INVESTMENT STRATEGY UPDATE

MARKET REPORT
JULY 2023

ASCENTIAL WEALTH ADVISORS

MARKETS EXTEND RALLY

Markets were positive for the first half of 2023, extending the rally that began last October. Stocks were lifted by the resolution of the US debt ceiling issue, avoidance of a full-blown banking crisis, and economic data that was less negative overall than anticipated. Most equity indices were up double digits from their bottom last fall, with the S&P 500 even entering a new "bull market," up over 20% from its low. Despite the strong rally, most stocks have not yet returned to their January 2022 peak.

While equities were largely positive, returns were not evenly distributed, with large growth companies significantly outperforming the broader market. The Russell 1000 Growth Index rose by 29.02%, while the Russell 1000 Value Index gained 5.12%. Large growth stocks were the worst performers in 2022, but optimism over the potential for Artificial Intelligence helped to fuel their rally in the first half of 2023.

Economic conditions in the US also boosted performance for US stocks. The anticipated recession did not yet materialize despite an aggressive interest rate policy from the US Federal Reserve and other global central banks. Inflation is easing, but at 4% in the US, it remains at twice the Fed's target level. A tight labor market and persistent demand for services have kept the economy going and made inflation harder to bring down. There are some intermittent signs that economic activity is slowing, but it now appears that a recession could be further out than originally expected.

Bonds also posted positive returns despite the US Federal Reserve indicating that additional interest rate increases are probable this year, and rates will likely remain higher for longer. The Fed needs the economy to slow further to lower inflation to its target and prevent a bounce back. Markets expect the Fed will cut rates eventually, with short-term interest rates still well above long-term rates. The 10-year US Treasury yield closed the quarter at 3.81%, while the 2-year US Treasury yield was at 4.87%. This type of inversion is generally a strong recessionary indicator, and it can take time for the economy to feel the full effect of higher rates. While recession remains a concern, markets seem to be discounting the potential for a painful contraction, at least for the near term.

Index	*2023 (through 6/30)*
S&P 500	+16.9
DJIA	+4.9
MSCI EAFE	+11.7
BC US Aggr. Bond	+2.1
Dow Jones Relative Risk Benchmarks	
Conservative	+3.6
Moderate	+6.9
Aggressive	+10.9

OUR VIEW

FIXED INCOME:
Bonds posted positive returns for the first half of 2023, despite rates moving higher than initially anticipated at the start of the year. Weakness in the banking sector as a result of higher interest rates and encouraging inflation trends caused the Federal Reserve to pause on rate hikes in June. It seems the end of this rate hike cycle is near, and while short term rates remain attractive, we are in favor of starting to extend bond maturities and reallocating some fixed income alternatives back to traditional bonds. Historically, bonds have consistently delivered strong returns after the Fed pauses and rates peak. Bonds are now offering attractive yields and return potential, particularly if the economy were to soften further.

US EQUITY:
The first half of 2023 saw a large dispersion of returns in US stocks. Gains were driven by enthusiasm regarding the prospects for artificial intelligence (AI), which propelled stocks in technology, communications and other related businesses that could benefit from implementation of AI. Although gains across the broader market were more muted, equities are generally reflecting less pessimism. It remains unclear whether optimism is warranted, and we remain in favor of a somewhat defensive positioning in stocks. We are recommending a reduction in small and mid-size companies in favor of larger names. Smaller companies tend to be more sensitive to higher interest rates and would likely suffer more in an economic slowdown. In addition, there could be some lingering risks associated with small banks due to higher rates and weakness in real estate.

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INTERNATIONAL EQUITY:
International equities were also positive with developed international stocks outperforming emerging markets through the end of June. Inflation and a potential economic slowdown from higher interest rates remain a concern across the globe. However, international stocks are benefitting from a weakening of the US dollar and normalization of global interest rates. Historically, after the US dollar has peaked, international stocks tend to experience a period of outperformance. Foreign stocks are also currently trading at a significant discount to US stocks on a price/earnings basis which could present opportunity for investors. Given these factors, we are currently recommending a modest increase in allocation to developed international equities, and no change to emerging markets exposure.

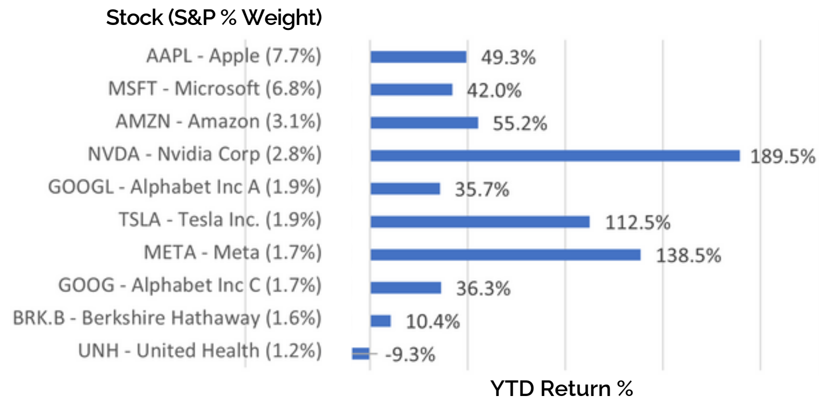
A TALE OF TWO INDICES

The standard S&P 500 index is comprised of 500 companies and is a "market capitalization weighted index." This means that when calculating the returns for the index, the stocks with the highest total aggregate market values have more influence on the calculation of results for the index. In the first half of 2023, the results for the S&P 500 were skewed by the larger companies that saw a huge rally, posting big returns and pushing the index results higher.

There are many companies in the index which have not ridden the rally wave, and this divergence of returns could indicate a bull market that is fragile. On the flip side, it could also mean that there is room for other stocks to catch up, offering some opportunity for investors. With a slowing economy, we feel these results should be viewed with some caution. In a market with this pronounced concentration of returns, it is tempting to jump on the bandwagon, but we feel diversification and selectivity are even more important at times like this.

Currently the S&P 500 is heavily weighted to a handful of larger companies, with the top 10 companies alone accounting for 31.7% of the index (as of June 30).
(JP Morgan Guide to Markets)

S&P 500 Top 10 YTD Returns (as of 6/30/23)



(Source: S&P Global, S&P Dow Jones Indices, June 30, 2023)

S&P 500 Performance Return YTD 2023 (as of 6/30/23)	
Market Cap Weighted	**+16.89%**
Equal Weighted	**+7.03%**

Source: S&P Global, S&P Down Jones Indices, June 20, 2023

If you take the same 500 companies from the standard S&P 500 index, but calculate the return with equal weighting given to each stock, the results look very different, illustrating how disparate returns were for the period.

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