Economic Commentary

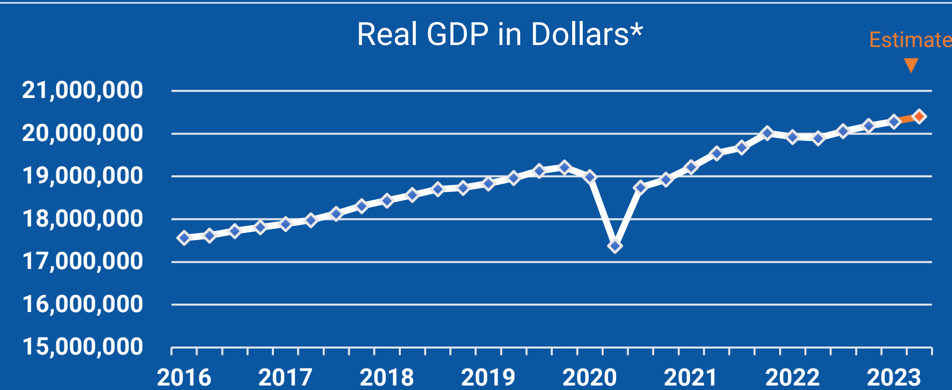
As of June 30, 2023

Bolton INVESTMENT

Other Indicators

	CPI	Unemployment	Sentiment	Crude Oil
Q2: 2022	8.9%	3.6%	50.0	$120
Q1: 2023	5.0%	3.5%	62.0	$79
Q2: 2023	3.1%	3.6%	64.4	$75

Real GDP in Dollars*



**Billions*

That Hasn't Been The Case

- The combination of high interest rates, the cumulative impact of inflation on consumers, and a regional banking crisis that tightened credit conditions should have squeezed growth and pushed the economy toward recession. Through the first half of 2023, that hasn't been the case.

- Several aspects of the economy remain hot. The unemployment rate still sits near a 50+ year low. Employers have added an average of 314,000 jobs per month through the first five months of 2023, a faster pace of hiring than in any year before 2021. And then there's retail sales, which increased another 0.3% in May and, excluding spending at gas stations, have kept pace with inflation over the past year.

- Annual price increases, as measured by the Consumer Price Index, have fallen from 8.9% in June 2022 to just 3.1% in June 2023. Core inflation, which excludes food and energy prices due to volatility and is considered a more stable measure, has shown a far more gradual decline, falling from a peak of 6.6% in September 2022 to a current rate of 4.9% in June 2023.

- Excess savings accumulated during the early months of the pandemic are a driving factor behind the economy's enduring strength. Americans saved nearly three times more during that time than they would have during a typical year. Not only was the saving rate higher, but income also spiked due disaster relief funds and expanded unemployment insurance benefits.

- The resulting glut of savings is, unfortunately, difficult to understand due to a lack of data specifying who still retains how much of those excess funds. That, combined with the high proportion of homeowners locked into low fixed rate mortgages, means that higher interest rates may prove less effective over the short term.

- At some point, economic activity will slow—this pace of growth is quite literally unsustainable. Interest rate increases typically take between 12-18 months to affect the economy, and it's now been about 15 months since the Fed started hiking rates in March 2022. While the Fed chose not to raise rates at their June meeting, chairman Powell has indicated that the one or two more increases are likely over the remainder of the year.

Second Quarter Market Review

U.S. stocks rose overall in the second quarter but returns varied significantly across styles and market capitalization. The S&P 500 Index closed at 4450, up from 4109 on March 31. The index rose 1.6% in April, 0.4% in May, and 6.6% in June.

U.S. markets were dominated by the large technology-related stocks. Large cap growth significantly outperformed value and smaller capitalizations.

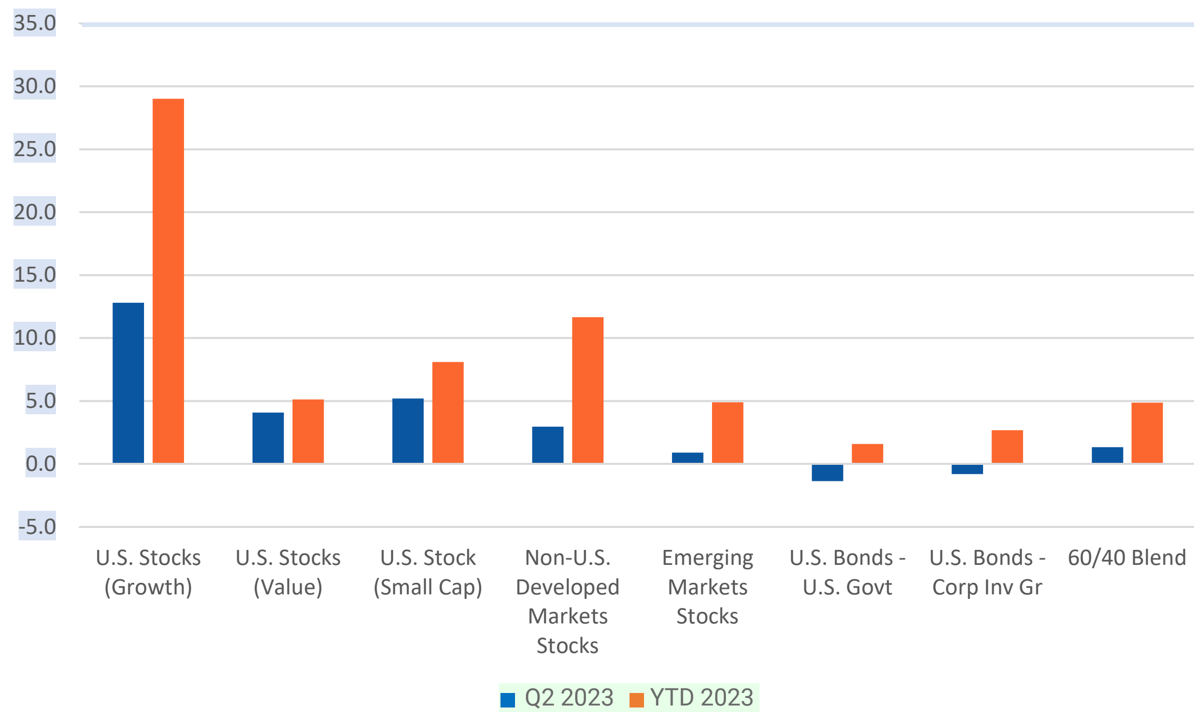
The top U.S. sectors were Information Technology, Consumer Discretionary (which includes Amazon and Tesla), and Communications Services (which includes Alphabet and Meta). Utilities and Energy had negative returns.

The top contributors to the index return were again among the largest market capitalizations. Apple, Microsoft, NVIDIA, Amazon, and Meta together accounted for half of the index return. NVIDIA closed at 146 on December 30, and at 423 on June 30, and increase of 190% this year.

In the U.S., stocks had positive returns, but were uneven across style and market cap.

Outside the U.S., developed markets were positive; currency was a negative factor. Emerging markets lagged; the Hong Kong-based China 50 Index fell 7.7%.

Within U.S. fixed income markets, interest rates on U.S. Treasury bonds increased across the yield curve. The US Aggregate Index returned -0.8%. The index had its worst return ever in 2022.



Asset class returns are represented by the following indexes: Russell 1000 Growth and Value, and Russell 2000 Index (U.S. Stocks), MSCI EAFE Index (Non-U.S. Developed Stocks), MSCI Emerging Markets Index (Emerging Market Stocks), Bloomberg U.S. Government Index (U.S. Bonds - Govt), and Bloomberg US Corporate Bond Index (U.S. Bonds – Corp IG). The Blend is 60% S&P 500/40% US Aggregate.

Drivers of Capital Markets Returns

- Fixed income investments are debt instruments typically issued by governments and corporations. They generally pay a periodic fixed amount of interest until maturity; at which time the principal is repaid. Investors in fixed-income instruments are **lenders**.
- Corporations can also raise capital by selling shares, also known as equity. Equity investors share in a company's success or failures over time. Investors in equity are **owners**.

The price of the S&P 500 Index as of June 30, 2023, was 4,450.38.

Returns to Lenders

Inflation ⬇ 3.1%

June CPI was 3.1% above the month a year ago. Core CPI was higher at 4.9%, because energy prices became a negative contributor of about -110 bps.

Interest Rates ⬆ 0.33%

The yield of a 10-year U.S. Treasury bond rose from 3.48% on March 31 to 3.81% on June 30. The rate for a 2-year note rose 81 bps to 4.87%.

Credit Spreads ➡ 0.05%

The yield spread of a generic A/BBB-rated corporate bond fell by 5 basis points to 188 basis points. The yield spread measures the yield of 10 – 15-year corporate debt compared to U.S. Treasury Bonds of equivalent maturity.

Returns to Owners

Growth (GDP)

1Q 2023	2Q 2023E
2.0%	2.3%*

The Atlanta Fed's GDPnow forecast indicates positive real growth of GDP of 2.3% in the second quarter. The model includes a rebound in private investment.

Profitability

2023E	2024E	%Change24E
$220.43	$246.16	11.7%

The consensus estimate of 2023 earnings for the S&P 500 *declined* by 0.5% during the second quarter, which would put 2023 earnings only 0.6% above 2022. The estimate for 2024 was 11.7% above 2023.

Valuation

2023E P/E	2024E P/E
20.2	18.1

On June 30, the price of the S&P 500 was 20.2x its estimated 2023 earnings. The multiple increased as the price rose, and the earnings estimate fell.

**July 10, 2023 – Federal Reserve Bank of Atlanta GDPnow forecast*