



Capital Markets Update & Outlook Summary

June 29, 2023

Market Positives

- May CPI (inflation) data shows disinflationary trend is intact
- Fed looking at two more rate hikes (July & September) – no more
- Stocks & bonds typically rally after Fed pause
- Employment remains resilient
- Consumer spending remains resilient - especially in services
- Households still in good financial shape - low debt-service
- Huge amount of cash on sidelines – what if that money turns bullish?
- Corporate earnings may have bottomed
- Strong beginning in S&P 500 after down year leads to good first half and full year returns this year – especially after negative return year

Wall of Worry – What Many Strategists are Saying

- We are experiencing a bear market rally - will reverse soon
- Corporate profit expectations remain too high and need to be lowered, as there are strong headwinds
- Inverted yield curve is confirming earnings collapse
- Inflation will remain sticky for a long time
- Fed will keep rates high for extended period
- Weakest economic quarters are still in front of us – recession coming soon
- It's too late to get into stocks now
- Resumption of student loan repayments – will hurt young consumer & economy
- Banking-lending standards moving towards tighter conditions for companies
- Commercial real estate is a looming disaster
- Overall - deep skepticism remains – Many strategists still expect lower lows in 2023



Outlook – 2023 “Wag the Dog”

S&P500 & Economic Outlook for Balance of 2023

- We are neutral on stocks, short-term pullback coming
- Corporate earnings most likely have bottomed – analysts will slowly start increasing forecasts
- Fed stops rate hikes in September, maybe July, leading to rally into year-end
- Bond yields heading lower - good year for bonds
- Huge amounts of cash on sidelines - bolsters second-half rally
- Markets remains volatile - we stay above October lows
- Soft recession end of 2023 or early 2024 - no deep recession
- Expect two steps forward, one step back
- S&P 500 forecast – 4,600 by year-end – rally continues after short pullback