

Monthly Market Commentary

We hope that you were able to enjoy the 4th of July with family and friends! For those residing in the upper Midwest, we are now entering the 2nd half of summer. Hopefully you get the opportunity to have a few more cookouts, attend an outdoor event, or simply be outside while the weather is nice! May you and your family have continued health and happiness in 2023!

Markets saw strong returns in the month of June after a period of consolidation in the prior month. Bonds continue to underperform amid a hawkish FED still on a tightening path with a few more hikes still in the pipeline alongside quantitative tightening. European markets are starting to see some weakness while the pacific region, especially Japan, has shown relative strength. A few emerging markets like Brazil and India have performed well while China has lagged.

On the fundamentals side, the economy has been somewhat resilient and has not yet deteriorated to levels that were expected at the start of the year. Looking at the cycle, the economy has gone from a peak growth rate of 12.5% YoY in Q2 of 2021 to around 1.8% YoY in Q1 of 2023, which represents a meaningful decline in economic activity over the last couple of years. Consensus now expects a recovery in economic activity in the second half of 2023. However, we do not believe that this is realistic given we are nearing a point in the economic cycle where the full effects of tighter monetary policy are yet to be reflected in the economy. Typically, rate tightening cycles have around 13–14-month lags. This is consistent with the leading indicators which continue to deteriorate while lagging indicators like labor remain resilient but are showing signs of a slowdown on a rate of change basis. Going forward, the slowdown in the economy will be highly dependent on how long rates stay elevated.

We continue to maintain asymmetry in the portfolios with higher quality as risks remain elevated and have opportunistically added exposure to both equities and fixed income while minimizing the overall risk.

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