Market Review Commentary

July 2023

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INFLATION AND EARNINGS DATA HELP EQUITIES ADVANCE IN JULY

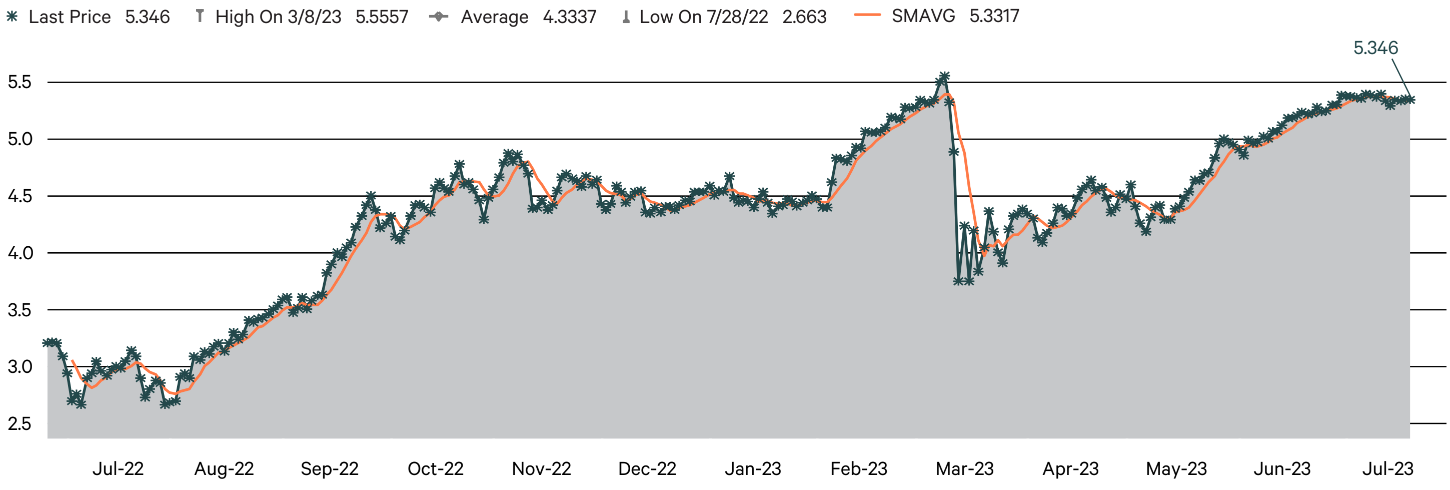
Equities showed an impressive streak of performance in July with the help of data showing inflation starting to cool along with a wave of good earnings reports. During the month, the Federal Reserve raised interest rates another 0.25%, a move widely expected by the market. The central bank appears closer to the end of its tightening policy, which also propelled the stock market higher. The S&P 500 Index delivered a return of 3.21% in the month, while the Russell 2000 Index of small capitalization stocks outpaced larger stocks and advanced 6.12%. Value stocks, as represented by the Russell 1000 Value Index, slightly outperformed growth stocks, with a return of 3.52%, while growth stocks, as represented by the Russell 1000 Growth Index, returned 3.37%. The 10-year U.S. Treasury yield began the month at 3.86% and ended at 3.97%. Bond yields climbed in response to the Federal Reserve's continued commitment to reduce inflation by raising interest rates.

MORE RATE HIKES AHEAD?

As expected, the Federal Reserve raised interest at its July meeting to a 22-year high with rates moving to a range between 5.25% and 5.50%. The 25-basis point move this month came after the Fed took a pause in June after 10 consecutive rate increases. While the market was out of sync with the Fed throughout its rate increase cycle, believing rates would go down versus up, it appears market participants have now embraced the higher-for-longer narrative and are more aligned with the Fed's inflation messaging. At its policy meeting this month, the Fed left the door open for future rate hikes before the end of the year, should economic data warrant more increases. As Jerome Powell indicated, the Fed needs to follow the data but can afford to be a little patient. The market appears to have accepted this possibility without much second-guessing, as can be seen in the Federal Funds Futures rates.

FIGURE 1: FEDERAL FUNDS FUTURES RATES

Market Capitulates to Higher-for-Longer Rates

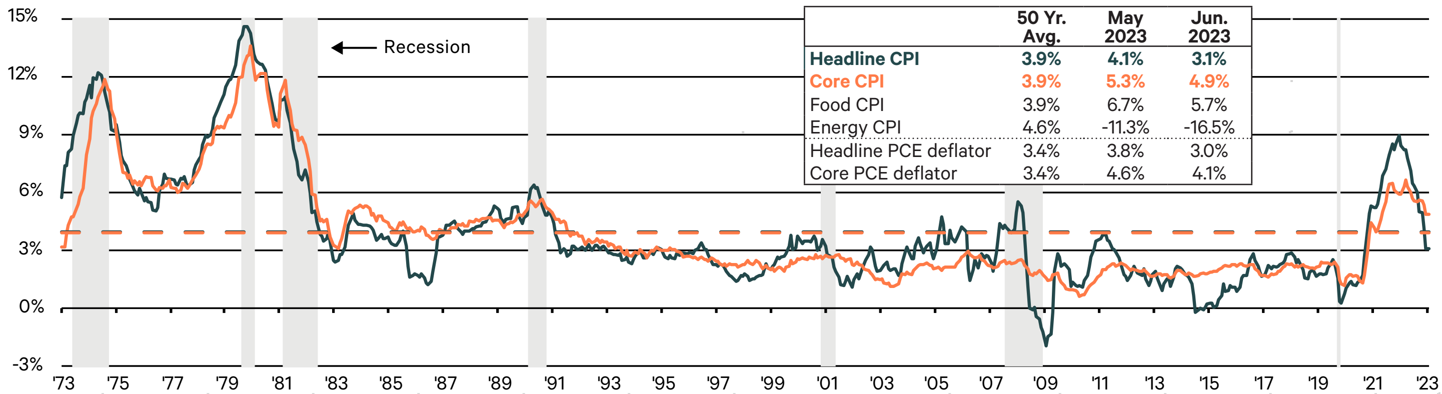


Data as of June 30, 2023. Data is obtained from Bloomberg and is assumed to be reliable. ***Past performance is no guarantee of future results.***

Given the lag that exists between interest rate increases and the effects it may have on the economy, it appears the Fed's rate increases are slowing the economy without triggering the much-forecasted recession. Headline consumer price index numbers for June showed prices over the last year rose 3%, well below the peak of 9.1% from June 2022.

FIGURE 2: CPI AND CORE CPI

% Change vs. Prior Year, Seasonally Adjusted



	50 Yr. Avg.	May 2023	Jun. 2023
Headline CPI	**3.9%**	**4.1%**	**3.1%**
Core CPI	**3.9%**	**5.3%**	**4.9%**
Food CPI	3.9%	6.7%	5.7%
Energy CPI	4.6%	-11.3%	-16.5%
Headline PCE deflator	3.4%	3.8%	3.0%
Core PCE deflator	3.4%	4.6%	4.1%

Data presented is as of August 1, 2023 and is obtained from BLS, FactSet and J.P. Morgan Asset Management and is assumed to be reliable. CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. ***Past performance is no guarantee of future results.***

The Fed reported that it is no longer projecting a recession. With consumer spending healthy, employment growth resilient, gasoline prices down from a year ago, the banking instability settled, and gross domestic product (GDP) growing faster than most economists expected, it appears a soft landing may be possible. The Fed said it believes we won't see 2% inflation until 2025, so it is too soon to flash the "all-clear" sign, but data appears to be trending in a positive direction with no imminent recession.

NEW FOCUS – THE EFFECTS OF HIGHER FOR LONGER

In the months ahead, the next question market participants will likely address now that they have capitulated to the Fed's inflation messaging will be how long the Fed holds rates steady. We will begin to see discussions about what higher-for-longer interest rates mean for the markets and broader economy. As always, the answers will be data dependent.

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Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 37 years of investment experience.

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