JUNE 2023 MARKET COMMENTARY

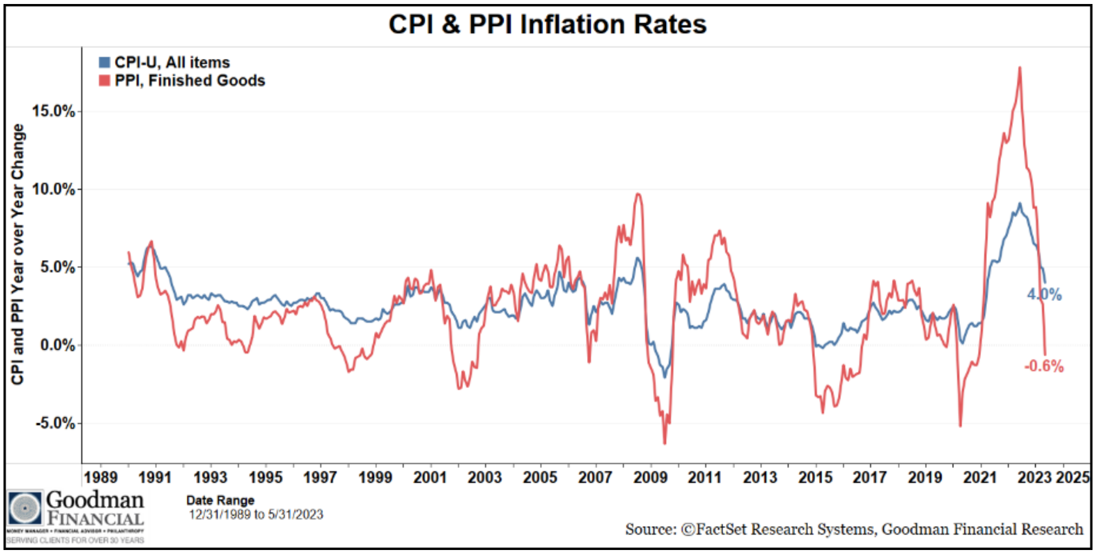
EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks posted solid gains in June. The S&P 500 was up 6.6% and the Blended Equity benchmark gained 7.7% for the month, as the Mid-Cap S&P 400 and the Small-Cap S&P 600 Indices were up 9.2% and 8.2%, respectively. International stock indices lagged the U.S., with developed markets up 4.4% and emerging markets up 3.2% in June.

A SKIP AND TWO JUMPS?

On June 14th, the Federal Reserve (Fed) announced the results of their June Federal Open Market Committee (FOMC) meeting regarding the overnight Fed Funds rate, which they control. For the first time in over a year, the FOMC did not raise rates, but rather held the rate steady (***a skip*** of a hike). Meanwhile, as part of most every FOMC meeting, the voting members provided their individual predictions of where the Fed Funds rate would be over the remainder of 2023 and into the future. In a surprise to most investors, the median prediction (in the form a "Fed dot plot") for 2023 included at least two more 0.25% rate hikes (***two jumps***) to a level of 5.75%. Most investors, us included, thought the Fed was done raising rates and the only question was when they would begin to lower them.

As seen in the chart below, the rate of inflation has been on a downhill decline for a year now. As we discussed in last month's Commentary "***Honey I Shrunk the Money Supply***", we believe that the rate of inflation should continue on its downward trajectory. In fact, the current Fed Funds rate of 5.25% currently exceeds the most recent CPI rate of 4.0%, indicating a "real" interest rate of 1.25%, something we haven't seen in a long while. Positive real rates suggests a restrictive monetary stance. So why would the FOMC forecast a need to increase rates further (and thus the reason for the question mark in this month's title)? It is important to note that this is the same Fed that in December 2021 predicted the Fed Funds rate a year later would only be 0.75%, whereas they actually ended up raising the rate to 4.50%, something we wrote about in our September 2022 Market Commentary "***The Fed Gets Inflation Religion***". One can only be left to wonder how the Fed could have missed their own forecasts so badly back in 2021. It raises the question of whether the Fed is missing the mark once again, just in reverse this time. As we discussed in last month's commentary, we believe the inflation dragon has now been slayed. So, we can only hope that the Fed wakes up and recognizes as much before raising rates further and potentially worsening an already slowing economy.



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S&P 500 – market capitalization weighted index of 500 leading publicly traded companies in the U.S.
S&P Midcap 400 – index of 400 companies that broadly represent companies with a midrange market capitalization between $3.6 billion and $13.1 billion.
S&P Smallcap 600 – index of small-sized companies that meet specific liquidity and stability requirements defined by Standard & Poor's.