

# QUARTERLY MARKET REPORT

SECOND QUARTER 2023



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## SECOND QUARTER HIGHLIGHTS

### INFLATION NEWS AND RECESSION CONCERNS REMAINED THE FOCUS LEADING TO MIXED ASSET CLASS RETURNS

#### FINANCIAL MARKETS

- Global equity markets were weak much of the quarter due to fears that tighter monetary policy will lead to recession and due to U.S. debt ceiling debate uncertainty. However, resilient labor markets and better than expected earnings, particularly for artificial intelligence stocks, boosted equity markets later in the quarter.
- Worries that the U.S. could default on its debt because of the debt ceiling debate pushed bond yields lower but yields rebounded after resolution of that issue and the Fed talked about more rate hikes to come.
- Oil and industrial metals prices declined on worries of falling demand as global economic growth slows, particularly in China. Natural gas and livestock prices rose sharply on tight inventories.

#### OVERVIEW OF THE ECONOMY

- Earnings reports for the first quarter were solid with a majority of companies beating analyst forecasts but many warned about rising costs and economic headwinds.
- Even though the number of new unemployment claims has ticked up modestly and the number of job openings is down slightly, the U.S. labor market remains tight with 1.6 job openings for every unemployed person. Also, wage growth remains strong, increasing 5.7% from the prior year in the latest report.
- The consumer price index (CPI) in several countries continued to decline but remains above central bank targets. Producer prices have come down even more.
- Surveys showed weak manufacturing activity around the world but services activity is still in expansion.

#### NOTABLE EVENTS

- The Federal Reserve Open Market Committee (Fed) raised its policy rate in May and its forecast points to two more hikes by year-end. Several other central banks also raised rates.

## SECOND QUARTER HIGHLIGHTS

### S&P 500 ENTERED A NEW BULL MARKET IN JUNE

In early June, the S&P 500 exited its longest bear market since 1948 when it hit the point of up 20% off its low in October 2022. The rally continued in June with the index ending the month up 24% from its low. However, the index has not recovered to its previous high.

S&P 500 INDEX<sup>1</sup>



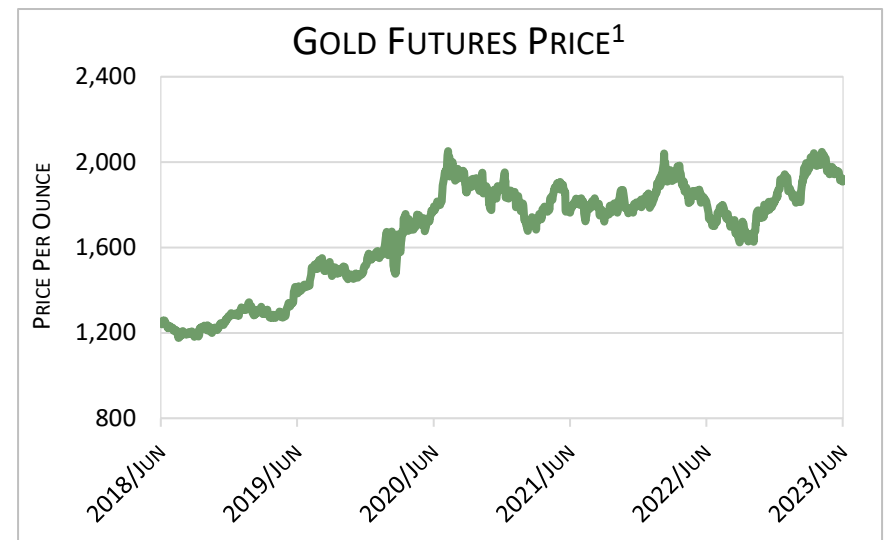
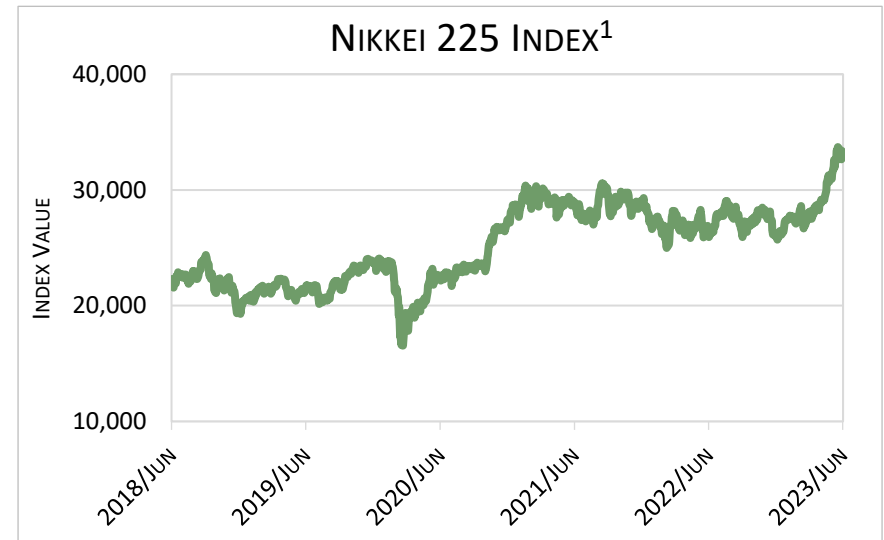
## SECOND QUARTER HIGHLIGHTS

### RESULTS IN OTHER MARKETS WERE MIXED

Japan stock indices hit 33-year highs on strong earnings helped by a weak yen, making exports cheaper, and by increased capital investment.

China's weaker than expected reopening has pressured stock prices leading to lackluster returns in that market.

The price of gold reached the highest level since early 2022 in April and early May on macroeconomic uncertainty and banking sector stress but retreated on some better than expected economic data.

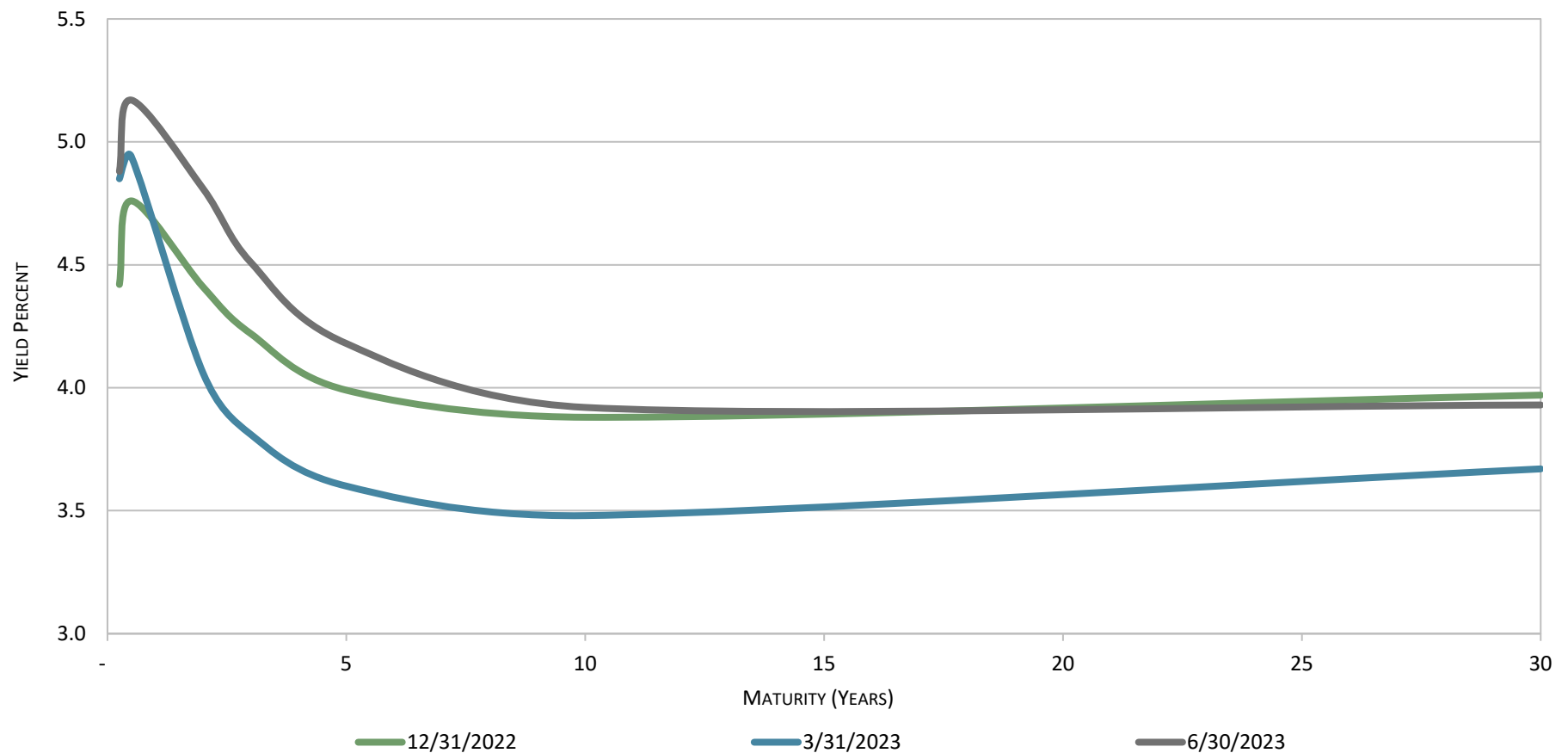


## SECOND QUARTER HIGHLIGHTS

### BOND YIELDS ROSE AND THE CURVE INVERSION DEEPENED SINCE THE FED IS STILL HAWKISH

Yields moved up as stronger economic data suggests the Fed may not be done raising rates and it is looking less likely that there will be a rate cut in 2023 as some had expected earlier in the year. The 3-month Treasury bill yield hit a multi-decade high in May due to worries about a possible default by the U.S. government but retreated when the debt ceiling deal was reached.

U.S. TREASURY YIELDS<sup>2</sup>



## SECOND QUARTER HIGHLIGHTS

MANY CENTRAL BANKS CONTINUE TO FIGHT INFLATION BUT CHINA MOVED TO STIMULATE ITS ECONOMY

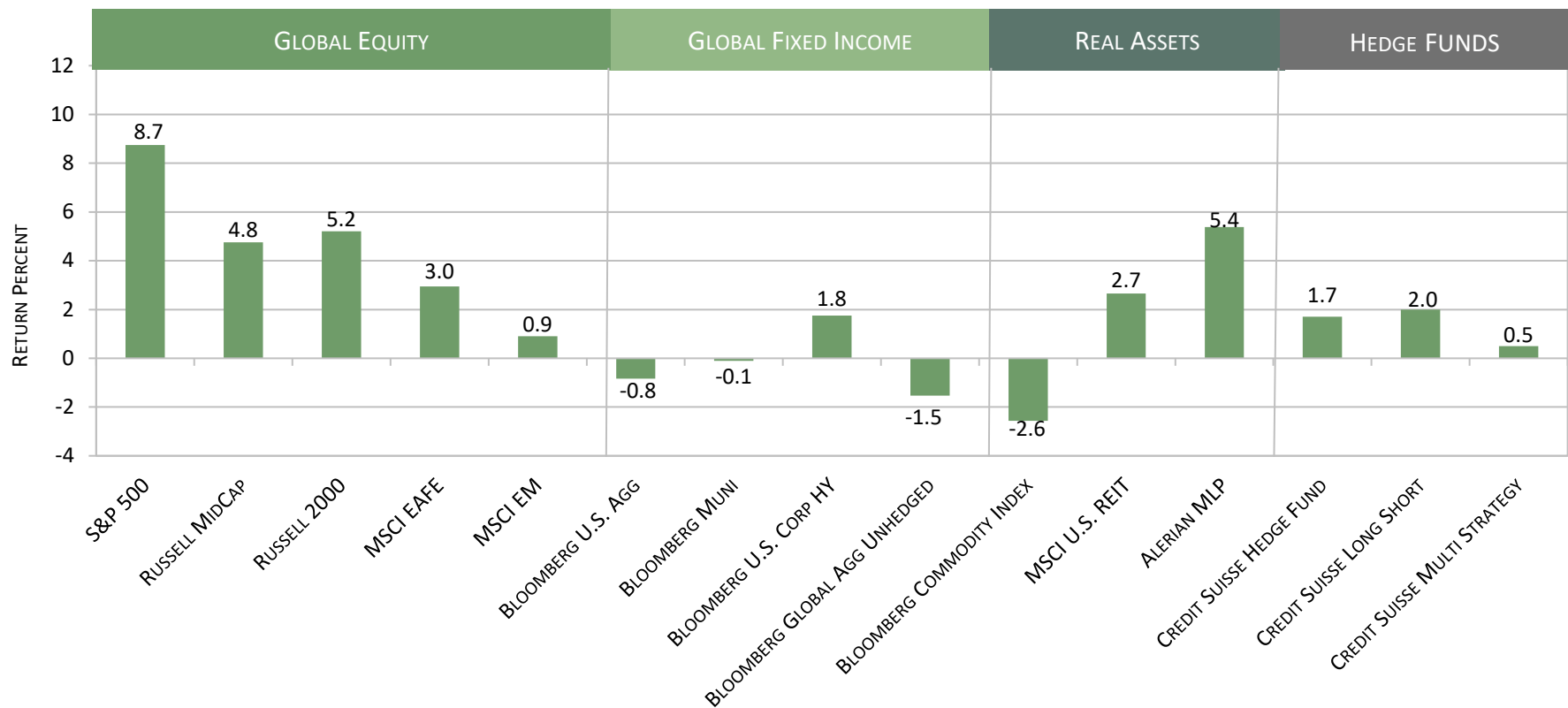
SELECT MONETARY POLICY HEADLINES IN THE SECOND QUARTER	
COUNTRY	POLICY DECISION
Australia	<ul style="list-style-type: none"><li>After a pause in April, unexpectedly raised rate in both May and June by a quarter of a percentage point to an 11-year high of 4.10%.</li></ul>
Canada	<ul style="list-style-type: none"><li>After a 4-month pause unexpectedly hiked in June by a quarter of a percentage point to 4.75%, a 22-year high.</li></ul>
European Central Bank	<ul style="list-style-type: none"><li>Continued string of rate hikes with a quarter of a percentage point hike in both May and June. Rate now at 4.00%, highest since 2008.</li></ul>
Norway	<ul style="list-style-type: none"><li>Raised rate by a quarter of a percentage point in May but by half a percentage point in June.</li></ul>
United Kingdom	<ul style="list-style-type: none"><li>Raised by a surprisingly aggressive half percentage point to 5.00% in June after a quarter of a percentage point hike in May. Rate now highest since 2008.</li></ul>
United States	<ul style="list-style-type: none"><li>Quarter of a percentage point hike in May but a “skip” in June. Comments point to two more hikes in 2023.</li></ul>
China	<ul style="list-style-type: none"><li>Small cuts to the benchmark lending rate and two shorter-term lending rates in June for first cuts in 10 months.</li></ul>

## SECOND QUARTER HIGHLIGHTS

GLOBAL EQUITIES ENDED THE QUARTER HIGHER, BONDS MOVED LOWER, AND REAL ASSETS WERE MIXED

U.S. indices led the equity advance helped by a surge in artificial intelligence related stocks. Weakness in the Chinese equity market was a drag on the emerging markets index offsetting strong gains in India, Latin America, and Poland. Bonds sold off on signals for more rate hikes. Prices for commodities such as oil and copper fell on demand concerns. Merger activity and good earnings fueled MLP gains.

### MARKET RETURNS: SECOND QUARTER 2023<sup>3</sup>

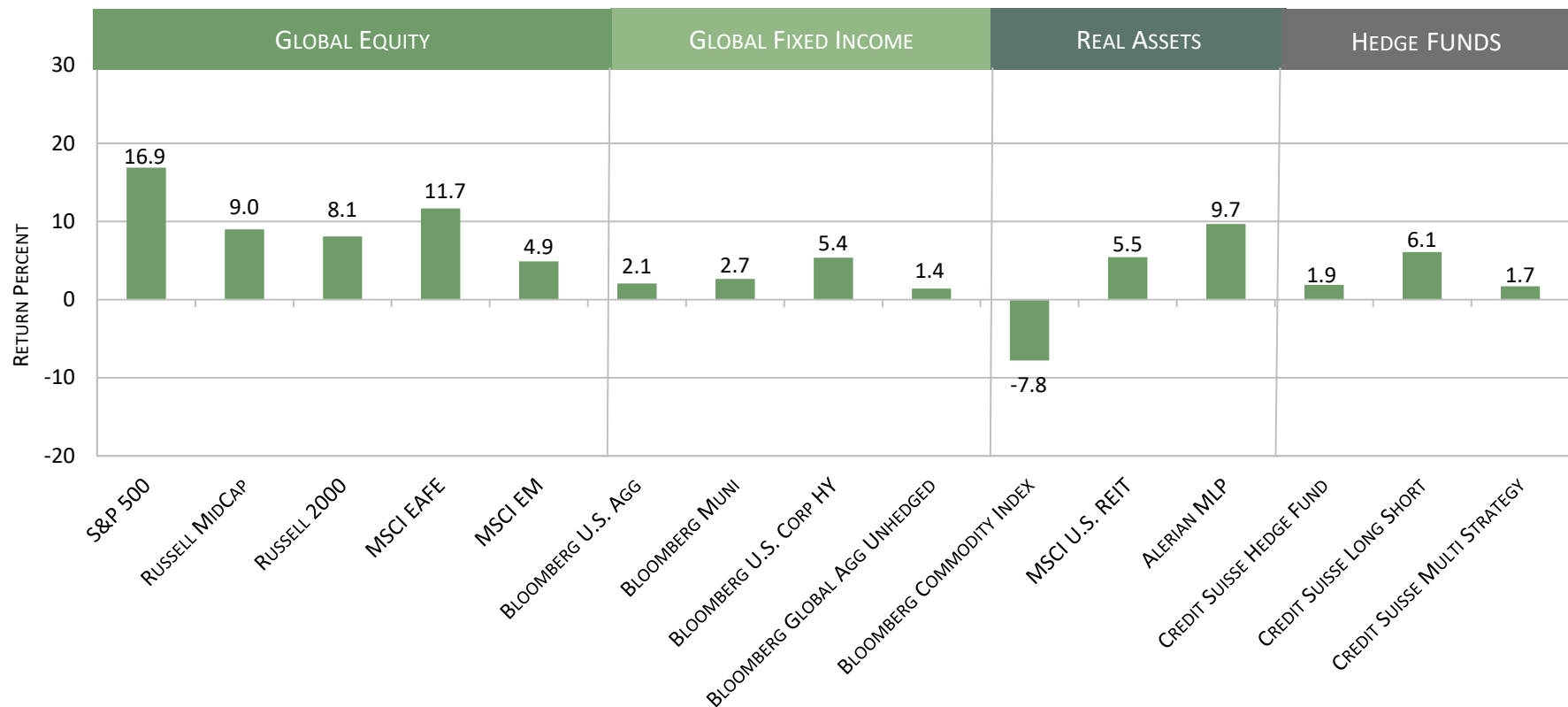


## SECOND QUARTER HIGHLIGHTS

### MOST ASSET CLASSES POSTED POSITIVE RETURNS FOR THE FIRST HALF OF 2023

A shift to the view that the interest rate hike cycle may be near an end due to cooling inflation along with better than expected earnings and macroeconomic data fueled a rally in risky assets. The commodity index was the laggard due to weaker demand from China.

#### MARKET RETURNS: FIRST HALF 2023<sup>3</sup>



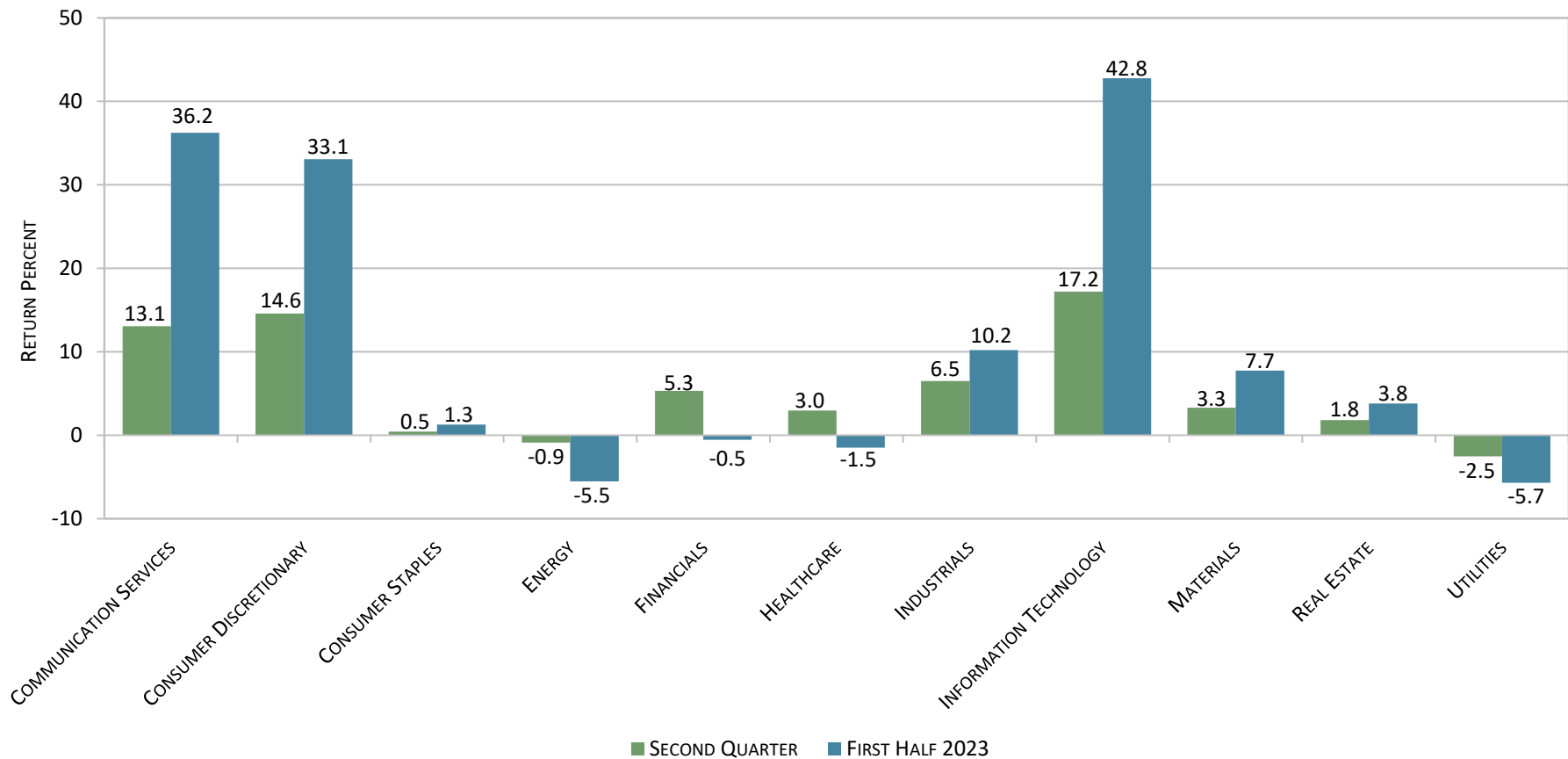


## SECOND QUARTER HIGHLIGHTS

THERE HAS BEEN A WIDE DISPERSION BETWEEN SECTOR RETURNS DURING 2023

Enthusiasm about the potential from artificial intelligence drove the technology and communications sectors sharply higher while strong consumer spending fueled the rally in the consumer discretionary sector. Defensive sectors lagged in the risk-on climate and over supply pressured the energy sector.

S&P 500 SECTOR RETURNS: FIRST HALF 2023<sup>3</sup>



# OUTLOOK

## FINANCIAL MARKET VOLATILITY LIKELY AS ECONOMIC DATA AND THE INTEREST RATE OUTLOOK IS MIXED

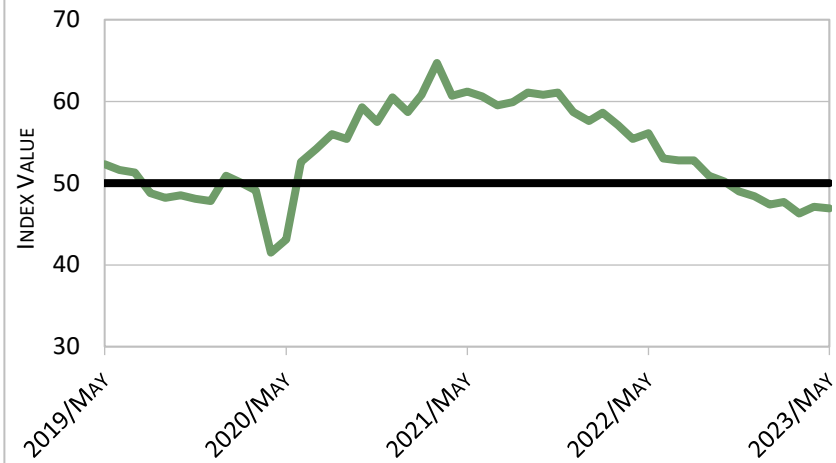
- In the U.S., some economic data has slowed particularly in the manufacturing sector. The consensus forecast is for more slowing as the impacts of high interest rates, sticky inflation, and tightening lending standards weigh on consumer and business activity. The inverted yield curve and index of leading economic indicators point to recession.
  - If such a slowdown occurs, inflation could ease closer to the Fed's target and the Fed could be convinced to end its rate hikes or even cut rates if growth slows too much.
  - But the extent and timing of a slowdown is uncertain due to the resilient labor market that is fueling consumer spending and an uptick in the housing market despite higher interest rates. The labor market will likely remain strong until corporate profit pressures force companies to make cuts and stretched consumers cut back on discretionary spending.
  - Therefore, interest rates could stay higher for a longer time than some forecasters currently expect. Key economic data reports will be watched closely by market participants and could be a source of price swings if data surprises investors.
- Core inflation in Europe remains elevated so further rate hikes are likely which may slow growth.
- China's post-Covid reopening has lost momentum hurt by cautious domestic consumers and weak demand for exports. Exports are likely to continue to slow as customers diversify supply chains and developed economies slow. However, more stimulus measures could be coming.
  - Other emerging markets are better positioned for an uptick due to increasing capital expenditures or lower inflation that points to the possibility of near-term rate cuts.
- In this environment, there is likely to be more dispersion of returns based on individual companies' ability to navigate a slowing economy.



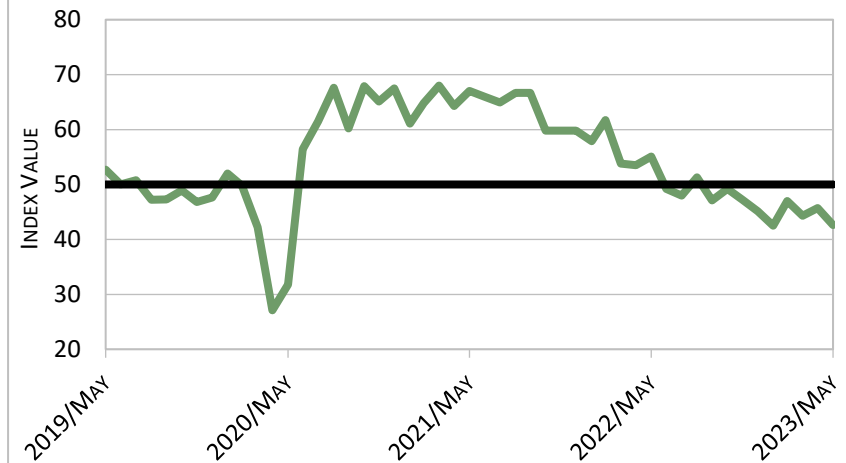
# OUTLOOK

## GLOBAL MANUFACTURING IS WEAK

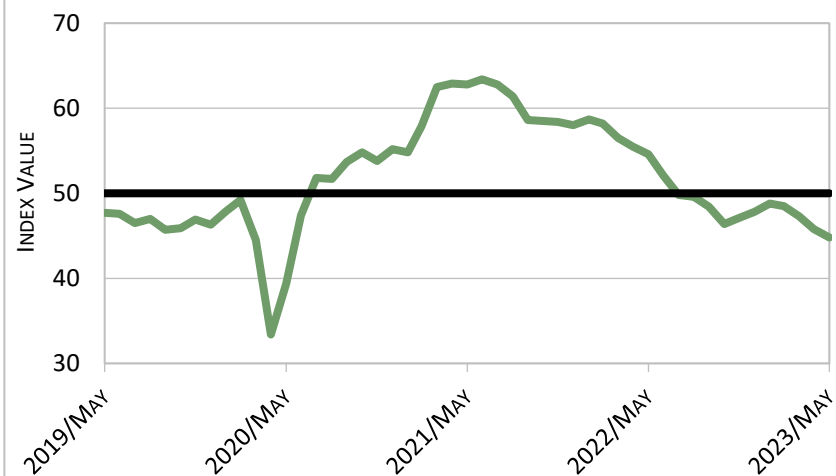
### U.S. ISM MANUFACTURING PMI<sup>1</sup>



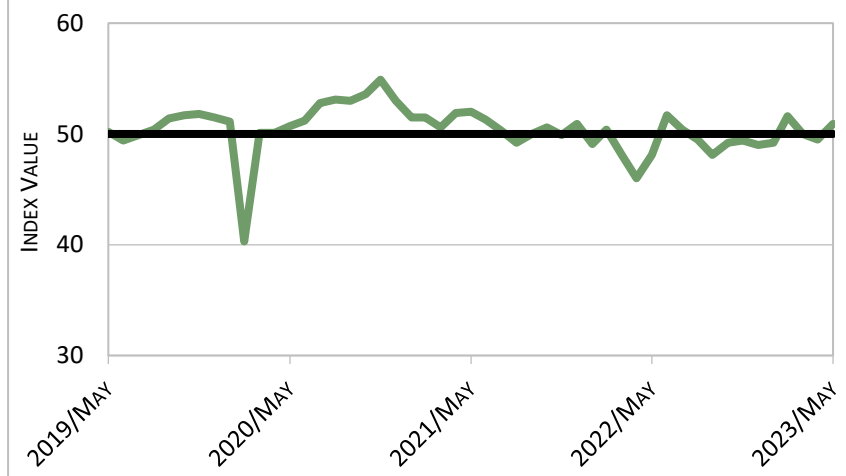
### U.S. ISM MANUFACTURING NEW ORDERS<sup>1</sup>



### EUROZONE MANUFACTURING PMI<sup>1</sup>

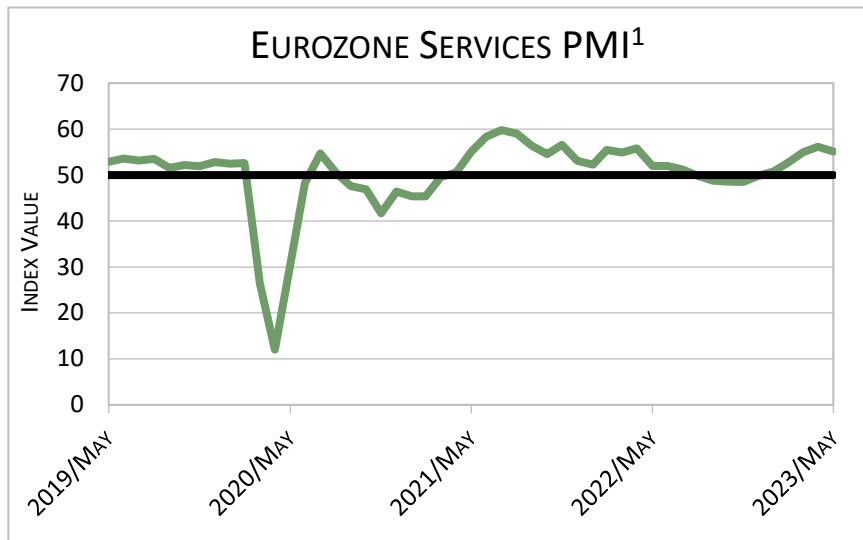
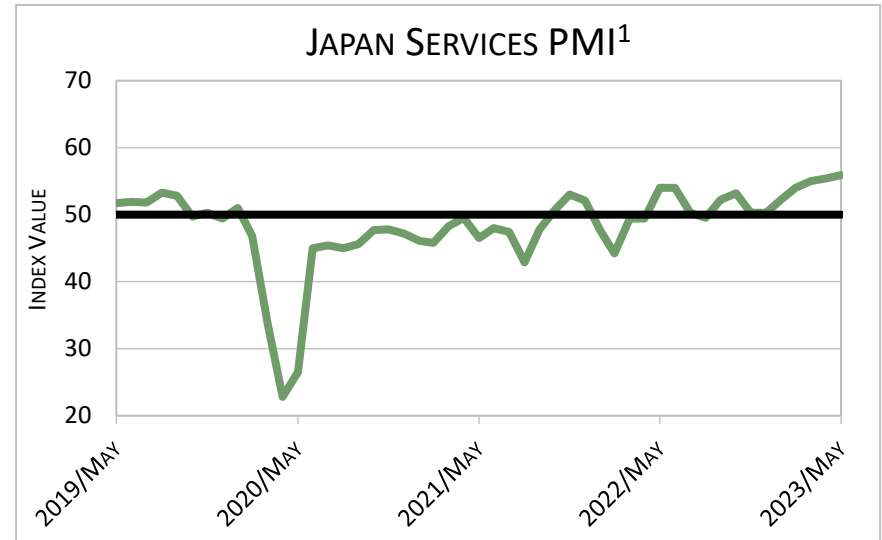
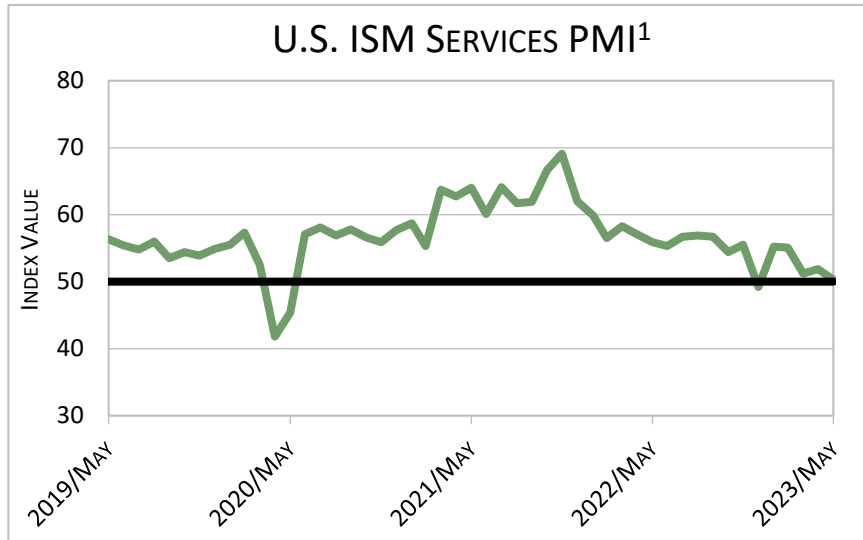


### CHINA MANUFACTURING PMI<sup>1</sup>



# OUTLOOK

GLOBAL SERVICES SECTOR IS STILL IN EXPANSION TERRITORY

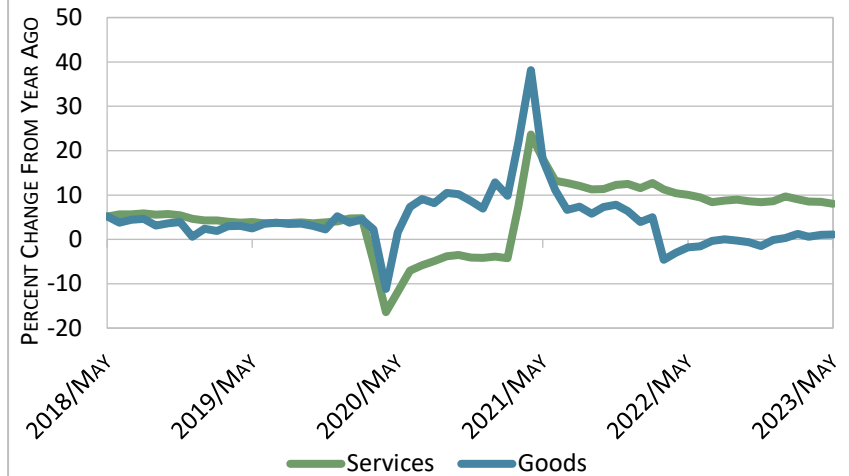


# OUTLOOK

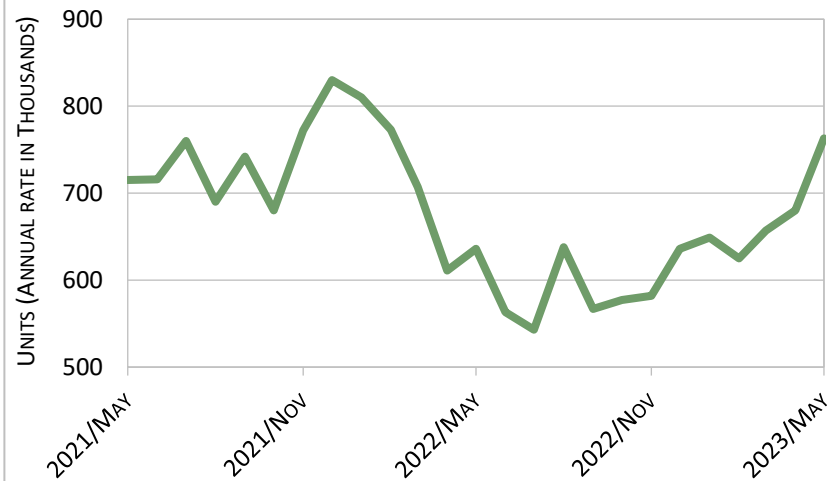
## THE CONSUMER HAS BEEN RESILIENT

The consumer sector has held up despite high inflation and rising interest rates helped by the robust labor market. Personal spending varies by month but has been better than expected especially spending on services. Part of the strength is attributable to the high demand for travel and entertainment. The number of people traveling by air has surpassed pre-Covid levels. Demand for housing remains strong but has been limited by lack of supply. A key question is what impact the resumption of student loan payments in October will have on consumer spending.

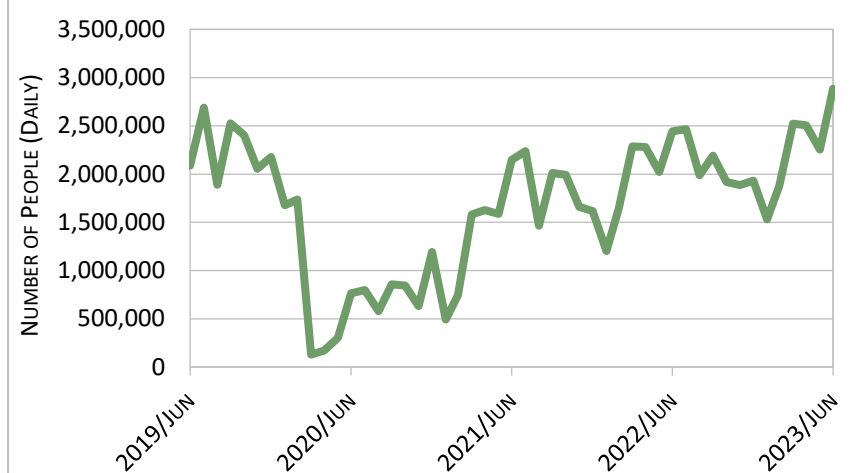
PERSONAL CONSUMPTION EXPENDITURES<sup>4,5</sup>



NEW HOME SALES<sup>6</sup>

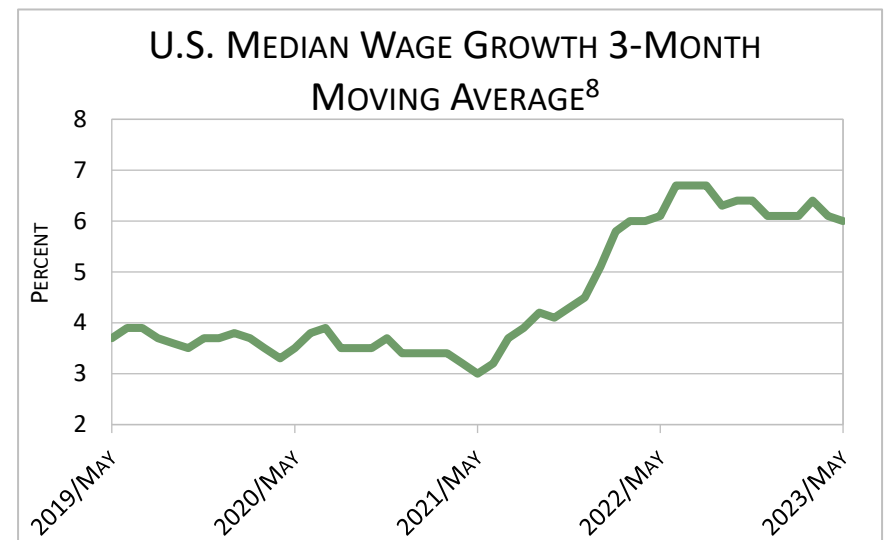
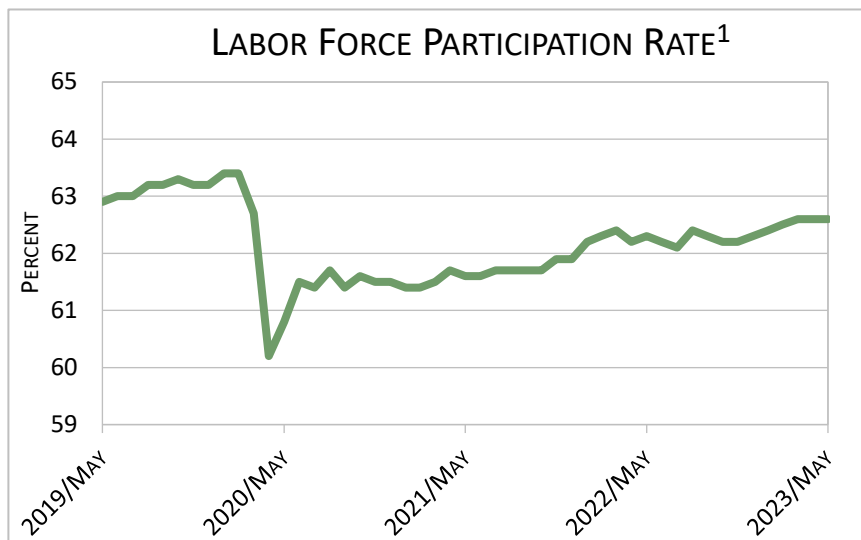
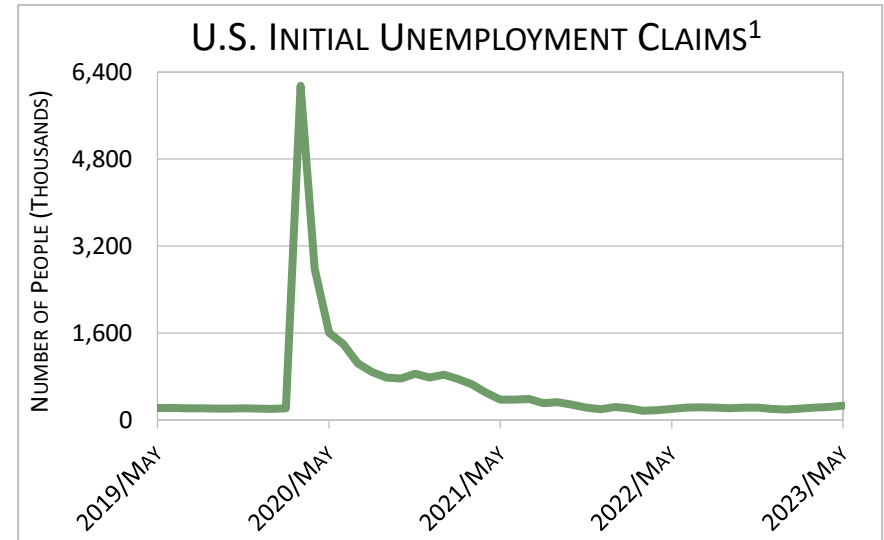
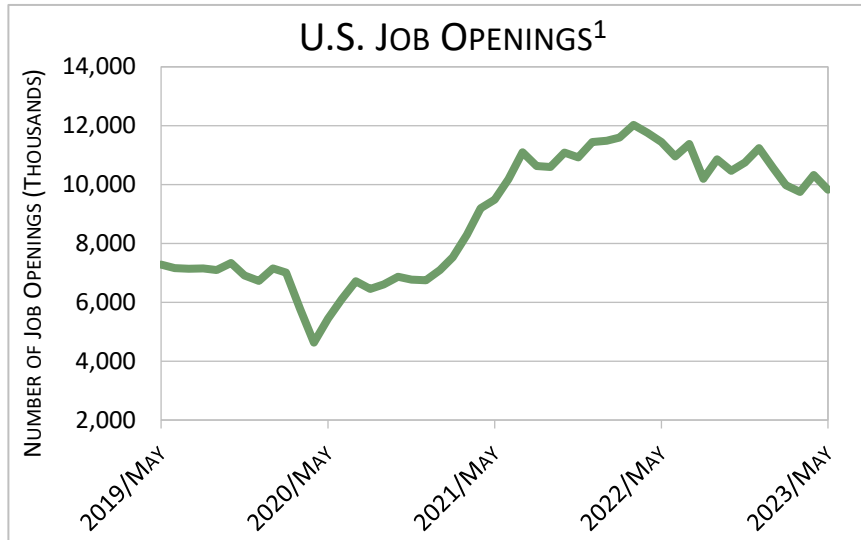


PEOPLE THROUGH AIRPORT SECURITY<sup>7</sup>



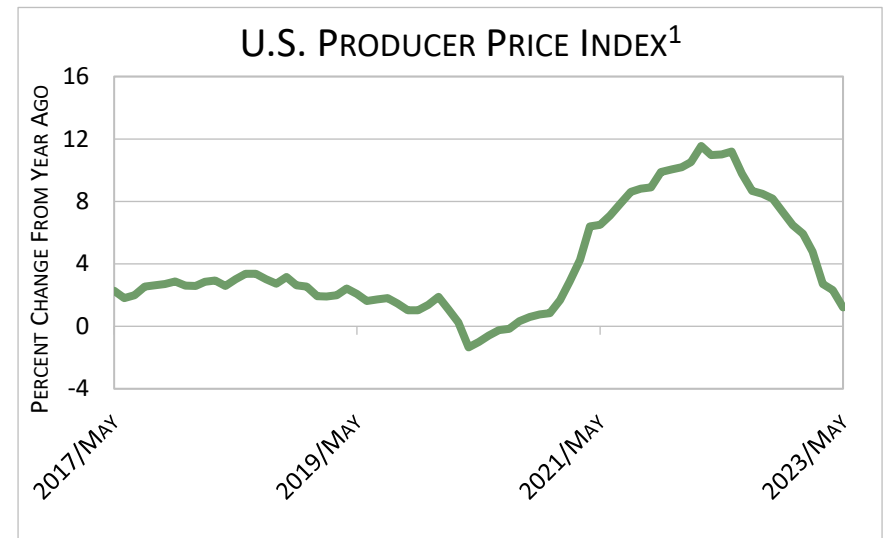
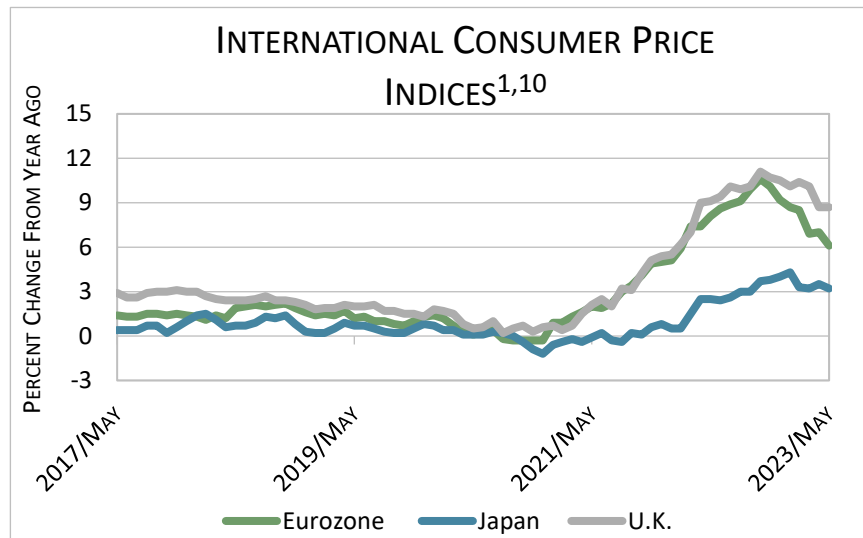
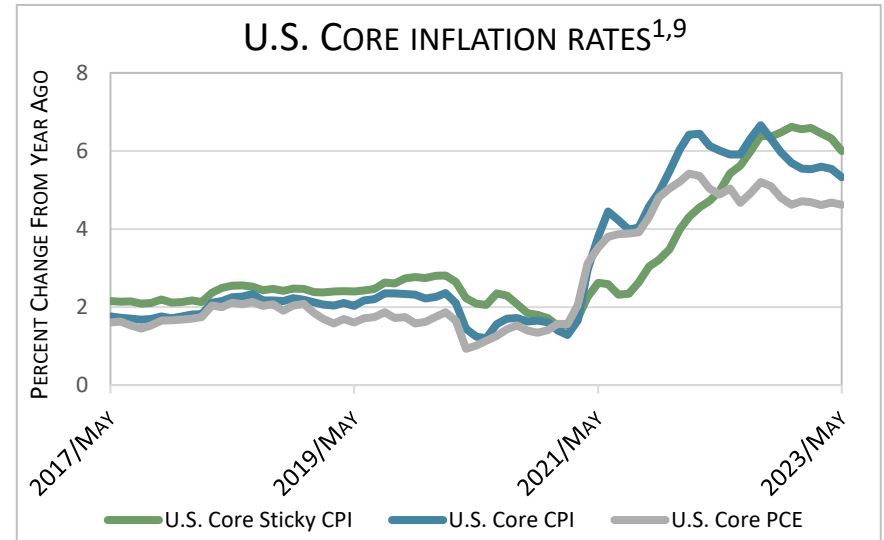
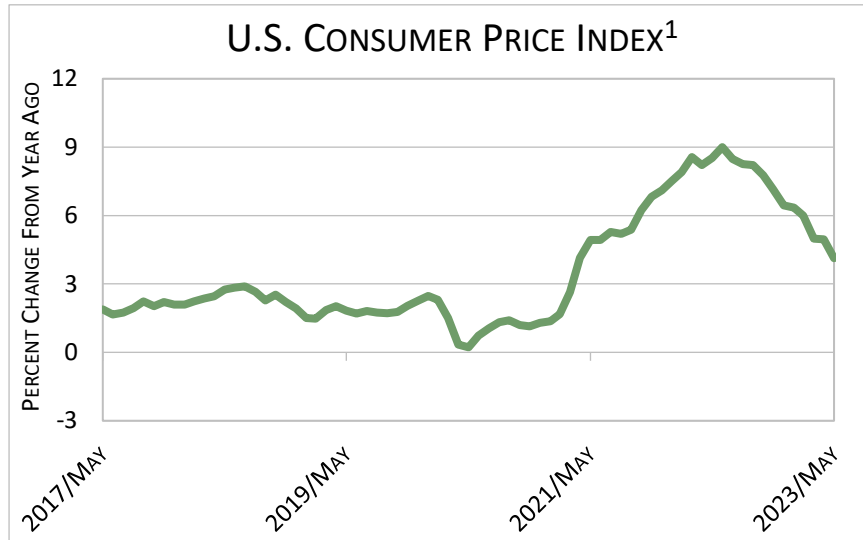
# OUTLOOK

THE LABOR MARKET REMAINS TIGHT WHICH FUELS INFLATION BUT SUPPORTS ECONOMIC ACTIVITY



# OUTLOOK

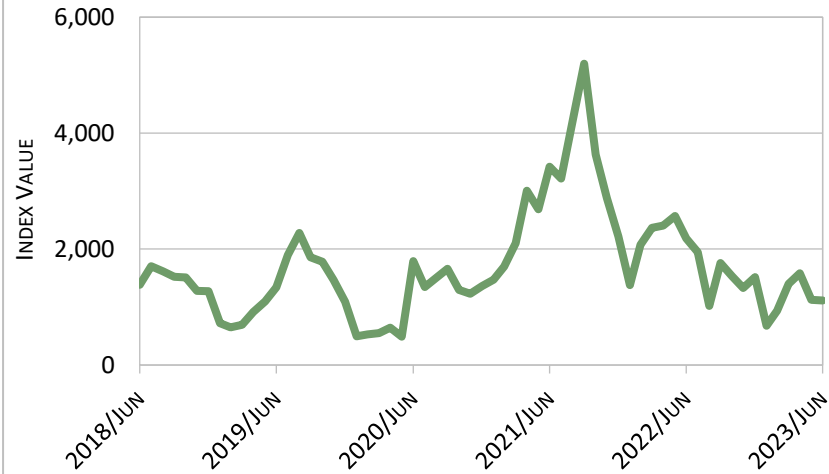
HEADLINE INFLATION IS DOWN. CORE REMAINS ELEVATED. BOTH ARE OVER TARGET IN MAJOR ECONOMIES.



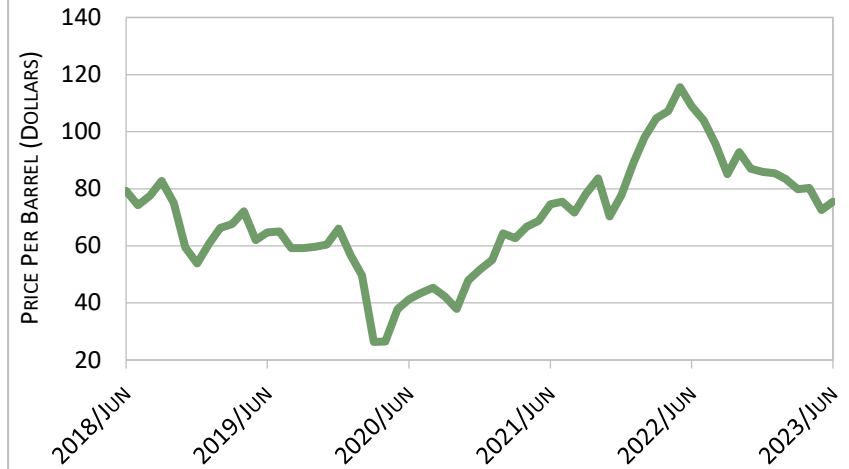
# OUTLOOK

MANY COSTS ARE DOWN FROM PEAK LEVELS BUT SOME ARE STILL RISING AT AN HISTORICALLY HIGH RATE

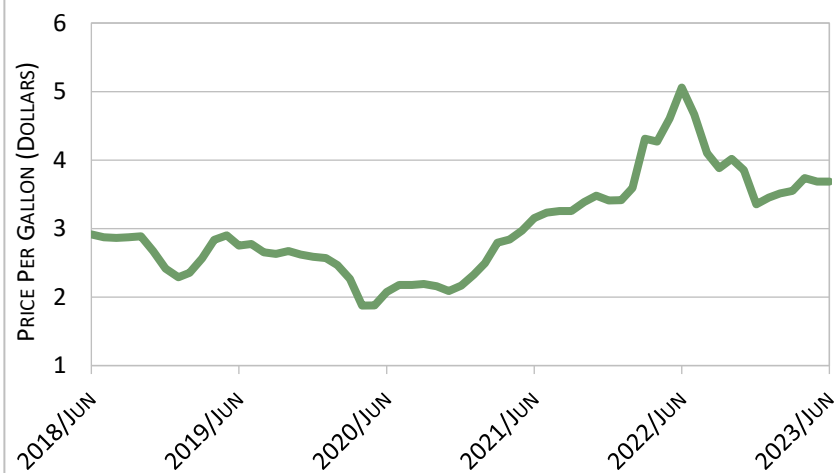
## BALTIC DRY INDEX<sup>1</sup>



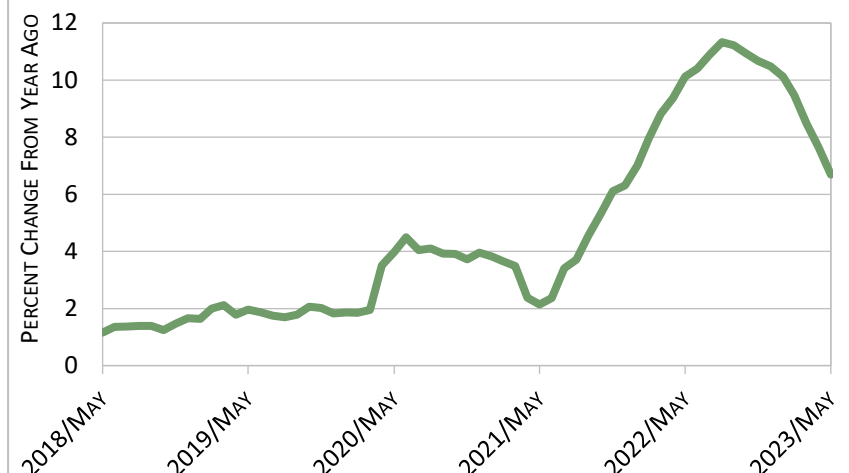
## BRENT CRUDE FUTURES<sup>1</sup>



## AVERAGE CONSUMER GAS PRICE<sup>1</sup>



## FOOD PRICE CPI<sup>11</sup>

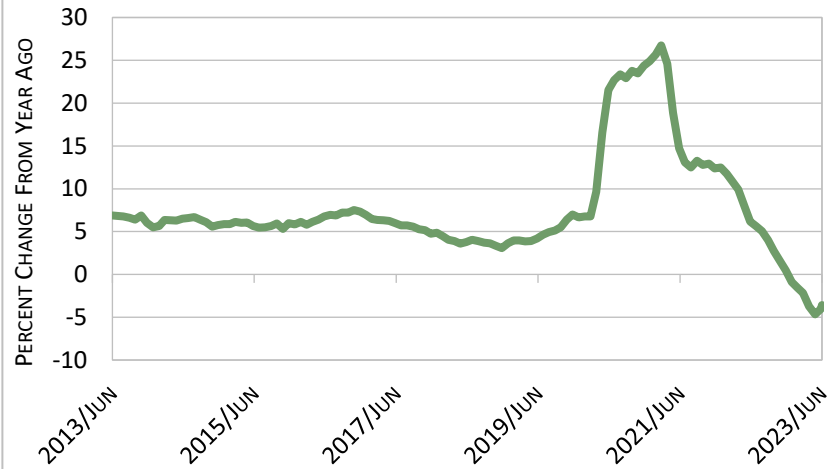




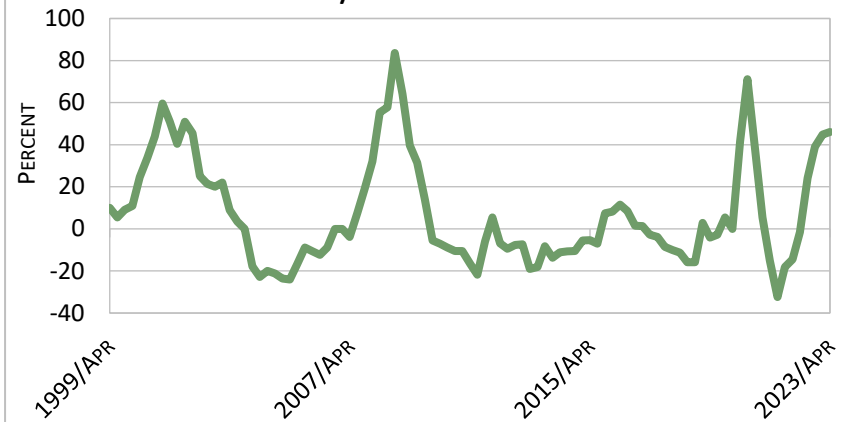
# OUTLOOK

DECLINING LIQUIDITY AND CREDIT TIGHTENING COULD BE HEADWINDS FOR ECONOMIC GROWTH

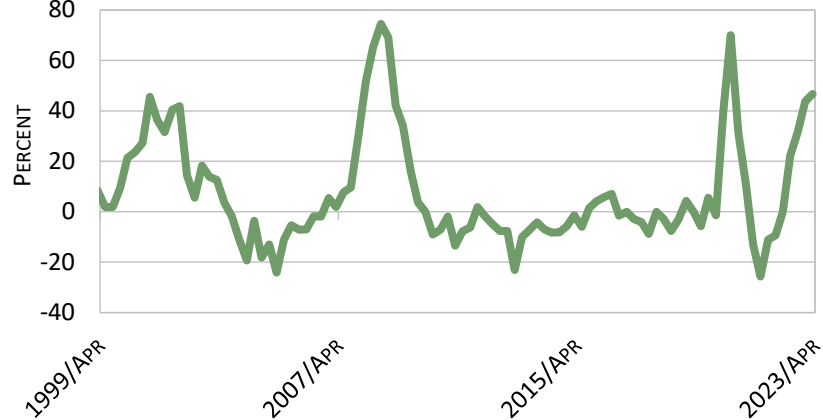
### M2 MONEY SUPPLY<sup>12</sup>



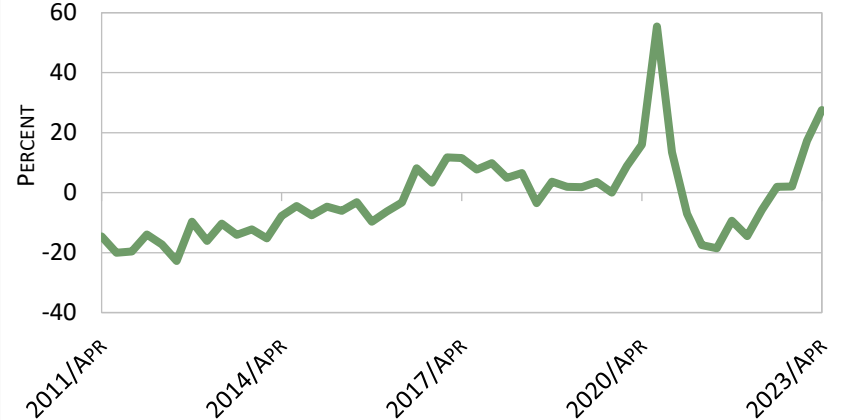
### BANKS TIGHTENING STANDARDS FOR LOANS TO LARGE/MIDDLE MARKET FIRMS<sup>13</sup>



### BANKS TIGHTENING STANDARDS FOR LOANS TO SMALL MARKET FIRMS<sup>14</sup>



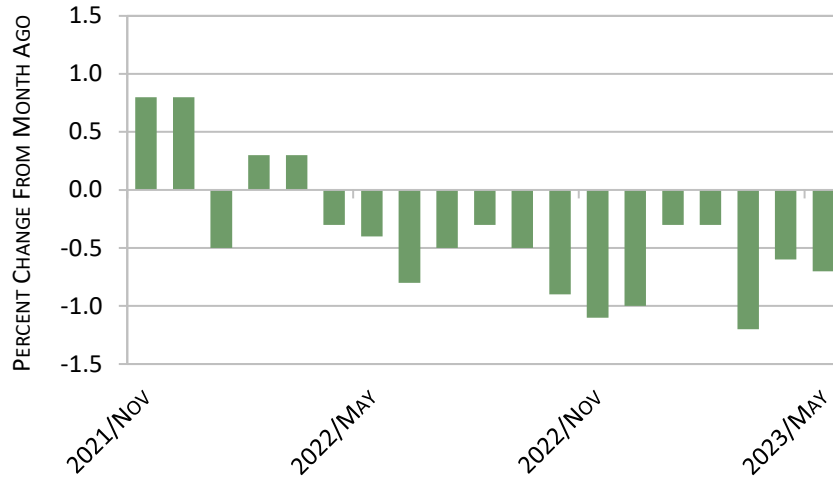
### BANKS TIGHTENING STANDARDS FOR AUTO LOANS<sup>15</sup>



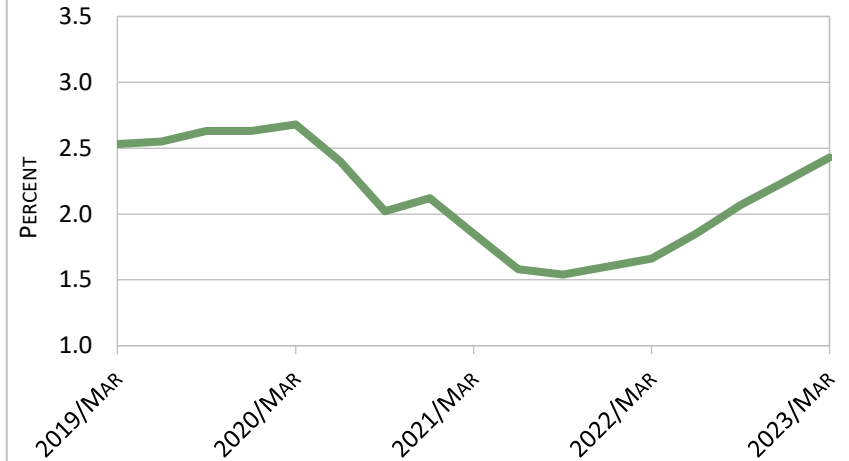
# OUTLOOK

WITH SOME INDICATORS OF STRESS AND RATE HIKE FORECAST, HAVE EQUITIES RALLIED TOO HIGH, TOO FAST?

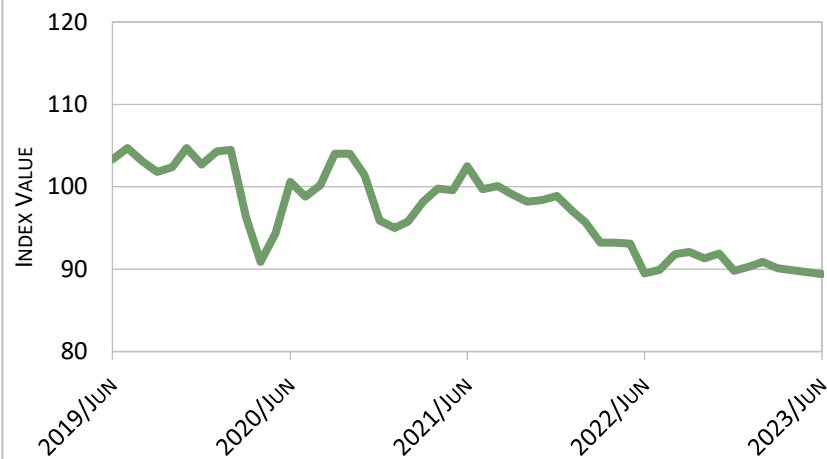
### LEADING ECONOMIC INDICATORS INDEX<sup>1</sup>



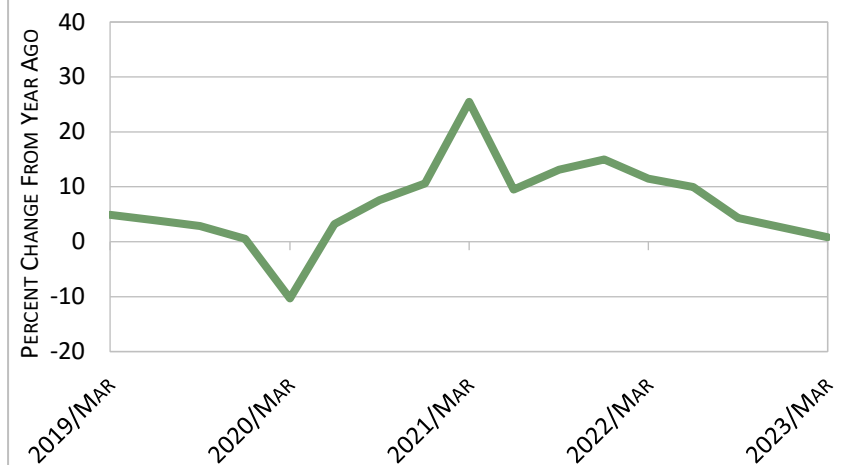
### DELINQUENCY RATE ON CREDIT CARD LOANS<sup>1</sup>



### NFIB SMALL BUSINESS OPTIMISM<sup>1</sup>



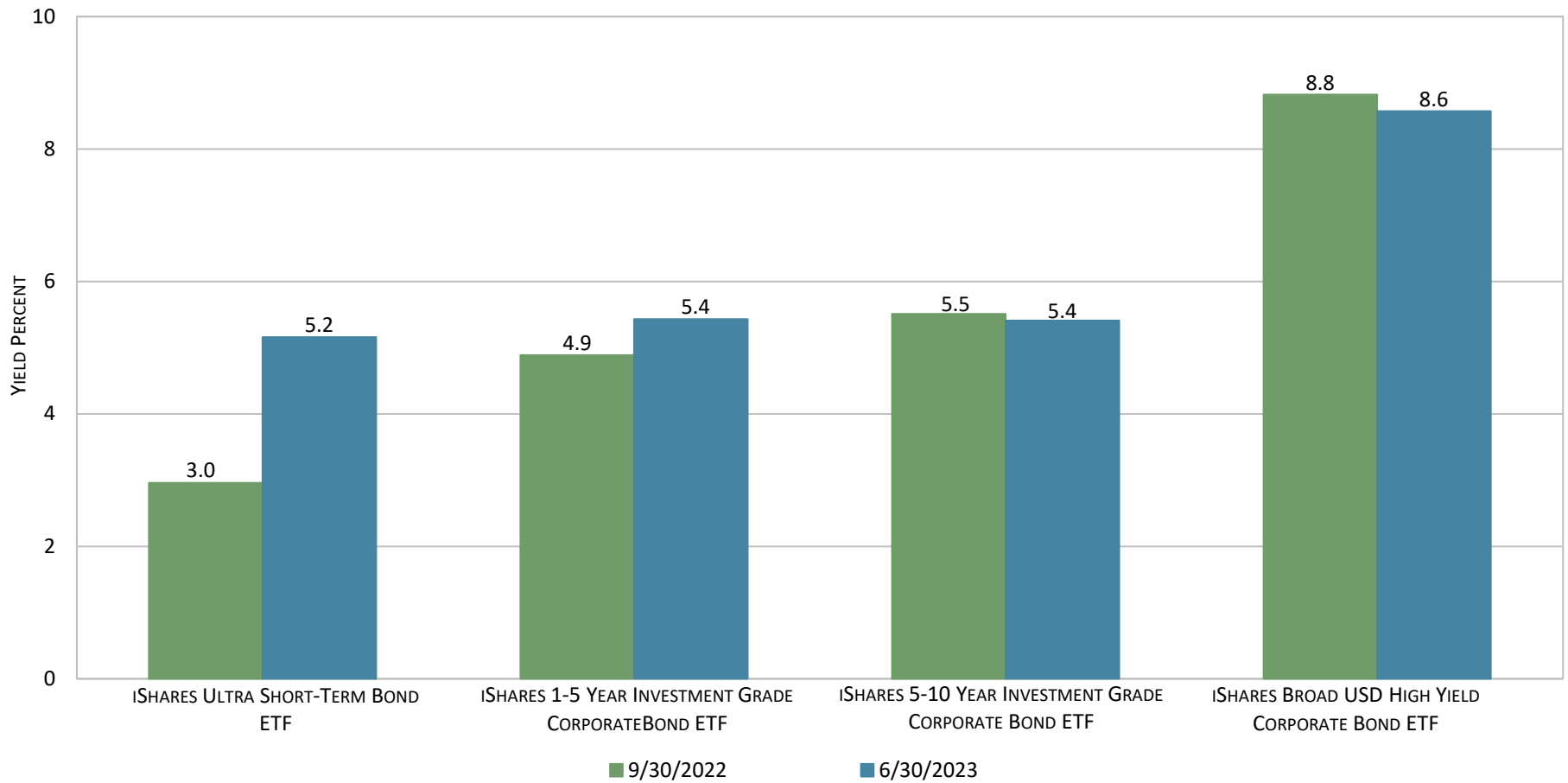
### CAPITAL EXPENDITURES<sup>16</sup>



## OUTLOOK

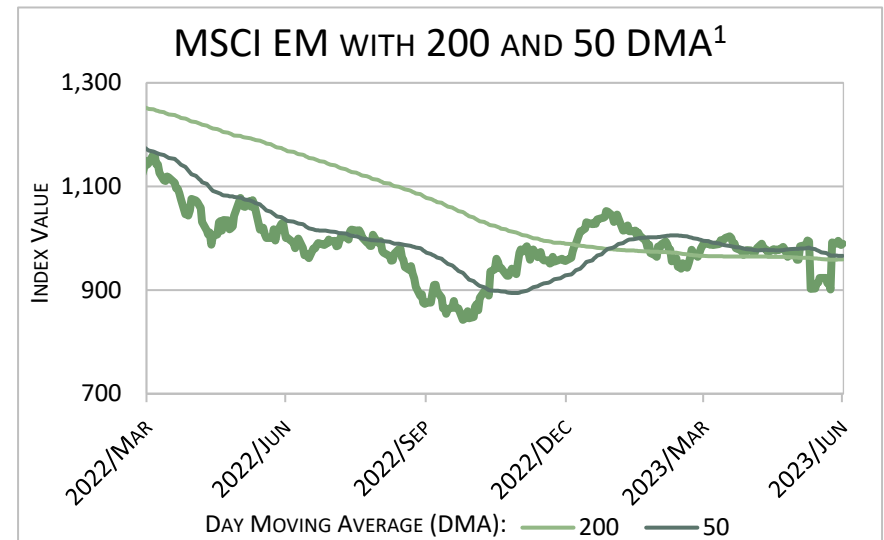
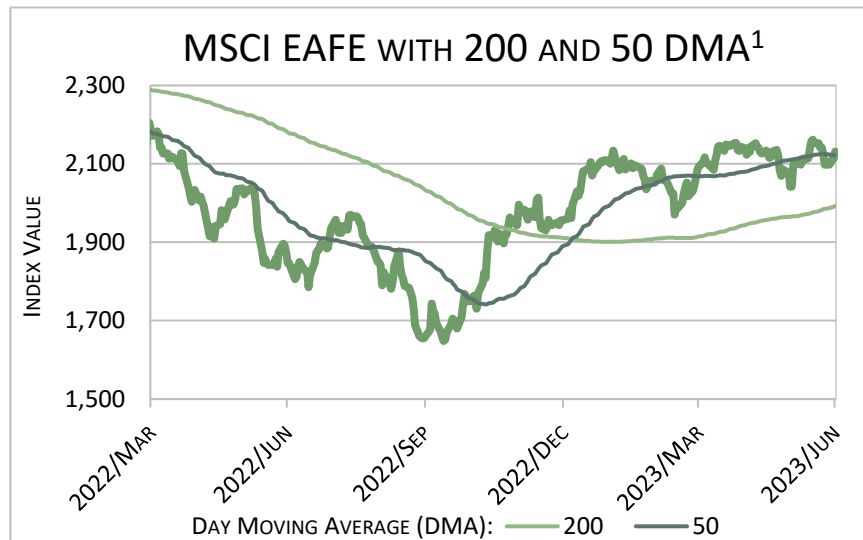
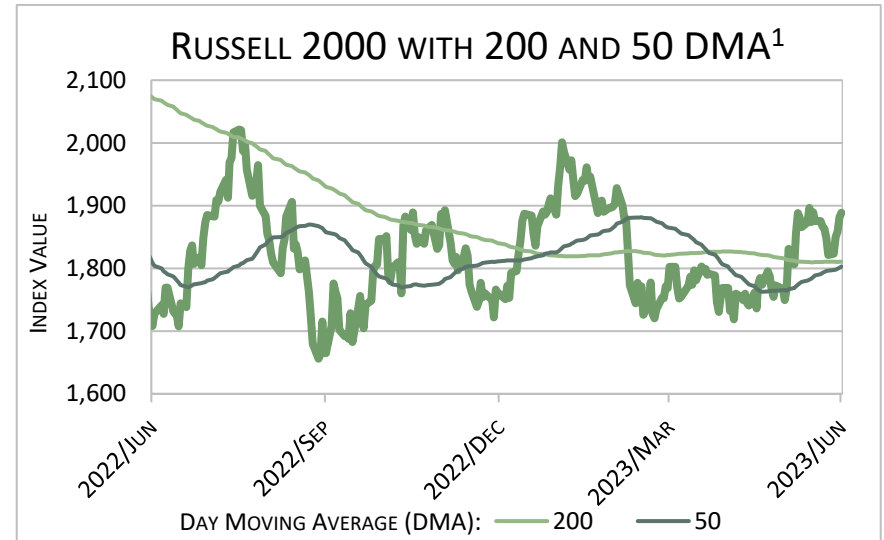
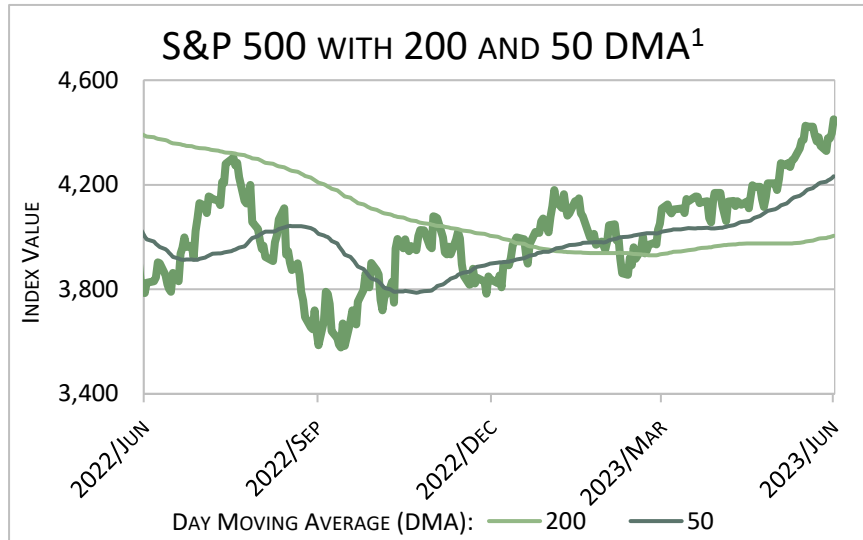
SHORT-TERM FIXED INCOME YIELDS ARE ATTRACTIVE ESPECIALLY IF EARNINGS GROWTH SLOWS

ISHARES BOND ETF YIELDS<sup>17</sup>



# OUTLOOK

INDICES ARE ABOVE KEY SUPPORT LEVELS BUT SENTIMENT IS HIGH WHICH CAN BE A BEARISH SIGN



# VOGEL TACTICAL RECOMMENDATIONS

FIXED INCOME YIELDS ARE ATTRACTIVE. SLOWER GROWTH A RISK TO EQUITIES. OVERWEIGHT CASH.

ASSET CLASS	ACTION	COMMENTARY
Domestic Large-Cap Equity	EQUAL WEIGHT	Prices could be pressured if earnings growth slows hurt by inflation, high interest rates, and tighter lending, but maybe near the end of the rate hike cycle. Volatility is likely.
Domestic Mid-Cap Equity	EQUAL WEIGHT	Prices could be pressured if earnings growth slows hurt by inflation, high interest rates, and tighter lending, but maybe near the end of the rate hike cycle. Volatility is likely.
Domestic Small-Cap Equity	EQUAL WEIGHT	Wider than average valuation gap with large-cap stocks but also expect wider price swings in reaction to news or signs of slowing growth.
International Developed Equity	EQUAL WEIGHT	Inflation is slowing but still high in many regions so likely more rate hikes to come, but economic activity is improving in certain regions such as Japan. A declining dollar could provide a boost to international market returns.
International Emerging Market Equity	EQUAL WEIGHT	Positives are lower valuations than U.S. markets, catalysts for growth in various regions from moves to diversify supply chains, rate cycles nearer peak, and a declining dollar that could provide a boost to returns. Risks include a weaker outlook for the Chinese economic rebound and lower demand from slowing developed economies hurting export oriented industries and countries.
Fixed Income	EQUAL WEIGHT	Yields are the highest in several years so are a source of income and diversification. Still is a risk that prices fall as the Fed tightens policy but after market moves much has likely been priced in already. Corporate fundamentals remain solid so credit risk is low.
Hedge Strategies	UNDERWEIGHT	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies. Opportunity set for distressed investing strategies may be improving.
Real Assets	EQUAL WEIGHT	Attractive dividend yields offer inflation protection. The outlook for certain sectors is positive since demand is strong and supply remains tight, but volatility is likely.
Cash	OVERWEIGHT	Keep reserves for liquidity needs since periods of volatility are a risk if consensus expectations are not met or interest rates move higher. Yields are attractive.

# QUARTERLY MARKET REPORT

## DISCLOSURES

### Important Disclosures:

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**Sources:** *Number below corresponds to the superscript notation in chart titles and text blocks*

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2. Daily Treasury Yield Curve Rates, retrieved from U.S. Department of Treasury; <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>, June 30, 2023.
3. Advent Software, Inc.
4. U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Services [PCES], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/PCES>, June 30, 2023
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6. U.S. Census Bureau and U.S. Department of Housing and Urban

Development, New One Family Houses Sold: United States [HSN1F], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/HSN1F>, June 28, 2023.

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8. Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations. <https://www.frbatlanta.org/chcs/wage-growth-tracker>. Wage computed on an hourly basis.
9. Federal Reserve Bank of Atlanta, Sticky Price Consumer Price Index less Food and Energy [CORESTICKM159SFRBATL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CORESTICKM159SFRBATL>, June 28, 2023.
10. Office for National Statistics (ONS), released 21 June 2023, ONS website, statistical bulletin, Consumer price inflation, UK: May 2023
11. U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Food in U.S. City Average [CPIUFDSL], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CPIUFDSL>, June 28, 2023.
12. Board of Governors of the Federal Reserve System (US), M2 [WM2NS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/WM2NS>, June 28, 2023.
13. Board of Governors of the Federal Reserve System (US), Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Large and Middle-Market Firms [DRTSCILM], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DRTSCILM>, June 28, 2023.
14. Board of Governors of the Federal Reserve System (US), Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Small Firms [DRTSCIS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DRTSCIS>, June 28, 2023.



# QUARTERLY MARKET REPORT

## DISCLOSURES CONTINUED

15. Board of Governors of the Federal Reserve System (US), Net Percentage of Domestic Banks Tightening Standards for Auto Loans [STDSAUTO], retrieved from FRED, Federal Reserve Bank of St. Louis;  
<https://fred.stlouisfed.org/series/STDSAUTO>, June 28, 2023.
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