MONTHLY MARKET UPDATE

June 2023

Global financial markets in June saw global central bank policies diverge, a failed coup in Russia, and a continuation of tightening overall liquidity across most major economies. Continued disinflationary trends and a general pickup in soft landing expectations thanks to resilient growth and robust labor markets drove risk assets globally. While the cool kids are now in the 'no recession' camp, the picture remained relatively mixed in June with the healthy side of the ledger including decelerating inflation, strong labor markets, healthy consumer spending, encouraging private investment, and stabilizing banking & housing markets. The other side of the ledger includes persistently elevated inflation, dwindling Covid era stimulus, hawkish/restrictive monetary policy, heightened geopolitical risk, a contracting manufacturing sector, a deeply inverted yield curve, and challenged corporate earnings. U.S. economic growth registered a relatively healthy 2% level for Q1 and models are forecasting roughly the same for Q2. Signs of a looming credit cycle are flashing while the capital void from tightening bank lending standards is being filled opportunistically by an ever-growing number of private credit (non-bank) lending groups and a substantial estimated $1.3t of dry powder in private equity coffers.

The S&P 500 rallied 6.6% in June, technically marking the beginning of a new bull market, up over 20% off the October 2022 low and stands up 16.8% for 2023. June brought in a refreshing "breadth" of air with small caps (+8.23%) and mid-caps (+9.16%) finally participating in what has been a mega cap tech/AI dominated market in 2023. Non-U.S. equities also participated with developed (+4.6%) and emerging (+3.8%) both posting robust gains.

Longer-term interest rates continued to drift higher during June as the FOMC skipped hiking short term rates for the first time since the tightening cycle began in March 2022. Higher interest rates and a steepening yield curve during the month reflected resilient economic growth and stubborn inflation dynamics pushing the 10yr UST yield back toward the closely watched 4% level.

Market Anecdotes

- Tension between the still growing and resilient economy and a firmly hawkish Fed has provided a nice wall of worry for equity assets to climb.
- Bilello noted the enormous eight (NVDA +190%, META +138%, TSLA +113%, AMZN +55%, APPL +50%, NFLX +49%, MSFT +43%, GOOG +36%) pretty much tell the story of 1H 2023. Most everything else was in the 5%-10% range.
- Yield curve inversions in the U.S. and Europe are predicting a rough year for global growth in 2024, feeding a constructive view on bonds and cautious view on equities over that horizon.
- We are keeping an eye on Russian instability following what most would consider a failed coup. Investors must consider the impact of the Ukraine conflict as well as Chinese support for Russia.
- The 60/40 portfolio continues its strong rebound after a dismal 2022 returning 10% through 6/30. This marks the best return since 2019 when it returned 13.6%. Prior to that, the next best first half dates back all the way to 1997.
- A BCA look at Fed Funds and recessions show the last hike occurring 16-17 months before the end of recession and the first cut occurring 10-11 months before the end of recession.
- A BCA look at the relationship between bond yields and recessions show yields peaking 1 to 3 months prior to recession and bottoming 3 to 10 months after recession with a pointed reminder that government bonds are the best safe haven.
- Leveraged loan and high yield bond market data are pointing to a rise in credit issues and restructurings down the road with loan default rates, distressed loan volumes, high yield downgrades, and high yield issuer defaults all rising notably.
- A research note from Pictet illustrates very clearly how the TINA regime is a thing of the past, at least for now, with earnings yields, corporate bond yields, and T-bill yields fully converged - something we haven't seen in decades.

Economic Release Highlights

- The June Employment Report registered 209,000 jobs, missing consensus expectations of 225,000. The unemployment rate fell to 3.6%, down from 3.7% in May. Average hourly earnings beat consensus for both MoM (+0.4%) and YoY (4.4%).
- The June PCE inflation report continued to decelerate, registering at or slightly under consensus with readings of headline (YoY 3.8% vs 3.8%, MoM 0.1% vs 0.1%) and core (YoY 4.6% vs 4.7%, MoM 0.3% vs 0.4%). Personal Consumption of 0.1% and Personal Income of 0.4% were both generally in line.
- CPI inflation was generally in line but cooled versus the prior reading with headline and core readings of 4% and 5.3% respectively alongside MoM of 0.1% and 0.4%. Headline readings were slightly under consensus while core reads were spot on.
- Producer Prices (PPI) cooled more than forecasted with YoY headline (1.1% vs 1.6%), core (2.8% vs 2.9%), and super core (2.8% vs 3.3%) all below consensus. MoM numbers were also soft with headline (-0.3% vs -0.1%), core (0.2% vs 0.2%), and super core (0.0% vs 0.1%).
- The final revision of the first quarter U.S. GDP was revised notably higher from 1.3% to 2.0% on the back of much stronger personal consumption expenditures.
- Final US June PMIs (C, M, S) of 53.2, 46.3, 54.4 all saw declines relative to their prior readings with Services beating expectations and Manufacturing handily missing expectations.
- Consumer Confidence registered 109.7 in June, an improvement over May's 102.3 reading and above the spot forecast of 103.7.
- UofM Consumer Sentiment for June came in above consensus (63.9 vs 60.0) and the high end of the range of estimates (59.4 to 63.0).
- Retail Sales stayed healthy, beating the forecast (0.3% vs -0.1%) and landing at the high end of the range. Ex-vehicles (0.1% vs 0.1%) and ex-vehicles & gas (0.4% vs 0.2%) were both at and above estimates respectively.
- Industrial Production for May slipped -0.2%, below consensus estimate of 0.1% and at the low end of the forecast range.
- The NFIB Small Business Optimism Index of 89.4 was slightly better than consensus 88.4 and above the forecast range of 87.5 to 89.0.
- Durable Goods Orders saw New Orders increase 1.7%, above the 1.0% consensus decline. Ex-Transportation (0.6% vs 0.0%) and Core Capital Goods (0.7% vs 0.6%) exceeded as well.
- The Housing Market Index continued to rebound to 55, surpassing both spot forecasts of 50 and consensus range of 48-52. The Case Shiller Home Price Index increased 0.9% MoM, above the consensus 0.5% gain. Prices fell 1.7% YoY, slightly better than the 2.3% forecasted decline.
- New Home Sales beat at 763k versus the 667k consensus forecast. Existing Home Sales of 4.30M came in above the 4.25M consensus estimate and at the high end of the range. Pending Home Sales fell 2.7%, further than spot consensus of -0.6% and the -0.3% to -1.4% range of estimates.

Outlook

Mid-year positioning is beginning to reflect a more cautious view toward risk assets as we look out over our 12-24 month forecast horizon. We see inflation across the U.S. and developed markets continuing its stubborn decline in the coming months, without a notable move higher in unemployment, which could translate to some additional tailwinds to stock prices and interest rates. However, we expect that sanguine short-term view to be pressured ultimately (12-24 month horizon) by restrictive monetary policy, persistent inflation, and higher interest rates. Our instinct remains that while we are clearly late in the cycle, upside economic growth and restrictive monetary policy will persist over the near-term for longer than markets have been discounting. Monetary tightness, tight lending standards, and higher interest rates are just beginning to impact the economy and corporate fundamentals with deteriorating signs in the labor market, leveraged loan market, and commercial real estate. Earnings should continue to surprise to the upside this summer but will likely face downward pressure in 2024 while bond yields will remain in a tug of war between falling inflation and a still resilient economy.

We expect the start-stop conditions to continue favoring periodic tactical (0-6 months) asset allocation shifts anchored at a neutral to slight underweight equity allocation rather than a decided pro-growth or defensive investment posture. In other words, keep risk assets on a short leash.

We remain neutral on the growth/value style dimension, reflecting our view that we are nearing the end of an economic cycle and a general unwillingness to chase the technology/AI price action (acknowledging it may persist a while).

From a geography perspective, we remain neutral U.S. to non-U.S. Recommended fixed income positioning has shifted from a slightly short duration posture to a neutral duration posture over our forecast horizon.

Equity	**Level**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
Dow Jones	34408	4.68	3.97	4.94	14.23	12.30
NASDAQ	13788	6.65	13.05	32.32	26.14	11.94
S&P 500	4450	6.61	8.74	16.89	19.59	14.60
Russell 1000 Growth		6.84	12.81	29.02	27.11	13.73
Russell 1000 Value		6.64	4.07	5.12	11.54	14.30
Russell 2000		8.13	5.21	8.09	12.31	10.82
Russell 3000		6.83	8.39	16.17	18.95	13.89
MSCI EAFE		4.58	3.22	12.13	19.41	9.48
MSCI Emg Mkts		3.89	1.04	5.10	2.22	2.72
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.57	0.09	0.25	0.18	0.78	0.33
High Yield	5.91	0.00	0.25	(0.15)	1.16	0.64
Municipal	1.93	0.02	0.15	0.05	0.29	0.05

Commodities	**6/30/23**	**4/30/23**	**1/31/23**	**10/31/22**
Oil (WTI)	69.71	76.78	78.95	86.54
Gold	1912.30	1982.60	1923.90	1639.00

Currencies	**6/30/23**	**4/30/23**	**1/31/23**	**10/31/22**
USD/Euro ($/€)	1.09	1.10	1.08	0.99
USD/GBP ($/£)	1.27	1.26	1.23	1.15
Yen/USD (¥/$)	144.47	135.99	130.17	148.63

Treasury Rates	**6/30/23**	**4/30/23**	**1/31/23**	**10/31/22**
3 Month	5.43	5.10	4.70	4.22
2 Year	4.87	4.04	4.21	4.51
5 Year	4.13	3.51	3.63	4.27
10 Year	3.81	3.44	3.52	4.10
30 Year	3.85	3.67	3.65	4.22

Style Returns

MTD

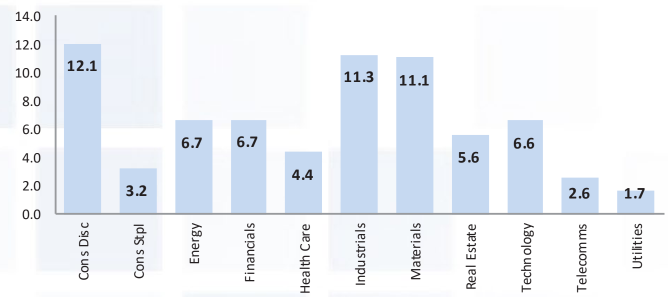
	V	B	G
L	6.64	6.75	6.84
M	8.67	8.34	7.73
S	7.94	8.13	8.29

YTD

	V	B	G
L	5.12	16.68	29.02
M	5.23	9.01	15.94
S	2.50	8.09	13.55

S&P 500 Sector Returns

MTD



YTD

OPAL WEALTH ADVISORS

Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**