TRANSCRIPT: Q2 2023 Market Update

This is a transcript of a video created on July 17th, 2023. Visit our YouTube Channel to view this video at https://youtu.be/lUV0gI-xAuM or our website at www.levelFA.com

Hi everyone. This is Steve Elwell, chief Investment Officer of Level Financial Advisors, and this is your second quarter 2023 Market commentary. The stock market enjoyed another good quarter here. After a good first quarter, the US stock market was up 8.39% for the quarter. International stocks, emerging market stocks, and global real estate. Also up for the quarter, but not quite as much as the US really led the way here. In the second quarter, the US bond market was down 0.84, but the global bond market was actually up 0.73 and there was a lot of good news, a lot of things happening, but a lot of good news here in the second quarter. The main topic of debate in market moving news over the entire quarter really ended up being specifically the debt ceiling, which of course as we approached the beginning of June, became more and more of a intense topic for investors.

Really sort of dominated all the market moving news, all ultimately the advice to stick with your investment plan and not make any major changes. As Congress and the president negotiated exactly how they were going to resolve and raise the debt ceiling ended up being a good strategy as markets rallied strongly in June to end the quarter, and that's where most of the quarter's gains really came from was in June. So if you were someone who had decided to sit it out while you wait or listened or heard market pundits suggesting that you sit it out while you wait for this to be resolved, you would've missed the upswing that happened very quickly after the announcement was made and that continued through that timeframe and that that's the risk of making big changes to your portfolio based on whatever you hear in the news or what you read at different media sources is that that number one, that information is already priced into the market by the time you've heard it or read it.

But number two, things can change on a dime very quickly. And even the best and smartest sounding investment thesis as to why you should sit it out or make some major change can quickly turn around. And ultimately you have to make, we've said this before, you have to make two right calls when to get out and then when to get back in. You can get the first part right, but if you get the second part wrong, it's irrelevant. And much, much, much more often than not, people end up hurting themselves from a financial perspective as opposed to helping themselves. So that's all good news. We were glad to see that the debt ceiling situation was resolved. They kicked the can down the road. They always do on that they don't just create some unlimited debt ceiling and just let debt go to whatever Congress ultimately authorizes to be spent.

They kicked it down to 2025, so I'm sure by the time when we get down there we'll have another discussion about it, but hopefully they'll be a little more proactive in raising the debt ceiling at that time. We also had some other good news that came. The banking crisis that really dominated the first quarter ended up subsiding quite a bit here. Things have appeared to calm down on that banking front, so that was welcome news. Artificial Intelligence chat, G B T became very, very, very popular to discuss. And several stocks associated with AI had a fantastic quarter as the hype really, really took hold here in the second quarter. And big stocks like Nvidia and Microsoft really participated strongly in a rally based on hype around that. It remains to be seen what type of impact ultimately AI will have on everyday productivity. But if it ends up being something as huge as the computer generation and the revolution that came with computers entering the workforce and helping people be more productive could be something that leads the economy to grow even faster than expected, that remains to be seen.

I'm not necessarily making a prediction that's going to be the case, but clearly there seems to be some real time savings that can come from using chat G B T or places that artificial intelligence like that. So that LED helped lead the market higher, particularly in the US with the companies that participate in that area. So that helped the second quarter look pretty good from a stock market standpoint. On top of that, that particular leading indicator of our leading reason for markets to be excited or have reason for optimism, we received lots of other good news, good news on the job market. Jobs continue to look good. The jobs reports continue to look good. GDP reports continue to look good, better than expected in many cases, which was good news for the markets. But specifically as we look at this chart here from our friends over at JP Morgan Inflation, and I want you to look at the far side of this, right?

Sorry, far side of this chart, the blue line, which is really the headline cpi, consumer price index, which is when people talk about inflation, that's really what they're talking about. As you can see in April it was 5% May 4.1, and then it doesn't show it on this chart, but the June report came in at 3.1. Now keep in mind the Federal Reserve Board is trying to get inflation to their target, which is two, the 50 year average is 3.9%. So we're already below that and clearly inflation is heading in the right direction. We are coming back down from the spike that happened in 2021 and 2022, which is not only welcome news for you and me and every person that goes to the grocery store and the gas pump and all the different things that we have to purchase every day, but it it's also welcome news from an investment standpoint for several reasons.

Of course, if we're paying much more stable prices for things at the grocery store and gas, then that means that consumers have hopefully more money left over to spend on other things. And then not only that, but since inflation appears to be getting close to what the Federal Reserve board's target is 2%, the hope is that we might be towards the end of the interest rate increases that has been happening over the last year and a half here, not quite year and a half, but a little over a year. So on that front, we saw the Federal Reserve raise interest rates another quarter percent in May, June. They took a pause, they had a meeting, but they didn't raise rates, which was the first time since off the top of my head, March of 2022, that they did not raise interest rates. And so that was welcome news by the investment markets.

There is still a fairly strong expectation that July will have another quarter percent interest rate increase, but we'll see what happens there. And then September is anybody's guess. But if the inflation reports between now and then continue to show inflation at or near 2% or maybe even three, the expectation would be that the Federal Reserve might start just holding things steady. And I think the markets probably will very much like that news, particularly the bond markets. So, on that front, this is what economists across the board have been calling a Goldilocks scenario. The porridge is just right in this scenario, right? We've got a healthy job market, we've got low unemployment, we've got declining inflation approaching where we want it to be, where the Federal Reserve wants it to be. So when you think of the Federal Reserve’s two mandates stable and inflation at 2%, and full employment, which they would argue is somewhere around 4%, 5% we're there.

I mean, we're getting there. We're there on the job market for sure, and we're not very far away in heading the right direction on the inflation front. And not only through all of that, but GDP still expanding, still growing, the economy's still growing so far, no recession, still waiting for reports that indicate that we're heading towards a recession. And maybe that's going to come and maybe it's not. But I think a lot of people thought there was no way the Federal Reserve could do what they have done over the last 12, 14 months without tipping the US into a recession. And like I said, I mean the jury's still out, but I think a lot of people at this time last year would've been shocked if you told them the economic information that was coming out right now. I mean, they would've been blown away.

And that's part of the reason why stocks went down last year is because there was a pretty negative perception of what these interest rate increases, the type of impact it was going to have on the economy. And ultimately that's part of the reason why stocks have rallied so strongly since September of 2022, is because the data has been better than expected and the economy has powered through it, which is surprising to a lot of people and surprising obviously, to the markets. That's why we've had such a wild two-year period here. So like I said, time will tell as we go over the next six months, 12 months, as interest rates start to work their way through different parts of the economy, you know, can see it in the car loan market, the real estate market, a 7% 30 year mortgage is quite a bit different than a 3% 30 year mortgage. And so, we'll ultimately see whether that cools things off and how the economy plays out. But so far, much better than expected and the markets have rewarded those people who had stuck with it, despite all of these largely negative predictions from pundits on what might happen in the investment markets as a result of these interest rate increases. So good news to report. That's why the second quarter for the stock market was good is because things were, the reports and things that came out was mostly good news and better than expected. So we're certainly pleased to see that. As always, if you have any questions about your investment portfolio or your tax return or your financial planning or retirement picture, obviously reach out to your advisor. Give us a call, 716-634-6113. Send us an email. And for everyone here at the firm, this has been the second quarter, 2023 market commentary and we'll talk to you in another three months.