

**SECOND QUARTER – 2023 CLIENT NEWSLETTER  
REVIEW OF THE MARKETS:**

Index:	2Q23	2023
<b>S&amp;P 500</b>	8.74%	16.89%
<b>S&amp;P Mid-Cap</b>	4.85%	8.84%
<b>S&amp;P Small Cap</b>	3.38%	6.03%
<b>Morgan Stanley's EAFE (International Stocks)</b>	2.95%	11.67%
<b>Bloomberg US Aggregate (Bonds)</b>	(0.84%)	2.09%

**ECONOMY & MARKETS:**

The second Quarter of 2023 exhibited very strong stock market performance +8.74%. This was significantly impacted by shares of the “Magnificent 7” mega-tech stocks (Meta Platform, Amazon, Alphabet, Apple, Microsoft, Nvidia & Tesla). The seven-largest artificial intelligence driven companies in the Nasdaq 100 account for around 55% of the index & over 25% of the S&P 500 index. Each of these companies have noticeably outperformed the S&P 500 index, which is up 16% year to date. On the contrary, the S&P 500 equal weighted index is only around 7% up year to date. Another statistic to highlight is that only 7 of the 11 sectors in the S&P 500 are positive this year (as of 07/13/2023). Other major index returns are highlighted above.

We had been communicating to our clients for several weeks that the markets were poised to move higher IF we were able to overcome two main obstacles:

1. The debt ceiling impasse (which ultimately, got resolved)
2. The Fed’s forecast signals approaching or being at the top of the rate hike cycle. While we have not yet achieved this goal, we do believe the Fed is close to peaking interest rates (*eighth-inning reference*).

Fed highlights:

The June 14<sup>th</sup> Fed meeting did include 12:18 members voting in favor of two additional rate hikes. This was a little surprising to us and the markets, but forecasts still include the Fed being close to peaking rates. The Committee decided not to raise rates in its June meeting, but preliminary forecasts are they will raise rates again in its July 25-26<sup>th</sup> meeting. While we agreed with the pause in June, we question whether the economic data reported in that six-week interim will provide concrete rationale for the Fed to justify another rate hike in July. As we highlighted in our last newsletter three months ago, the markets had been predicting the Fed would pause rate hikes in June & July, only to start lowering interest rates in September (which we thought was overly optimistic). The current forecasts for lowering rates keeps getting pushed further and further into the future. Given what occurred earlier in the year with regional banks, it would appear that there is inherent pressures from other financial institutions for the Fed to start lowering rates to alleviate pressure on their balance sheets (back when interest rates were very low, many banks purchased longer-term Treasury Bonds, which have fallen in value as rates have risen. If those bonds need to be sold to raise capital for banking clients cash withdrawals, the losses become realized.)

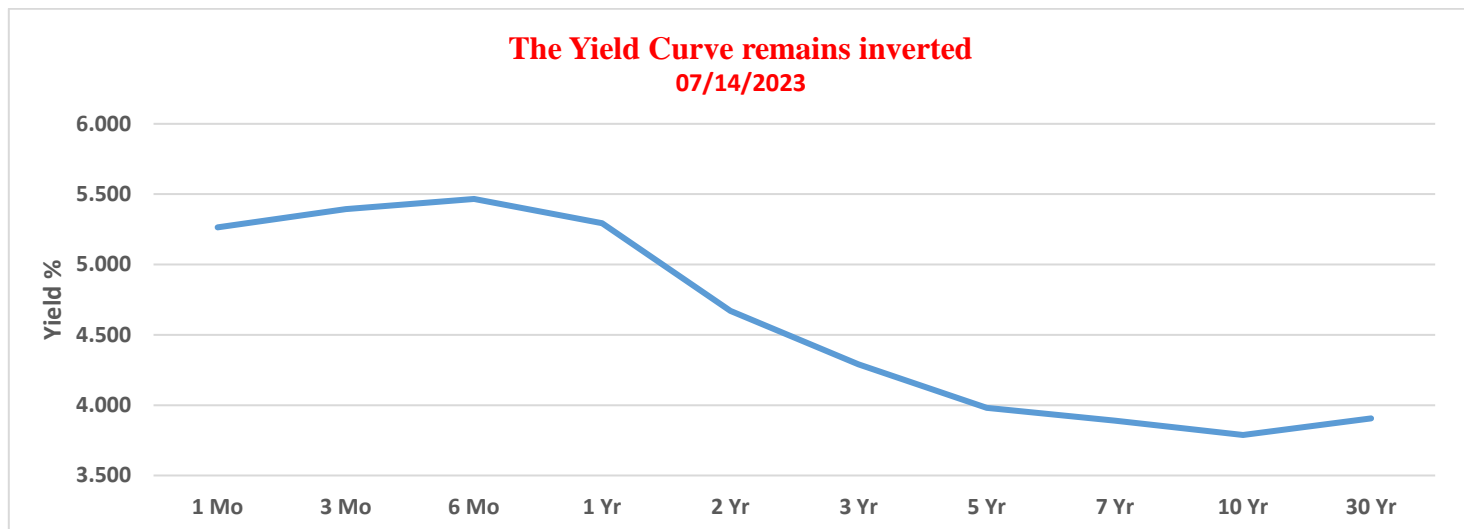
As we have been saying for several months, the Fed is fixated on meeting a 2% inflation figure (*mainly the Core PCE Inflation Index with its next data point released on July 28th*). However, we believe there are still ancillary factors keeping inflation slightly above that figure that may not be as easily affected by interest rate hikes. Throughout 2022, we did publish concerns of many ancillary factors in those newsletters. In our belief, many of those structural issues are NO LONGER current major concerns as compared to 2021-2022. Listing a few of those past concerns include oil prices spiked at the start of the war, but have softened; China is less restrictive on their Covid policies; West Coast ports congestion has improved, both of which have helped supply chain clogs, and others. The main current factors keeping inflation high include a strong labor market highly affected by continued wage-pressure along with resilient consumer spending. The focus of the news has now turned their attention to the monthly unemployment rate, intra-month jobs, and labor reports. While monetary policy is traditionally better equipped to combat the demand side of inflation, it should still help reduce wage-driven inflation.

**IN THE NEWS:**

**Pittsburgh Post-Gazette 07/10/2023:  
Cloudy forecast: Mild recession will include Pittsburgh area by year’s end, expert says – by Kris B. Mamula**

*We would like to announce the promotion of Kevin Faes to “Operations Specialist”. Kevin has been with YAIA for over two years and handles a variety of the investment coding, trade spreadsheet development, assistance with Schwab forms, and oversees the client onboarding for the Tamarac software. His behind-the-scenes efforts have helped many of our clients and also ensures YAIA remains SEC compliant.*

With the Fed maintaining the high interest rate stance, short-term Treasury Bond yields are now over 5% through one-year making them attractive investments.



#### Economic Statistics

- GDP growth rate (final)
- Inflation (CPI) year-over-year
- Core CPI (excludes food & energy) year-over-year
- Unemployment rate
- S&P 500 Forward P/E ratio

#### Most Recent

1Q23 up 2.0%  
June up 3.0%  
June up 4.8%  
June up 3.6%  
18.9

**For our July Newsletter, we normally take a break from specific topics and once again will feature:**

### ***Financial Trivia Questionnaire***

1. Effective January 1<sup>st</sup>, 2023 based on the new SECURE 2.0 Act, RMD or the Required Minimum Distribution age was increased from 72 to 73 years?
  - A. True
  - B. False
2. In 2023, the Cost-of-living adjustment (COLA) for Social Security benefits payment was a/an \_\_\_\_\_
  - A. Increase by 7.9%
  - B. Increase by 8.7%
  - C. Increase by 4%
  - D. Decrease by 1%
3. Circle the countries Costco has its presence in:
  - A. USA
  - B. Canada
  - C. Australia
  - D. Italy

4. What is difference between GDP (Gross Domestic Product) & GNP (Gross National Product)?
- A. GDP is the total value of goods and services produced in a country within nation's borders and GNP is the total value of goods and services produced by country's citizen, even the goods and services produced by citizen's living abroad (irrespective of geographical limits).
  - B. GNP is the total value of goods and services produced in a country within nation's borders and GDP is the total value of goods and services produced by country's citizen, even the citizen's living abroad.
5. Name the Banks that agreed to buy other banks during the period of banking debacle in first half of 2023
- Credit Suisse was acquired by \_\_\_\_\_
  - First Republic Bank was acquired by \_\_\_\_\_
- A. Swiss Bank and JP Morgan Chase Bank
  - B. UBS Bank and JP Morgan Chase Bank
  - C. Bank of England and PNC Financial Services Bank
6. The annual gift tax exclusion amount for per recipient in 2023 is \_\_\_\_\_
- A. \$17,000 or \$34,000 (for married couples)
  - B. \$16,000 or \$32,000 (for married couples)
  - C. \$20,000
  - D. \$0
7. Who is the name of the Russian Group described as a de facto private army?
- A. The Sputnik Group
  - B. The Ratnik Group
  - C. The Kremlin Group
  - D. The Wagner Group
8. What is a Stagflation?
- A. Persistent higher inflation + higher unemployment + slower economic growth
  - B. Persistent lower inflation + lower unemployment + high economic growth
  - C. Negative GDP for two consecutive quarters
9. Is Twitter still trading on Stock Exchange?
- A. Yes
  - B. No

10. The country that hiked Key interest rate to 91% to halt the domestic currency slump is:
- A. Argentina hiked the key rates to 91% to halt Peso's slump in April 2023.
  - B. Turkey hiked the key rates to 91% to halt Turkish Lira's slump in April 2023.
  - C. Canada hiked the key rates to 91% to halt Canadian Dollar's slump in April 2023.
  - D. Brazil hiked the key rates to 91% to halt Brazilian Real's slump in April 2023.
11. What is ChatGPT (*circle all that apply*)?
- A. An artificial intelligence chatbot developed by OpenAI and launched in November, 2022. It is notable for enabling users to refine and steer a conversation towards a desired length, format, style, level of detail, and language used.
  - B. Meta's (Facebook) newly launched app that rivals Twitter
  - C. The secret name leaked to the public of Elon Musk's new development with SpaceX that will enable space travel to occur at faster speeds for a longer period of time.
  - D. A highly specialized new app that was just launched by Google using 360-degree video chat technology that will place a computer image of your body in the room with whom you are connected.
12. Which of the following is not a European Stock market Index?
- A. FTSE 100 Index
  - B. DAX Index
  - C. CAC 40 Index
  - D. Shanghai Composite Index
13. What is the Fed's preferred measure of inflation (*no peeking on previous pages*)?
- A. CPI
  - B. Core CPI
  - C. Core PCE
  - D. PPI
14. What was the peak of the Consumer Price Index in 2022?
- A. 8.6%
  - B. 9.1%
  - C. 10.2%
  - D. 7.9%
15. What is the current yield on the 10-year Treasury Bond (*no peeking on previous pages*)?
- A. 4.5%
  - B. 4.2%
  - C. 4.0%
  - D. 3.8%

## Answer Key:

1. A

2. B

3. A, B, & C

4. A

5. B

6. A

7. D

8. A

9. B

- No: Twitter was delisted from New York Stock Exchange on November 8, 2022 (Elon Musk's takeover of the company)

10. A

11. A

12. D

- FTSE 100 Index – UK
- DAX Index – Germany
- CAC 40 Index - France
- Shanghai – China

13. C

14. B

15. D