August 2023

Monthly Market Commentary

As we enter the last month of summer, we hope that you are enjoying the warm weather and staying active. While we are sad to see another summer come to an end, we are excited for the start of Football season. There is something about Fall weather and Football that can make us all happy about the changing of the seasons. We hope that you can all enjoy the Labor Day weekend with family and friends!

Equity markets performed well over the last month with some of the lagging sectors playing catch up after a spell of underperformance in the first half of the year. On the flipside, bonds continue to struggle post a short span of relief in the first half of the year. With the economy still resilient in terms of employment and inflation expectations starting to reverse course in the wrong direction again, the FED is fixated on its hawkish path with the possibility of further rate hikes and keeping rates higher for longer than previously expected by the market.

One of the factors that we did not anticipate this year was the strong fiscal impulse at a time when the economy was not in contraction and considering the tightening path of monetary policy to control inflation. This dynamic had a profound impact on second quarter GDP that was reported at 2.6% YoY vs 1.8% YoY in Q1-2023, which surprised to the upside and was stronger than expected. However, despite the outsized impact from growth in government spending, the consumption side of the economy remained anemic. Also, this ramp in deficit spending promptly triggered a debt downgrade by Fitch ratings of the US debt from AAA to AA+ calling into question the sustainability of this policy. It is expected that national debt will almost double over the next decade from around 24 trillion in 2022 to about 47 trillion by 2033 which is conservative and does not consider any negative shocks along the way. Finally, we are approaching the end of second quarter earnings season for S&P 500 companies with 85% of companies reporting an aggregate sales and earnings growth of -0.2%YoY and -5.3%YoY respectively which continue to slow from 3.6%YoY and 0.1%YoY reported in Q1-2023. With earnings still slowing valuations will start to matter again as we progress in the second half of the year.