Market Commentary

2023 continues to surprise to the upside, with many economic indicators remaining resilient. Recession expectations have been pushed back, leading to double-digit returns in most major market cap weighted indexes for the first half of the trading year, ending June 30, 2023. In particular, the S&P 500 rose more than 15% and the Nasdaq had its best first half of the year since 1985, gaining just shy of 40% (39.4%). Fixed income returns year-to-date were less stellar with the Bloomberg Aggregate Bond Index up just above 2% while credit returns were closer to mid-single-digit returns. The uncertainty surrounding the Fed's monetary policy path contributed to elevated volatility in fixed income.

On the macroeconomic side, inflation prints continue to come in higher than the Fed's target; however, the direction is undeniably pointing lower. Strength in the labor market persists, with generationally low unemployment rates coupled with a rising labor force participation rate. One area of concern for the Fed has been wage growth, which we are starting to see move back closer to healthy levels; however, wage growth still sits at levels inconsistent with low stable inflation. Alongside a strong employment market has been a healthy consumer, which continues to look past elevated prices on most goods and services, at least for now. Credit card spending and debt levels are higher on an absolute basis, but we think they still look sustainable when compared to discretionary income and historical averages. Corporate earnings growth has slowed, and margins have been compressed. However, many companies took advantage of the recent ultra-low interest rate environment and locked in those rates for longer, giving them sufficient capital to sustain a moderate economic slowdown. Commercial real estate appears to be in for a period of weakness, especially in the office space, as vacancy rates remain at very high levels in major markets. This, coupled with higher refinancing rates, could point towards increasing default rates. While increased defaults may happen, much of that appears to be already priced into the market, and there are areas of strength within certain segments of the commercial real estate universe (multi-family, hotels, and industrial buildings in many regions as examples). While it appears there are fewer known risks than there were six months ago, unknown risks are always present and we would argue maintaining prudent risk management and portfolio flexibility are as essential now as they were at the beginning of the year.

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3061600-082023