Tillotson Kenefick

Private Wealth Management
of Wells Fargo Advisors

May You Live in Interesting Times

2nd Quarter 2023

The laundry list of risks facing the economy: inflation, recession, geopolitics, bank failures and Fed rate hikes made for a dramatic first quarter. Noteworthy is the S&P500 ending the quarter at **~4100**. We are into the 16^{th} month of the S&P500 trading lower than the all-time high of **~4800.** We are also five months away from the low of **~3500.** Volatility has been stunning. This year we saw the S&P500 up 6% in January, down ~5% in February and ultimately finishing at +7% for the quarter. The Aggregate Bond Index, or "AGG" measures how different kinds of fixed income investments perform. It too was off ~15% in 2022, but up ~2.7% YTD. We highlight the volatility and negative performance in both stocks and bonds over the last year and a half, to make the point that despite the declines, we've planned for market changes and feel the financial future of our clients are on track. While our goal is always to deliver positive performance, managing risk is foremost on our minds.

The increase in the Federal Reserves' "Fed Funds Rate" has been much discussed and debated, but as money managers, we do not have the luxury of opining on what should have been done or what should be done. We are always working towards the goal of providing growth and income on your savings and investments, no matter the economic conditions or political environment. While challenging, it remains our primary focus! Sometimes, as now, we outperform the indices by doing "less bad". A bear market is defined by a 20% decline from the highs of an equity index and the end of a bear market is similarly defined as an increase of 20% from the lows. The movement between those points gives us opportunity to raise cash when needed and invest funds opportunistically. The current bear market will officially end once the S&P 500 moves above **~4200**. At that point, the market will be defined as "into the recovery phase".

Remember, the capital markets are a leading indicator, moving up and down ahead of the economic data. The speed and magnitude of interest rate increases last year caused the bear market as investors priced in or discounted the impact of high interest rates on the economy. Variable lines of credit, commercial and residential real estate, pension benefits, and levered businesses are all impacted by interest rates. The declines in the indices last year reflect fear of what would happen in the future as a result of steep increases in lending rates. Now we are deeply into high interest rates and the economy is slowing and there have been painful implications to both high inflation and high interest rates.

Tillotson Kenefick

Private Wealth Management
of Wells Fargo Advisors

Poorly run companies or highly levered businesses crack under the pressure and there is often collateral damage that compounds the pain. Large banks and large tech companies are benefitting from the unintended consequences as the two sectors consolidate the weak.

What does all of this mean to you and your finances? We have been gratified by the systems, processes and management we employ during this volatility. While unnerving as the news has been, the temporary condition of the bear market will recede, and the economy will ultimately move into the recovery phase. We anticipate the markets, as a leading indicator, will rise before the economic data confirms the recovery. Lest we get ahead of ourselves, there remains risk of recession and stagflation. Despite those risks, we are growing optimistic about the end of fed rate hikes and the beginning of declining inflation. As the economy slows and interest rates remain high (relative to the last decade), there will be more collateral damage to companies dependent on cheap money, high growth and speculative investors providing capital.

We avoided shiny, trendy investments and a traditional weighting in bonds for the last several years and that has protected us. The time has come for us to lean into traditional bonds and a more traditional asset allocation. Bonds are providing a true yield for investors again. Cash is paying higher rates than most of us are paying on our mortgage! All of this is to say that when we are comfortable sitting on our cash, it's probably time to consider pushing it into the markets. When people are afraid of government bonds, we see it as a time to consider purchasing them. Capitalism is the greatest system in the world! Where and when people are afraid in the cycle…that is where we want to go. Where and when there is unanimity and complacency…it is time to leave.

Marcia C. Tillotson | **Joy M. Kenefick**

Managing Director-Investments | **Managing Director-Investments**

*Keeping in mind index returns are not fund returns. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results. All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security, including the possible loss of principal. Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

**Dividends are not guaranteed and are subject to change or elimination