Not a whole lot has changed from what we said in the first quarter review. The Fed increased rates by ¼% in May and chose to pause the ongoing interest rate increases in June and left the door open regarding upcoming interest rate increases. Additional increases have not been ruled out as inflation is proving very difficult to bring down to the target 2% level. On the other hand, the economy is starting to show some weakness which could call for lower rates. As a result, the Fed may have some difficult decisions to make: higher rates to tame inflation or lower rates to ward off recession. (Of course, lower spending by the government would help on the inflation front: chances of that zero!)

There is some good news and potentially bad news. The good news: The bank failure situation which surfaced in the first quarter seems to have been contained. In fact, the financial report card on the major banks is good! The bad news: smaller banks and “shadow banks” – private equity funds and investment banks among others – are not regulated yet do lend significant funds and potentially can bring risk to the banking system if they experience a significant failure. Additionally, the leading economic indicators continue to trend down and historically this has been an indicator of a recession ahead. Internationally, the news leans negative. China’s economy is slowing even after lifting Covid restrictions. If this continues, it will put downward pressure on international trade.

Although there is a lot of “iffy” economic and political stuff ahead, the second quarter stock averages performed well. For the quarter, the DJIA was up +4.0%, the S&P 500 was up +8.7%, NASDAQ was up a healthy +12.8% while the Bloomberg Aggregate Bond Index was down -0.8%. Growth stocks lead the way up +11%. But all equity fund categories had positive results. For bonds, long term government bonds dropped -2.2%. On the international front, all major areas except China and Pacific ex Japan had good performance. China bears watching, however. It was down -9.8% and is the second largest economy so its’ overall performance is very important.

Second quarter and full year results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2023** | **12 MONTHS Ending****6/30/2023** | **THREE YEARS Ending** **6/30/2023** | **FIVE YEARS Ending** **6/30/2023** |
| **DJIA** | 4.0% | 14.2% | 12.3% | 9.6% |
| **S & P 500** | 8.7% | 19.6% | 14.6% | 12.3% |
| **NASDAQ Composite** | 12.8% | 25.0% | 11.1% | 12.9% |
| **Bloomberg Agg. Bond** | -0.8% | -0.9% | -4.0% | 0.8% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | 11.0% | 22.9% | 9.5% | 11.4% |
|  Value | 3.6% | 10.8% | 14.6% | 8.1% |
|  *Small Cap* |  |  |  |  |
|  Growth | 5.3% | 15.2% | 7.5% | 6.7% |
|  Value | 3.8% | 11.6% | 18.8% | 5.2% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
|  Europe  | 2.6% | 20.0% | 9.8% | 4.8% |
|  Latin America | 19.3% | 29.7% | 12.3% | 6.0% |
|  Japan  | 6.8% | 19.6% | 6.8% | 3.1% |
|  Pacific ex Japan  | -1.5% | -0.8% | 2.0% | 2.0% |
|  China  | -9.8% | -18.9% | -5.6% | -1.9% |
|  India  | 13.1% | 14.7% | 18.7% | 6.4% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 3****6/30/2023** | **12 MONTHS Ending****6/30/2023** | **THREE YEARS Ending** **6/30/2023** | **FIVE YEARS Ending** **6/30/2023** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | -0.8% | -0.4% | -6.2% | 1.3% |
|  Intermediate |  -0.8% | -0.9% | -3.8% | 0.6% |
|  Short |  0.1% | 1.4% | -0.4% | 1.3% |
| Government Bond |  |  |  |  |
|  Long  | -2.2% | -7.7% | -12.2% | -1.3% |
|  Intermediate | -1.0% | -2.0% | -4.0% | 0.1% |
|  Short | -0.5% | -0.4% | -1.7% | 0.5% |
| Municipal Bond |  |  |  |  |
|  Long  | 0.3% | 2.8% | -0.8% | 1.4% |
|  Intermediate | -0.1% | 2.6% | -0.5% | 1.4% |
|  Short | 0.1% | 1.7% | 0.0% | 1.0% |

**Market Outlook**

As noted last quarter, we remain cautious. The risk of inflation and recession are still around. Additionally, with the 2024 presidential election nearing, it is unlikely that the government will exercise fiscal restraint which will contribute to inflationary pressures and offset the Fed’s efforts.

Like last quarter, we recommend no new equity investments now. Any new investment funds or reinvestment funds should go into short or possibly intermediate term fixed income instruments, 9 – 12 month CDs carry attractive annualized yields ranging between 5.0% and 5.3%.

**MSM FINANCIAL STRATEGIES**

**July 10, 2023**

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