

PERSPECTIVES AND POSITIONS

By James Dykstal, CFA, Portfolio Manager, August 2023

This is a summary of our views on the economy and markets based on data through July 2023.

Economy

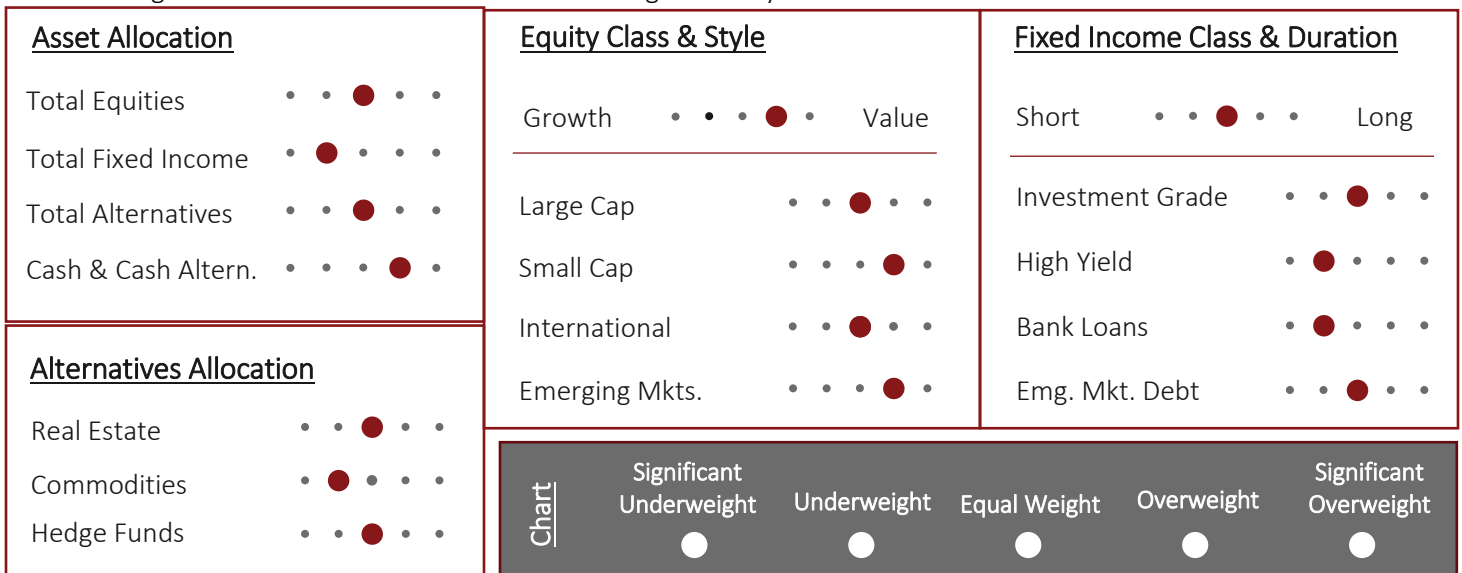
- U.S. GDP Growth – We expect to see slowing economic growth for the 2023. There is a risk of recession priced into the market for 2024. The inverted yield curve gives us a signal of slowing growth.
- Inflation – Inflation had increased markedly but is now trending lower. However, it is still relatively high at 3.2% year-over year for July compared to the inflation rate prior to the pandemic. We believe that inflation will continue to moderate during the remainder of 2023 and into 2024 but remain about 1% higher than it had been prior to the pandemic.
- Employment/Wages – Job creation is slowing. Tightness in the labor market is leading to higher wage growth; however, the wage growth rate is below the rate of inflation.
- Interest rates – We believe the Federal Reserve will seek to pause interest rates increases in the near term. The last increase in rates were 25 basis points.

Markets

- Fixed Income – Yields all along the curve has increased in the quarter as concerns about stubborn inflation and recession risk being pushed out into 2024. The ten-year Treasury closed April at 3.45%; it closed July at 3.96%. This suggests that an economic slowdown is still expected but later rather than sooner.
- Equities – We expect GDP growth to remain slow for calendar 2023. We believe that equity markets will continue to experience volatility as the market continues to digest the rapid increases of rates in 2022 and into 2023. Higher interest rates provide headwinds to valuations.
- Alternatives – Private real estate, retail, office, and apartment sectors have not kept pace with torrid industrial sector, but in aggregate provided diversification to portfolios in 2022. We are now seeing valuations in real estate turn over as higher rates impact valuations of real estate properties. Hedge funds provide diversification benefits to equity/fixed income markets.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC