MoneyMatters
Market Update

Q3
2023

Rallying Tides

ROEHL & YI
INVESTMENT ADVISORS, LLC

Rallying Tides

In a much-appreciated breath of fresh air after a difficult 2022 and first quarter of 2023, markets have swung upward. After clinching significant gains, markets locked in a strong six months for the start of the year.

The S&P 500 Index ended the quarter on a high note and is now less than 10% from its all-time high set in January 2022 (Source: *Morningstar*). Technology was the champion behind the recent rally, fueled by the growth and excitement of artificial intelligence (A.I.), and a new era of computing. As a result, investors have found renewed enthusiasm for technology companies, which include not only computers and handheld devices but semiconductors and self-driving cars as well. Strikingly, the Nasdaq, a tech-centric index, had its best first half in 40 years, soaring 31.7% (Source: *Nasdaq.com*).

The economy is proving resilient, demonstrated by the largest drop in US weekly jobless claims in 20 months (Source: *Reuters*) and a willingness by consumers to continue spending – all despite the COVID pandemic, a 500-basis point increase in interest rates, and turbulence in foreign affairs.

In further attempts to fight inflation, the Federal Reserve has continued to raise interest rates. The short-term rate now stands at 5.25% (Source: *Blue River*) with indications of future potential hikes, though the end of rate increases may be near. The current rate is the highest in 15 years and welcome news for our short-term bond and money market accounts, which are finally earning a long-overdue positive spread on our savings versus inflation, as discussed further in this edition.

We have spoken with many of you who have recession concerns. The threat of a widely anticipated 2023 recession has dimmed for now, due mainly to the relatively strong job market and disposable spending. First quarter GDP registered growth of 2% and the second quarter is currently expected to come in at 1.9% (Source: *Federal Reserve Bank of Atlanta*), well above prior estimates.

Roehl & Yi believes, barring any significant economic or world event, a recession in 2023 is unlikely. However, should the markets adjust, triggering a recession, we think it would be shallow in nature rather than prolonged.

Market Recap
Stock Market

The S&P 500 Index ended the first half of 2023 with a gain of nearly 17%. These returns leapfrogged smaller gains for the average stock of 8% in what we see as a narrow market, at least at present. The difference lies in the outsized performance experienced by large market technology stocks such as Apple (+50%), Microsoft (+42%), Tesla (+112%), and Nvidia (+189%). See page 6 for more analysis. The Russell 1000 Large-Cap Growth Index gained 29.02% while the Russell 1000 Large-Cap Value Index returned +5.12% (Source: *Morningstar*).

The table below shows an overview of market performance for the period ending June 2023, with all 13 equity and fixed income markets seeing positive gains, including international stocks up 11.67%. After a challenging 2022, though bonds were down slightly in the second quarter (-0.84%), they have largely returned to their role of providing income and stability in the portfolio with modestly positive returns for the first six months of the year.

Q2 2023 Market Returns (June 30, 2023)

	YTD 2023 (6 months)	FULL YEAR 2022	CURRENT YIELD	COMMENTS
EQUITIES				
US Large Stocks - S&P 500	16.89	-18.11	1.65	Rebound driven by growth stocks, especially large tech.
US Large Value - Russell 1000 Value	5.12	-7.54	2.37	Value has significantly lagged growth after outperforming in 2022.
US Large Growth - Russell 1000 Growth	29.02	-29.14	0.97	Megacap tech has led the rally so far in 2023.
US Small Stocks - Russell 2000	8.09	-20.44	1.62	Same story as large cap: small growth up 13%, small value just 2%.
Int'l Developed Stocks - MSCI EAFE	11.67	-14.45	3.18	Broad advance by main non-US stock index.
Emerging Markets Stocks - MSCI EM	4.89	-20.09	3.39	Emerging markets ahead, except for China which fell.
FIXED INCOME				
Cash - US 3-Month Treasury Bill	2.25	1.46	5.43	Short-term yields remain attractive with the Fed Funds rate above 5%.
Core Bonds - Bloomberg US Aggregate	2.09	-13.01	4.82	Bond market ahead by a bit after rough 2022.
US 10-Year Treasury Bonds	2.31	-16.37	3.81	Long-term interest rates have fallen this year.
Bloomberg Muncipal Bonds	2.67	-8.53	3.30	Municipal bonds have slightly outperformed taxable bonds.
Bloomberg US TIPS	1.87	-11.85	5.00	Inflation-linked bonds rising in-line with regular bonds.
Bloomberg US High Yield	5.38	-11.19	8.55	Risks are growing but speculative grade bonds ok so far.
Int'l Bonds - FTSE World Gov't Bond	1.66	-18.26	3.27	Foreign bonds ahead by a bit after very rough 2022.
ALTERNATIVES/MISCELLANEOUS				
US Public Real Estate - DJ US Select REIT	5.77	-25.96	4.22	Commercial office space is weak, other real estate doing ok.
Bloomberg Commodity	-7.79	16.09		Commodities gave back half of last year's gains, mainly oil.
Gold - LBMA Gold Price	5.43	0.44		Bouncing around though ahead for the year.
Oil - West Texas Crude	-5.59	6.41		Unexpected decline in oil prices - down to around $70 per barrel.
Bitcoin - S&P Bitcoin	83.33	-63.89		Bitcoin rallying along with tech stocks after very challenging 2022.
US Dollar, Change	-1.25	5.30		
Consumer Price Index, 12 Mo Change	4.00	6.50		CPI through May, a big decline from 8.6% one year ago.

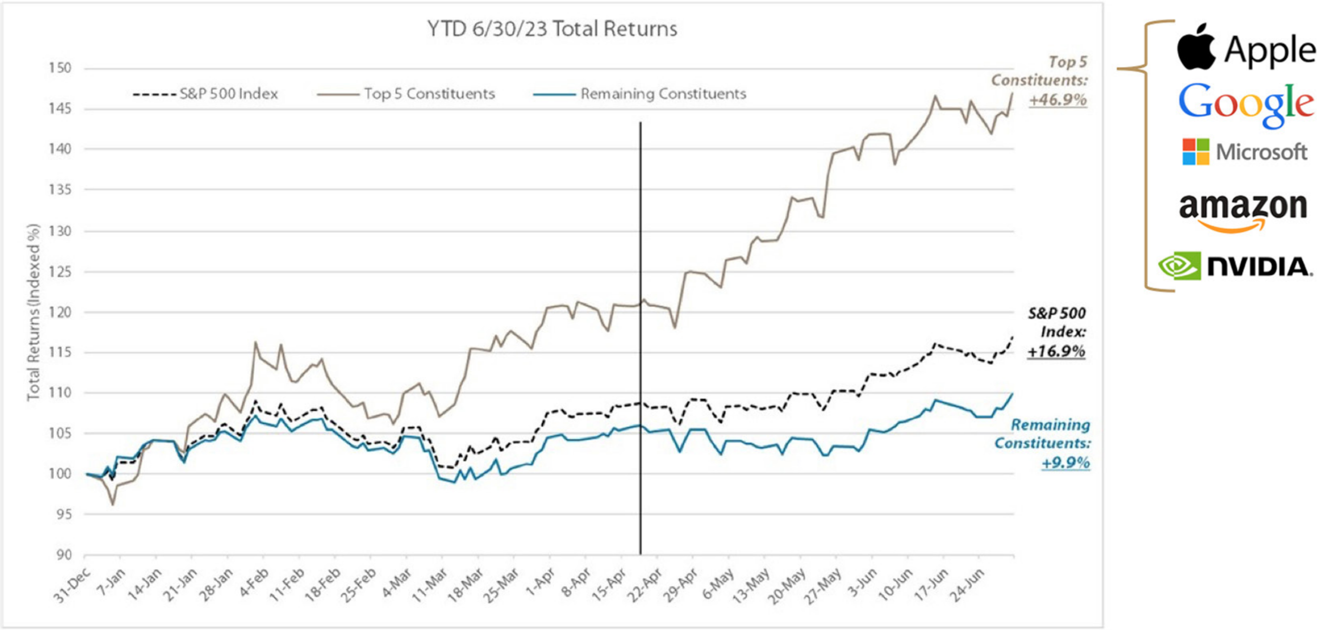
Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns. Current yields are based on forward dividend yields for equities and yield to maturity for bonds. Note that the TIPS Index yield is based on the trailing 12-month yield.

Data as of 06/30/2023

Growth Stocks Make Huge Gains

Representing over 24% of the S&P 500 Index by weight, Mega-Cap Growth stocks have continued to recover from their extreme lows in 2022 and now appear to be benefiting from the A.I. frenzy as well. Meanwhile, the remainder have experienced a more modest recovery year to date (Source: *Dana Investment Advisors*).

Recent S&P 500 Index Performance



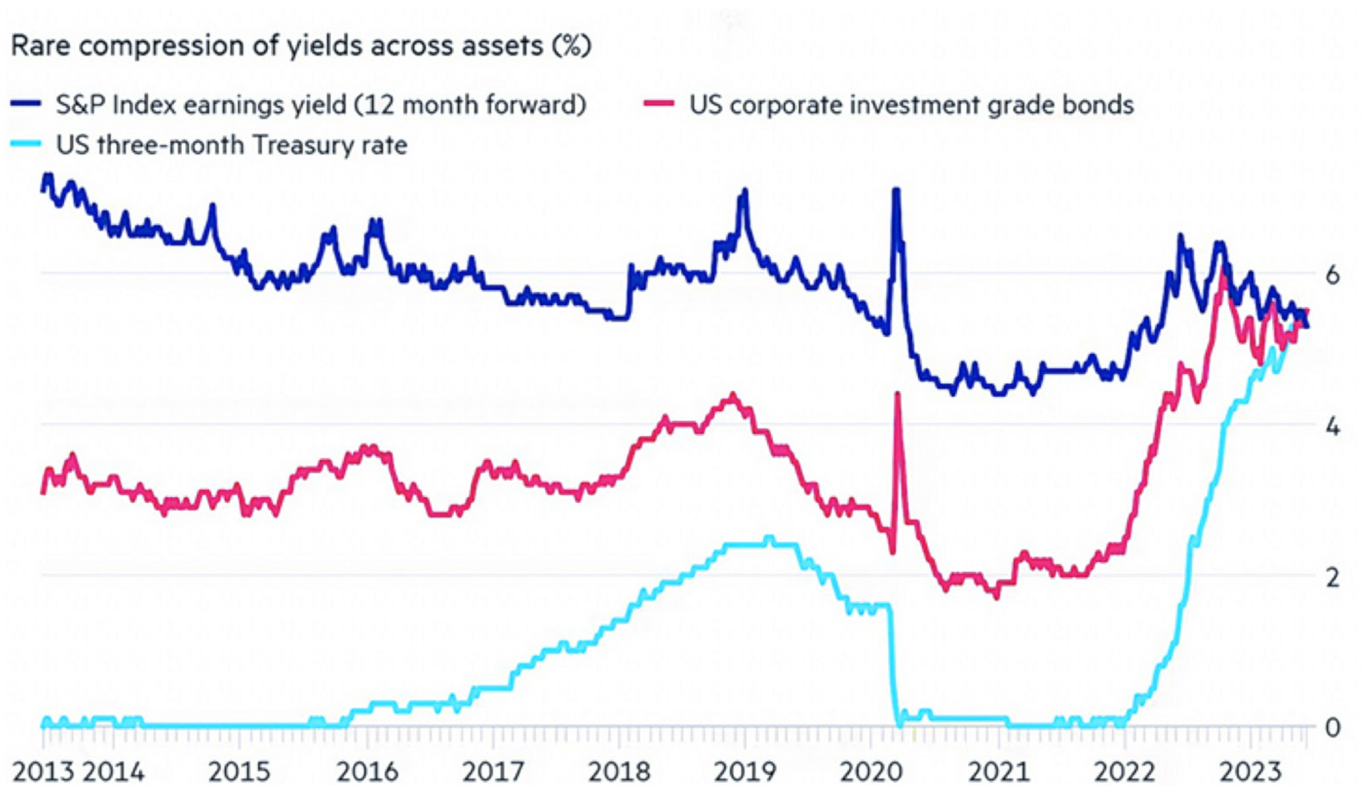
Market Cap Weighting for "Top 5 Constituents" and "Remaining Constituents" is based on each components' relative weight within the market cap weighted S&P 500 Index. Top 5 Holdings selected based on allocation weight within the S&P 500 Index at the beginning of each quarterly period. Alphabet Inc., share classes have been combined and represent only one of the Top 5 Constituents.

Data as of June 30, 2023
Source: Dana Investment Advisors, FactSet Research Systems

Cash and Bonds Finally Competitive with Equity

For the first time in 15 years, cash and bonds are offering earnings yields on par with equities (Source: *Bloomberg*). For investors looking to reduce risk and preserve returns, cash and bonds make sense. Notwithstanding more attractive fixed-income yields, stocks still offer long-term investors growth opportunities as company earnings can swell over time. Another consideration is that investors can find higher yields outside the S&P 500 through dividend-paying stocks or foreign equities.

Cash & Bond Yields Attractive



Sources: Financial Times, Pictet, Bloomberg

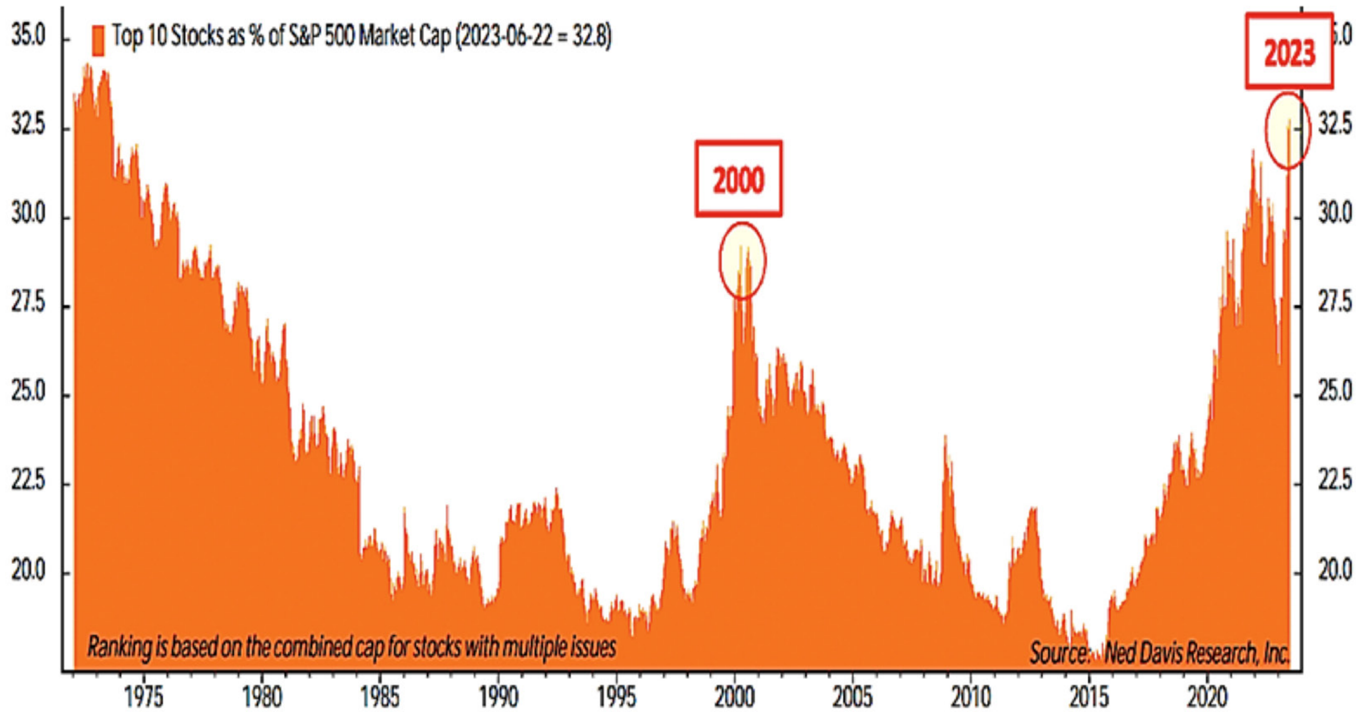
Data as of 06/17/2023

Top 10 Stocks Carry Market's Weight

As of June 30, the 10 most valuable stocks in the US are close to an all-time high as a share of the overall S&P 500 Index and are primarily responsible for the positive returns relative to the other 490 stocks in the S&P (Source: *Ned Davis Research*). In caution, markets are understood to be strongest and most sustainable when participation is broad.

There is another story to be told, however. These results obscure what ultimately became a broader rally late in the second quarter. For the second quarter, the Russell 2000 Small-Cap Index rose 5.2%, the S&P Value Index was up 6.6%, and the S&P 400 Mid-Cap Index was up 4.9% – none of those indexes include mega-cap technology stocks.

Top 10 Stocks as % of S&P 500



Source: Ned Davis Research

Data as of 06/22/2023

The Economy

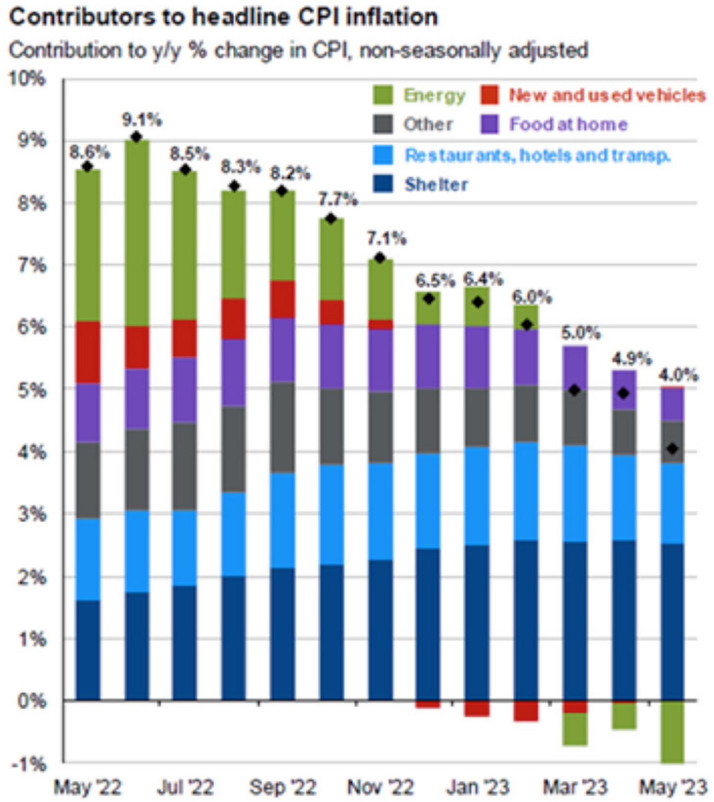
Inflation Relief on the Horizon, But Still Sticky

As of May 30, CPI inflation has fallen to 4%, half as much as one year ago (Source: *Bureau of Labor Statistics*). Energy prices have fallen while increases in housing, rents, and the cost of food have stabilized.

Europe and most of the developed world are seeing similar trends in a global inflation dynamic that has taken hold for the first time in 20 years (Source: *Blue River*).

Time will tell if we can reach the Federal Reserve's historic target of 2% inflation or if 4% will become our new normal.

Inflation Cooling



Source: Bureau of Labor Statistics, FactSet, J.P. Morgan Asset Management. "Shelter" includes owners' equivalent rent and rent of primary residence; "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services.

Data as of 05/31/2023

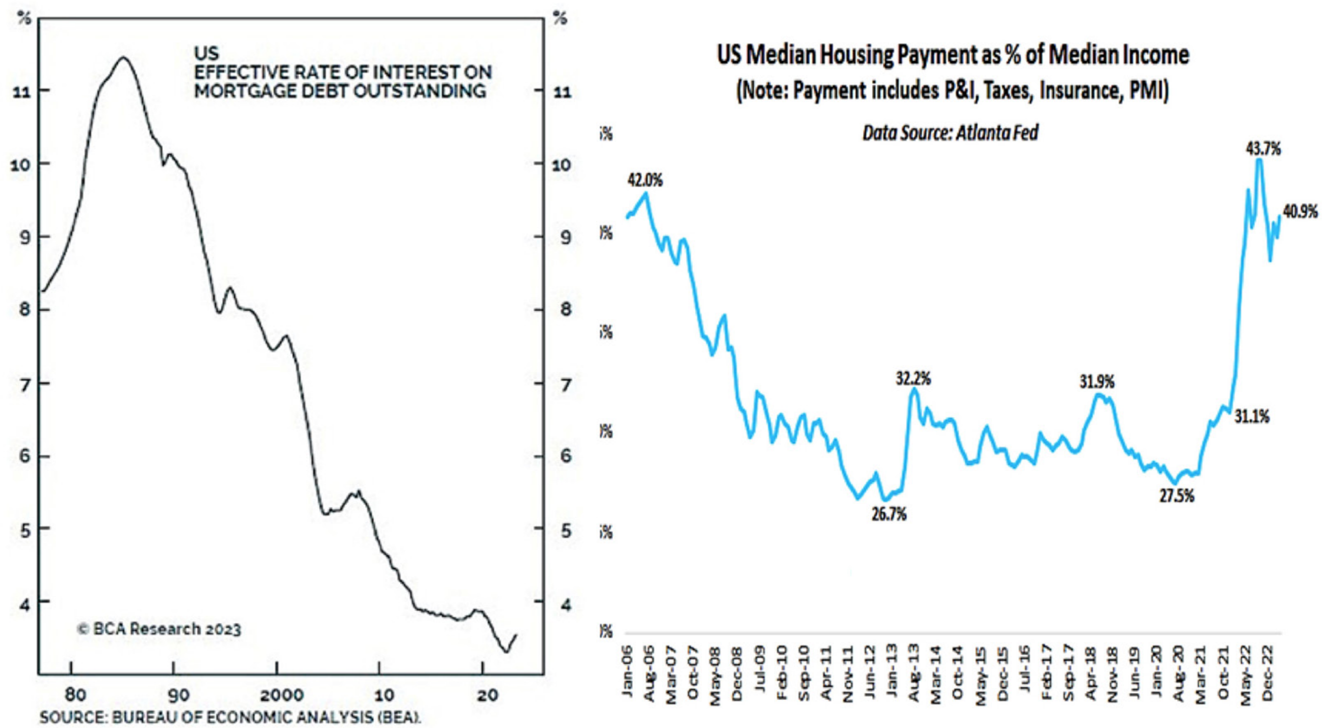
Housing Market Whipsawed

The big fall in mortgage rates has been a primary driver of the cost of housing for many years.

In the chart below on the left, the rate of interest being paid is now less than half that of 45 years ago. With a majority of owners now paying a mortgage interest rate of less than 4% they're "locked in" and less willing to sell and move. The resulting shortage of homes for sale just adds to the upward pressure on house prices.

While existing homeowners are locked in at lower mortgage rates, new home buyers are feeling the effects of higher rates. The chart below on the right side is for a new home buyer, assuming the median home price and median household income at the national level. This assumes a 20% down payment and an interest rate of 6.67%. The takeaway is that new housing payments are consuming over 40% of household income versus under 30% a few years ago. It remains to be seen how this will impact consumer finances and the economy going forward, as more home buyers become locked into higher rates. (Source: *Bureau of Economic Analysis*).

Mortgage Payments on the Rise



Sources BCA Research, Bureau of Economic Analysis, Charlie Bilello Atlanta Fed

Data as of 06/22/2023

Roehl & Yi's Final Thoughts

While there are bright spots, we recommend that you stay vigilant through market fluctuations.

Consider these suggestions:

- Continue the move toward diversification and review asset allocation.
- Expect some turbulence and stay disciplined.
- Be strategic with cash and take advantage of higher-yielding financial instruments.
- Remain protective of your assets and reduce risk where possible.

The Roehl & Yi Promise

Roehl & Yi is committed to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi, and we ask that your first phone call is to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.

ROEHL & YI
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For A Personal Wealth of Reasons

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