



Wow, what a first half of the year it's been! Whoever would have predicted such an incredibly strong market rally, with the stock market rising 20% from its most recent lows? The second quarter witnessed a continued upward trajectory for equity markets, driven by positive economic data, improving corporate earnings and accommodative monetary policies. Here is a brief recap of the second quarter.

Equity Markets: Major indexes, such as the S&P 500 and Nasdaq, recorded solid gains, reaching new all-time highs. Growth stocks (S&P 500 Growth) outperformed value stocks (S&P 500 Value), returning 10.6% and 6.6%, respectively. Developed international (MSCI EAFE) returned 3%, outpacing emerging markets (MSCI Emerging Markets), which returned 1%. Much of the story of 2023 has been about seven growth stocks - Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Telsa. These seven stocks comprise nearly 25% of the S&P 500, with a combined Price/Earnings (P/E) ratio of 29.4, versus 18.30 for the overall S&P 500. Many of these technology stocks, driven by the AI hype, look expensive on a relative basis.

Fixed Income: Government bond yields vacillated during the quarter, reflecting changing expectations regarding central banks policies and inflation concerns. Although Federal Reserve (Fed) Chairman Jerome Powell paused on increasing interest rates in June, he also hinted at potential tightening measures in the future. Despite this, corporate bonds and high-yield securities remained attractive for income-seeking investors. Still, fixed income assets saw mostly negative returns in the second quarter, as the 10-year US Treasury yield increased from 3.48% to 3.81%.

The Outlook: The market is predicting that the Fed will raise rates twice more this year, likely by a quarter point each time, then possibly start cutting in 2024. Knowing we are nearing the end of rate hikes, economists are dialing back recession risks. According to a recent poll by the [Wall Street Journal](#), economists are lowering the probability of a recession over the next year to 54% from 61%. These results reflect that the economy has kept growing even as the Fed has raised interest rates and inflation declined.

Our team is committed to monitoring the markets closely and providing you with timely insights to support your investment decisions. Please feel free to reach out to us with any questions or concerns you may have. We are here to assist you in achieving your financial goals. Wishing you continued success and prosperity in the months ahead.



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Sources:

1. Barron's: *The S&P 500 Is Now a Tech Fund*, 7.10.23
2. Valmark: *TOPS Quarterly Update Q2 2023*, 7.12.23
3. Wall Street Journal: *Economists Dial Back Recession*, 7.17.23

Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.

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