Current Investing Environment – June, 2023

- **Financial market risk levels remain very high amidst volatility, uncertainty, and fear of missing out.** Financial markets in the US are experiencing far more volatility than is apparent in the returns for the S&P-500 Index. The impact of delays and finally a compromise for the US debt ceiling have played out alongside a feverish rush into AI related stocks, leaving investors confused as to what may be next. The performance for the S&P-500 Stock Index so far this year has been greatly dominated by just a handful of the largest stocks. This can be seen in the difference between the return for the size weighted S&P-500 Index (up 8.9% YTD) versus the equal weighted S&P-500 Index (down 1.4% YTD).

- **Inflation continues to be a problem.** Headline inflation (CPI) looks to have peaked, but its decline is slowing dramatically, and levels remain uncomfortably high. In April, the Fed's preferred inflation gauge, the PCE Deflator, surprised by showing an uptick in inflation for both the headline and core measures. On a 12-month basis, the headline measure is up 4.4% while the core rose by 4.7%. The Fed remains firm in their commitment to reducing inflation to its target rate of 2.0%, meaning there remains much work to be done. Even so, the Fed is likely to hold rates steady at their June meeting in order to allow the moves they have made thus far some time to take effect in the economy.

- **A US recession is broadly expected in 2023.** An economic downturn in the second half of 2023 is being called the most widely forecast recession in history. Still, given the underlying strength in the job market and very strong corporate balance sheets, the downturn looks to be shallow and fairly short-lived. Psychologically, that makes this a difficult moment as investors grow weary of waiting for things to turn around, yet still remain wary of what an imminent recession could mean for their finances.

- **The US labor market continues to show exceptional resilience.** While there are some signs of slowing in the US labor market, job growth remains very robust – especially in light of an imminent and highly expected recession. Even as the Unemployment Rate rose from 3.4% to 3.7% last month, weekly jobless claims have consistently come in below expectations. In spite of widespread jobs cuts in some industries, most notably technology and financial companies, there are still nearly two job openings for each unemployed individual in the US.

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