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Economic & Market Summary
July 2023

The US economy has held up well despite high inflation and rising interest rates. GDP growth in the first quarter surprised to the upside growing 2% and Q2 is on pace for a similar result. The housing market is stabilizing despite higher interest rates, higher prices, and low inventory. Multi-family housing starts have grown noticeably year-over-year and single family starts have improved sequentially. The labor market has been resilient with solid job growth, accelerating real wages, and unemployment at a multi-decade low. Encouragingly, labor force participation for workers aged 25-54, the so-called "prime age" participation, has climbed above pre-pandemic levels. This means the supply of workers has increased which helps businesses fill positions and manage wage inflation.

However, a few cautionary signals have emerged. Claims for unemployment insurance have trended upward. The resumption of long-delayed student loan payments could take dollars away from spending. Surveys of purchasing managers in the manufacturing sector indicates forthcoming weakness. Monetary policy is restrictive and could become more so with core inflation still well above the Federal Reserve's 2% target. The collapse of several poorly run banks has led to higher lending standards across the banking industry which is an additional headwind. The economic pressure is not exclusive to the US. Global growth will soften with central bankers in other developed countries raising interest rates to combat their own inflation problems. China's central bank is actually stimulating their economy due to sputtering growth after three years of severe pandemic restrictions.

The stock market is recovering with the S&P 500 up 17% year-to-date including dividends. While this is a strong return so far, the lack of performance breadth across stocks is notable. The S&P's return is concentrated in a handful of very large technology companies that represent a significant portion of the index. By contrast, the S&P 500 Equal Weight index, which weights every company equally instead of by market capitalization, is up only 7% including dividends. The large tech stocks are perceived to be somewhat recession-resistant owing to their financial stability, durable earnings, and dominant competitive positions. Some also have exposure to Wall Street's current obsession with artificial intelligence.

Fed policy will be key to shaping the economy over the next few months. The opportunity to slow inflation without causing a recession has rarely been this good in our view so policy makers should proceed with caution and patience. Yet, the Fed has signaled more rate increases later this year even though the full impact of the prior rate hikes has not been felt. It may take a while, but we remain confident inflation will eventually normalize allowing for more favorable monetary policy. Whether caused by a Fed policy error, a recession, or some other crisis, we would view short-term pressure on stock prices as a buying opportunity. Since 1957 when the S&P 500 first came into its present form, the US economy has experienced ten recessions. Yet during that time, the index returned over 10% annually including dividends illustrating the power of long-term investing.

Mark J. Sprtel, CFA

If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.