JULY 2023
MARKET RECAP

Andrew Murphy, CFA
Co-Chief Investment Officer

109 STATE STREET, 2nd FLOOR BOSTON, MA 02109
WINTHROPWEALTH.COM | 617.530.1010

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

The equity market rally continued to roll-on in July as the S&P 500 increased by +3.2%, bringing the year-to-date return to +20.6%. The market is off to its best start to a calendar year since 1997. On a total return basis, the S&P 500 is now only about -1.9% below its all-time high reached on January 3rd, 2022. Since the 2022 closing low on October 12, 2022, the S&P 500 has increased by +30.0%.

- **Market Breadth:** Over the past several months we've described how the market rally this year has been narrow with the top names in the S&P 500, known as the "Magnificent 7" (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla), doing most of the heavy lifting. The market broadened in July with over 70% of stocks finishing positive for the month. **Concentration**: Only about 25% of S&P 500 stocks were positive in May. The top five weightings in the index, mainly growth names, performed very well and drove the market higher for the month: Apple (+4.6%), Microsoft (+7.1%), Amazon (+14.4%), Alphabet (+14.0%), and Nvidia (+36.3%).
- **Market Cap**: Small (Russell 2000: +6.1%) and Mid (S&P 400: +4.1%) outperformed Large Caps (S&P 500: +3.2%). Large Caps (+0.4%) outperformed Mid (-3.2%) and Small (-0.9%).
- **Style**: Value (Russell 1000 Value: +3.5%) narrowly exceeded Growth (Russell 1000 Growth: +3.4%).
- **Sector**: All eleven sectors were positive in the month with Energy (+7.4%) and Communication Services (+6.9%) as the top performers and Real Estate (+1.3%) and Health Care (+1.0%) as the laggards.

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 4,589, 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 (the all-time closing high for the S&P 500 is 4,798). Valuations are stretched, **especially given current interest rate levels**. While earnings have come in better than expected, they would face downside risk if the economy began to stumble. Furthermore, although 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 anticipate 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 +38% 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 likely 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 may 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. Equity markets have historically increased over many longer-term time periods 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**. *Remember that no strategy assures success or protects against loss Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns.*

The markets have several major events over the next month, including, the conclusion of Q2 earnings season, JOLTS Job Openings (8/1), July Employment Report (8/4), CPI Inflation (8/10), Federal Reserve Jackson Hole Conference (8/24 – 8/26) and PCE Inflation (8/31).

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*

Fixed Income Market

The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -0.1% in July as the 10-Year Treasury yield increased from 3.84% to 3.96% during the month (bond prices move inversely to interest rates and credit spreads). The bond market is now higher by +2.0% 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.

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 last 13+ months. From June 15, 2022, through the end of July, US bond market increased by +1.6%. This highlights that the bond market has stabilized over the past year after coming off a very challenging start to 2022. *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.*

The Treasury yield curve is still inverted with both the 3-Month (5.40%) and 2-Year (4.88%) higher than the 10-Year (3.96%) 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**.

The yield to maturity of various bond indices remain 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 4.9% at the end of the month, which is the highest level since 2008. In other words, future returns from the Agg bond index have not been this attractive in 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.*

Monetary Policy

The Federal Open Market Committee (FOMC, Fed) increased interest rates by another 25 basis points (0.25%) at their July 26th meeting to bring the top end of the federal funds rate to 5.50%, the highest level in 22 years. After pausing rate hikes in June, the Fed curiously decided to resume in July despite several encouraging inflation readings between meetings.

While most inflation readings have decelerated over the last several months, the Fed seems hesitant to acknowledge this progress. At the latest FOMC meeting, Fed Chair Powell stated that, "inflation remains well above our longer-run goal and the process of getting back down to 2% has a long way to go." According to their latest Summary of Economic Projections, the Fed is forecasting one more 25 basis point rate hike during this cycle.

In our opinion, the best way to forecast the Fed's future actions is to focus on Core PCE inflation. If that reading flatlines or starts to increase, more rate hikes are on the table. On the other hand, if Core PCE inflation continues to decelerate, the Fed will likely hold off on further rate hikes. While we believe that inflation will continue to fall without the need for further rate increases, the Fed appears determined not to let a reacceleration occur. We expect the Fed will continue to talk tough and threaten more hikes until either disinflation becomes painfully obvious, or the economy begins to stumble. As the past several years have demonstrated, Fed policy changes very quickly.

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.

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 various commodity prices. Meanwhile, the Fed remains unhappy 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 +4.1% is still above the Fed's 2.0% target.

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.

- **Consumer Price Index (CPI)**: tracks 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.
  - Latest Reading (June): 3.0%. Prior Reading (May): 4.0%.
  - Peak (June 2022): 9.1%. Source: Bureau of Labor Statistics.

- **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%.
  - Latest Reading (June): 4.4%. Prior Reading (May): 4.6%.
  - Peak (February 2022): 5.4%. Source: Bureau of Economic Analysis.

- **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.
  - Latest Reading (June): 4.4%. Prior Reading (May): 4.4%.
  - Peak (April 2020): 8.0%. Source: Bureau of Labor Statistics.

US Economy

The US economy continues to exceed expectations as second quarter GDP came in at a healthy +2.4% seasonally adjusted annual rate, beating the consensus estimate of +1.8%. The underlying details showed consumption (70% of GDP) at +1.6%, suggesting individual spending is still supported by a strong labor market and excess savings built up since the pandemic. The strength of the economy still lies with the labor market as the unemployment rate of 3.6% is close to a 50-year low.

The resiliency of the economy this year has surprised many observers, including us. Even the Fed is taking a more optimistic view and is no longer forecasting a recession in 2023. The perceived odds of a soft-landing, where the economy avoids a recession while inflation decelerates toward the Fed's 2% target, have increased. Real GDP growth for 2023 is now estimated at +1.6%, compared with a forecast of +0.3% at the start of the year.

While we have been pleased with how the economy has performed, there are still reasons for caution. Several recessionary indicators are still flashing yellow or red, including the **yield curve**, leading economic indicators, and the ISM Manufacturing survey. Rather than change their opinion, many economists who have been forecasting a recession have simply delayed their projected start date by a few months. Real GDP growth for 2024 is now estimated at only +0.6%.

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 labor market. Furthermore, while the economy may eventually 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.

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.*

JULY 2023 MARKET RETURNS

US Equity											
Index	**July**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	3.21%	20.64%	-18.13%	28.68%	18.39%	31.47%	12.99%	13.98%	12.17%	12.63%	10.11%
Russell 3000	3.58%	20.32%	-19.22%	25.64%	20.88%	31.01%	12.62%	13.31%	11.43%	12.12%	10.10%
Dow Jones Industrial Average	3.44%	8.55%	-6.86%	20.95%	9.72%	25.34%	10.62%	12.80%	9.29%	11.16%	9.59%
Nasdaq	4.08%	37.72%	-32.51%	22.21%	45.05%	36.73%	16.84%	11.54%	14.38%	16.02%	12.34%
S&P 400	4.13%	13.30%	-13.10%	24.73%	13.65%	26.17%	10.40%	14.95%	8.25%	10.01%	10.48%
Russell 2000	6.11%	14.67%	-20.46%	14.78%	19.93%	25.49%	7.87%	11.60%	5.05%	8.16%	8.85%
Russell 1000 Growth	3.37%	33.36%	-29.14%	27.59%	38.49%	36.39%	17.30%	12.76%	15.22%	15.51%	11.53%
Russell 1000 Value	3.52%	8.80%	-7.56%	25.12%	2.78%	26.52%	8.24%	13.98%	7.99%	9.01%	8.58%
International Equity											
MSCI Index	**July**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	3.24%	15.28%	-14.45%	11.26%	7.82%	22.01%	16.79%	8.73%	4.54%	5.17%	6.57%
Europe	3.00%	21.39%	-17.86%	13.54%	7.89%	23.20%	27.42%	10.03%	4.49%	5.59%	6.15%
Japan	3.02%	16.41%	-16.65%	1.71%	14.48%	19.61%	15.14%	6.10%	3.66%	5.29%	5.68%
China	10.76%	4.71%	-21.93%	-21.72%	29.49%	23.46%	1.79%	-9.86%	-2.83%	3.65%	9.34%
Emerging Markets	6.23%	11.42%	-20.09%	-2.54%	18.31%	18.42%	8.35%	1.36%	1.71%	3.40%	8.17%
ACWI ex US	4.07%	13.92%	-16.00%	7.82%	10.65%	21.51%	13.41%	6.72%	3.85%	4.67%	6.74%
US Fixed Income											
Bloomberg Barclays Index	**July**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-0.07%	2.02%	-13.01%	-1.54%	7.51%	8.72%	-3.37%	-4.44%	0.75%	1.50%	3.18%
Treasury Bills	0.44%	2.78%	1.52%	0.04%	0.54%	2.21%	4.10%	1.45%	1.59%	1.00%	1.31%
Corporates	0.34%	3.56%	-15.76%	-1.04%	9.89%	14.54%	-1.30%	-4.33%	1.66%	2.59%	4.14%
Securitized MBS/ABS/CMBS	-0.05%	1.77%	-11.67%	-1.04%	4.18%	6.44%	-4.50%	-3.72%	0.14%	1.19%	
High Yield	1.38%	6.83%	-11.19%	5.28%	7.11%	14.32%	4.41%	2.10%	3.41%	4.36%	6.77%
Munis	0.40%	3.08%	-8.53%	1.52%	5.21%	7.54%	0.93%	-0.97%	1.87%	2.81%	3.75%
US Equity Sectors											
Index	**July**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	2.68%	46.60%	-28.19%	34.52%	43.88%	50.27%	26.85%	19.80%	21.94%	21.62%	14.31%
Real Estate	1.25%	5.02%	-26.21%	46.14%	-2.17%	29.00%	-10.63%	5.16%	6.52%	6.58%	
Industrials	2.90%	13.38%	-5.51%	21.10%	11.05%	29.32%	17.58%	17.21%	9.56%	11.27%	9.88%
Energy	7.40%	1.43%	65.43%	54.39%	-33.68%	11.81%	16.07%	40.65%	7.75%	4.60%	9.47%
Consumer Discretionary	2.44%	36.22%	-37.03%	24.43%	33.30%	27.94%	7.35%	7.22%	10.07%	12.66%	11.06%
Communication Services	6.94%	45.70%	-39.89%	21.57%	23.61%	32.69%	20.93%	7.59%	10.25%	7.04%	8.05%
Consumer Staples	2.14%	3.45%	-0.62%	18.63%	10.75%	27.61%	5.41%	10.15%	10.65%	9.38%	9.91%
Utilities	2.47%	-3.36%	1.56%	17.67%	0.52%	26.35%	-6.44%	6.69%	8.36%	9.13%	10.04%
Materials	3.41%	11.41%	-12.28%	27.28%	20.73%	24.58%	12.16%	14.68%	9.84%	10.02%	9.38%
Financials	4.85%	4.30%	-10.57%	34.87%	-1.76%	32.09%	7.04%	15.98%	7.05%	10.01%	4.92%
Health Care	1.02%	-0.48%	-1.95%	26.13%	13.45%	20.82%	3.03%	9.92%	10.59%	12.10%	9.96%
	Calendar Year Returns						**Annualized Returns**				

Source: Bloomberg

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.

DISCLOSURES

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.