WINTHROP WEALTH

Q2'2023 Market Review & Outlook

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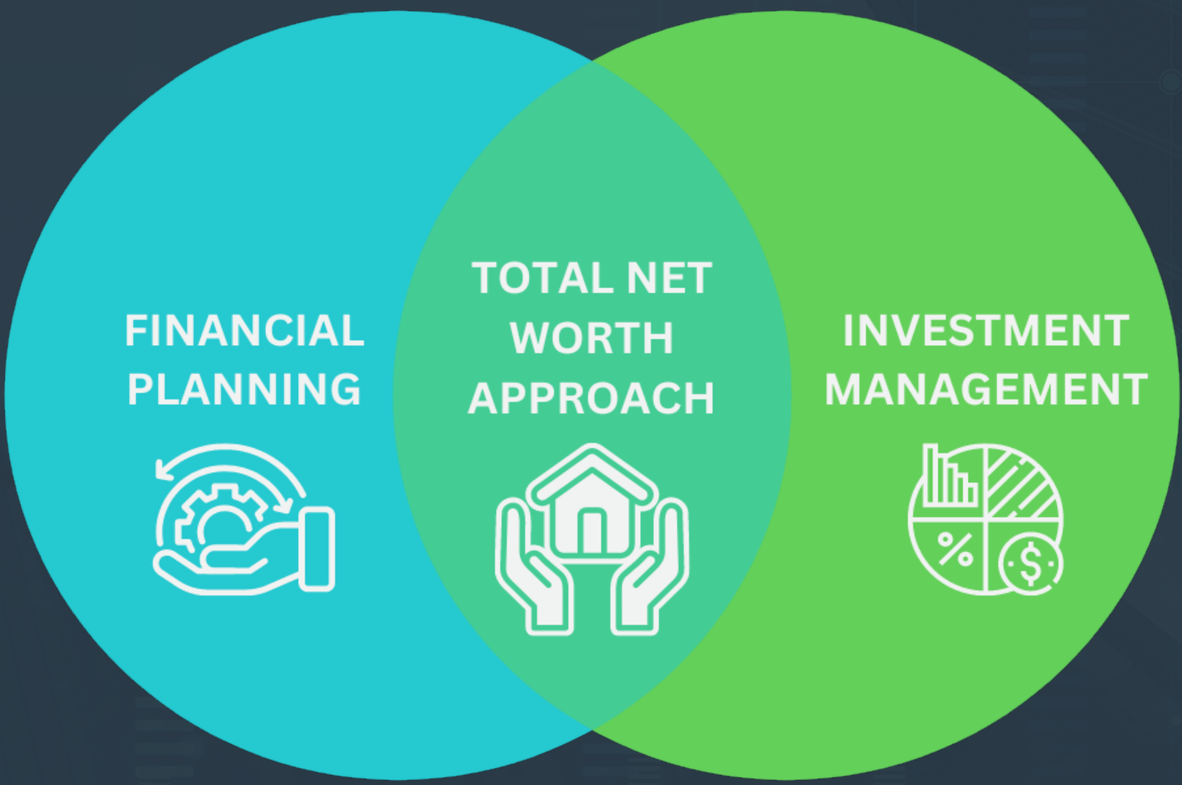

At Winthrop Wealth, we follow a **Total Net Worth Approach** to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

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- **US Equity Markets**: The market rally continued in the second quarter as the S&P 500 increased by +8.7% in the period. After gaining +7.5% in the first quarter, the index is now higher by +16.9% in 2023 for the second-best overall start to a calendar year in the last twenty-five years. The S&P 500 officially entered a new bull market in the quarter, which is an increase of +20% from a bear market low. Since the bear market bottom (10/12/22), the S&P is higher by about +25.9%.

- **US Fixed Income Markets**: The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -0.8% in the second quarter as the 10-Year Treasury yield increased from 3.47% to 3.84% in the period (bond prices move inversely to interest rates and credit spreads). The bond market is now higher by +2.1% in 2023. The yield to maturity on the US Aggregate Bond index was 4.8% at the end of the quarter, which is the highest level since 2008.

- **Treasury Yields**: The Treasury yield curve is still inverted with both the 3-Month (5.28%) and 2-Year (4.90%) higher than the 10-Year (3.84%) yield. In general, the Fed influences shorter term Treasury yields by setting the target federal funds rate while the market controls long term rates as investor demand will vary based on future expectations of inflation and economic growth. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon.

- **Inflation**: Most inflation readings have decelerated from peak levels with several indicators returning to normalized ranges. Meaningful evidence of disinflation exists in Producer Price Inflation, breakeven rates, ISM Prices Paid data, supply chain indicators, and commodity prices. While the Fed acknowledges overall progress, they are not pleased with the pace of disinflation in the services sector as measured by the Core Personal Consumption Expenditure (PCE) Index. The latest Core PCE Inflation reading of +4.6% is still well above the Fed's 2.0% target.

- **The Fed**: The FOMC raised the federal funds rate 25 basis points (0.25%) at their May meeting before pausing rate hikes in June. The top end of the federal funds rate now stands at 5.25%. Since March of 2022, the Fed has increased interest rates by 5% total for one of the quickest tightening cycles in United States history. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant still expects two more rate hikes this year.

- **US Economy**: The United States economy continues to meander along and send mixed signals about its future path. Manufacturing data, economic indicators, consumer spending, and the housing market have all weakened and exhibited signs of a recession. It's not hard to see signs of a recession in several areas. Meanwhile, the strength of the economy currently lies with the labor market. Real GDP Growth is estimated at +1.3% in 2023 and +0.8% in 2024.

- **United Stated Recessions and S&P 500 Performance**: Despite weakening over the last eighteen months, the United States economy has been able to avoid a recession thus far, surprising many observers, including us. According to the Federal Reserve, the possibility of a recession sometime this year is "plausible." A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that recessions can create buying opportunities for long-term investors. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods. *Past performance is no guarantee of future results.*

- **Market Outlook**: We are turning cautious in the near term as the S&P 500, currently at 4,450, recently broke out of its 14-month trading range of 3,600 to 4,300. In our opinion, the fundamentals of the stock market do not warrant a recovery back to all-time highs yet. A key tenant to our investment philosophy is to maintain a long-term viewpoint as markets can be incredibly volatile over short-time periods. Markets have historically increased over time as successful corporations have been able to figure out ways to generate profits through advances in innovation and productivity. In our view, investors with a globally diversified portfolio and a long-term horizon should remain optimistic. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon when investing.*

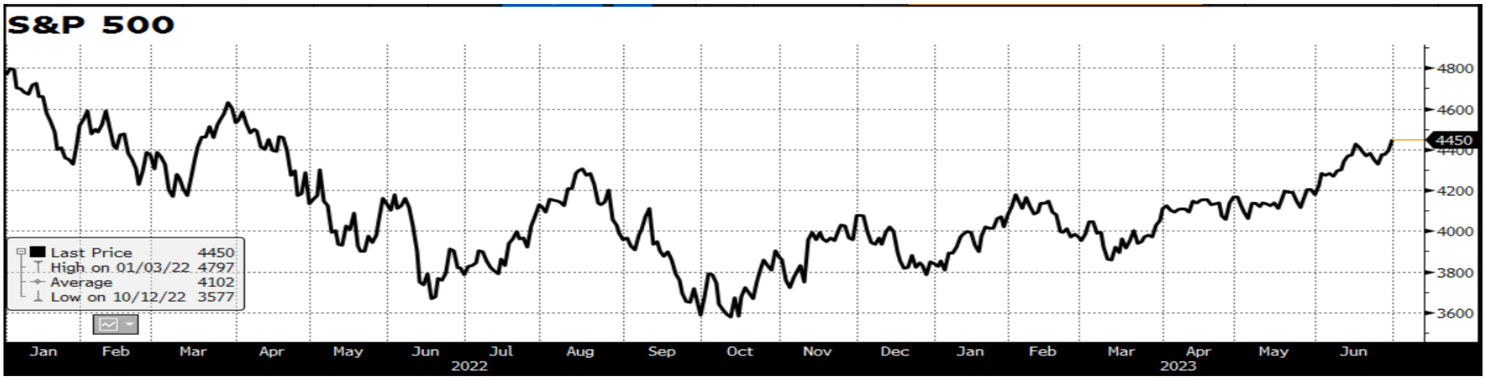
Please see some of our most recent market commentaries:

- ▷ **Principles for Long-Term Investing**
- ▷ **Framework for Navigating Current Conditions**
- ▷ **The Power of Compounding**
- ▷ **Bond Primer**

The market rally continued in the second quarter as the S&P 500 increased by +8.7% in the period. After gaining +7.5% in the first quarter, the index is now higher by +16.9% in 2023 for the second-best overall start to a calendar year in the last twenty-five years. The S&P 500 officially entered a new bull market in the quarter, which is an increase of +20% from a bear market low. With hindsight the latest bear market officially lasted from January 3rd, 2022, to October 12th, 2022, with a total decline of -24.5%. Since the bear market bottom (10/12/22), the S&P is higher by about +25.9% and is about -4.9% below the all-time high.

We constantly remind our clients to maintain a long-term viewpoint as markets can be incredibly volatile over the short-term. The stock market has historically gone up over time, but returns are not linear. Since 1928, the S&P 500 has generated a total annualized return of +9.5% despite an average peak-to-trough decline of -15% at some point each year. Market performance over the last eighteen months reinforces our belief in a long-term viewpoint. As noted in our **S&P 500 Bear Markets chart**, historically challenging environments have created strong buying opportunities for long-term investors. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon when investing.*

The market rally since October was driven by evidence of disinflation, the economy, labor market, and corporate earnings holding up better than expected, and the perceived benefit that artificial intelligence (AI) will have on profits and productivity. The S&P 500 increase has been narrow this year, which means only a handful of stocks are responsible for the overall performance of the index. The top seven companies in the S&P 500, which are mainly considered growth stocks, have performed exceptionally well, including Apple: (+49.7%), Microsoft (+42.7%), Alphabet (+36%), Amazon (+55.2%), Nvidia (+189.5%), Tesla (+112.5%), and Meta (+138.5%). About 20% of S&P 500 stocks are negative for the year with only about 30% outperforming the index. Although a narrow market will frustrate some underperforming portfolio managers who didn't own enough of the abovementioned stocks, we see little evidence that this type of environment has any predictive power for future returns. *Past performance is never a guarantee of future results.*



Source: Bloomberg

Size / Style / Sector

- **Market Cap**: Large Caps (S&P 500: +8.7%) outperformed Small (Russell 2000: +5.2%) and Mid (S&P 400: +4.8%).
- **Style**: Growth (Russell 1000 Growth: +12.8%) exceeded Value (Russell 1000 Value: +4.1%).
- **Sector**: The market reversal continued in the second quarter with last year's sector laggards becoming the leaders and vice versa. The three worst performing sectors of 2022 are now the top performers and were all up by double-digits in the quarter: Technology (17.2%), Consumer Discretionary (14.6%), and Communication Services (13.1%). Meanwhile, the two best performing sectors in 2022 finished as the two worst: Energy (-0.9%) and Utilities (-2.5%). The market often undergoes these violent rotations that can make an under-diversified investor feel like a genius one day and a fool the next. Rather than make risky concentrated bets, we prefer to construct diversified portfolios across regions, countries, market caps, factors, styles, sectors, and industries and tilt toward the areas we feel provide the most potential benefit. *Asset allocation and diversification do not ensure a profit, protect against loss, or against market risk. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.*

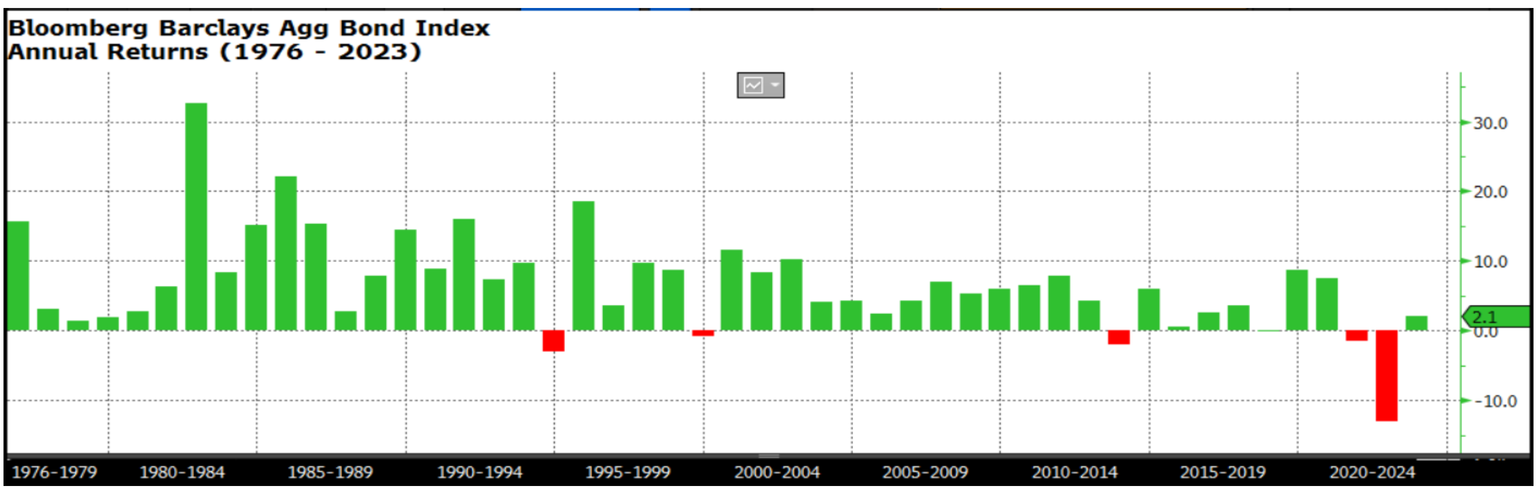
US FIXED INCOME MARKETS

The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -0.8% in the second quarter as the 10-Year Treasury yield increased from 3.47% to 3.84% in the period (bond prices move inversely to interest rates and credit spreads). The bond market is now higher by +2.1% in 2023 and it is still trying to find its footing after coming off the worst calendar year (2022: -13%) since inception of the index in 1976. Please see our **Client Question: Bond Primer** where we detail bond mechanics, characteristics, types, risks, and historical returns.

	Returns					Fundamental Estimates		
Bloomberg Barclays Index	Q2 2023	2023	2022	2021		Yield to Maturity	Credit Spread (bps)	Duration
Aggregate	-0.84%	2.09%	-13.01%	-1.54%		4.8%	49	6.2
Treasury Bills	1.22%	2.33%	1.52%	0.04%		5.3%		0.1
Corporates	-0.29%	3.21%	-15.76%	-1.04%		5.5%	123	7.1
High Yield	1.75%	5.38%	-11.19%	5.28%		8.6%	390	3.5
Securitized MBS/ABS/CMBS	-0.63%	1.82%	-11.67%	-1.04%		4.8%	57	5.9
Munis	-0.10%	2.67%	-8.53%	1.52%		3.5%		6.1

Source: Bloomberg

Our objective with fixed income is to provide ballast, stability, and income to portfolios. Ballast means that, ideally, the fixed income holdings are increasing when equity markets are declining. Bonds did not provide ballast for most of 2022 as interest rates rapidly increased during the first half of the year. We have continuously stated that we expect the negative correlation between stocks and bonds to return in the future once yields level out and that all else equal the fixed income markets need yields to stabilize rather than decrease to achieve positive returns. We will also point out that the bond market's return has been positive over the previous year. From June 15, 2022 through the end of the quarter, the 10-Year Treasury yield increased from 3.47% to 3.84%, the exact same increase as in the last quarter (+37 basis points). Yet the Agg's return from 6/15/22 to 6/30/23 was +1.7%, while the index declined by -0.8% in the second quarter. The contrast in return is due to the differences in coupon payments and price appreciation toward par value over the two periods. In other words, increases in interest rates are less impactful to bond returns over longer periods because bondholders continue to receive coupon (interest) payments while a bond's price will converge toward par as it gets closer to maturity, assuming no defaults. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise.*



Source: Bloomberg

Treasury Yields

The Treasury yield curve is still inverted with both the 3-Month (5.28%) and 2-Year (4.90%) higher than the 10-Year (3.84%) yield. In general, the Fed influences shorter term Treasury yields by setting the target federal funds rate while the market controls long term rates as investor demand will vary based on future expectations of inflation and economic growth. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon. If the Fed does cut rates as investors expect, the 3-Month and 2-Year yields will fall below the 10-Year and the yield curve will be upward sloping again. Please see our **Client Question: Yield Curve Inversion**.

Yield to Maturity

The yield to maturities of various bond indices are still at their highest levels in years. Yield to maturity is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults). The yield to maturity on the US Aggregate Bond index was 4.8% at the end of the quarter, which is the highest level since 2008. In other words, future returns from the Agg bond index have not been this attractive in nearly 15 years. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

INFLATION

The increase in inflation since early-2021 was driven by supply chain bottlenecks, surging energy prices, strong consumer demand caused by a solid labor market, and massive amounts of stimulus. Most inflation readings have decelerated from peak levels with several indicators returning to normalized ranges. Meaningful evidence of disinflation exists in Producer Price Inflation, breakeven rates, ISM Prices Paid data, supply chain indicators, and commodity prices. While the Fed acknowledges overall progress, they are not pleased with the pace of disinflation in the services sector as measured by the Core Personal Consumption Expenditure (PCE) Index. The latest Core PCE Inflation reading of +4.6% is still well above the Fed's 2.0% target.

The Fed has divided inflation into three buckets: goods (decelerating as supply chains normalize), housing (decelerating under rising mortgage rates but not showing up in inflation data until mid-2023), and non-housing related core services (still elevated due to the strong labor market and robust wage growth). The Fed theorizes the best way to decrease services inflation is to lower demand by weakening the labor market.

The Fed's latest Summary of Economic Projections show the median participant expects Core PCE Inflation to fall to 3.9% in 2023, 2.6% in 2024, and 2.2% in 2025. Note that the Fed still shows inflation above their 2% target by the end of 2025.

Here are several key inflation indicators and a chart tracking the data since the start of 2020:

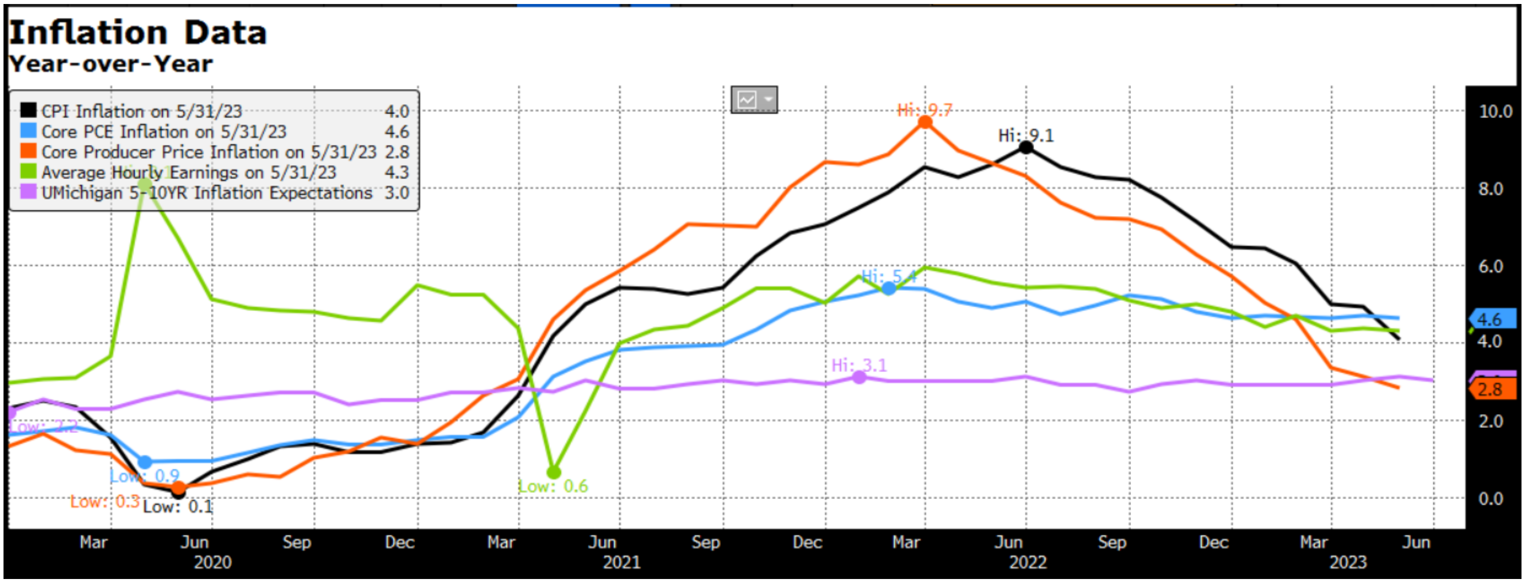
- **The Bureau of Labor Statistics Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices.
    - o Latest Reading: 4.0% (May). Peak: 9.1% (June 2022).

- **The Core Personal Consumption Expenditure (PCE) Index** measures the prices paid by consumers for goods and services based on surveys of what businesses are selling. Core means that the index excludes food and energy prices. This is the Fed's preferred inflation measure, which they target at an average of 2%.
    - o Latest Reading: 4.6% (May). Peak: 5.4% (February 2022).

- **The Core Producer Price Index (PPI)** measures the average change in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.
    - o Latest Reading: 2.8% (May). Peak: 9.7% (March 2022).

- **The Bureau of Labor Statistics Average Hourly Earnings** tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey.
    - o Latest Reading: 4.3% (May). Peak: 8.1% (April 2020).

- **The University of Michigan Inflation Expectations** data is based on a monthly survey designed to gauge consumer expectations. Participants are asked for their view on annual inflation over the next 5 to 10 years.
    - o Latest Reading: 3.0% (June). Peak: 3.1% (January 2022).



Source: Bloomberg

THE FED

The Federal Reserve serves as the central bank of the United States and performs key functions designed to promote the health of the economy and stability of the financial system. The three key entities include the Board of Governors, twelve Federal Reserve Banks, and the Federal Open Market Committee (FOMC). The FOMC sets monetary policy in accordance with its mandate from Congress: to promote maximum employment, stable prices, and moderate long-term interest rates. According to the Fed, "monetary policy directly affects interest rates; it indirectly affects stock prices, wealth, and currency exchange rates. Through these channels, monetary policy influences spending, investment, production, employment, and inflation in the United States." Please see our **Client Question on The Fed** which details the key entities, and the impact monetary policy has on the economy, interest rates, and stock prices.

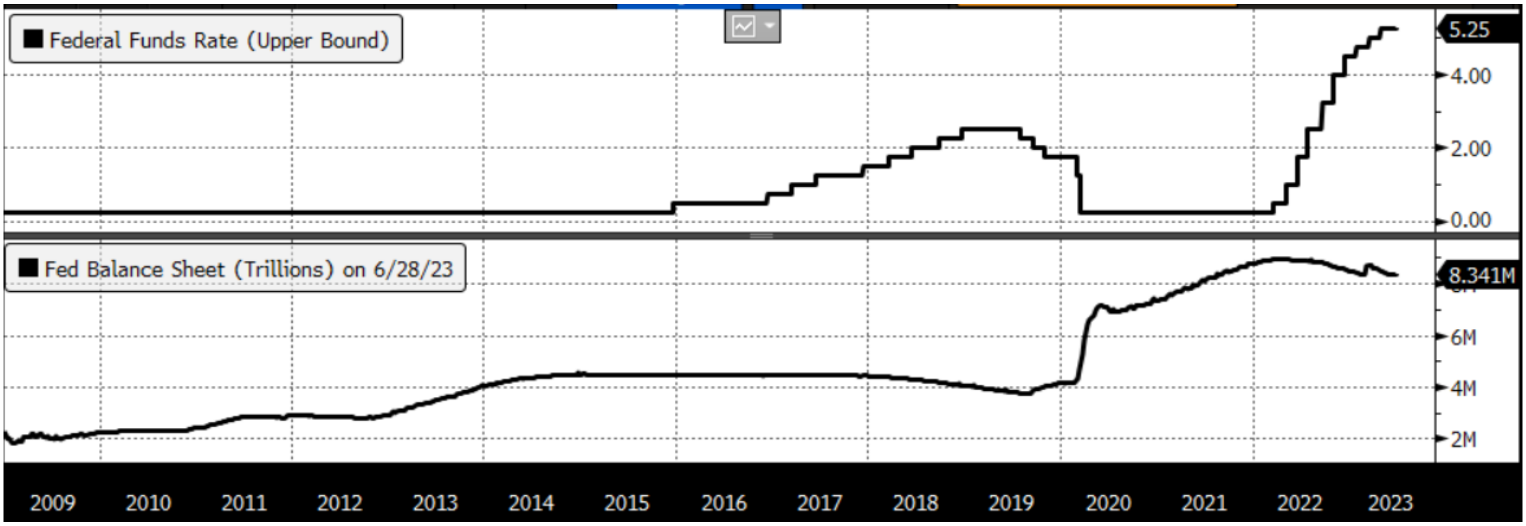
Interest Rates		Balance Sheet		Commentary
Federal Funds Rate	Federal Funds Rate 2023 Change	Fed Balance Sheet	Fed Balance Sheet 2023 Change	June 2023 FOMC Statement
5.00% - 5.25%	+0.75% (0.25% rate hikes on February 1st, March 22nd, and May 3rd)	$8.4 Trillion	- $160 Billion	In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

Interest Rates: The FOMC raised the federal funds rate 25 basis points (0.25%) at their May meeting before pausing rate hikes in June. The top end of the federal funds rate now stands at 5.25%. Since March of 2022, the Fed has increased interest rates by 5% total for one of the quickest tightening cycles in United States history. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expects two more rate hikes this year and for the federal funds rate to peak at 5.6% in 2023 before they cut rates to 4.6% in 2024. The market is currently pricing in about a 75% chance that the Fed will raise rates by another 25 basis points at the July 26th meeting.

Balance Sheet – Quantitative Tightening: The Fed is also reducing the size of their nearly $9 trillion balance sheet. The runoff plan is for monthly caps of about $60 billion for Treasuries and $35 billion for agency mortgage-backed securities. The monthly reduction of about $95 billion is larger than the $50 billion per month pace that was used during the 2017-2019 runoff plan. At the current runoff rate, it will take over 4 years for the Fed's balance sheet to decrease to its pre-pandemic size.

At their latest meeting, the Fed raised their 2023 forecasts for both economic growth (Real GDP) and inflation (Core PCE inflation). The Fed seems genuinely surprised at the strength of the economy despite several bank failures earlier this year. An old investment adage is that the Fed raises interest rates until something breaks. As several banks "broke" in March, the FOMC forecasted that rate hikes would stop once the federal funds rate reached 5.1%. Now only a few months later, things have calmed in the banking sector and the economy is performing better than expected.

Fed Chair Powell recently stated that, "the process of getting inflation back down to 2 percent has a long way to go and nearly all FOMC participants expect that it will be appropriate to raise interest rates somewhat further by the end of the year." The Fed's view seems to be, "if the economy is still performing well and Core PCE Inflation remains elevated, why not raise rates again?" With this framework, the Fed back to forecasting a peak federal funds rate of 5.6%, which assumes two more 25 basis point rate hikes. In our opinion, the best way to forecast the Fed's future actions is to focus on Core PCE inflation. If that reading stays elevated, more rate hikes are on the table. On the other hand, if Core PCE inflation decelerates, the Fed will likely hold off on further rate hikes. Since there is only one more PCE Inflation reading between now and the next FOMC meeting on July 26th, we expect another rate hike at that time given the bias toward further tightening. We're somewhat confused at the Fed's recent actions to pause in June only to suggest another rate hike in July and potentially another before year end. However, as the past several years have demonstrated, Fed forecasts are only a snapshot in time and they can change quickly.



Source: Bloomberg

US ECONOMY

The United States economy continues to meander along and send mixed signals about its future path. After increasing by +2.1% in 2022, Real GDP Growth is estimated at +1.3% in 2023 and +0.8% in 2024. Manufacturing data, economic indicators, consumer spending, and the housing market have all weakened while inflation has decelerated but is still above the Fed's 2% target. It's not hard to see signs of a recession in several areas.

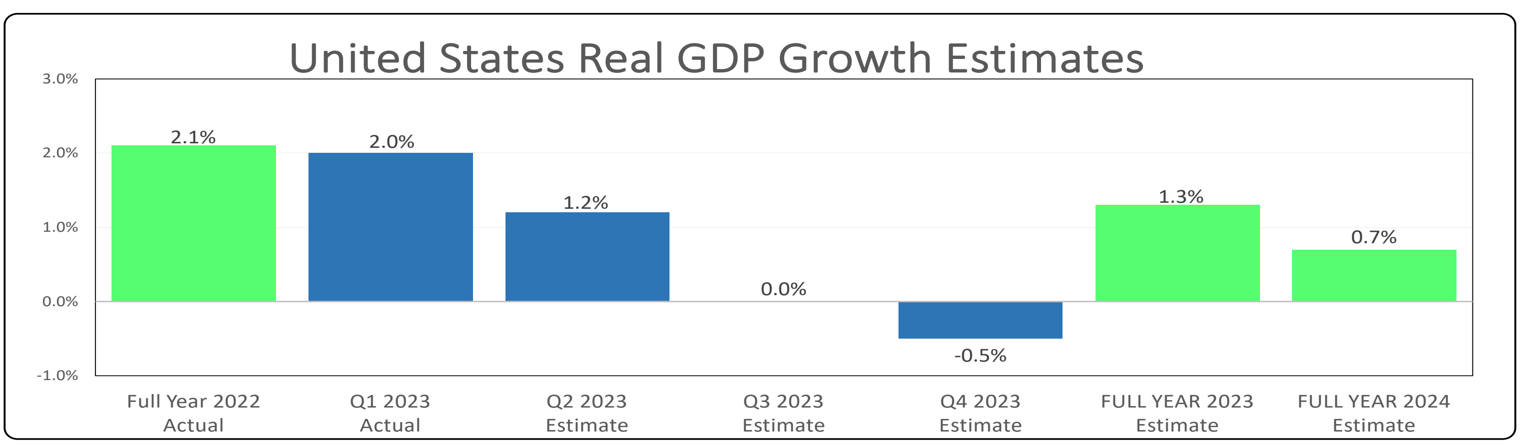
Meanwhile, the strength of the economy currently lies with the labor market as the unemployment rate of 3.7% is close to a 50-year low. The service sector, including retail, leisure and hospitality, and health care, continues to add employees and search for new workers. With the Fed actively trying to soften the labor market to bring down inflation by lowering the overall demand for goods and services, we expect the unemployment rate to tick up over the rest of the year. Admittedly, we've expected the unemployment rate to increase for several months and have been pleasantly surprised at the resiliency of the labor market to this point.

While the economy has slowed considerably since 2021, it has still been able to avoid the technical definition of a recession for now. As the labor market continues to exceed expectations, the forecasts for the start of a recession keep getting pushed back by a few months. In our view, the economy can potentially avoid a recession if inflation continues to decelerate, which would allow the Fed to stop their tightening cycle before higher interest rates eventually lead to cracks in the jobs market. Please see page 7 for our thoughts on a potential US recession.

United States Economic Data

Data Point	Latest Reading	Historical Readings		Historical Averages		Source
		3-Months Ago	12-Months Ago	5-Year Average	10-Year Average	
Economic Indicators						
Leading Economic Indicators (Y/Y)	**-7.9%**	-8.0% ↑	1.3% ↓	0.9% ↓	2.3% ↓	Conference Board
Financial Conditions Index	**0.34**	-0.39 ↑	-1.25 ↑	0.18 ↑	0.33 ↑	Bloomberg
ISM Manufacturing Index	**46.9**	47.7 ↓	53.1 ↓	54.1 ↓	54.3 ↓	Institute for Supply Mgmt
ISM Services Index	**50.3**	51.2 ↓	56.0 ↓	57.0 ↓	56.6 ↓	Institute for Supply Mgmt
Consumer						
Retail Sales (Y/Y)	**1.6%**	2.2% ↓	9.3% ↓	7.4% ↓	5.5% ↓	University of Michigan
Michigan Consumer Sentiment	**64.4**	62.0 ↑	50.0 ↑	79.0 ↓	85.0 ↓	US Census Bureau
Debt-to-Service Ratio	**9.6%**	9.1% ↑	9.2% ↑	9.5% ↑	9.7% ↓	Federal Reserve
Labor Market						
Unemployment Rate	**3.7%**	3.5% ↑	3.6% ↑	4.9% ↓	5.1% ↓	Bureau of Labor Statistics
Change in Nonfarm Payrolls	**339,000**	217,000 ↑	370,000 ↓	121,000 ↑	166,689 ↑	Bureau of Labor Statistics
JOLTS Job Openings	**10,103,000**	9,745,000 ↑	10,961,000 ↓	8,631,310 ↑	7,067,975 ↑	Bureau of Labor Statistics
Housing Market						
Existing Home Sales (Annual Rate)	**4,300,000**	4,430,000 ↓	5,130,000 ↓	5,404,200 ↓	5,340,200 ↓	Ntl Association of Realtors
Case-Shiller Home Price Index (Y/Y)	**-1.7%**	-1.1% ↓	18.6% ↓	8.8% ↓	7.8% ↓	S&P
30-Year Fixed Rate Mortgage	**7.2%**	6.7% ↑	5.6% ↑	4.3% ↑	4.2% ↑	Bankrate.com
Inflation						
Core PCE Inflation (Y/Y)	**4.6%**	4.7% ↓	5.0% ↓	2.9% ↑	2.3% ↑	Bureau of Econ Analysis
Consumer Price Index (Y/Y)	**4.0%**	5.0% ↓	9.1% ↓	3.9% ↑	2.6% ↑	Bureau of Labor Statistics
Average Hourly Earnings (Y/Y)	**4.3%**	4.3% ↑	5.4% ↓	4.3% ↓	3.3% ↑	Bureau of Labor Statistics

Source: Winthrop Wealth, Bloomberg



Source: Bloomberg

UNITED STATED RECESSIONS AND S&P 500

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is charged with maintaining official records of expansions and recessions in the United States. The NBER defines a recession as a significant decline in economic activity while an expansion is defined as a period where economic activity rises substantially. According to the **NBER**, since 1929 there have been 15 recessions in the US lasting an average of 13 months each.

Despite weakening over the last eighteen months, the United States economy has been able to avoid a recession thus far, surprising many observers, including us. We started writing that a mild US recession felt inevitable last summer, and we have been pleased thus far at the resiliency of the labor market, which has kept the economy in expansion territory. Several recessionary indicators are still flashing yellow or red, including the **yield curve**, leading economic indicators, and the ISM Manufacturing survey. According to the Federal Reserve, the possibility of a recession sometime this year is “plausible.” While the economy may still fall into a recession, we continue to believe that the contraction would be far less severe than previous significant economic declines like the Global Financial Crisis of 2007 – 2009 as consumer leverage and balance sheets are in far better condition.

An over-simplified business cycle historically followed a similar pattern: the economy expands rapidly - unemployment falls - inflation overheats - financial bubbles forms - the Fed responds by raising interest rates – credit tightens - good borrowers struggle to find loans – the economy stumbles - a recession occurs – the economy bottoms - repeat. We’ve seen the first stages of the business cycle play out starting in mid-2020. At this point, it is unclear whether the turbulence that started with **Silicon Valley Bank** will lead to a full-blown credit crunch, but we do expect that banks will tighten their lending standards and face stricter regulations, which will lead to slower overall economic growth and increased odds of an official recession.

The good news for long-term investors is that the S&P 500 already priced in an average recession last year when the index fell by -24.5% from January 3rd through October 12th. We are not sure if October 12th marks the ultimate bottom for this period, although unless your view is that this is the start of another Great Depression or Financial Crisis, then a lot of the damage in the equity market may have already occurred at the recent low.

A key tenant to our investment philosophy is to maintain a long-term viewpoint. A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that recessions can create buying opportunities for long-term investors. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk. tolerance, financial circumstances, and time horizon when investing.*

United States Recessions			S&P 500 Performance						
Economic Growth Peak	Economic Growth Trough	Peak to Trough (Months)	S&P 500 Peak	S&P 500 Trough	Peak to Trough (Months)	Peak to Trough Decline	1-Year Post Trough	3-Year Post Trough	5-Year Post Trough
August 1929	March 1933	44	September 1929	June 1932	33	-86.2%	121.4%	117.7%	287.9%
May 1937	June 1938	13	March 1937	March 1938	13	-51.3%	34.8%	36.3%	82.8%
February 1945	October 1945	8	January 1945	January 1945	0	-3.5%	42.7%	24.9%	74.6%
November 1948	October 1949	11	June 1948	June 1949	12	-15.5%	59.9%	132.8%	206.8%
July 1953	May 1954	10	January 1953	September 1953	8	-12.4%	45.6%	137.3%	165.0%
August 1957	April 1958	8	July 1957	October 1957	3	-19.8%	36.2%	52.0%	68.9%
April 1960	February 1961	10	January 1960	October 1960	10	-11.1%	34.8%	55.9%	106.0%
December 1969	November 1970	11	May 1969	May 1970	13	-32.2%	48.9%	71.3%	56.1%
November 1973	March 1975	16	January 1973	October 1974	21	-44.8%	44.4%	76.4%	122.9%
January 1980	July 1980	6	February 1980	March 1980	1	-16.7%	44.4%	82.5%	133.5%
July 1981	November 1982	16	January 1981	August 1982	19	-19.1%	66.1%	111.0%	300.3%
July 1990	March 1991	8	July 1990	October 1990	3	-19.2%	33.5%	70.8%	126.4%
March 2001	November 2001	8	January 2001	September 2001	8	-29.1%	-11.1%	22.2%	49.7%
December 2007	June 2009	18	October 2007	March 2009	17	-55.2%	72.3%	115.0%	208.7%
February 2020	April 2020	2	February 2020	March 2020	1	-33.8%	77.8%	85.1%	
Average (15)		13			11	-30.0%	50.1%	79.4%	142.1%
Median (15)		10			10	-19.8%	44.4%	76.4%	124.7%
Average (14. Ex. Great Depression)		11			9	-26.0%	45.0%	76.7%	130.9%
Median (14. Ex Great Depression)		10			9	-19.5%	44.4%	73.8%	122.9%

Source: National Bureau of Economic Research (NBER) and Bloomberg

OUTLOOK

Our market outlook is based on four pillars: Monetary Policy, Economic Growth, Corporate Earnings, and Valuation.

ECONOMIC GROWTH

The United States economy continues to meander along and send mixed signals about its future path. Manufacturing data, economic indicators, consumer spending, and the housing market all remain weak while inflation has decelerated but is still above the Fed's 2% target. It's not hard to see signs of a recession in these areas. Meanwhile, the strength of the economy currently lies with the labor market as the unemployment rate of 3.7% is close to a 50-year low.

We have been surprised thus far at the resiliency of the labor market that has kept the economy in expansion territory. While the economy may still fall into a recession, we continue to believe that the contraction would be far less severe than previous significant economic declines like the Global Financial Crisis of 2007 – 2009 as consumer leverage and balance sheets are in far better condition.

Real GDP Estimates:
- 2023: +1.3%
- 2024: +0.7%
- 2025: +1.9%

MONETARY POLICY

- **Interest Rates**: The FOMC raised the federal funds rate 25 basis points (0.25%) at their May meeting before pausing rate hikes in June. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate to peak at 5.6% in 2023 before they cut rates to 4.6% in 2024.

- **Balance Sheet Runoff Plan**: The Fed is still shrinking their balance sheet by $95 billion per month ($60 billion for Treasuries and $35 billion for agency mortgage-backed securities).

At his latest press conference, Fed Chair Powell stated that, "the process of getting inflation back down to 2 percent has a long way to go and nearly all FOMC participants expect that it will be appropriate to raise interest rates somewhat further by the end of the year." There is not a lot of inflation data between now and July 26th, so we expect a rate hike at that meeting given the Fed's bias toward further tightening.

CORPORATE EARNINGS

S&P 500 earnings estimates have stabilized over the past several weeks as the first quarter earnings season came in better than expected. Second quarter 2023 earnings season, which kicks off in mid-July, will provide valuable insight into how corporations are navigating the current environment and their outlook on future conditions.

S&P 500 Earnings Estimates

- 2023: $221 (+1%)
- 2024: $246 (+12%)

Over long time periods, earnings drive stock prices.

VALUATION

Valuations look stretched after the market rebound. We will caution that if earnings estimates get lowered, the current P/E will look even more stretched.

The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 19.1x.
- 25-Year Average: 16.5x.

Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.

The market rally since October was driven by evidence of disinflation, the economy, labor market, and corporate earnings holding up better than expected, and the perceived benefit that artificial intelligence (AI) will have on profits and productivity. Despite the strong performance over the past several months, significant market and economic risks remain. We continue to separate our outlook into short- (months) and long-term (years) periods.

Short-Term: We are turning cautious in the near term as the S&P 500, currently at 4,450, recently broke out of its 14-month trading range of 3,600 to 4,300. In our opinion, the fundamentals of the stock market do not warrant a recovery back to all-time highs yet. Valuations are stretched, especially given current interest rate levels (**Client Question: Why do Interest Rates Impact Stock Prices?**). While earnings have come in better than expected, they would face downside risk if the economy began to stumble. Furthermore, while the Fed is likely close to ending their tightening cycle, services inflation remains sticky, which may cause the FOMC to continue raising rates. Adding it all up, we would expect some consolidation after the strong year-to-date performance with a move back down into the upper end of the recent trading range as a probable outcome. The S&P 500 is on pace to increase by nearly +37% in 2023, which seems unlikely in our view. A digestion period is healthy for the market's long-term potential as market booms are typically followed by busts (the S&P 500 performance from 2021 through 2022 is the latest example). If the market were to break toward the bottom end of its trading range, our short-term view would turn more positive, and we would look to add to equities in actively managed portfolios. If the S&P were to keep increasing toward all-time highs, our short-term view would turn increasingly cautious, and we would begin trimming equities. *The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.*

Long-Term: A key tenant to our investment philosophy is to maintain a long-term viewpoint as markets can be incredibly volatile over short-time periods. As the market sold off last year, we reminded clients that difficult periods create opportunities for long-term investors. While market weakness may return, staying invested or adding to existing holdings throughout 2022 looks like a great decision right now. Markets have historically increased over time as successful corporations have been able to figure out ways to generate profits through advances in innovation and productivity. In our view, investors with a globally diversified portfolio and a long-term horizon should remain optimistic. We continue to believe in the value of **time**, **diversification**, and the **power of compounding**. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon.*

We will continue to rely on our time-tested process while looking for opportunities to tax loss harvest, reposition and rebalance portfolios, and selectively put money to work for clients that have recently made contributions to their accounts. On the equity side, we remain tilted toward high quality US stocks. On the fixed income side, we are taking advantage of the highest yields in over a decade while continuing to focus on achieving ballast, stability, and income as well as accounting for short-term cash needs. *There is no guarantee a diversified portfolio will outperform a non-diversified portfolio and all investing involves risk including loss of principal.*

US Equity											
Index	Q2 2023	2023	2022	2021	2020	2019	1-Year	3-Year	5-Year	10-Year	20-Year
S&P 500	8.74%	16.88%	-18.13%	28.68%	18.39%	31.47%	19.56%	15.15%	12.28%	12.84%	10.03%
Russell 3000	8.39%	16.16%	-19.22%	25.64%	20.88%	31.01%	18.93%	14.44%	11.37%	12.32%	10.03%
Dow Jones Industrial Average	3.97%	4.94%	-6.86%	20.95%	9.72%	25.34%	14.23%	12.61%	9.58%	11.24%	9.56%
Nasdaq	13.05%	32.32%	-32.51%	22.21%	45.05%	36.73%	26.17%	12.67%	13.97%	16.27%	12.50%
S&P 400	4.84%	8.81%	-13.10%	24.73%	13.65%	26.17%	17.53%	15.89%	7.75%	10.18%	10.45%
Russell 2000	5.19%	8.06%	-20.46%	14.78%	19.93%	25.49%	12.27%	11.30%	4.17%	8.23%	8.86%
Russell 1000 Growth	12.81%	29.01%	-29.14%	27.59%	38.49%	36.39%	27.10%	14.44%	15.13%	15.73%	11.48%
Russell 1000 Value	4.07%	5.10%	-7.56%	25.12%	2.78%	26.52%	11.50%	14.72%	8.08%	9.19%	8.48%
International Equity											
MSCI Index	Q2 2023	2023	2022	2021	2020	2019	1-Year	3-Year	5-Year	10-Year	20-Year
EAFE	2.95%	11.67%	-14.45%	11.26%	7.82%	22.01%	18.77%	9.03%	4.39%	5.40%	6.53%
Europe	3.17%	17.86%	-17.86%	13.54%	7.89%	23.20%	29.49%	10.59%	4.63%	6.11%	6.13%
Japan	6.42%	13.00%	-16.65%	1.71%	14.48%	19.61%	18.14%	5.89%	3.13%	5.22%	5.73%
China	-9.71%	-5.46%	-21.93%	-21.72%	29.49%	23.46%	-16.82%	-10.10%	-5.27%	3.04%	9.29%
Emerging Markets	0.90%	4.89%	-20.09%	-2.54%	18.31%	18.42%	1.75%	2.36%	0.93%	2.95%	8.17%
ACWI ex US	2.44%	9.47%	-16.00%	7.82%	10.65%	21.51%	12.72%	7.32%	3.51%	4.74%	6.66%
US Fixed Income											
Bloomberg Barclays Index	Q2 2023	2023	2022	2021	2020	2019	1-Year	3-Year	5-Year	10-Year	20-Year
Aggregate	-0.84%	2.09%	-13.01%	-1.54%	7.51%	8.72%	-0.94%	-3.96%	0.77%	1.52%	3.00%
Treasury Bills	1.22%	2.33%	1.52%	0.04%	0.54%	2.21%	3.73%	1.31%	1.53%	0.96%	1.29%
Corporates	-0.29%	3.21%	-15.76%	-1.04%	9.89%	14.54%	1.55%	-3.41%	1.76%	2.63%	3.90%
Securitized MBS/ABS/CMBS	-0.63%	1.82%	-11.67%	-1.04%	4.18%	6.44%	-1.50%	-3.62%	0.13%	1.18%	
High Yield	1.75%	5.38%	-11.19%	5.28%	7.11%	14.32%	9.06%	3.15%	3.35%	4.43%	6.64%
Munis	-0.10%	2.67%	-8.53%	1.52%	5.21%	7.54%	3.19%	-0.57%	1.84%	2.68%	3.55%
US Equity Sectors											
Index	Q2 2023	2023	2022	2021	2020	2019	1-Year	3-Year	5-Year	10-Year	20-Year
Technology	17.20%	42.77%	-28.19%	34.52%	43.88%	50.27%	40.26%	20.70%	21.80%	21.83%	14.47%
Real Estate	1.81%	3.72%	-26.21%	46.14%	-2.17%	29.00%	-4.20%	6.72%	6.48%	6.60%	
Industrials	6.49%	10.19%	-5.51%	21.10%	11.05%	29.32%	25.12%	18.17%	10.48%	11.55%	9.88%
Energy	-0.89%	-5.55%	65.43%	54.39%	-33.68%	11.81%	18.58%	36.20%	6.52%	4.35%	8.95%
Consumer Discretionary	14.58%	32.97%	-37.03%	24.43%	33.30%	27.94%	24.64%	9.62%	9.94%	12.90%	11.04%
Communication Services	13.07%	36.24%	-39.89%	21.57%	23.61%	32.69%	17.28%	7.75%	9.28%	6.46%	7.39%
Consumer Staples	0.45%	1.28%	-0.62%	18.63%	10.75%	27.61%	6.60%	12.20%	11.07%	9.60%	9.76%
Utilities	-2.53%	-5.69%	1.56%	17.67%	0.52%	26.35%	-3.68%	8.58%	8.23%	9.39%	9.54%
Materials	3.31%	7.74%	-12.28%	27.28%	20.73%	24.58%	15.12%	16.54%	9.75%	10.30%	9.62%
Financials	5.33%	-0.53%	-10.57%	34.87%	-1.76%	32.09%	9.45%	16.16%	7.13%	10.07%	4.91%
Health Care	2.95%	-1.48%	-1.95%	26.13%	13.45%	20.82%	5.38%	12.35%	11.78%	12.77%	9.82%
	Calendar Year Returns						Annualized Returns				

Source: Bloomberg

Leading Economic Indicators
The Conference Board US Leading Economic Indicators Index (LEI) is designed to forecast future activity based on economic variables that tend to move before changes in the overall economy. The index contains 10 data points. Updated monthly. Data goes back to 1960.

Financial Conditions Index
The Bloomberg US Financial Conditions Index tracks the overall level of financial stress in the money market, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions. The number is a Z-Score that indicates the number of standard deviations by which current conditions deviate from normal levels. Updated daily. Data goes back to 1990.

ISM Manufacturing Index
The ISM Manufacturing PMI Index is based on a survey of more than 300 manufacturing firms - the index monitors employment, production, inventories, new orders, and supplier deliveries. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. Updated monthly. Data goes back to 1948.

ISM Services Index
The ISM Non-Manufacturing PMI Index is based on a survey of more than 300 non-manufacturing firms. The index is a composite of four indicators with equal weights: Business Activity, New Orders, Employment, and Supplier Deliveries. A reading above 50 percent indicates that the non-manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. Updated monthly. Data goes back to 1997.

Retail Sales
The US Census Bureau Retail Sales data tracks the resale of new and used goods to the general public for personal or household consumption. Data is adjusted for seasonal variation and holiday and trading-day differences and calculated from a survey of approximately 5,500 retail and food services firms. Updated monthly. Data goes back to 1992.

Michigan Consumer Sentiment
The University of Michigan collects data on consumer attitudes and expectations. The index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Updated monthly. Data goes back to 1966.

Debt-to-Service Ratio
The Federal Reserve Household Debt Service and Financial Obligations. Also known as Household Debt Service Ratio (DSR). Calculated as Household debt service payments and financial obligations as a percentage of disposable personal income; seasonally adjusted. Updated quarterly. Data goes back to 1979.

Unemployment Rate
The Bureau of Labor Statistics Unemployment Rate tracks the number of unemployment persons as a percentage of the labor force. The labor force is calculated as the total number of employed plus unemployed. The unemployment rate is calculated from the Current Population Survey (CPS). Updated monthly. Data goes back to 1948.

Change in Nonfarm Payrolls
The Bureau of Labor Statistics Nonfarm Payrolls measures the monthly change in the number of employees on business payrolls. Approximately 140k businesses and government agencies representing 690k individual worksites are surveyed each month. Data is from the Current Employment Statistics (CES) survey. Updated monthly. Data goes back to 1939.

JOLTS Job Openings
The Job Openings and Labor Turnover Survey (JOLTS) is conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. The program involves the monthly collection, processing, and dissemination of job openings and labor turnover data. The data, collected from sampled establishments on a voluntary basis, include employment, job openings, hires, quits, layoffs and discharges, and other separations. Updated monthly. Data goes back to 2000.

Existing Home Sales
The National Association of Realtors Existing Home Sales SAAR tracks total existing home sales including single family homes, townhomes, condominiums, and co-ops. All sales are based on closings from Multiple Listing Services. Updated monthly. Data goes back to 1999.

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Case-Shiller Home Price Index
The S&P Case-Shiller US National Home Price Index tracks the value of single-family housing within the United States. The index is a value-weighted average of 20 metro areas. Updated monthly. Data goes back to 2001.

30-Year Fixed Rate Mortgage
Bankrate.com calculates the national average 30-year Fixed Rate Mortgage. Updated daily. Data goes back to 1998.

Core PCE Inflation
The Core Personal Consumption Expenditure (PCE) index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. The FOMC targets an average of +2.0% Y/Y growth in Core PCE Inflation. Updated monthly. Data goes back to 1960.

Consumer Price Index
The Bureau of Labor Statistics Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices. Updated monthly. Data goes back to 1914.

Average Hourly Earnings
The Bureau of Labor Statistics Average Hourly Earnings tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey. Updated monthly. Data goes back to 2007.

DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece,

Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI US Broad Market Index captures broad US equity coverage. The index includes 3,204 constituents across large, mid, small and micro capitalizations, representing about 99% of the US equity universe.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S.

Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.