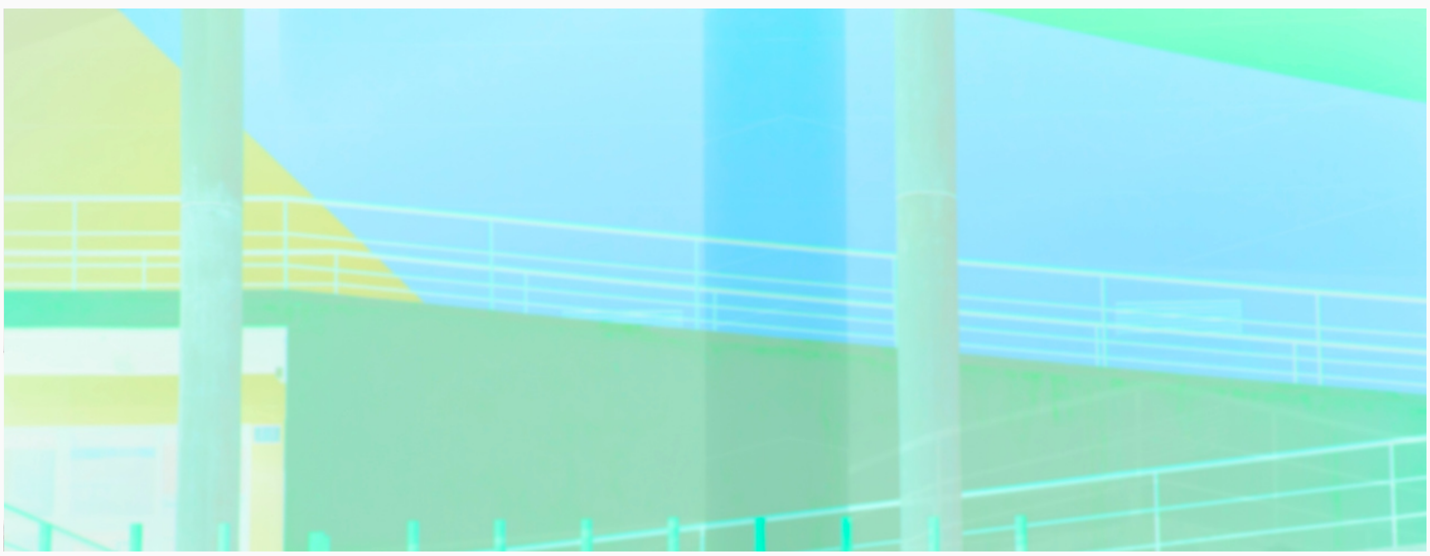
JULY 2023/Q2 NEWSLETTER

MOSAIC FI MARKET INSIGHTS

-Planning and Investing for Life



Q2 2023

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There was a collective sigh of relief to see the inflation report for June; inflation was reported at 3% on a year-over-year basis. This was a dramatic improvement from a year ago when inflation came in at over 9%.

That said, there is still more work to be done to bring inflation down to the Federal Reserve's target of 2%. This final leg won't be easy. The steep increase in interest rates over the last eighteen months has gone a long way in slowing down the economy, which in turn has brought down inflation. But there are still headwinds due to a very tight labor market. This has caused employers to compete for a limited number of job seekers by raising wages.

There are some strategists who are predicting that the Fed will start lowering interest rates in Q4 of 2023 or Q1 of 2024. We expect it will be longer than that before the Fed feels comfortable taking their foot off the brake. If Powell must choose between a recession and the risk of reigniting inflation, he will choose a recession.

Q2 2023:

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In the past, we have expressed our view that the recent surge in inflation has reminded the Federal Reserve of their dual mandate: maintaining a balance between unemployment and inflation. They are not explicitly responsible for maintaining a certain level of economic growth, it's not their problem.

Remember the debt ceiling battle in Washington? When our politicians brought us to the brink of calamity. Yeah, that happened in the 2nd quarter. Funny how quickly we forget and how often we jump from one crisis to the next. And we wonder, 'is this the event that is going to be the one that breaks the markets?'. And it never does.

This is why it is so important to look past the market gyrations and **not react** to the crisis of the day/month/year. Staying focused on our clients' long-term strategic goals and objectives is what allows us to filter out the day-to-day noise.

The Equity Markets

Global equity markets, as measured by the MSCI All Country World Index, were up 6.83% in the 2nd quarter and 13.93% for the year. In Q2 the international developed equity markets underperformed the US equity markets. Developed international markets were up 3.03% in Q2 and 10.85% so far in 2023.

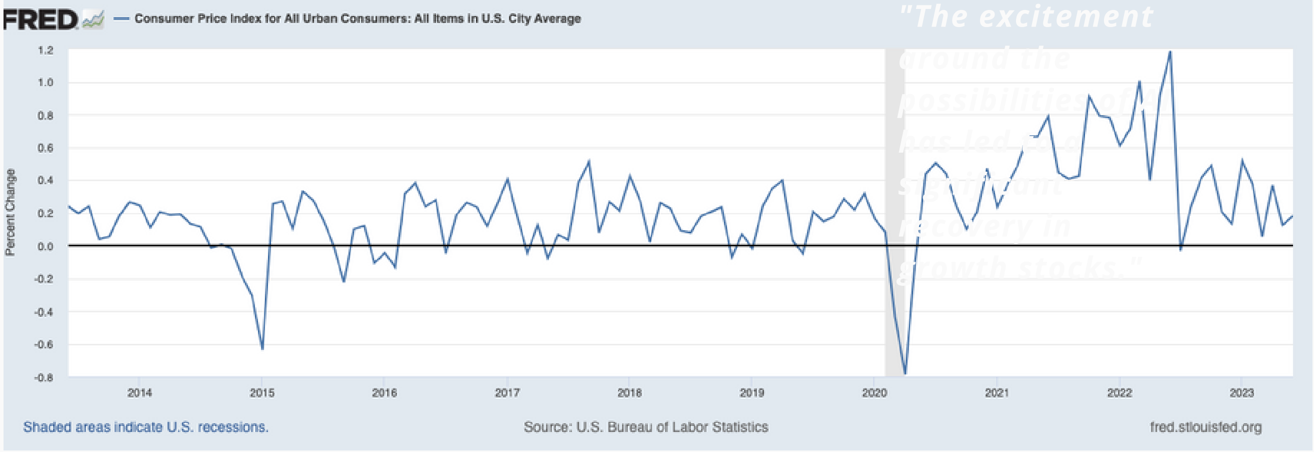
The US market, overall, was up 8.39% for the quarter and 16.17% year-to-date. Emerging markets underperformed developed markets for the quarter. EM was up .9% for the 2nd quarter and 4.89% so far this year. US REITs again underperformed the rest of the market, up 2.92% for the quarter and 5.77% in 2023.

Large cap stocks again outperformed small cap stocks in the US but across the board growth stocks outperformed value stocks in the 2nd quarter and for the year overall. For the quarter, large cap value stocks were up 4.07% while large cap growth stocks were up 12.81%.

So far in 2023, large cap value stocks are up 5.12% vs. large cap growth stocks which are up 29.02%. The excitement around the possibilities of AI has led to a significant recovery in growth stocks. Small cap stocks overall were up 5.21% for the quarter and 8.09% this year.

The Fixed Income Markets

Despite the diminished uncertainty around the number of times the Federal Reserve will need to raise interest rates in this cycle, interest rates were higher across the yield curve for the quarter. The bond market was down -.94% for the 2nd quarter but remains up 2.09% this year. The municipal bond market again outperformed the taxable market, down -.1% for the quarter but up 2.67% for the year-to-date.



The high-yield market once again had strong performance up 1.75% for the quarter and 5.38% in the first half of 2023. US TIPS (inflation protected securities) were a poor performing sector given their long duration (interest rate risk). Overall, TIPS were down -1.42% for the quarter but are up 1.87% year-to-date.

So, what did all this mean for investors? Depending on the asset allocation, a diversified portfolio returned between 2 and 4% for the 2nd quarter and for the first half of the year returns ranged between 6% and 9%.

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Looking Ahead

As we look ahead, the markets can now shift their focus a bit from the hyperfocus on when and how much the Fed will raise interest rates, to the fundamentals of the economy and corporate earnings. While there is still uncertainty around whether the Fed will raise interest rates one or more times, it is clear we are near the end of the hiking cycle.

The 2nd quarter debt ceiling battle is behind us and includes an agreement that it will not become an issue for debate for the next two years. With the inflation fires somewhat under control, I am reluctant to curse us by saying we may be in for a period of low volatility in both the equity and bond markets. So....I am not going to say it. 🙂

As always, we would love to hear from you, so feel free to contact us at any time.