QUARTERLY UPDATE

LETTER FROM OUR CIO

JULY 6, 2023

PAUSE OR SKIP?

The first half of 2023 has been a story of crisis averted. The beginning of March saw a regional banking crisis culminating in the failure of two of the largest regional banks; Silicon Valley Bank and First Republic Bank. That was followed in May by fears of a U.S. Government Debt default and Treasury spending ceiling. June also produced the first time in 15 months that the Federal Open Market Committee (FOMC) met and did not raise interest rates. After raising rates by 5 percentage points the previous 10 consecutive meetings since March 2022, the Fed paused … or did they just skip June and will resume in July? Time will tell. But they are clearly coming to the end of the tightening cycle. And the Federal Reserve Bank's action has produced some important results. Keeping in mind the dual mandate of price stability and full employment, here is where we stand today:

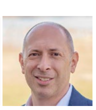
- Year-over-year Consumer Price Index (CPI) inflation reading came in at +4% in June 2023. While this is higher than the Fed's preferred level of +2%, it is significantly lower than the June 2022 reading of +9.1%. Moving in the right direction.
- The unemployment rate stands at 3.7%. While lower than the Fed's preferred level of 4.5%, it is higher than the May 2023 reading of 3.4%. Once again, moving in the right direction.
- The economy is slowing but remains on a solid footing. Whether we slide into a technical recession or not remains to be seen. However, clearly the tightening financial conditions have had the intended effect to slow economic activity, reduce demand for goods/services and temper inflation.

So, what do the markets think about the economy? Markets have largely shrugged off the risks discussed above. But much of the return in the markets this year has come from the largest 7 stocks, all of which are tech or tech related. The S&P500 market cap weighted index is up 15% this year, but if you equal weighted all 500 stocks instead, the return is closer to 6%. The Russell 2000 index of small cap stocks is up 7%. And the Dow Jones Industrial Average is up 4%. Overall, the markets are telling us that things are "OK".

This economic cycle will take some more time to play out. First half 2023 returns are encouraging, and the trends are in the right direction. We are still not without risks, but those risks are more muted than they were in March. Nonetheless, we remain slightly underweight in risky assets purely on a valuation basis. We will look to add exposure to growth and international should valuations improve, or the recession picture becomes clearer. Overall, portfolios are very well positioned and have held up nicely so far this year.

Regards.

Jason



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