MARKET UPDATE

JULY 7, 2023

As we review the month of June and the first half of 2023, we see strong equity and bond markets, coupled with robust economic data despite the Federal Reserve's best efforts to slow the economy in the face of persistent inflation. Investors have enjoyed gains across styles and asset classes as valuation multiples have expanded and credit spreads have tightened. With an additional 75 basis points of Federal Reserve rate hikes year-to-date, the economy continues to grow while inflation remains elevated and a disconnect between market participants and the Fed's hiking campaign comes into focus.

Equity markets finished off the first half of the year solidly in the black despite numerous headwinds. Propelled by sizable gains from the information technology and communication services sectors, growth stocks vastly outperformed value stocks in a reversal of 2022's price action. Year-to-date, the Russell 1000 Growth Index outperformed the Russell 1000 Value Index by nearly 24% while the tech-heavy NASDAQ Index returned over 32%, its best first half-year since the index's inception in 1971.

MAJOR STOCK INDEXES		
Index	***June %***	***YTD %***
S&P 500	6.61%	16.89%
S&P 500 Equal Weighted	7.72%	7.03%
Russell 1000 Growth	6.84%	29.02%
Russell 1000 Value	6.64%	5.12%
Dow Jones 30	4.68%	4.94%
NASDAQ	6.65%	32.32%
Russell 2000 (Small-Cap)	8.13%	8.09%
MSCI EM (Emerging)	3.89%	5.10%
MSCI EAFE (Developed)	4.58%	12.13%
Barclays Agg Bond	-0.36%	2.09%
Municipals (10 Year)	0.75%	2.16%

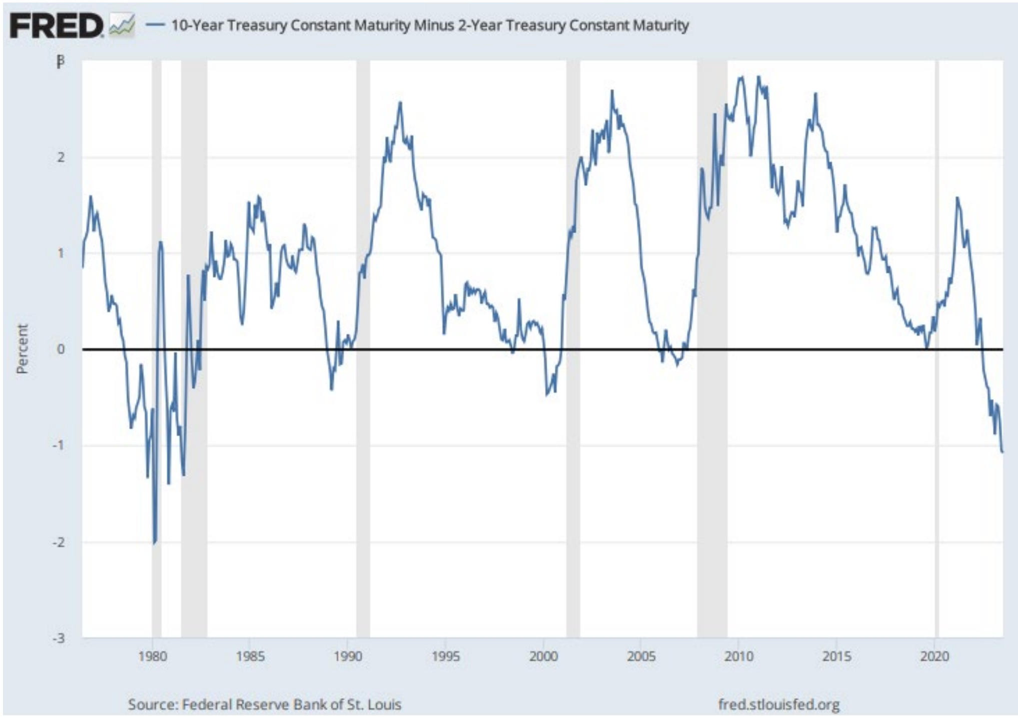
Source: FactSet

Such spectacular returns from top-heavy indices drove multiple expansion. As of June 30th, the S&P 500 and NASDAQ saw price-to-earnings multiples of 19.27x and 27.88x, respectively, at or above pre-pandemic levels. Most remarkable about these figures is that pre-pandemic multiples were bolstered by near-zero interest rates while today's Federal Funds Rate range is 5.00% - 5.25%. To justify current price-to-earnings multiples, growth expectations must necessarily compensate for discount rate headwinds. As we invest portfolios, we employ a conservative approach to valuation and have not seen significant evidence of earnings growth to warrant expanded ratios.

Source: FactSet

In fixed income, investors are similarly buying in with an appetite for risk despite headwinds. The Bloomberg US Aggregate returned 2.09% year-to-date. The 6-Month, 2-Year, and 10-Year US Treasuries ended the month at 5.47%, 4.87%, and 3.81%, respectively. Spreads have contracted as market participants have taken advantage of historically high yields. The ICE BofA US High Yield Option Adjusted Spread settled at 405 basis points, well below its 15-year average and far from levels that would indicate trouble in the space. Just like elevated PE ratios for equities, tight credit spreads for bonds indicate higher valuations. The current rate structure, in conjunction with our belief that the Federal Reserve will maintain a high target rate range, leads us to favor investment grade bonds short in duration.

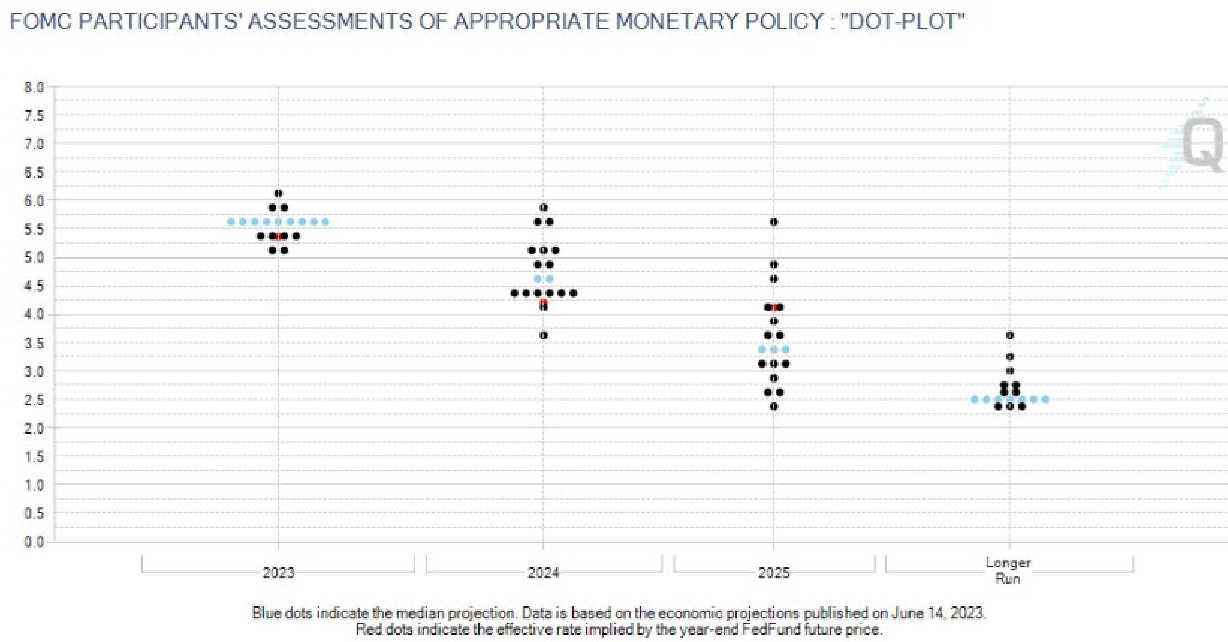
The yield curve has been inverted since July of 2022, with the 2-Year US Treasury ending the month 106 basis points above the 10-Year. Such an inversion signals that investors believe inflation will remain elevated in the short-term but will moderate longer-term. Additionally, yield curve inversions have historically preceded recessions. Could this time be time different with the shape of the curve dependent on inflation expectations as opposed to fears of market downturn?



Source: Federal Reserve Bank of St. Louis

Economic figures remain robust with many surprises to the upside in June. New orders for US-manufactured durable goods increased 1.7%, beating expectations of a 1% decline. New home sales climbed 12.2% month-over-month to 763,000, well above forecasts of 675,000. GDP grew 2% in Q1, propelled by consumer spending growth of 4.2%, the strongest in nearly two years. Finally, initial jobless claims fell by 26,000 to 239,000 as the labor market proves resilient in the face of Federal Reserve rate hikes.

In June, the Federal Reserve paused its rate hike campaign but indicated future hikes are on the table. The FOMC's June Summary of Economic Projections points to a 2023 terminal range of 5.50% to 5.75%, 50 basis points higher than the current range. While fed funds futures have climbed in recent weeks, they remain below committee expectations for 2023 and 2024, as seen in the below *Dot Plot.*



Source: CME Group

While investors have propelled market indices higher, inflation remains and responses to it threaten the sustainability of the impressive returns seen year-to-date. Core Personal Consumption Expenditure (PCE), the Fed's preferred inflation gauge was at 4.6% year-over-year in May. While this is down from 4.7% the month prior, Core PCE growth has remained above 4.5% since March of 2022 when Fed rate hikes began. Should additional restrictive monetary policy become necessary, elevated valuations may come into question. We look forward to the second half of 2023 and beyond as we continue to monitor market dynamics and seek out investable opportunities.

As always, we appreciate the opportunity to work with you. Please do not hesitate to reach out to your Seacoast Wealth Management team with any questions.

Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge: *Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City*

Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.