PWMG Perspective: Mid-Year 2023

PRENTIS
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

To Our Clients, Family and Friends,

We hope you have been enjoying the start of summer. As we head into the second half of 2023, we wanted to provide you with some insight into how we are thinking about portfolio positioning looking forward. One of our goals in writing this newsletter is to lend perspective and present a balanced view.

Market Perspective:

Contrary to many dire predictions at the start of the year, stock market indexes have recovered quite well from last year's lows. It is refreshing, as long-term investors, to see patience and discipline rewarded. In the first half of 2023, the S&P 500 Index was up 17%, the S&P 500 Equal Weight Index was up 7%, and the technology heavy NASDAQ Index was up 32%.

Yet these impressive recent gains require context. We would note that since the beginning of 2022, all three of the indexes mentioned above were still down through June 30th, 2023. Over this eighteen-month period, the S&P 500 Index was down over 4%, the S&P 500 Equal Weight Index was down about 6%, while the technology heavy NASDAQ Index was still down double digits - about 10%. In other words, most markets have not experienced a full retracement despite 2023's strong first half.

Positioning and Outlook

Human nature seems to skew towards the negative narrative. The press rarely highlights a story about the house that did not burn down. Bad news sells. Given this environment, we felt it would be a good time to take a moment to talk about what could go right. We do not want to come off as starry-eyed optimists, but we do feel that now is an important time to offer a more balanced perspective.

First, a few observations:

1. *"Normally, the Federal Reserve's rate increases force heavily indebted consumers and businesses to rein in spending because they have to pay more to service their loans. But, consumers haven't overextended themselves with debt over the past two years. Household debt service payments accounted for 9.6% of disposable personal income during the first quarter, below the lowest levels recorded between 1980 and the onset of the pandemic in March 2020." - The Wall Street Journal – 6/26/23*

2. *"This year, falling oil and natural-gas prices have pumped up economic growth by putting money into consumers' pockets, boosting confidence and easing pressures on government budgets. The price of a barrel of oil has fallen by nearly half in the past year, from around $120 to less than $70—below its level before Russia's 2022 invasion of Ukraine sent prices soaring." - The Wall Street Journal – 6/26/23*

3. While higher interest rates present a headwind to leveraged individuals and businesses, they have been a very welcome source of extra income for investors. Our clients can now earn around 5% or more on cash and short-term Treasury investments.

Our view is that many of the inflationary pressures we've experienced over the past few years were primarily a result of everyone wanting to exit the paralysis of the pandemic at the same time. In short, we all wanted to get back to our former lives, and world supply chains that were heavily disrupted needed a chance to catch up. As we have seen with oil, natural gas, and many other commodities, supply and demand imbalances have largely dissipated. Interest rates were kept abnormally low during the pandemic in order to help finance the recovery, and that stimulus is no longer needed. So far, we believe that the U.S. Federal Reserve has done an admirable job of managing this transition out of the pandemic.

It is quite possible that as inflation moderates, the economy will continue to grow at a modest pace. Consumers may also come to appreciate that higher interest rates are in fact a return to "normal" and are not a major barrier to spending and more positive sentiment. Importantly, many great companies have spent the last few years preparing for potential economic weakness and developing better "resiliency" - cleaning up inventories, improving balance sheets and rationalizing growth strategies. We believe these actions will help high quality companies deal effectively with any recession that may occur.

Having said all the above, we do recognize that historical precedent instructs us to be relatively cautious at this point in the economic cycle. We strongly believe that this is not a time to chase performance and momentum in the stock market's recent winners. Profits must eventually justify inflated price-to-earnings multiples on stocks, or those inflated multiples must come down. This is financial physics. Therefore, our focus continues to be on trying to buy great companies at reasonable prices and to invest with external managers who are thoughtful and disciplined.

As to geopolitics, we continue to closely monitor developments and how they could impact markets and our investments. Although uncertainty remains, we believe that finding a path of mutual coexistence is in everyone's interest. We remain optimistic as to humankind's capabilities, resourcefulness and resiliency. The earth demands that we all pull together to address our food, climate and energy needs.

We would like to conclude by commending Andrew Bevan, CFA®, CAIA®, on his recent promotion to First Vice President – Investments. Andrew is approaching his five-year anniversary with our team after working for nearly a decade within the institutional investment industry. He continues to make significant contributions in all parts of our practice, including providing insightful analysis as part of our investment committee and in helping our clients analyze, refine and attain their financial goals. Congratulations, Andrew!

As always, please reach out whenever you have any questions, concerns, or life updates to share with us. We are here for you!

Focus forward, stay calm and carry on.

Peter, Mike, Stuart, Andrew, Joe and Edita

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2022 Forbes Top Wealth Management Teams High-Net-Worth***

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*2023 Forbes Best-In-State Wealth Advisors: Awarded April 2023; Data compiled by SHOOK Research LLC based on the time period from 6/30/21 - 6/30/22 (Source: Forbes.com). 2022: Awarded April 2022; based on the time period from 6/30/20 - 6/30/21. 2021: Awarded February 2021; based on the time period from 6/30/19 - 6/30/20. 2020: Awarded January 2020; based on the time period from 6/30/18 - 6/30/19. 2019: Awarded February 2019; based on the time period from 6/30/17 - 6/30/18. 2018: Awarded February 2018; based on the time period from 6/30/16 - 6/30/17. The Forbes Best-in-State Wealth Advisors rating algorithm is based on the previous year's industry experience, interviews, compliance records, assets under management, revenue and other criteria by SHOOK Research, LLC. Investment performance is not a criterion. Self-completed survey was used for rating. This rating is not related to the quality of the investment advice and based solely on the disclosed criteria. Fee paid for use of marketing materials.

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***2022 Forbes Top Wealth Management Teams High-Net-Worth**:** Awarded November 2022; Data compiled by SHOOK Research LLC based on the time period from 3/31/21 - 3/31/22 (Source: Forbes.com). High Net Worth designates advisors whose account sizes are typically under $10mm, though may have accounts with higher amounts. The Forbes Top Wealth Management Teams rating algorithms are based on the previous year's industry experience, interviews, compliance records, assets under management, revenue and other criteria by SHOOK Research, LLC. Investment performance is not a criterion. Self-completed survey was used for rating. This rating is not related to the quality of the investment advice and based solely on the disclosed criteria. Fee paid for use of marketing materials.

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