QUARTERLY MARKET COMMENTARY: 2023-Q2

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It was refreshing to get a glimpse of positive sentiment as we closed out the second quarter at the top of our Dow Jones Industrial Average (DJIA) trading range of 33,000 to 34,500. Improving sentiment and the focus on Artificial Intelligence (AI) were driving factors behind the recent run-up. Resilient corporate fundamentals continue to justify current market levels, but we sense the formation of a potential mini bubble, caused by the AI frenzy, that may be a near-term concern.

The remaining question for 2023 is how the upward trend will be sustained to test the all-time equity highs that were established during the early part of last year. We still believe in the possibility of revisiting these highs before year-end, though the probability of doing so may be waning if the Fed continues to overcompensate with their hawkish approach. Even if we do not test the high-water mark later this year, we believe that it will occur early next year, thus supporting our long-term outlook for capital markets.

The realization of slightly improving fundamentals is mostly attributed to an overestimation of softening projections and not from a resounding turnaround in projected sales and earnings. Stability in projected earnings adjustment trends also provides additional positive support towards the mitigation of downside risk. Based on fundamentals, our outlook for upside potential from current levels remains favorable for value/dividend paying stocks relative to growth stocks, especially after the impressive year-to-date run up in the growth/tech sector. Growth stocks hovered in fair market value territory for only a short amount of time but it was a good sign in establishing a “risk-on” environment.

Another factor driving market sentiment is the continuing pattern of lower inflation results. Inflation figures for June were better than expected across the board. Even though these results were friendly and trending in the right direction, the street quickly refocused its attention to the anticipated additional interest rate increase(s) throughout the remainder of the year since inflation is still above the Fed’s current target of 2%. We believe the hawkish Fed should leave the current rates alone and allow them to do their job of softening prices and demand.

Like the decision between growth and value stocks, balance is required regarding short, intermediate, and long-term fixed income vehicles. It is vital to avoid the temptation of loading up on attractive short-term yields, which can expose a portfolio to reinvestment risk and the loss of appreciation potential should rates turn lower in the future. It is our belief that we are nearing a peak in interest rates contingent on inflation settling at acceptable levels.

Our next Round Table Discussion (RTD) Event has been scheduled for October 25th. Discussions will include topics from recent client conversations such as the diminishing global role of the U.S. dollar and the establishment of a digital dollar. As in past RTD Events, it should be lively and informative. Please note that we are returning to a “live” format and space will be limited. Reach out to your financial consultant or Kelly Carreno in our office at: 484-320-6300 for additional details or to make reservations.

This report was written by David Y. Sun, CFA. It is a recap of the market conditions from the previous quarter and is for information purposes only.