ	NASDAQ	12.81%	31.73%	25.02%	11.08%	12.91%
Int'l Developed Mkt Stocks	MSCI EAFE	2.95%	11.67%	18.77%	8.93%	4.39%
Int'l Emerging Mkt Stocks	MSCI EM	0.90%	4.89%	1.75%	2.32%	0.93%
US Bonds	Bar Aggregate Bond	-0.84%	2.09%	-0.94%	-3.96%	0.77%

YTD = Year to Date

*return is annualized

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Russell Mid-cap Index consists of the bottom 800 securities in the Russell 1000 index as ranked by total capitalization. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Dow Jones U.S. Select Dividend Index aims to represent the U.S.'s leading stocks by dividend yield. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

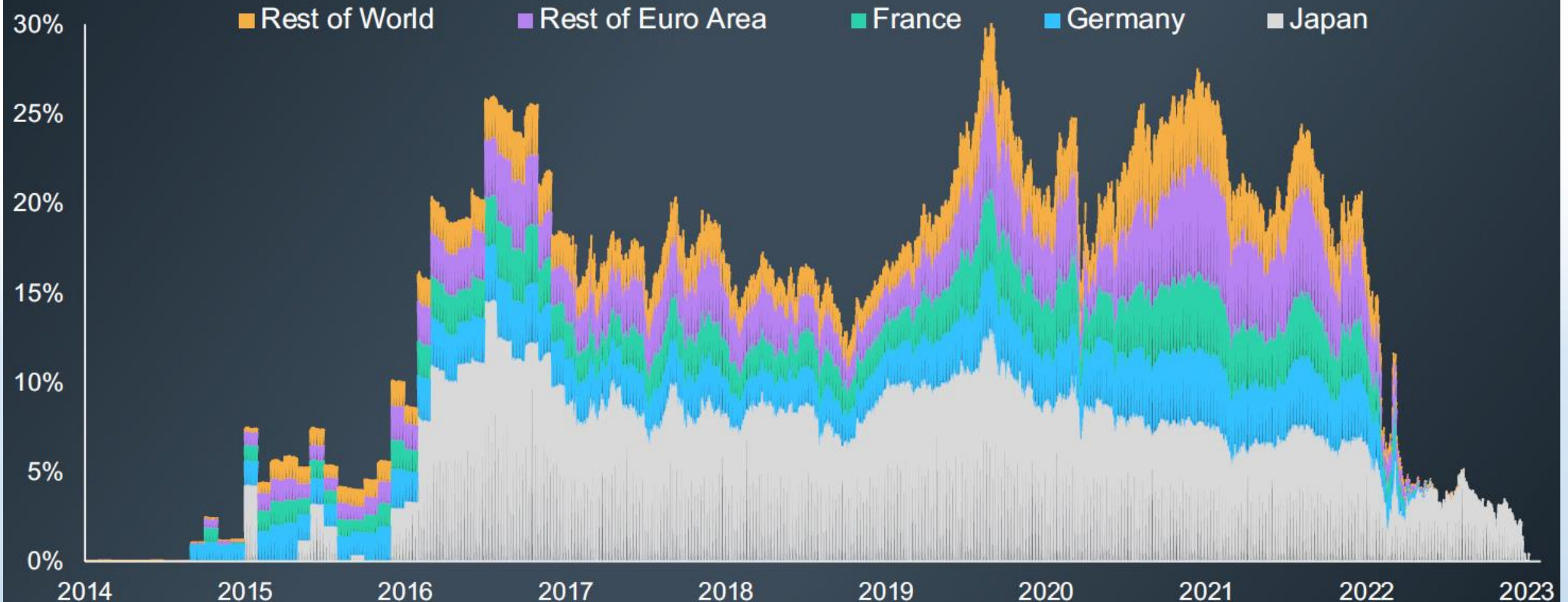
US Equity – Return by investment style

	Value	Blend	Growth
Large	5.1%	16.9%	29.0%
Mid	5.2%	9.0%	15.9%
Small	2.5%	8.1%	13.6%

Global rates normalizing

Proportion of Negative-Yielding Global Bonds

As of January 6, 2023

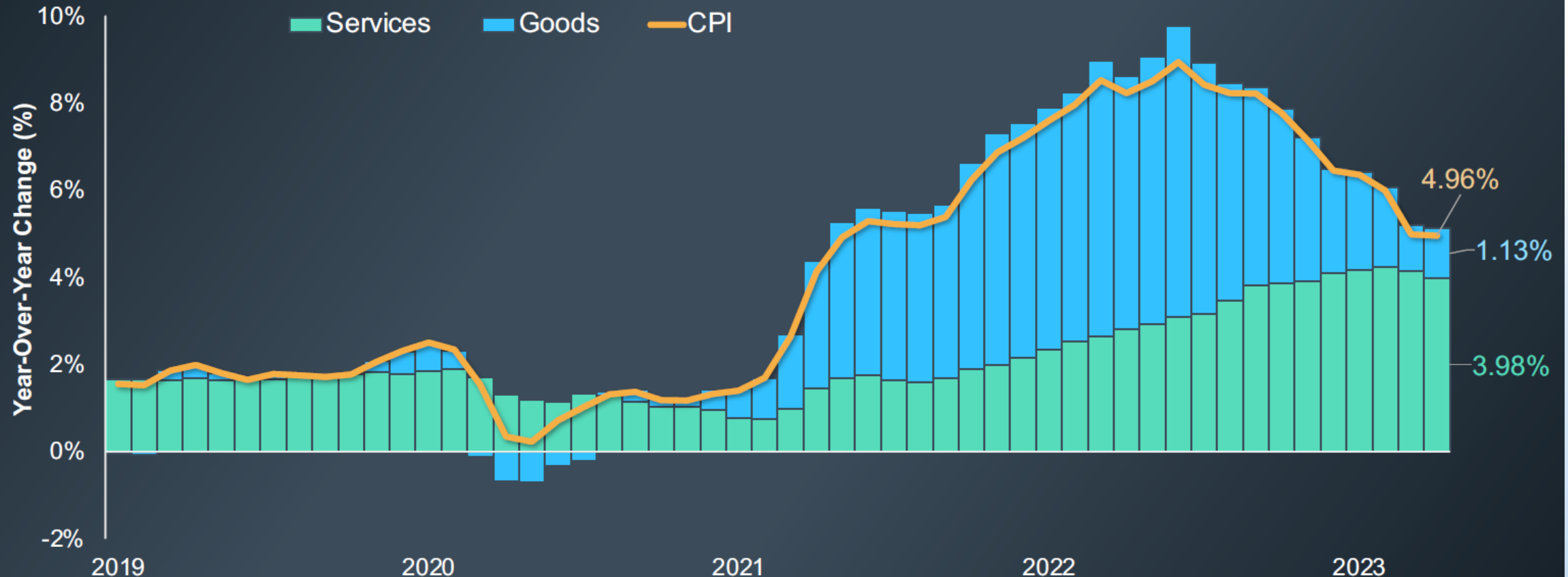


Inflation falling – services inflation sticky

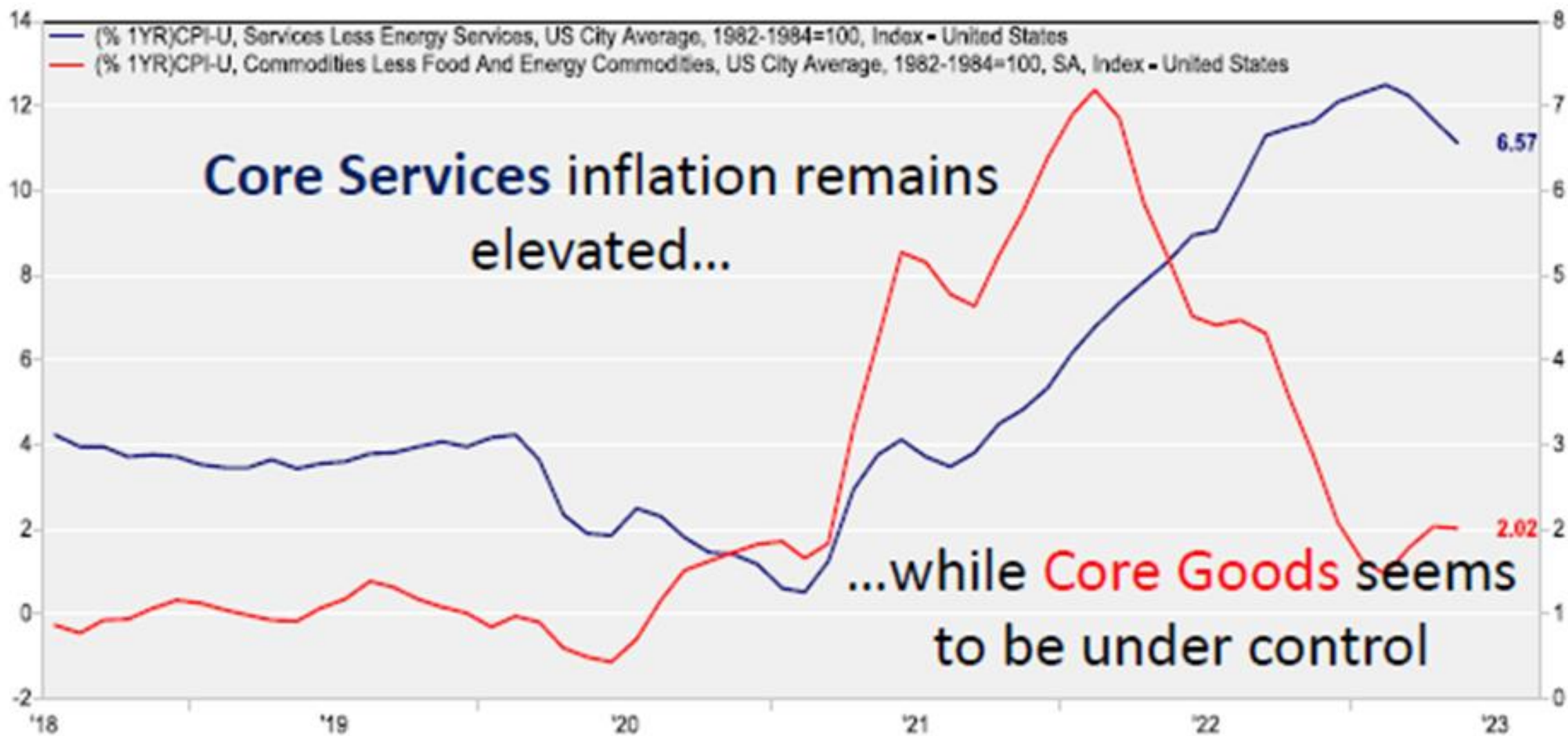
Inflation Has Shifted From Goods to Services

Contribution to CPI

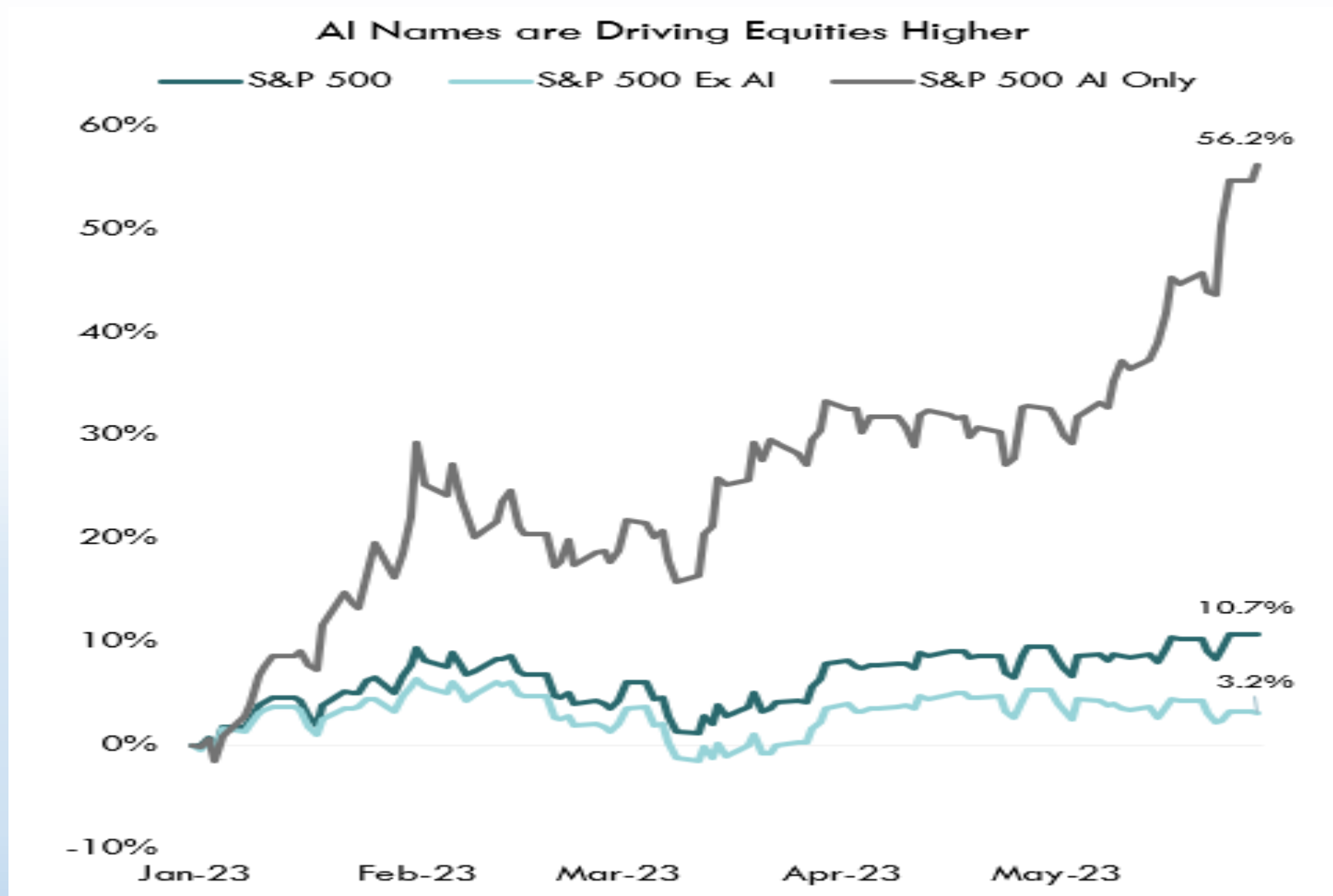
January 2019 to April 2023



Inflation



AI driving market returns in 2023

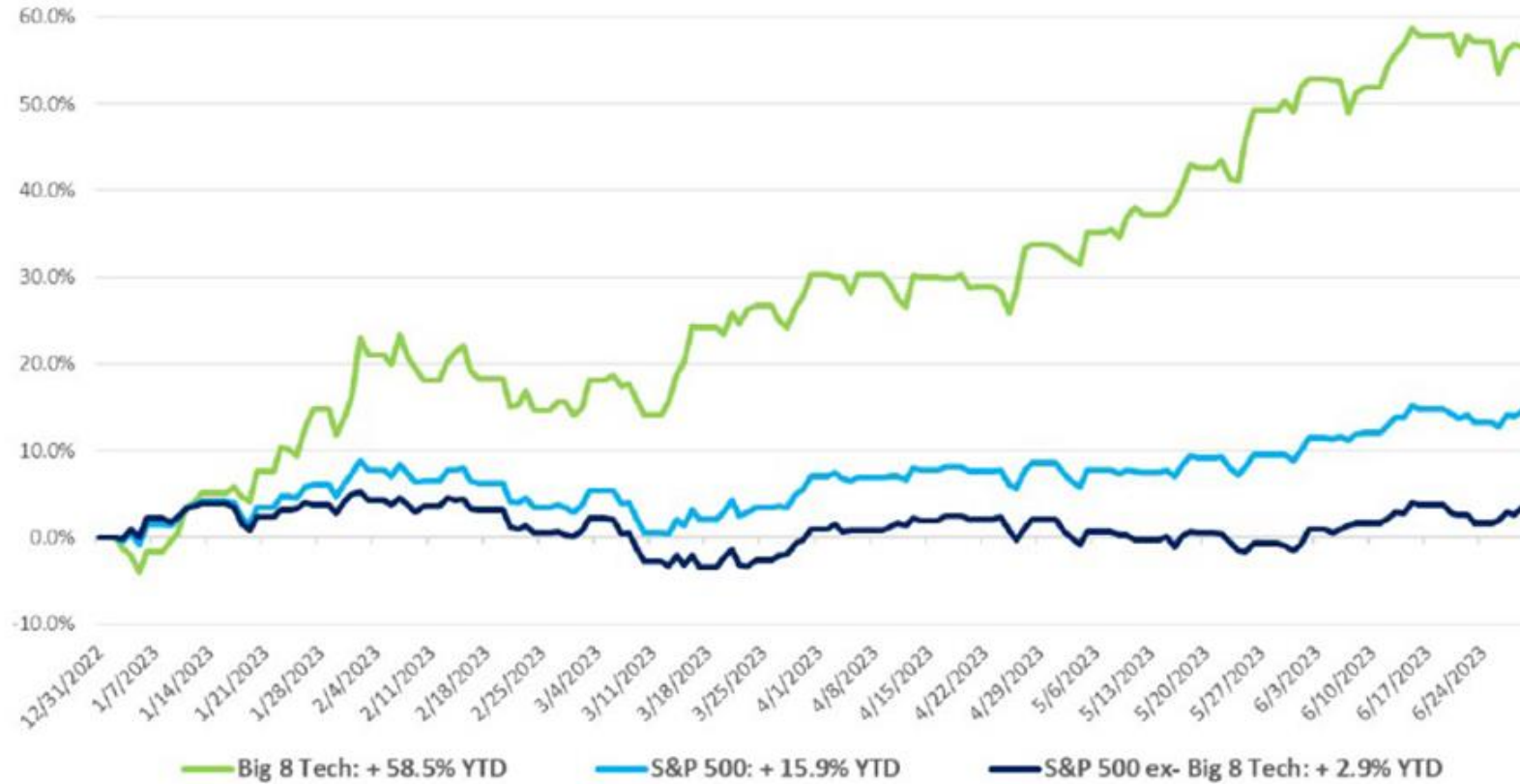


This is unique...how does it end?



The MegaCap Rally

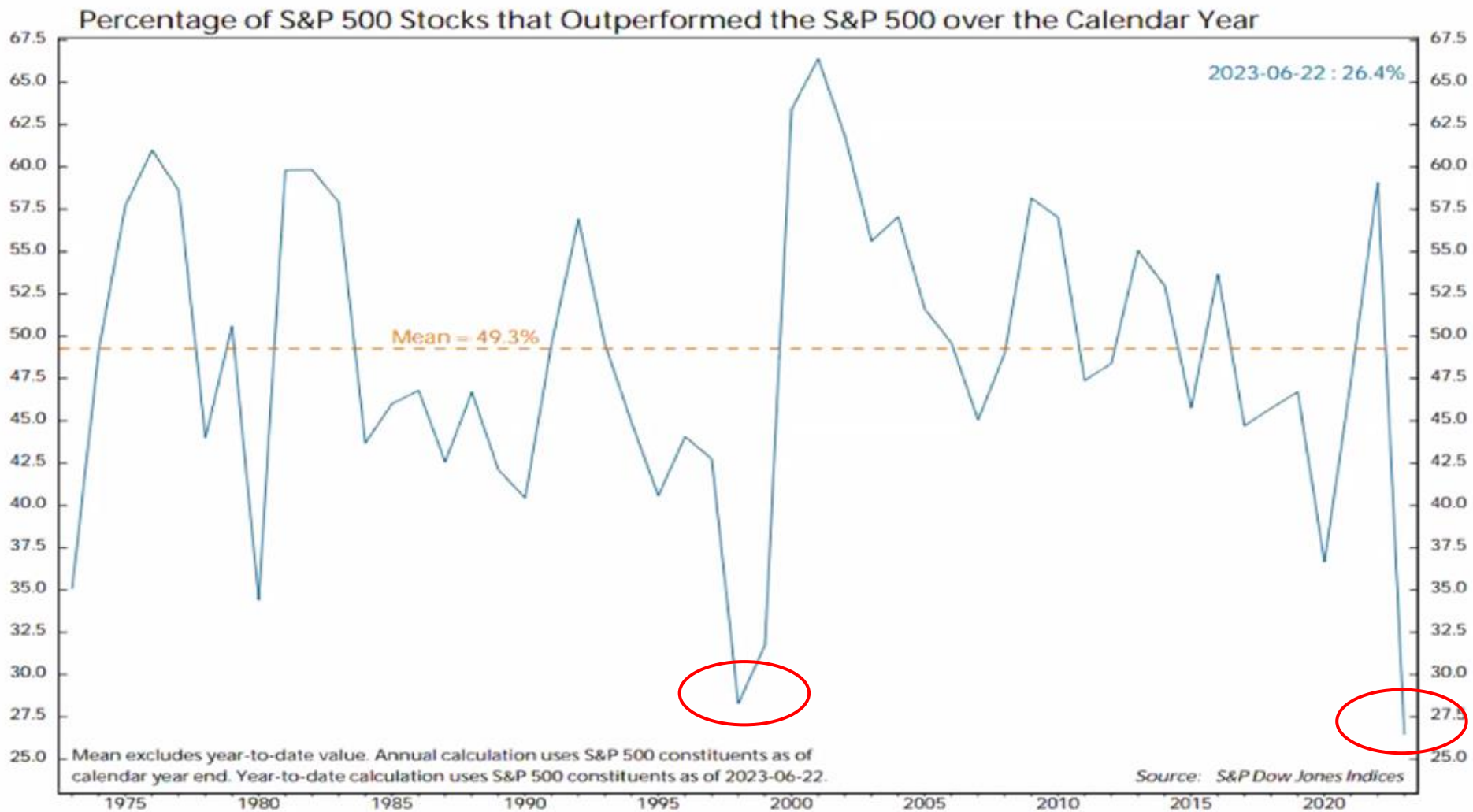
Big 8 Tech Stocks Driving S&P 500 YTD Performance



Big 8 Tech Stocks - Current S&P 500 Weights								
Apple	Microsoft	Alphabet	Amazon	NVIDIA	Tesla	Meta	Netflix	Total
7.7%	6.8%	3.6%	3.1%	2.8%	1.9%	1.7%	0.5%	28.2%

Note: Performance displays price return, not total return.
Source: Federated Hermes, Bloomberg as of June 30, 2023.

Percentage of S&P 500 Stocks Outperforming the Index



Source: Ned Davis Research, 06/22/2023.

Past performance does not guarantee future results. You cannot invest directly in an index.

US Consumer – jobs very strong

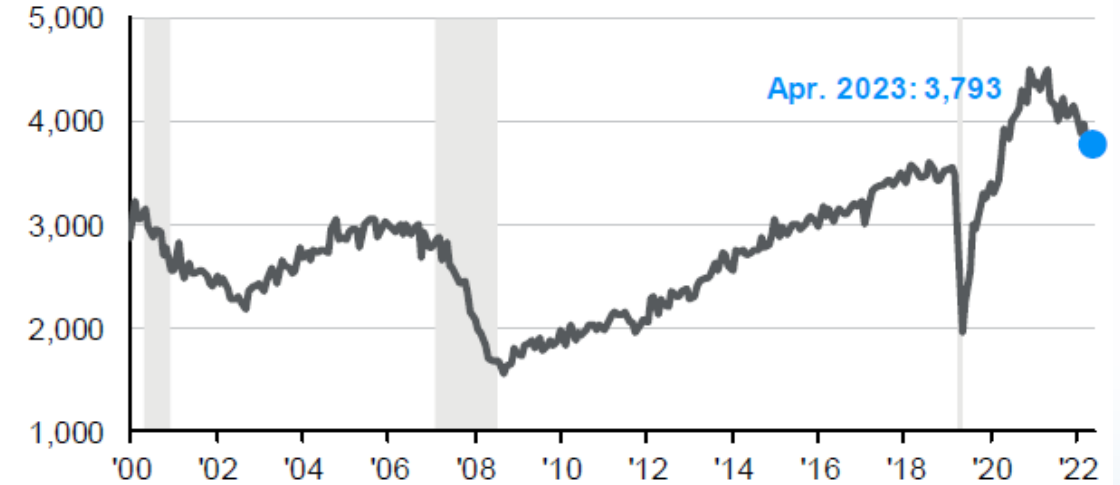
JOLTS job openings*

Total job openings, thousands, seasonally adjusted



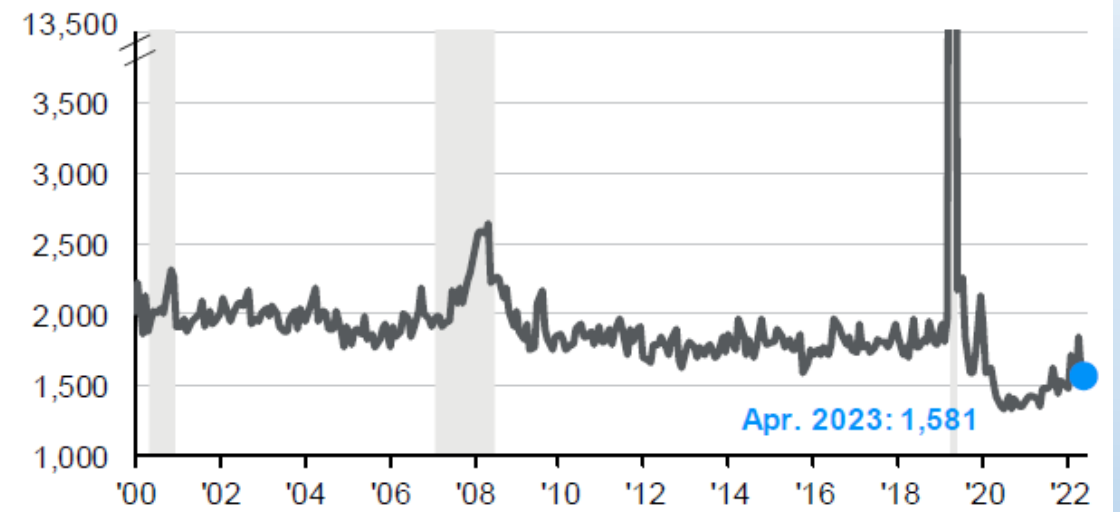
JOLTS quits

Total nonfarm quits, thousands, seasonally adjusted



JOLTS layoffs

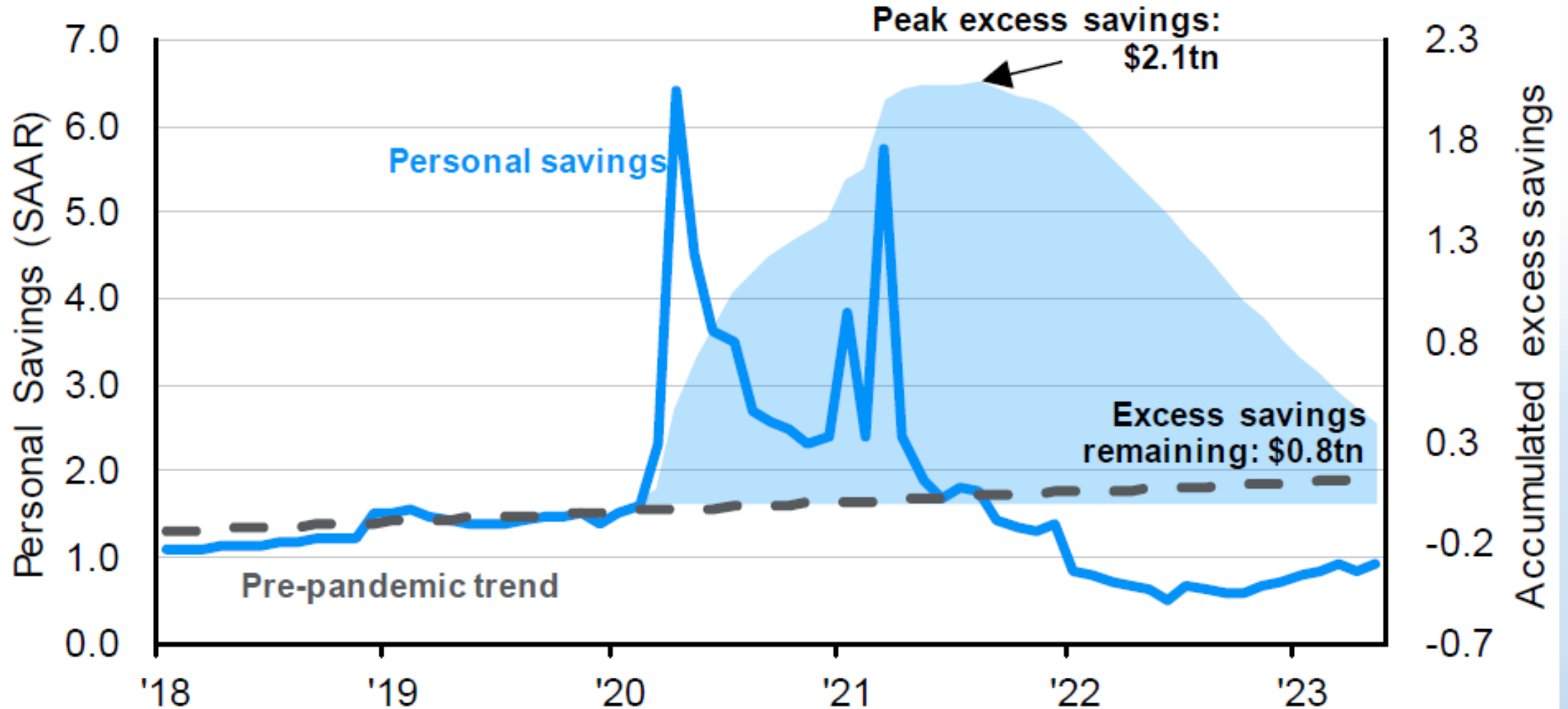
Total nonfarm layoffs, thousands, seasonally adjusted



US Consumer – declining savings rate

Household excess savings

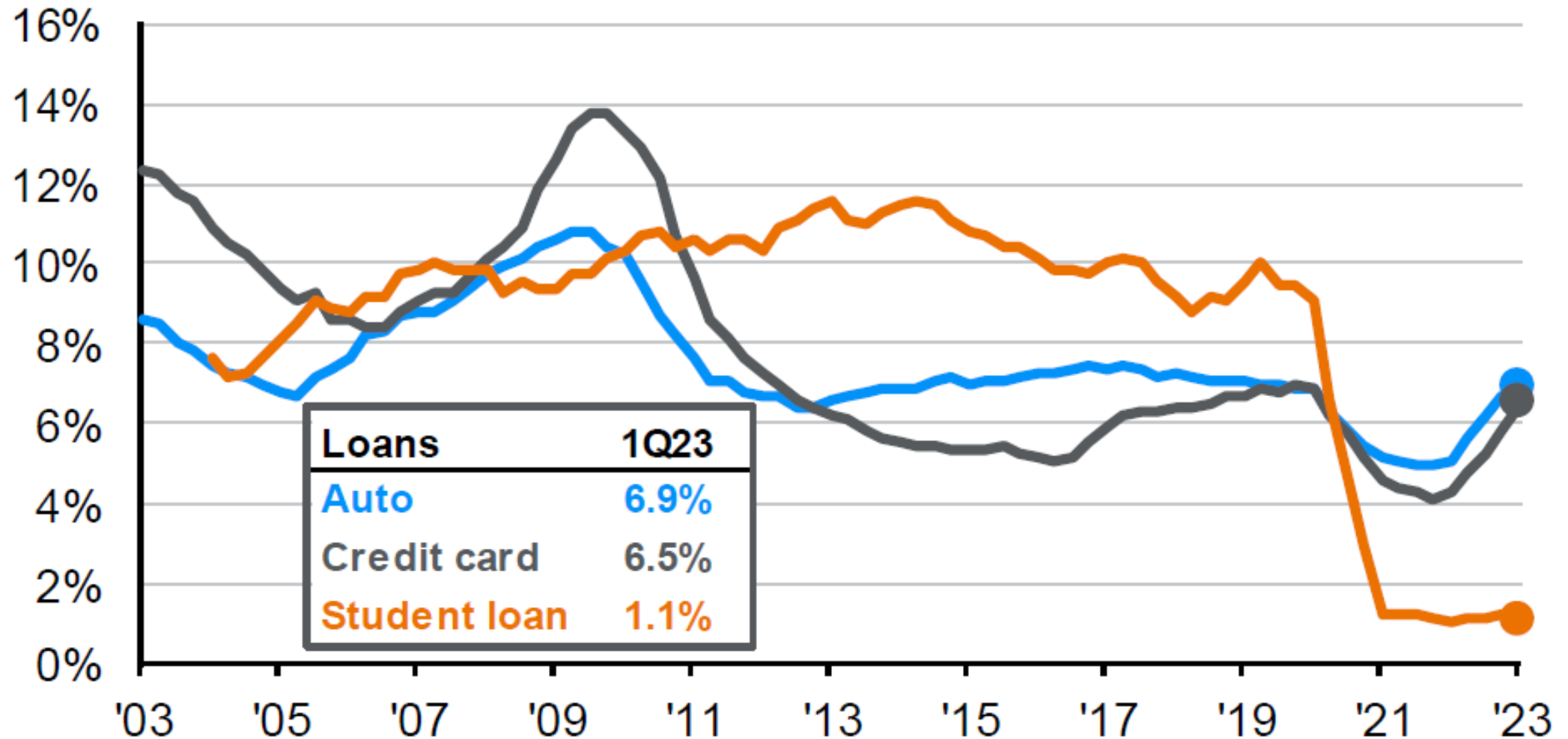
Trillions of USD



US Consumer – reaching a tipping point?

Flows into early delinquencies

% of balance delinquent 30+ days

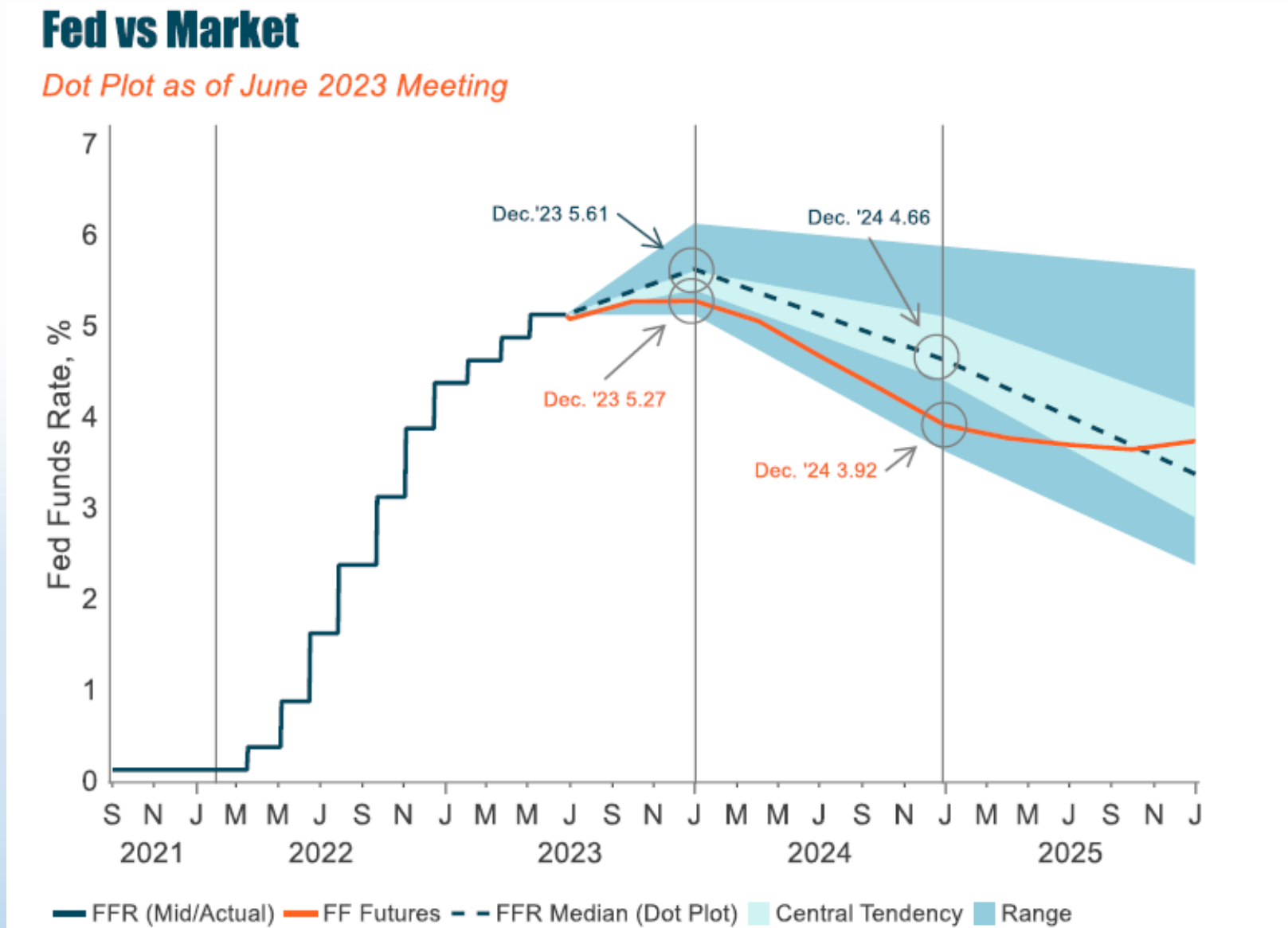


Can we afford the payments?

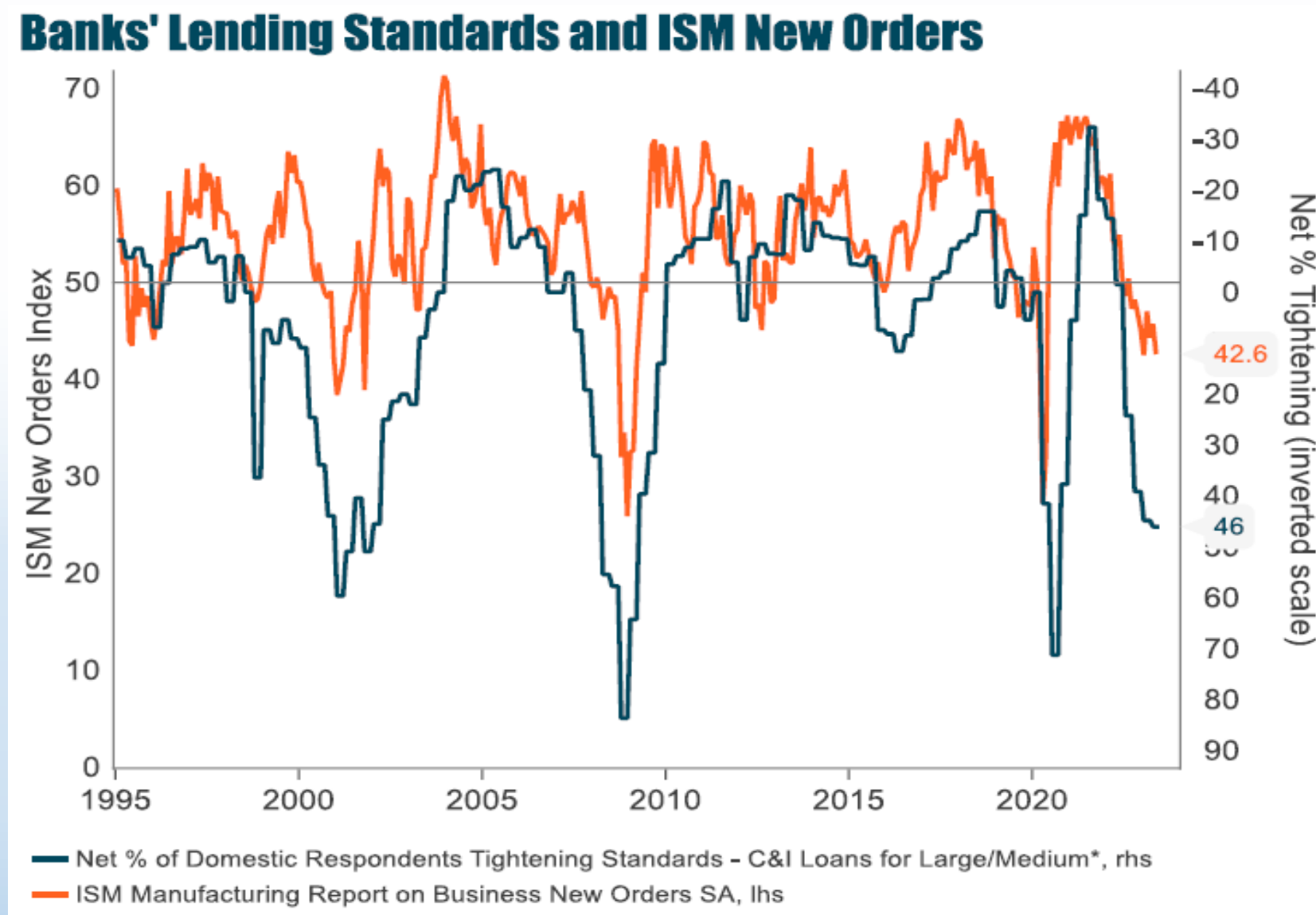
Net Interest Cost, Pct of Tax Revenues & Avg. Annual 10-Year Treasury Yields



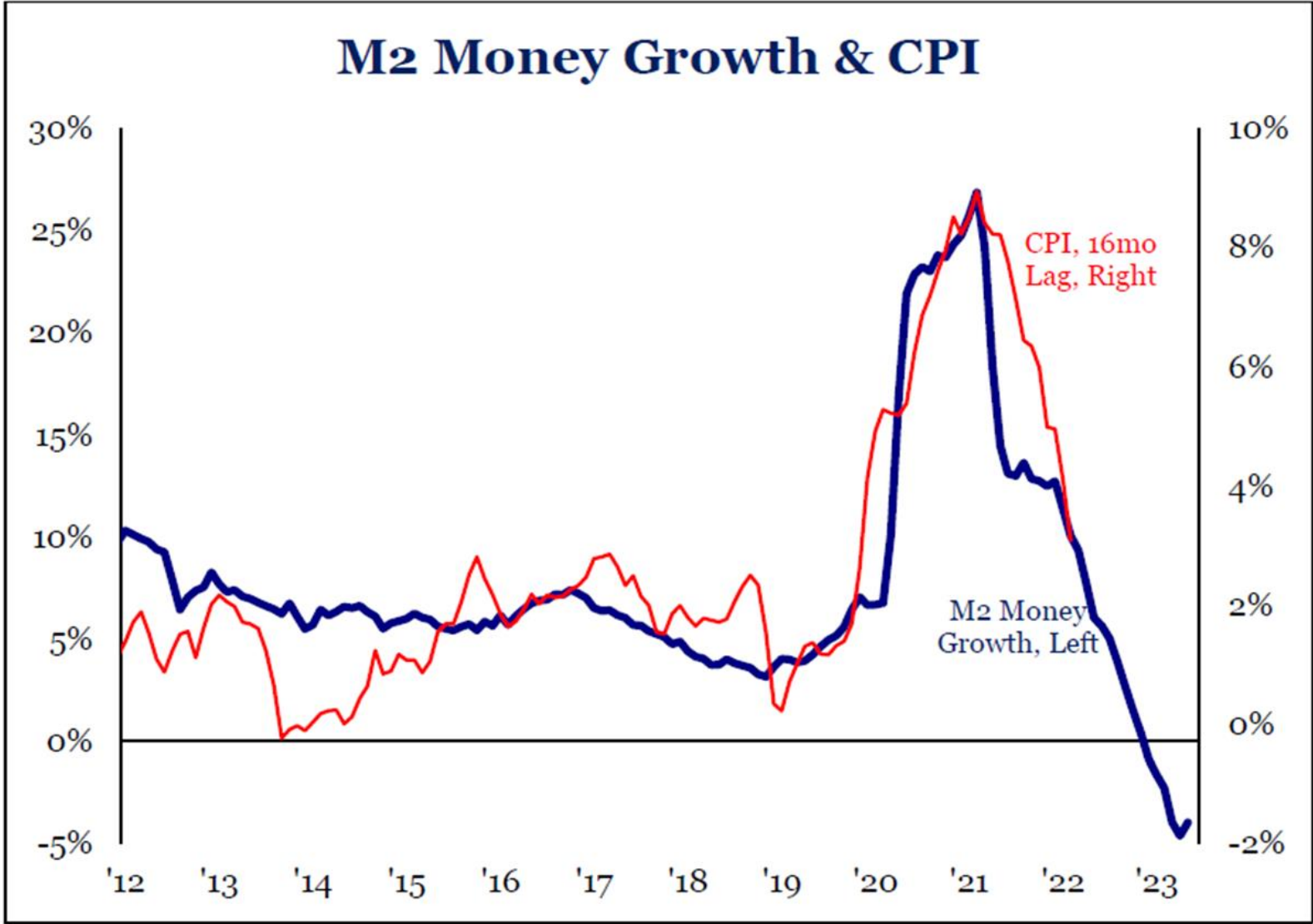
FED – have to stop raising rates before they cut



Banks tighten lending standards will new orders continue to slow



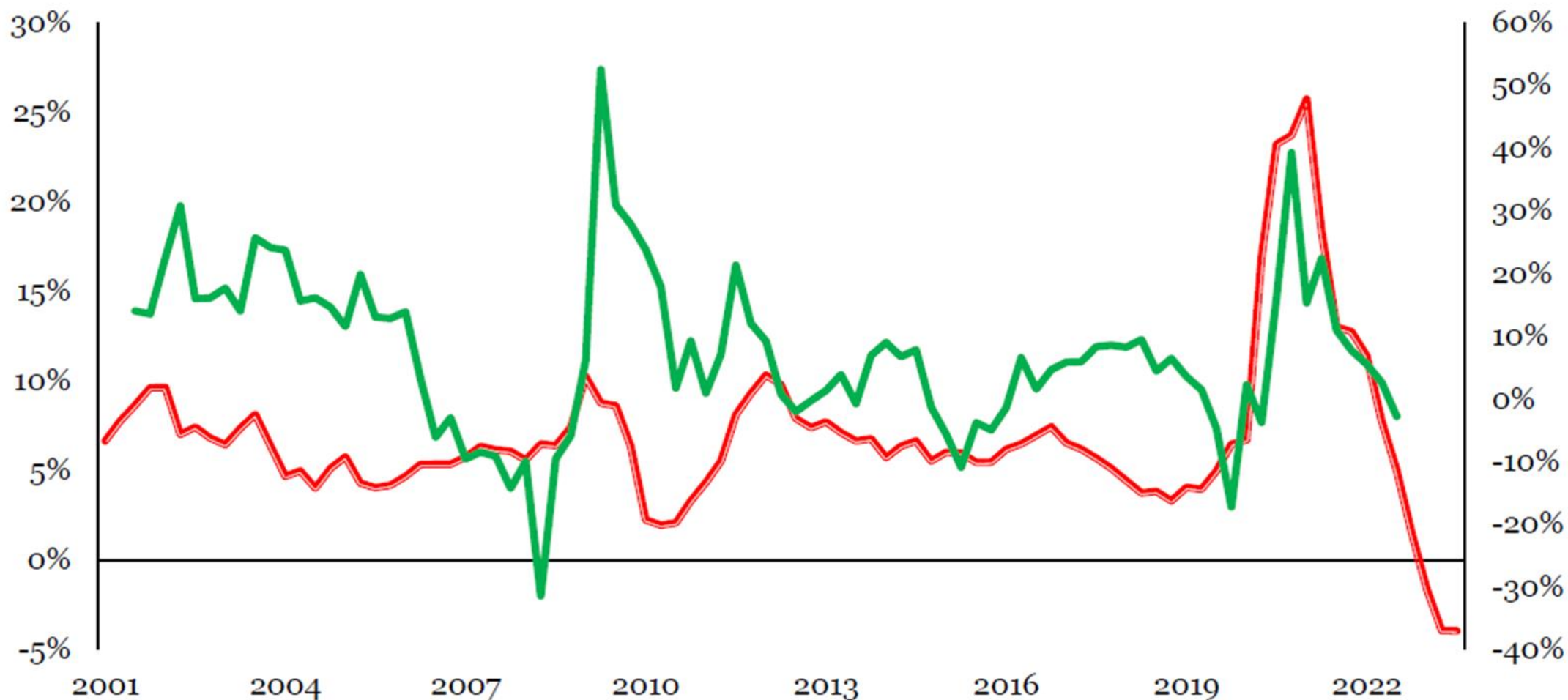
Money Supply



US money supply contracted for the first time since the 1940s and this is helping to wring inflation out of the system. Money growth leads CPI by 16 months and this has helped bring inflation down to 3% in June while employment has held up. As such, investors have been pushing back their recession timing.

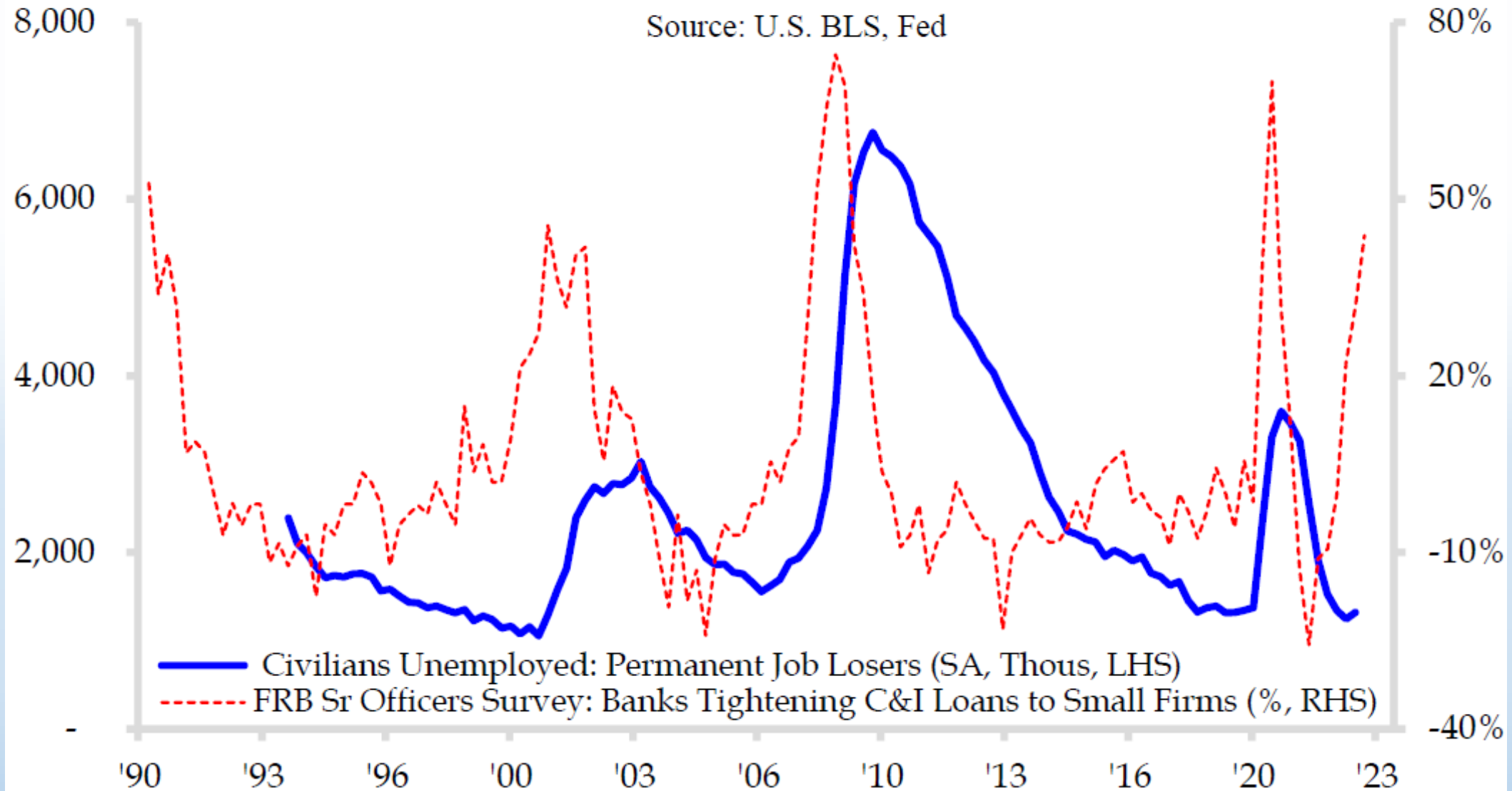
M2 Money Growth & Corporate Profits

— M2 Growth Y/Y — Corporate Profits, Y/Y Percent Change (2-Quarter Lag, Right)

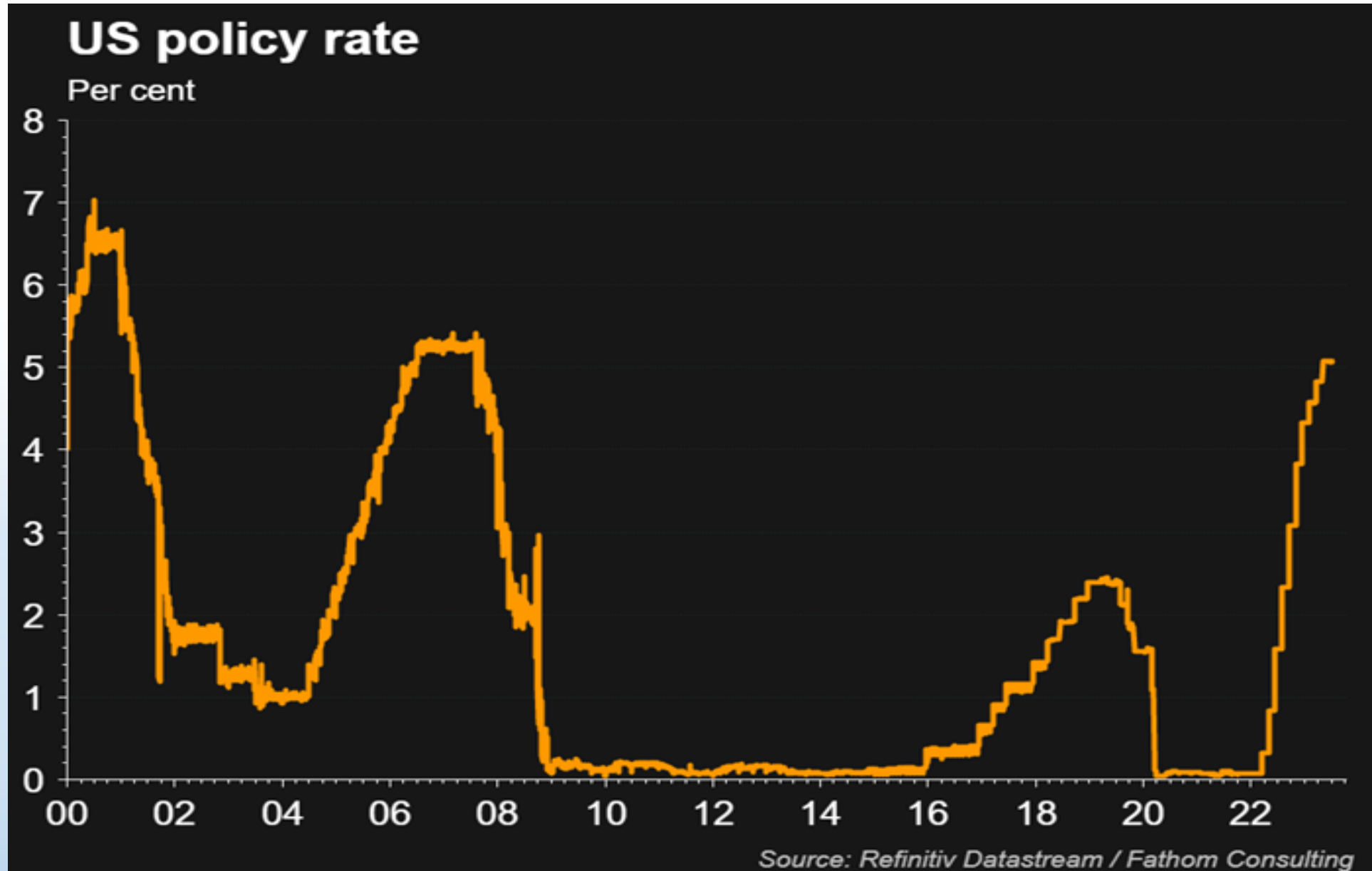


Bank tightening led job losses last 3 cycles

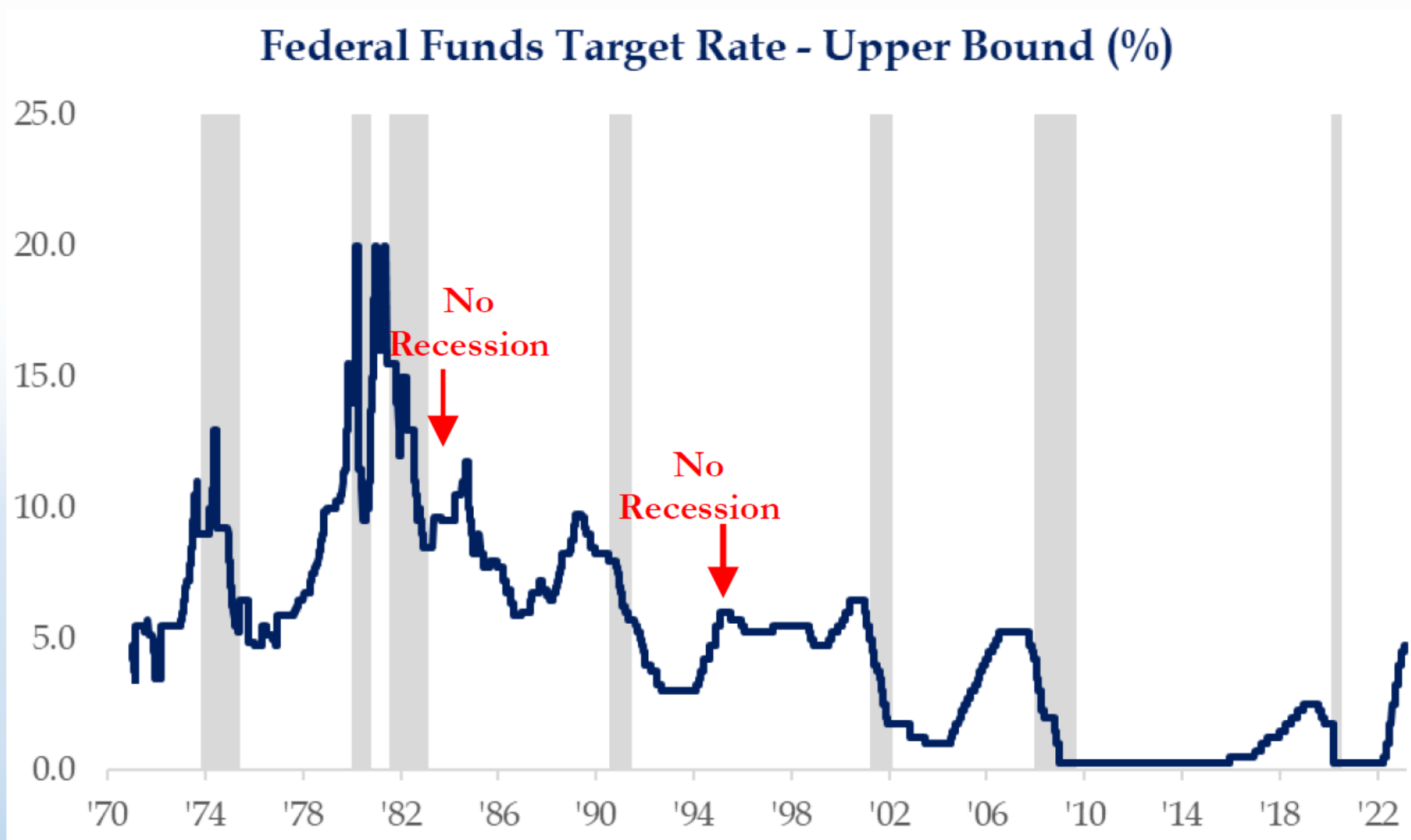
U.S. Banks Tightening Lending vs. Job Loss



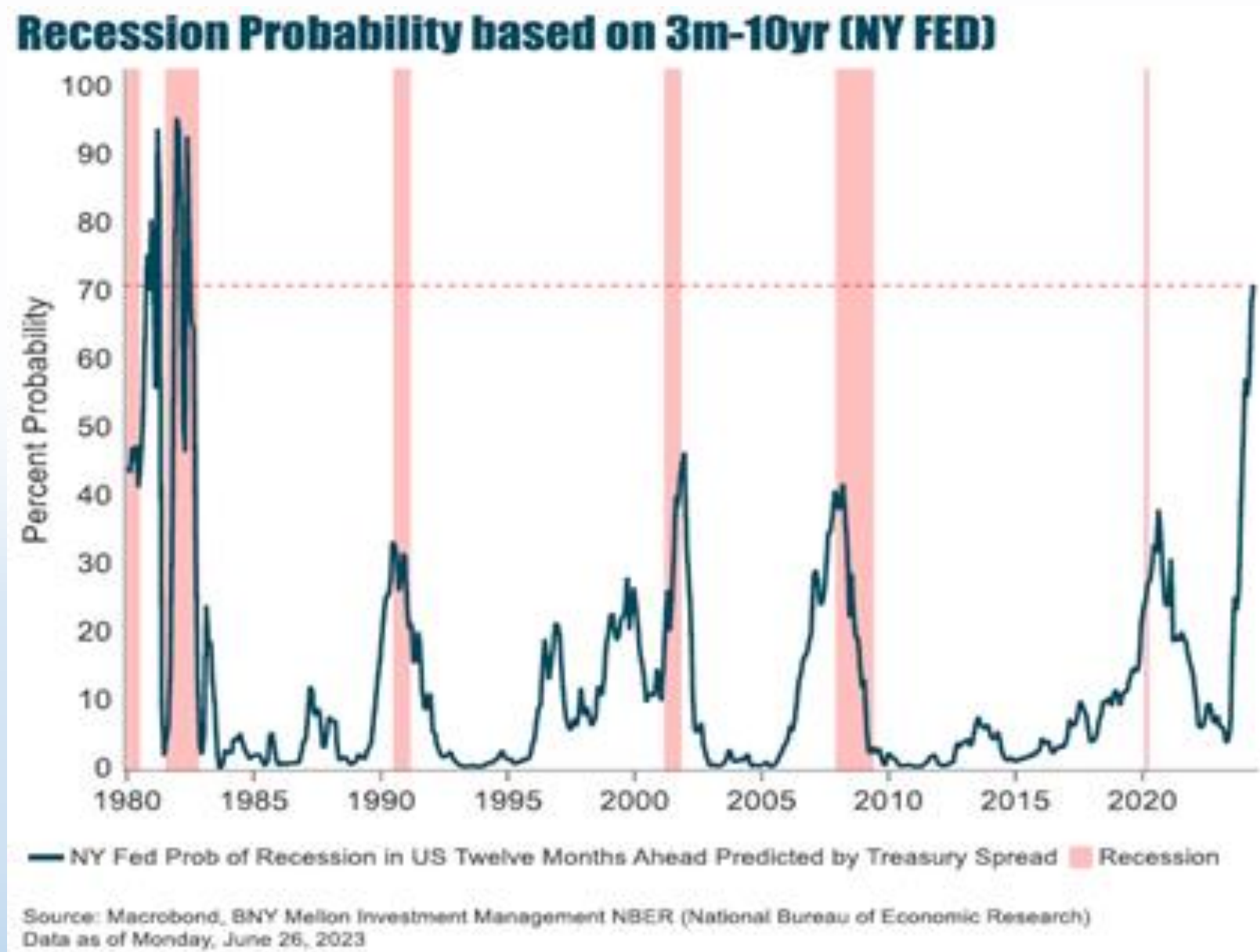
Fed Funds...how far can they go?



Recession followed 7 of last 9 rate hike cycles



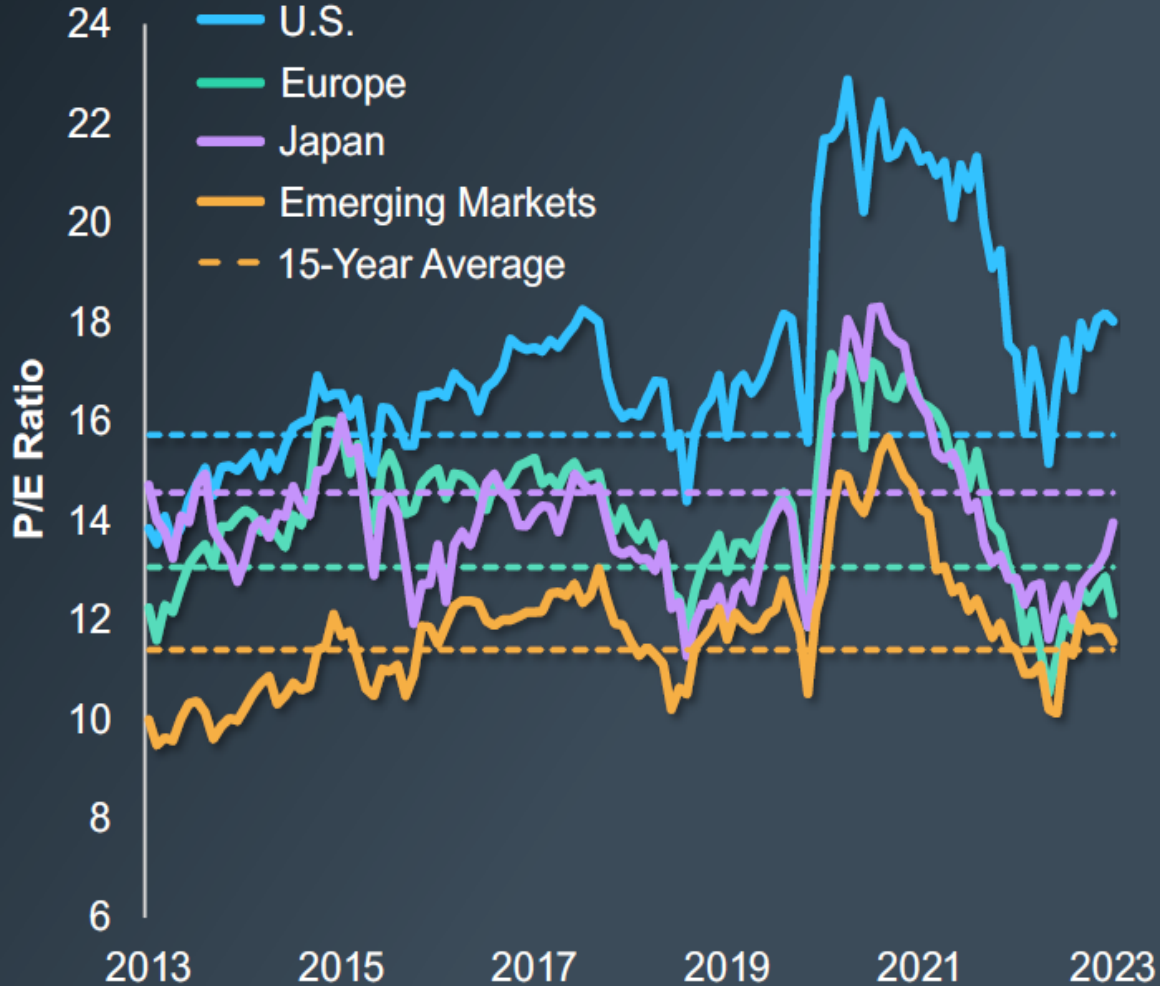
Recession odds growing



Opportunity in EM or Japan

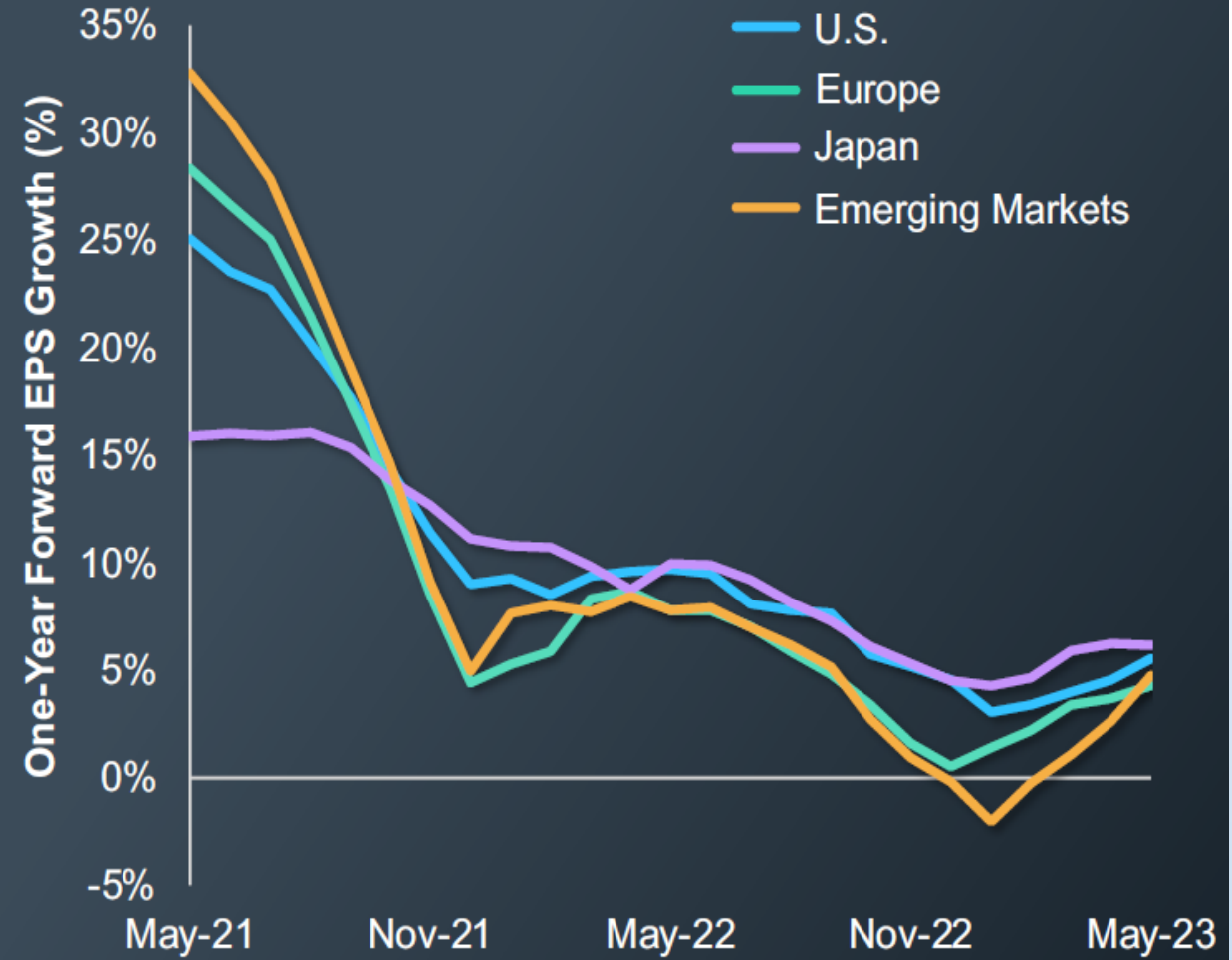
Valuations: Price to Earnings

Next 12 Months, Past 10 Years Ended May 31, 2023



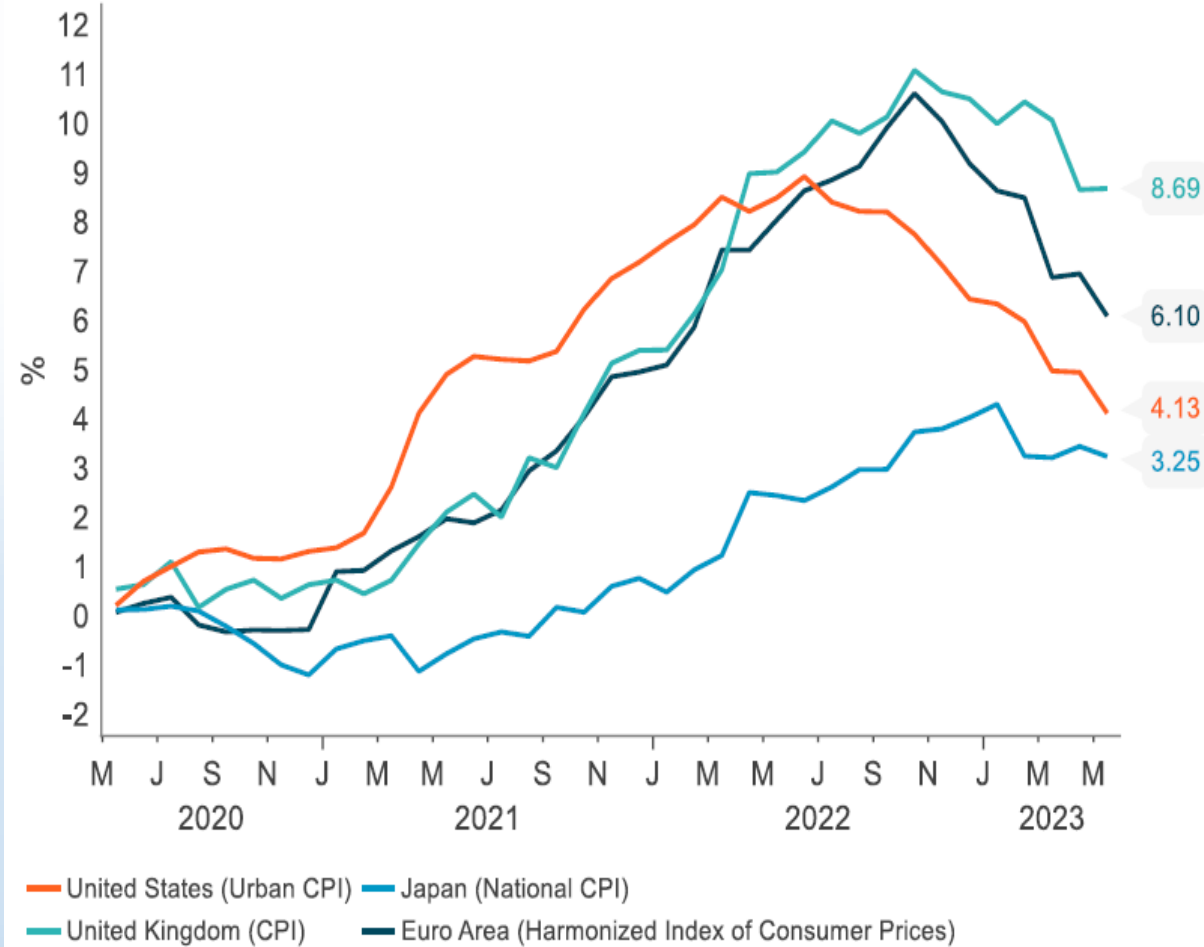
Earnings Growth Estimates

One-Year Forward EPS Growth
Last Two Years Ended May 31, 2023

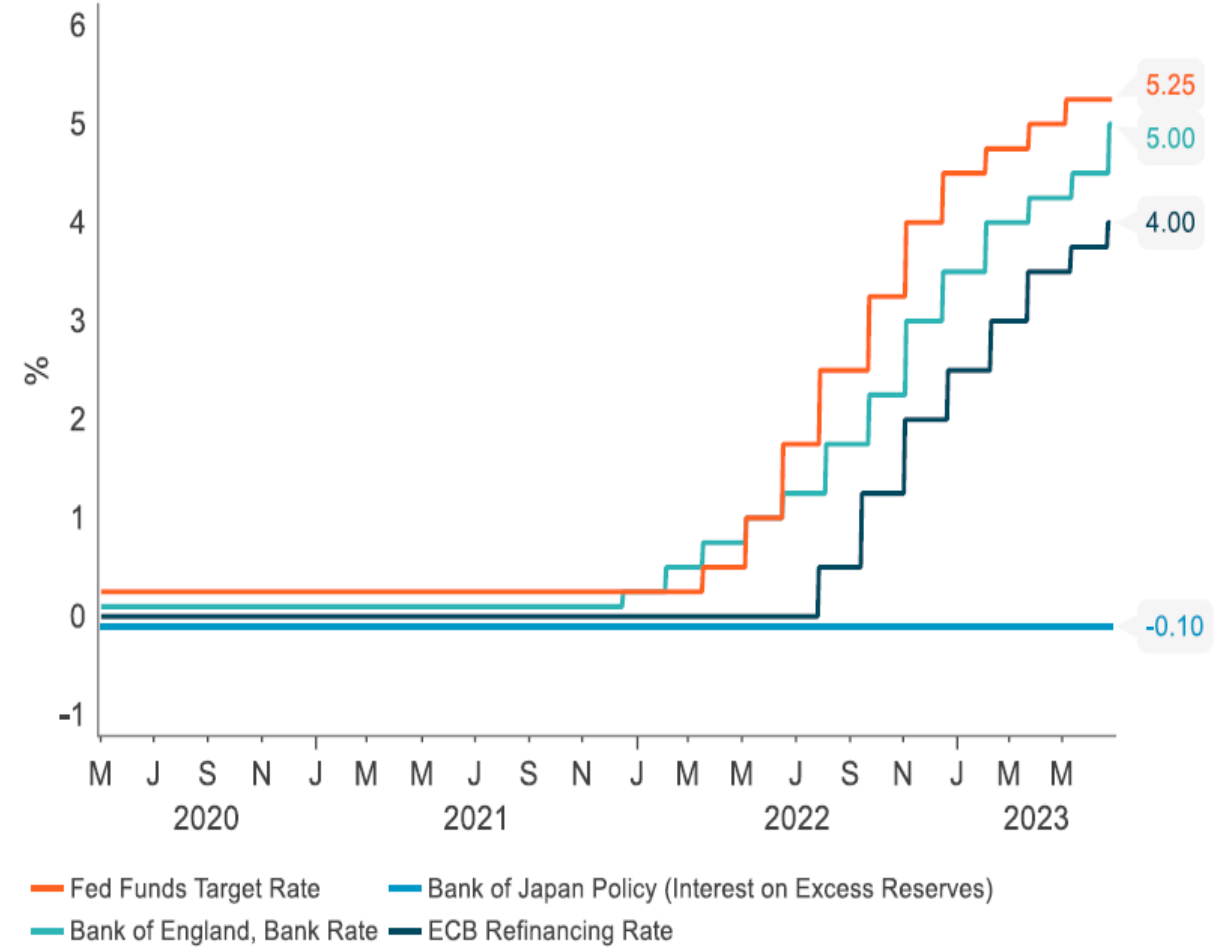


Japan...can it be a growth market

Inflation in G3 Economies and in the United Kingdom

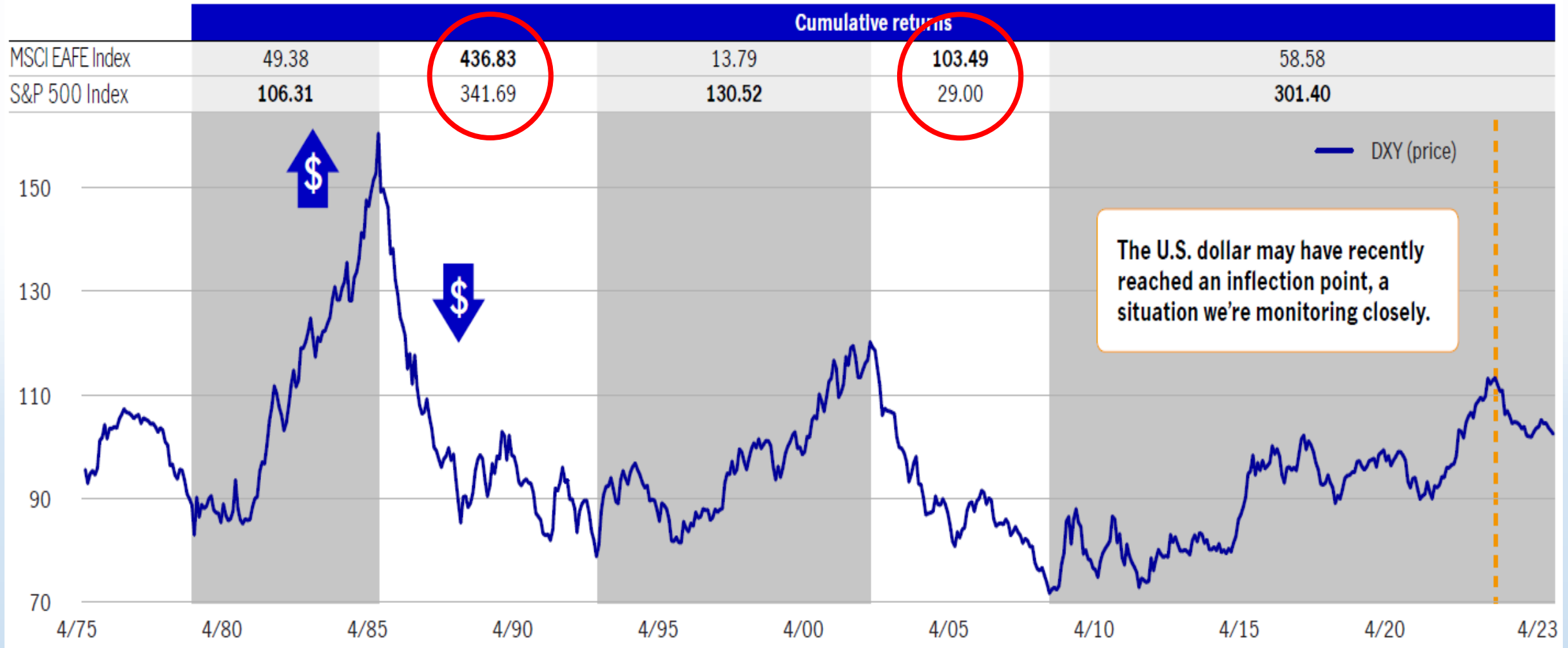


Policy Rates in G3 Economies & in the United Kingdom



International strong when US\$ weak

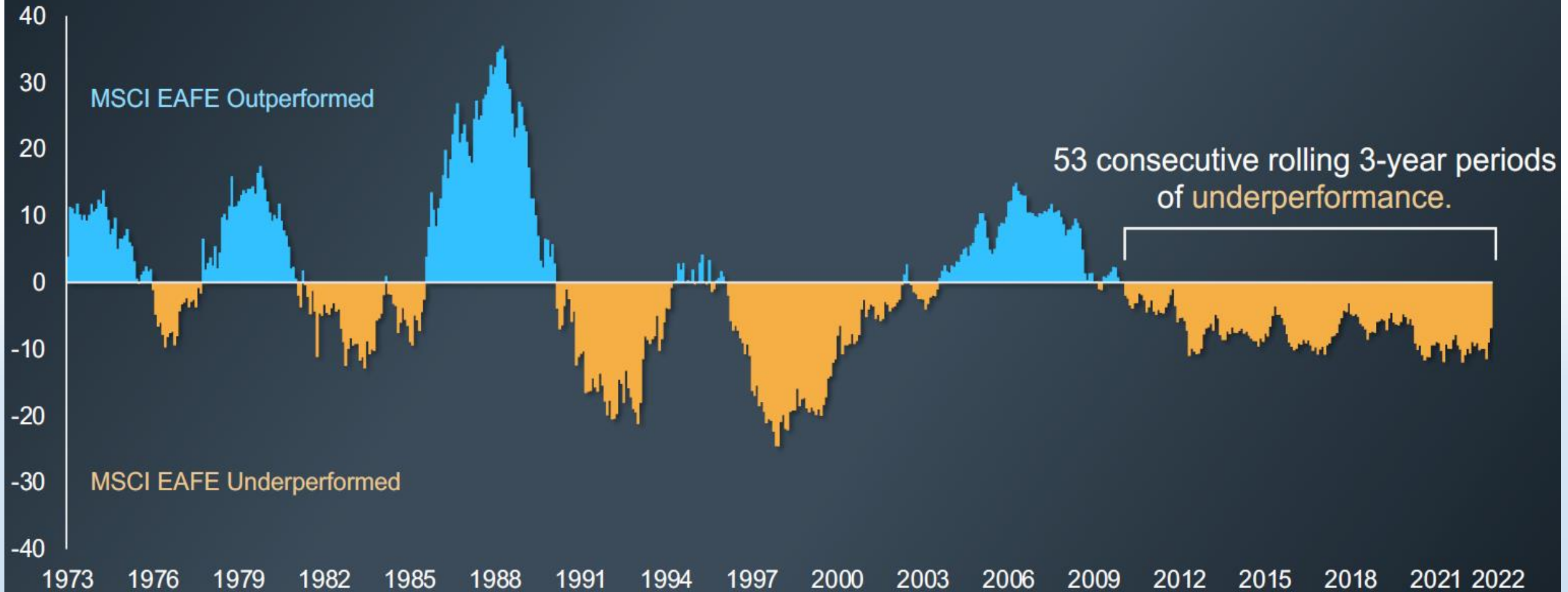
International stocks have been comparatively weak when the USD rises—and comparatively strong when it falls



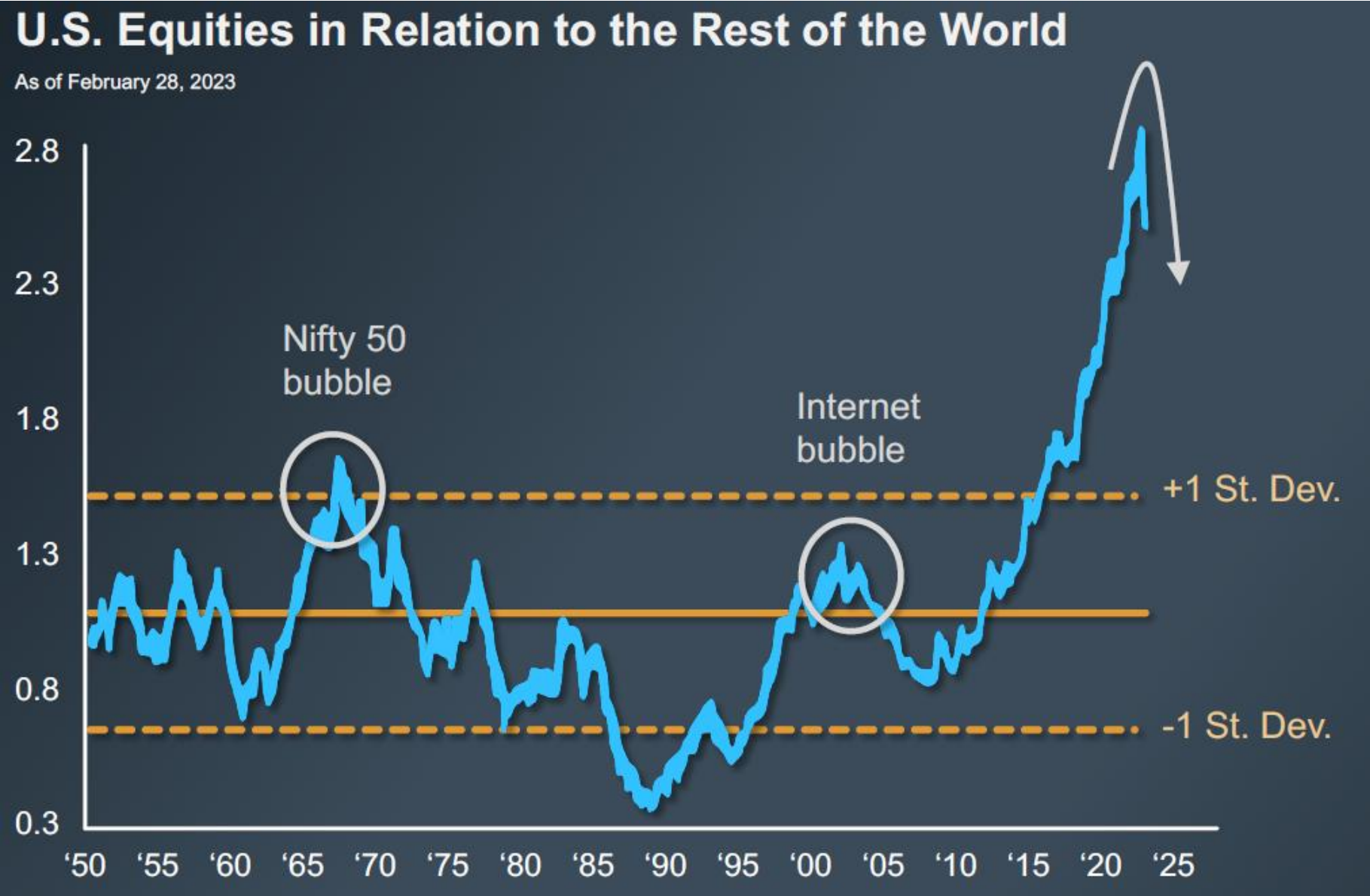
Long period of underperformance from intl stocks

MSCI EAFE vs. S&P 500—Three-Year Rolling Returns (ending quarterly)

Since January 1973. As of December 30, 2022. Figures calculated in U.S. dollars



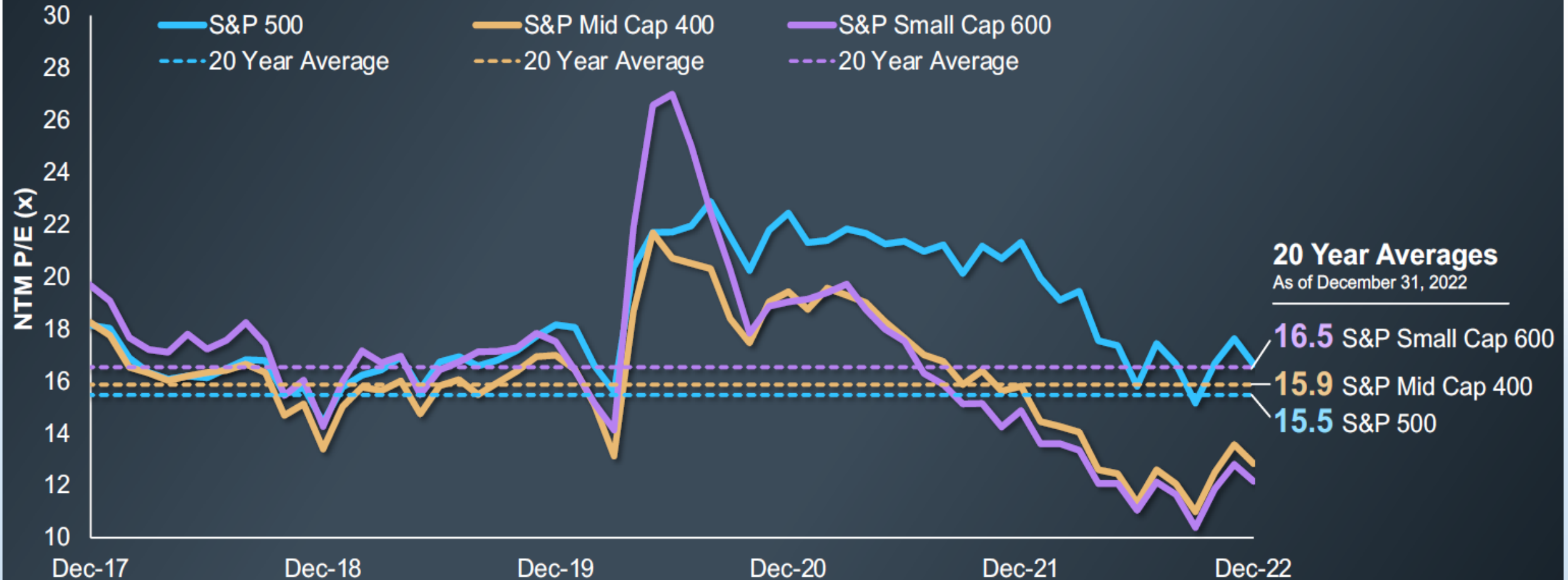
Chance to rotate to cheaper stocks or value trap?



Small / Midcap stocks not rallying like Large Caps

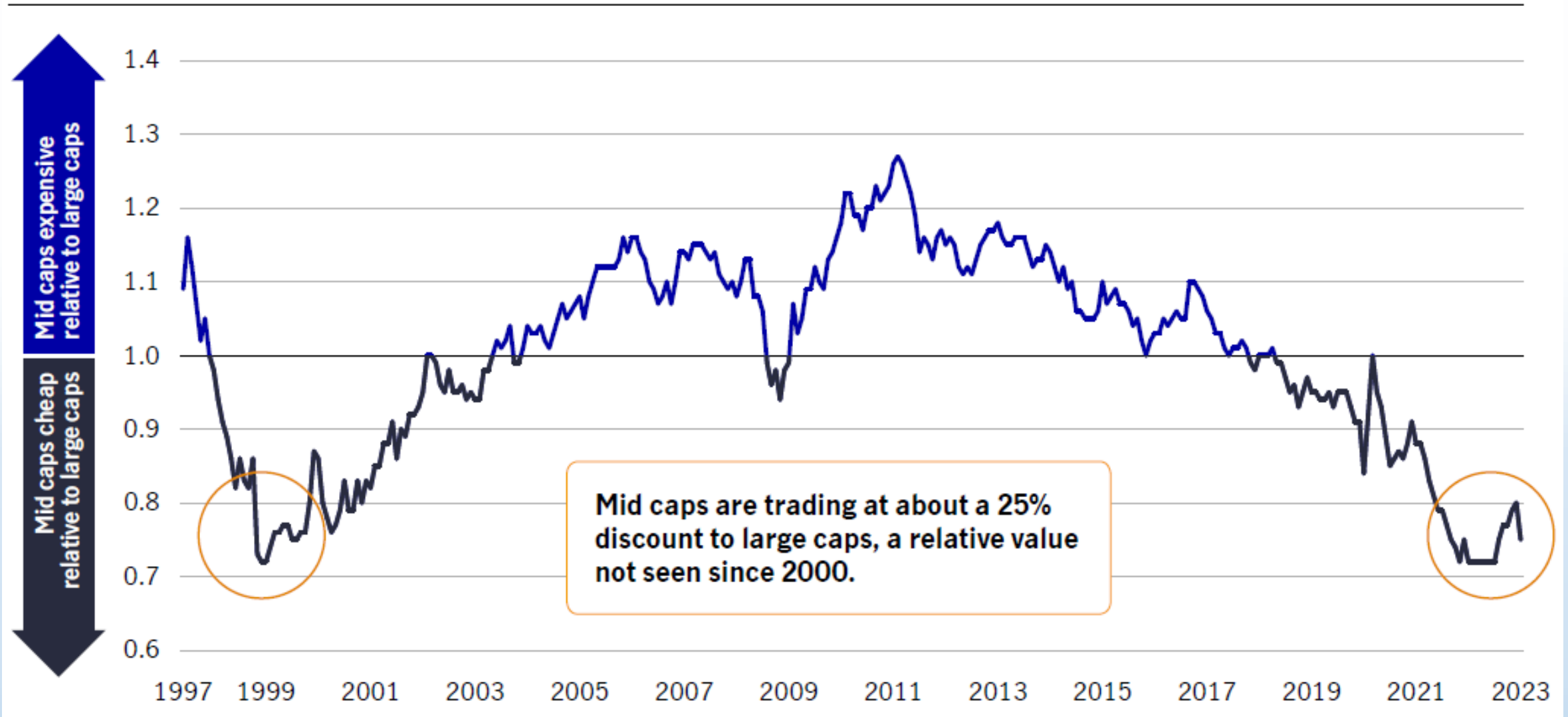
Large vs. Mid vs. Small

12-months forward price-to-earnings (P/E) ratio. December 2017–December 2022, based on FactSet market aggregates.



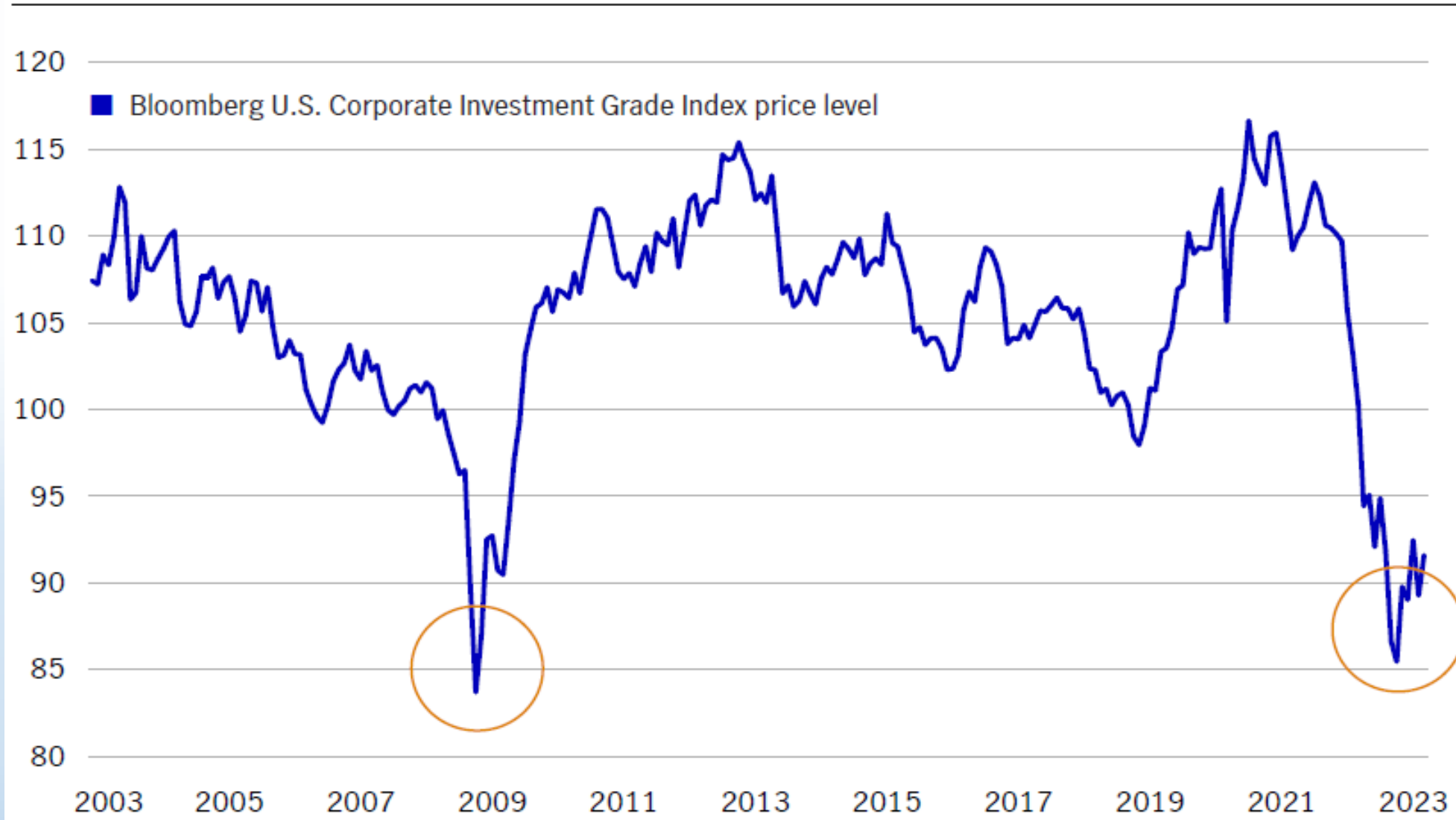
Compelling valuations in midcaps

S&P 400 Index P/E ratio relative to S&P 500 Index P/E ratio



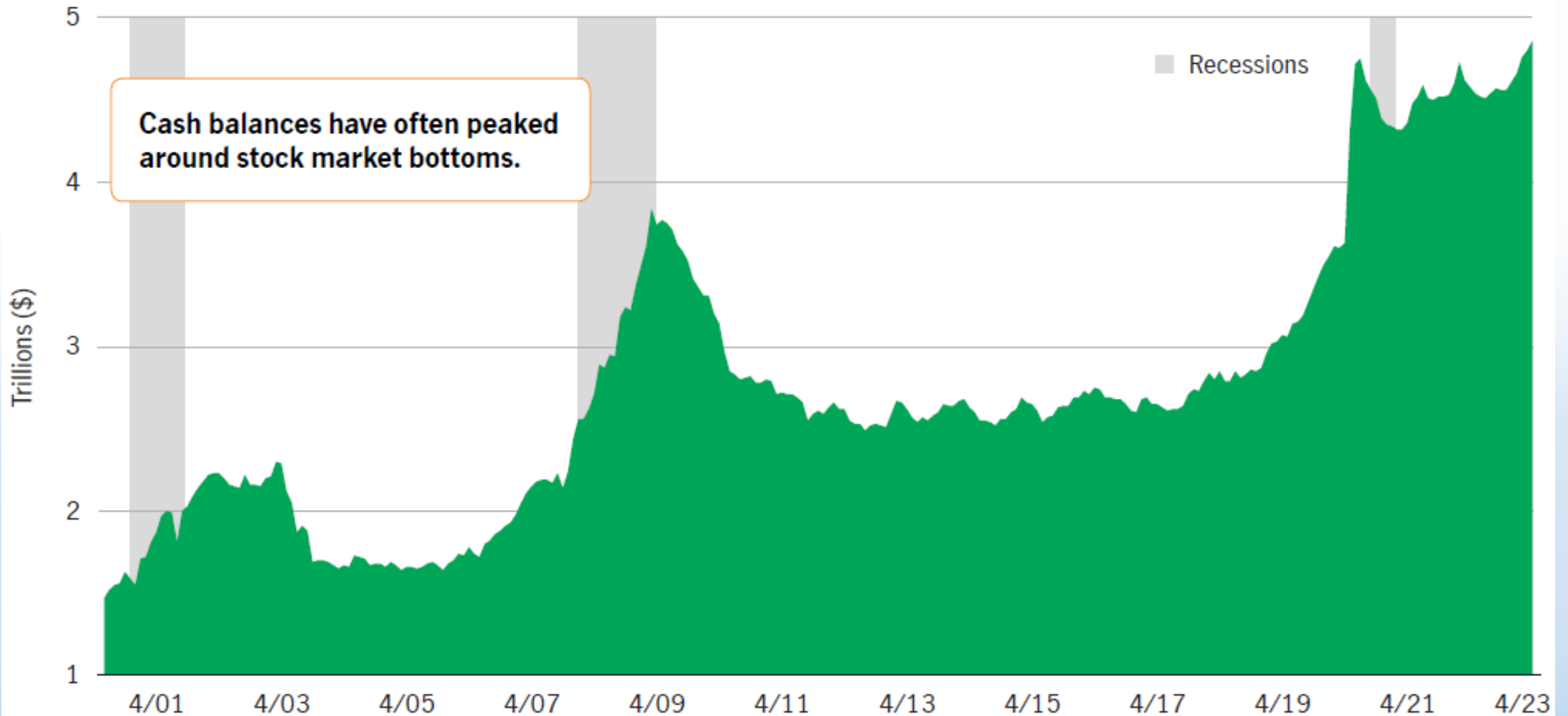
Investment grade bonds appear very cheap

High-quality corporate bonds have rarely traded at valuations this low



Cash balances rise...dry powder for next rally?

Money market assets soared during the pandemic and remain elevated



Cash balances have often peaked around stock market bottoms.

Recessions

Looking ahead

- Earnings holding up well but decline expected
- Labor market and wages resilient
- Market breadth narrow but getting better in June and early July
- FED raise rates in July and maybe 1 more time in 2023
- Signals for recession: LEI, yield curve inverted, tight lending, falling M2
- Healthy corporate and consumer balance sheets (but debt growing)
- Bond yields compelling
 - Money Market
 - Corporate
 - Munis

Disclosures

- This information was developed by JP Morgan, Blackrock, and an independent third party. The opinions of these firms are independent from and not necessarily those of RJFS or Raymond James.
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