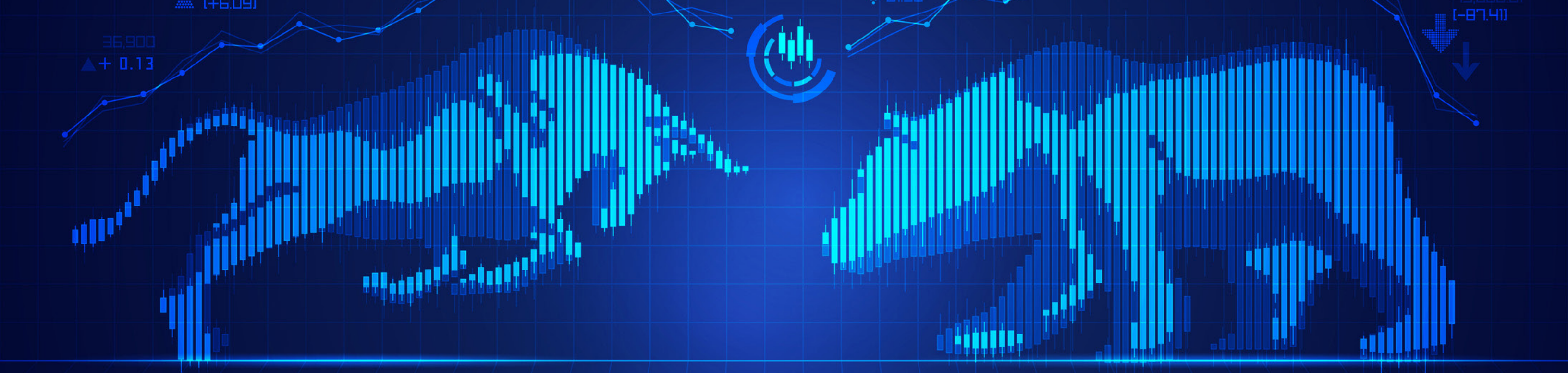
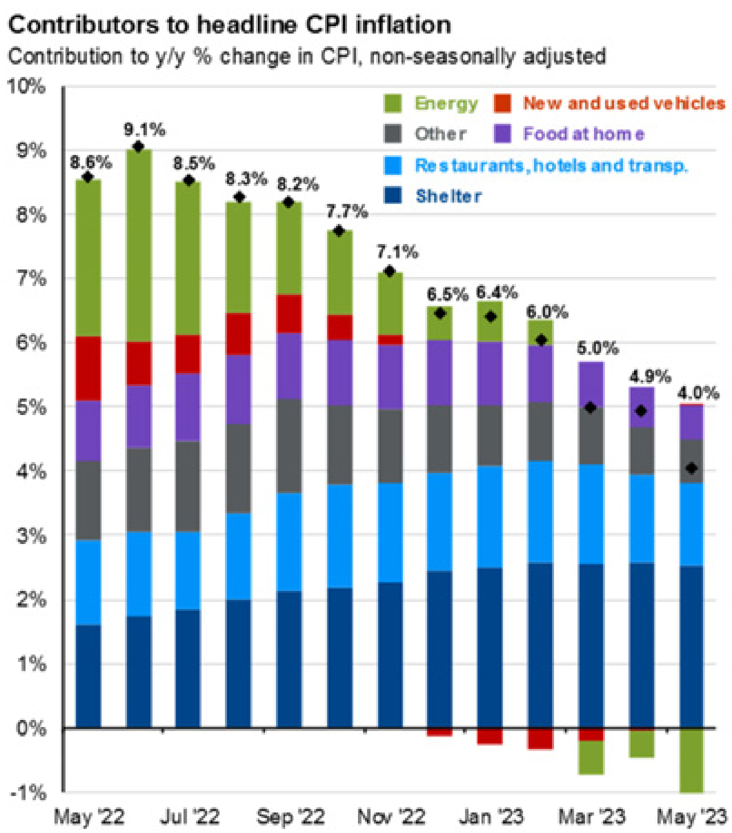


Capital Market Review
Second Quarter 2023

By: Jim Rambo, CFA

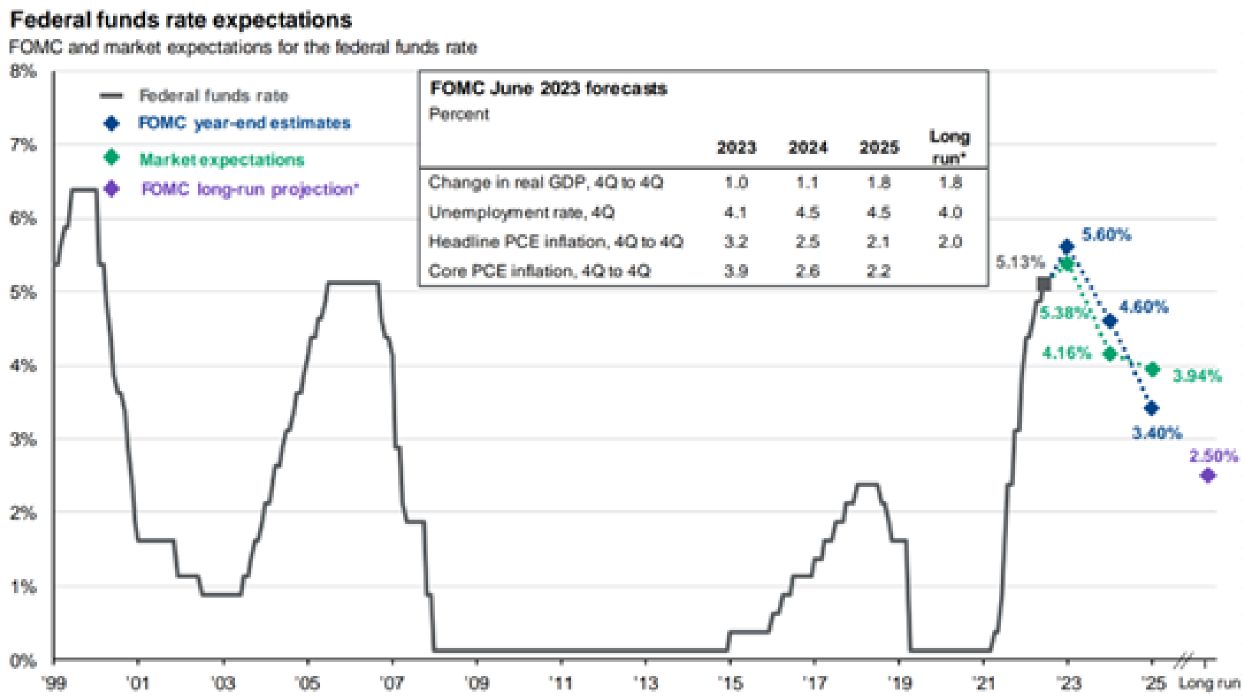
Inflation



Source: JPMorgan Asset Management, Market Insights: Guide to the Markets, U.S. | 3Q 2023, As of June 30, 2023, Page 33.

Inflation continues to fall steadily from the 40-year high of 9.1% in June 2022 to a more modest 4.0% in May 2023. Energy prices, driven by the Russia-Ukraine war, which were the most significant contributor to inflation last summer, are now the largest contributor to disinflation. Core goods, including food prices, are improving due to lower demand and improved supply chain mechanics. Housing (shelter) prices have been the most stubborn sub-competent of inflation but are showing signs of turning. Shelter tends to be a stickier component since typical owners stay in a house for 13 years, while a typical lessee remains for 1-2 years.

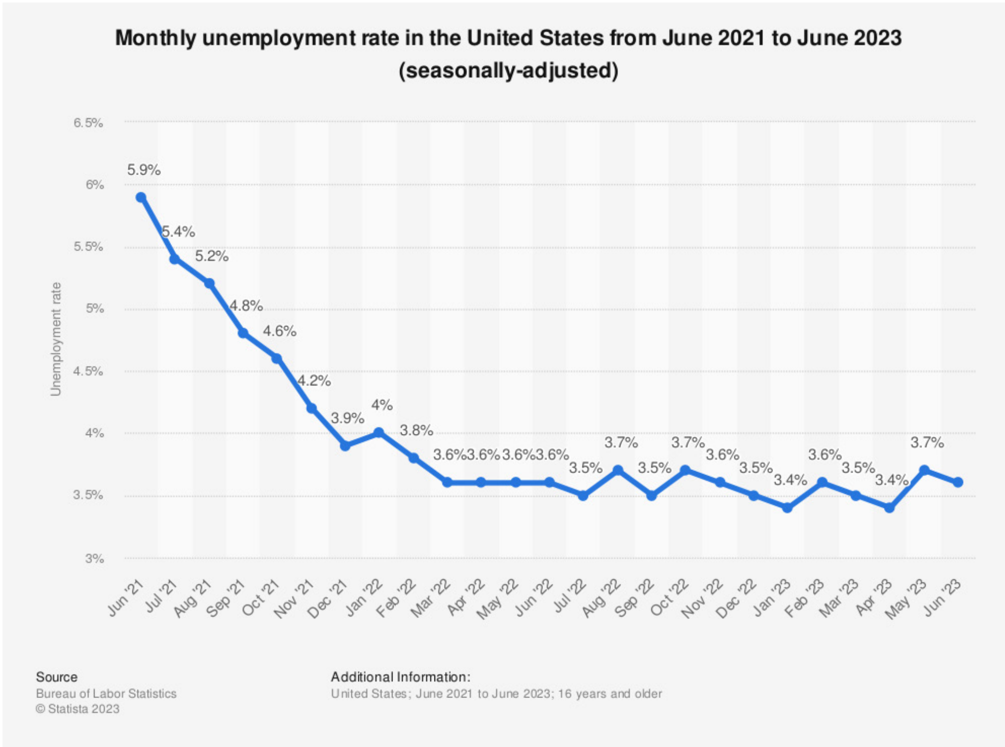
Rising Rates



	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	1.0	1.1	1.8	1.8
Unemployment rate, 4Q	4.1	4.5	4.5	4.0
Headline PCE inflation, 4Q to 4Q	3.2	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.9	2.6	2.2	

Source: JPMorgan Asset Management, Market Insights: Guide to the Markets, U.S. | 3Q 2023, As of June 30, 2023, Page 36.

With inflation approaching the Federal Reserve's long-term target, future rate hikes are expected to slow and perhaps reverse to rate cuts next year. At their June meeting, the Fed voted to leave the federal funds rate unchanged for the first time since tightening began in early 2022. Increased borrowing rates and tightening in credit conditions will likely pose a headwind to economic activity. Given the Fed's hawkishness and softening economic conditions, the market's expectations are closely aligned with the Fed's guidance of multiple rate cuts in 2024.



Source: [Monthly unemployment rate U.S. 2023 | Statista]

While many leading economic indicators are pointing toward a looming recession, perhaps the most important indicator remains moderately strong. The June employment report showed a slight unemployment rate decline from 3.7% to 3.6%. For context, the January and April 3.4% rate represented a 53-year low. Consumer spending represents the most significant portion of our economy, and a strong job market supports strong consumer spending.

Benchmark Index Returns (%)	3 mo.	6 mo.	9 mo.	12 mo.
USTREAS TBill 3-Month	1.18	2.27	3.10	3.44
BBg US Govt/Credit 1-5 YR	-0.62	1.19	2.40	0.19
BBg Municipal Bond 3 YR	-0.45	0.90	3.00	0.96
BBg US Aggregate Bond	-0.84	2.09	4.00	-0.94
BBg Municipal Bond	-0.10	2.67	6.89	3.19
BBg Corp High Yield	1.75	5.38	9.77	9.06
FTSE WGBI Non-USD	-2.12	1.52	8.13	-2.63
S&P 500	8.74	16.89	25.73	19.59
DJ Industrial Average	3.97	4.94	21.73	14.23
Russell 2000	5.21	8.09	14.82	12.31
MSCI ACWI	6.18	13.93	25.06	16.53
MSCI EAFE	2.95	11.67	31.03	18.77
MSCI EM	0.90	4.89	15.07	1.75
DJ US Select REIT	2.92	5.77	10.80	-0.69
Bloomberg Commodity	-2.56	-7.79	-5.74	-9.61

Source: Allegheny Financial Group, Market Review at a Glance as of June 30, 2023.

Despite early-year volatility, markets have posted solid gains year-to-date. Large U.S. equities (S&P 500) are leading the way, up 16.89%. Small U.S. equities (Russell 2000) are up a more modest 8.09%. Developed international equities (MSCI EAFE) are up an impressive 11.67% year-to-date. In addition, emerging market equities (MSCI EM) remain in positive territory, up 4.89%. Despite rising rates, bonds (Bloomberg US Aggregate Bond) are up 2.09%, supported by higher bond yields. The only major index in negative territory is the Bloomberg Commodity index which is down -7.79%. A decrease in materials (commodity) costs is consistent with the decreasing inflation trend.

07/2023