

# WAINWRIGHT INVESTMENT COUNSEL, LLC FINANCIAL MARKETS HIGHLIGHTS

Second Quarter 2023

The artificial intelligence (“AI”) wave washed over investors during the quarter, and the companies seemingly best positioned to benefit performed remarkably. TV personality Jim Cramer coined this group of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla the Magnificent Seven. With quarterly returns ranging from 16.3% (Alphabet) to 52.3% (Nvidia), they drove the tech-heavy NASDAQ 100 index to a 15.4% quarterly gain, bringing its six-month return to 39.4%. At quarter-end the Magnificent Seven constituted ~28% of the S&P 500 index, were its largest seven holdings, and vaulted the index to an 8.7% quarterly gain.

This narrow market leadership is concerning to some, a lack of “breadth” portending trouble underneath the market’s surface. Perhaps. It could also come to pass that the stocks representing the remaining ~70% of the S&P 500 take the reins and drive the market higher. The healthcare, consumer staples, energy, financials, real estate and utility sectors made up ~40% of the S&P 500 as of quarter-end, and on average they were down for the first half of 2023. If those sectors begin to exhibit signs of life, the stock market could certainly continue to exhibit strong momentum, bad “breadth” and all.

To be clear, not only mega-sized technology company stocks were up during the quarter. Small company stocks returned 5.2%, mid-sized company stocks 4.9%, international stocks 3.0% and emerging market stocks 0.9%. Growth stocks tended to outperform value stocks, but the latter were up nicely. Sector wise, technology, communications and consumer discretionary stocks

performed best, while utility, energy and consumer staples stocks were flat to down.

Very high quality US Treasury and Agency bonds were marginally down during the quarter, while corporate bonds were generally up. The Federal Reserve (“Fed”) raised the target range for its short-term fed funds rate to 5.0% to 5.25% at its May confab, but paused on its rate-hiking cycle at its June meeting. The Fed’s continued “tightening” of monetary policy, using higher rates to induce savings and inhibit credit-based investment, has successfully slowed inflation, though it remains at elevated levels. The May reading on consumer prices was +4% for the trailing 12 months, compared to +9% one year ago. Progress remains to get to the Fed’s inflation target of ~2%, and thus the median expectation amongst the Fed’s Open Market Committee participants is for two more rate increases this year, to a range of 5.50% to 5.75% for fed funds by year-end. Nonetheless, with yields on short-term US Treasury bills about 5% and inflation about 4%, inflation-adjusted rates (*i.e.*, “real” interest rates) are about 1%, dramatically improved from this time last year.

You have to break a few eggs to make an omelet, the saying goes; the Fed’s unprecedented interest rate hiking cycle took down several banks that poorly managed their interest rate risk, and there remains significant uncertainty in the commercial real estate market. Many loans are so-called “balloon” structures that inherently assume payback via refinancing at term end, typically five years. A rolling loan gathers no loss, real estate

**Selected Index Returns (%) as of June 30, 2023 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.**

	<u>Apr.</u>	<u>May</u>	<u>Jun.</u>	<u>QTR</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
<b>S&amp;P 500</b>	1.56	0.43	6.61	8.74	16.89	19.59	14.61	12.31	12.86
<b>S&amp;P 400</b>	-0.78	-3.19	9.16	4.85	8.84	17.61	15.44	7.79	10.21
<b>Russell 2000</b>	-1.80	-0.92	8.13	5.21	8.09	12.31	10.83	4.21	8.26
<b>Wilshire U.S. REIT Index</b>	0.84	-2.83	5.43	3.31	6.74	-0.31	8.55	4.40	6.39
<b>MSCI EAFE</b>	2.82	-4.23	4.55	2.95	11.67	18.77	8.94	4.39	5.41
<b>MSCI Emerging Markets</b>	-1.13	-1.68	3.80	0.90	4.89	1.75	2.32	0.93	2.95
<b>Bloomberg U.S. Aggregate Bond</b>	0.61	-1.09	-0.36	-0.84	2.09	-0.94	-3.97	0.77	1.52
<b>Bloomberg High Yield</b>	1.00	-0.92	1.67	1.75	5.38	9.06	3.14	3.36	4.43

*The information contained herein is provided for informational and discussion purposes only.* No information, data, analysis, opinion or report, alone, should be used to make an investment decision. **Investing involves risks, and there is always the potential of losing money.** Any financial transaction involves a variety of potential significant risks and issues. Before entering into any financial transaction, you should ensure that you fully understand the terms, have evaluated the risks and have determined that the transaction is appropriate for you in all respects. You should consult with your personal legal, tax, or other advisors, including your financial professional, prior to making any investment decisions. **Past performance is never a guarantee of future investment results.**

Additional information about Wainwright Investment Counsel, LLC is also available at <https://adviserinfo.sec.gov/firm/summary/108711>. This information provided herein does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be used or relied upon in connection with any offer or sale of securities. The information herein reflects prevailing conditions and Wainwright’s judgments as of this date, all of which are subject to change without notice.

# WAINWRIGHT INVESTMENT COUNSEL, LLC FINANCIAL MARKETS HIGHLIGHTS

Second Quarter 2023

bankers quip, but that may simply be untenable given the state of lower quality office, suburban office and retail space. The bulk of commercial real estate loans reside on regional bank balance sheets, so this story is unfolding. As for residential real estate, the trend has been remarkably resilient considering that mortgage rates have nearly tripled since the lows of January 2021.

On the economic front, Q1 GDP came in at 2.0% and unemployment remains historically low at 3.7%. Optimists will point to the Atlanta Fed's "GDPNow" estimate forecasting ~2.0% Q2 growth for validation. Pessimists will cite today's inverted yield curve, with longer dated bonds yielding less than short-dated maturities, as a reliable predictor of storm clouds on the horizon. Our advice: follow corporate earnings, which are trending favorably.

Wainwright wishes you a happy summer season. For those looking for some beach reading, might we suggest Morgan Housel's The Psychology of Money. It reads, "Doing well with money isn't necessarily about what you know. It's about how you behave. And behavior is hard to teach, even to really smart people." The book is plain spoken, easy to read, and particularly beneficial to younger people, in our view.

**Selected Index Returns (%) as of June 30, 2023 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.**

	<u>Apr.</u>	<u>May</u>	<u>Jun.</u>	<u>QTR</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
<b>S&amp;P 500</b>	1.56	0.43	6.61	8.74	16.89	19.59	14.61	12.31	12.86
<b>S&amp;P 400</b>	-0.78	-3.19	9.16	4.85	8.84	17.61	15.44	7.79	10.21
<b>Russell 2000</b>	-1.80	-0.92	8.13	5.21	8.09	12.31	10.83	4.21	8.26
<b>Wilshire U.S. REIT Index</b>	0.84	-2.83	5.43	3.31	6.74	-0.31	8.55	4.40	6.39
<b>MSCI EAFE</b>	2.82	-4.23	4.55	2.95	11.67	18.77	8.94	4.39	5.41
<b>MSCI Emerging Markets</b>	-1.13	-1.68	3.80	0.90	4.89	1.75	2.32	0.93	2.95
<b>Bloomberg U.S. Aggregate Bond</b>	0.61	-1.09	-0.36	-0.84	2.09	-0.94	-3.97	0.77	1.52
<b>Bloomberg High Yield</b>	1.00	-0.92	1.67	1.75	5.38	9.06	3.14	3.36	4.43

*The information contained herein is provided for informational and discussion purposes only.* No information, data, analysis, opinion or report, alone, should be used to make an investment decision. **Investing involves risks, and there is always the potential of losing money.** Any financial transaction involves a variety of potential significant risks and issues. Before entering into any financial transaction, you should ensure that you fully understand the terms, have evaluated the risks and have determined that the transaction is appropriate for you in all respects. You should consult with your personal legal, tax, or other advisors, including your financial professional, prior to making any investment decisions. **Past performance is never a guarantee of future investment results.**

Additional information about Wainwright Investment Counsel, LLC is also available at <https://adviserinfo.sec.gov/firm/summary/108711>. This information provided herein does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be used or relied upon in connection with any offer or sale of securities. The information herein reflects prevailing conditions and Wainwright's judgments as of this date, all of which are subject to change without notice.