THE SEDORIC GROUP

of Steward Partners

2023

MID-YEAR OUTLOOK

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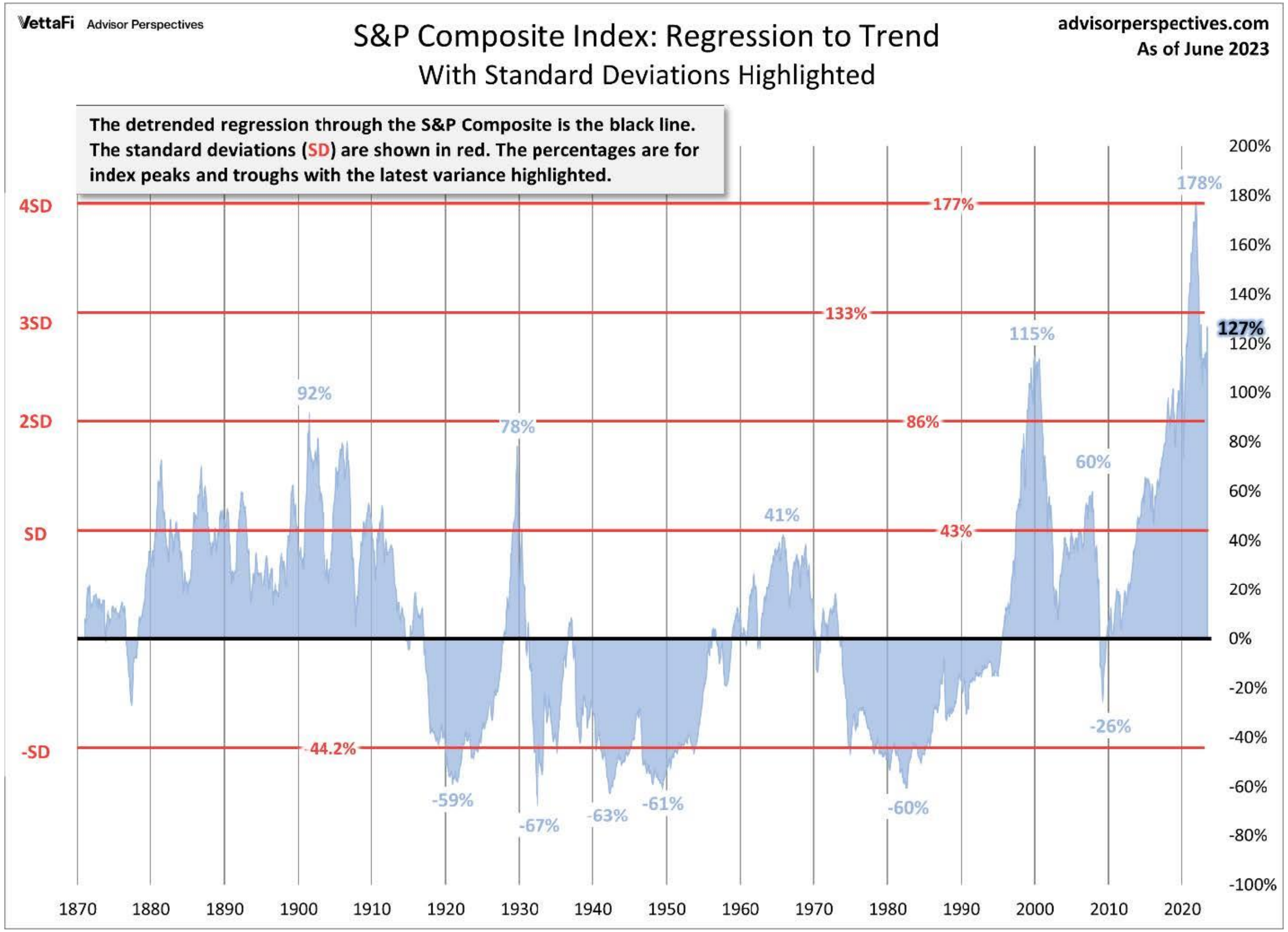
& Casey Snyder, Managing Director

THE U.S. STOCK MARKET REMAINS EXPENSIVE ALBEIT LESS SO

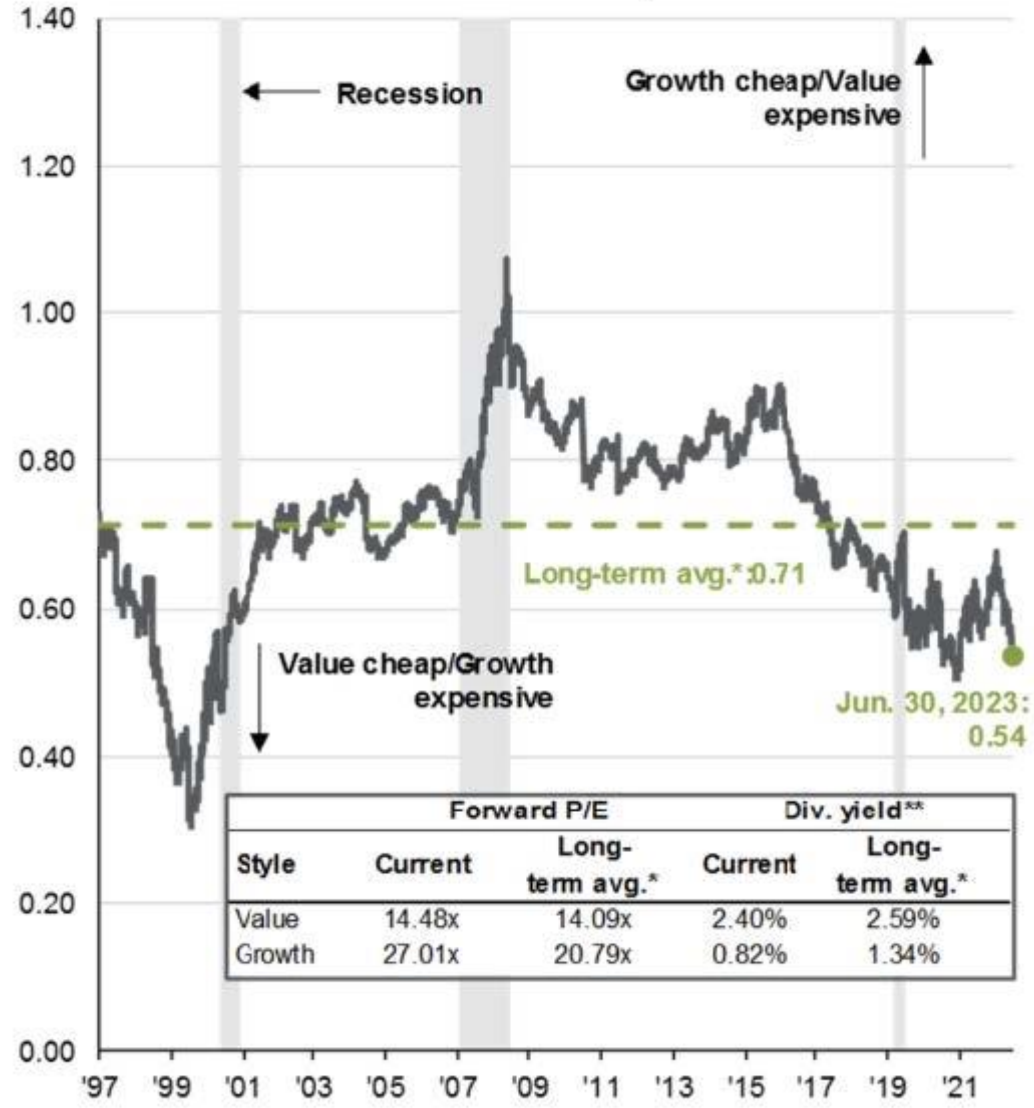
Equity valuations fell in 2022, but have since recovered some and remain within an abnormally expensive valuation range.



SOURCE: https://www.advisorperspectives.com/dshort/updates/2023/07/03/regression-to-trend-s-p-composite-127-above-trend-in-june

Value vs. Growth relative valuations

Rel. fwd. P/E ratio of Value vs. Growth, 1997 - present



	Forward P/E		Div. yield**	
Style	Current	Long-term avg.*	Current	Long-term avg.*
Value	14.48x	14.09x	2.40%	2.59%
Growth	27.01x	20.79x	0.82%	1.34%

SOURCE: JPM Guide to the Markets

GROWTH VS. VALUE IN 2022 AND SO FAR IN 2023

Performance in 2022 and 2023 was less about whether someone owned domestic vs. foreign equities, and more about whether their portfolio was titled towards growth vs. value.

Growth was abnormally expensive heading into 2022, and thus experienced a sharp decline, while value held up very well.

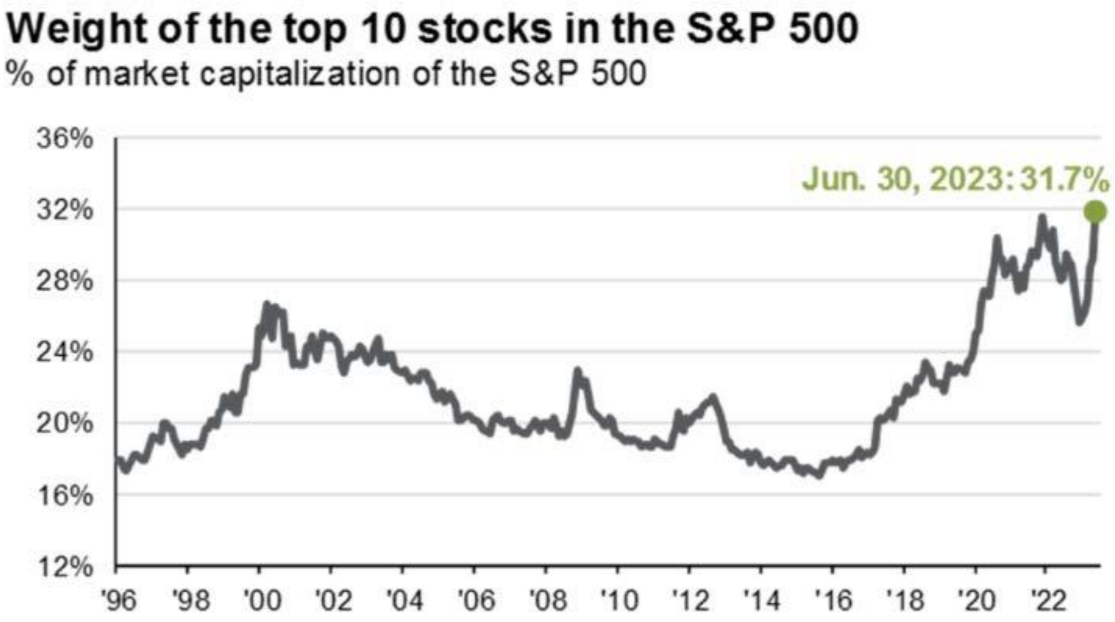
So far in 2023, growth has dramatically outperformed value, thus again making growth more expensive.

This page shows the relationship between value and growth investment styles. When the line is moving up, it indicates that value is expensive relative to growth, but when the line is moving down it represents growth becoming expensive relative to value.

SOMETHING DOESN'T ADD UP

The top 10 companies within the S&P 500 represent a historically high concentration of the index (31.7%), with their earnings disproportionate to their perceived value.

Distortions like this rarely last. Eventually, either earnings will need to improve in support of their valuation or their valuation relative to the other 490 companies will need to decline.



SOURCE: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month.

The remaining stocks represent the rest of the 494 companies in the S&P 500.

Guide to the Markets – U.S. Data are as of June 30, 2023.

S&P 500 Top 10 Holdings

1980		1985		1990		1995	
IBM	4.3%	IBM	6.4%	IBM	3.0%	General Electric	2.6%
AT&T	3.9%	Exxon	2.7%	Exxon	2.9%	AT&T	2.3%
Exxon	3.8%	General Electric	2.2%	General Electric	2.3%	Exxon	2.2%
Standard Oil (IN)	2.5%	AT&T	1.8%	Phillip Morris	2.2%	Coke	2.0%
Schlumberger	2.4%	General Motors	1.5%	Royal Dutch	1.9%	Merck	1.8%
Shell Oil	1.9%	Royal Dutch	1.1%	Bristol-Myers	1.6%	Royal Dutch	1.7%
Mobil	1.9%	DuPont	1.1%	Merck	1.6%	Philip Morris	1.6%
Standard Oil (CA)	1.8%	Amaco	1.1%	Wal-Mart	1.6%	Procter & Gamble	1.2%
Atlantic Richfield	1.6%	Bell South	1.0%	AT&T	1.5%	Johnson & Johnson	1.2%
General Electric	1.5%	Sears	0.9%	Coke	1.4%	Microsoft	1.1%
Top 10 Holdings	**25.6%**	Top 10 Holdings	**19.8%**	Top 10 Holdings	**20.0%**	Top 10 Holdings	**17.7%**

2000		2005		2010		2015	
General Electric	4.1%	General Electric	3.2%	Exxon	3.1%	Apple	3.0%
Exxon	2.6%	Exxon	3.0%	Apple	2.5%	Google	2.8%
Pfizer	2.5%	Microsoft	2.4%	Microsoft	2.0%	Microsoft	2.3%
Citigroup	2.5%	Citigroup	2.1%	Berkshire Hathaway	1.7%	Berkshire Hathaway	1.7%
Cisco	2.4%	Procter & Gamble	1.7%	General Electric	1.6%	Exxon	1.7%
Wal-Mart	2.0%	Wal-Mart	1.7%	Wal-Mart	1.6%	Amazon	1.6%
Microsoft	2.0%	Bank of America	1.6%	Google	1.6%	General Electric	1.6%
AIG	2.0%	Johnson & Johnson	1.6%	Chevron	1.5%	Facebook	1.5%
Merck	1.9%	AIG	1.5%	IBM	1.5%	Johnson & Johnson	1.5%
Intel	1.7%	Pfizer	1.5%	Procter & Gamble	1.5%	Wells Fargo	1.4%
Top 10 Holdings	**23.5%**	Top 10 Holdings	**20.4%**	Top 10 Holdings	**18.6%**	Top 10 Holdings	**19.1%**

2020		2023	
Apple	4.8%	Apple	7.2%
Microsoft	4.7%	Microsoft	6.5%
Amazon	4.2%	Google	3.5%
Google	3.1%	Amazon	2.8%
Facebook	2.1%	Nvidia	1.9%
Berkshire Hathaway	1.4%	Berkshire Hathaway	1.7%
Visa	1.3%	Facebook	1.5%
Johnson & Johnson	1.2%	Exxon	1.4%
Wal-Mart	1.1%	UnitedHealth	1.3%
JP Morgan	0.9%	Tesla	1.2%
Top 10 Holdings	**24.8%**	Top 10 Holdings	**29.2%**

SOURCE: https://awealthofcommonsense.com/2023/05/concentration-in-the-stock-market-2/

ECONOMIES EVOLVE AS DO MARKETS

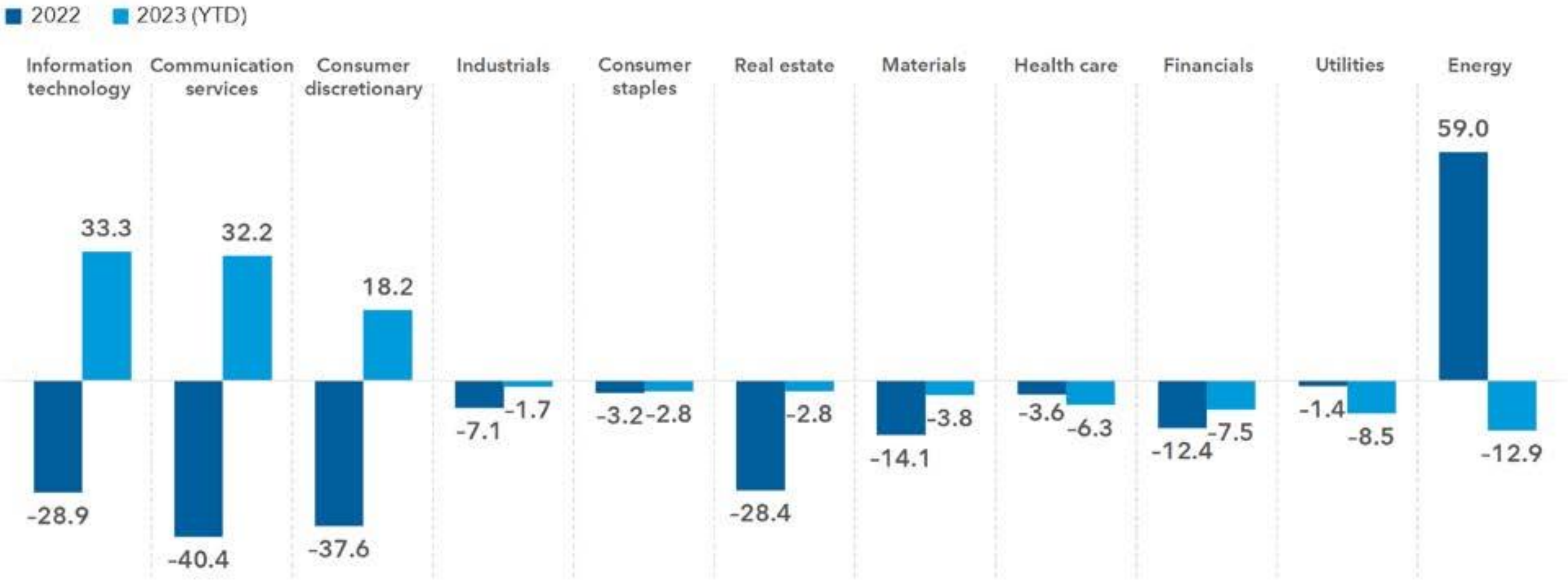
As we can see, economies and stock valuations evolve, and it's important for investors to acknowledge that great companies don't always equate to great investments.

U.S. EQUITY PERFORMANCE BY SECTOR IN 2023

The vast majority of gains through May were concentrated within specific sectors and represent an unbalanced recovery thus far in 2023.

Will the growth comeback continue in the second half of the year?

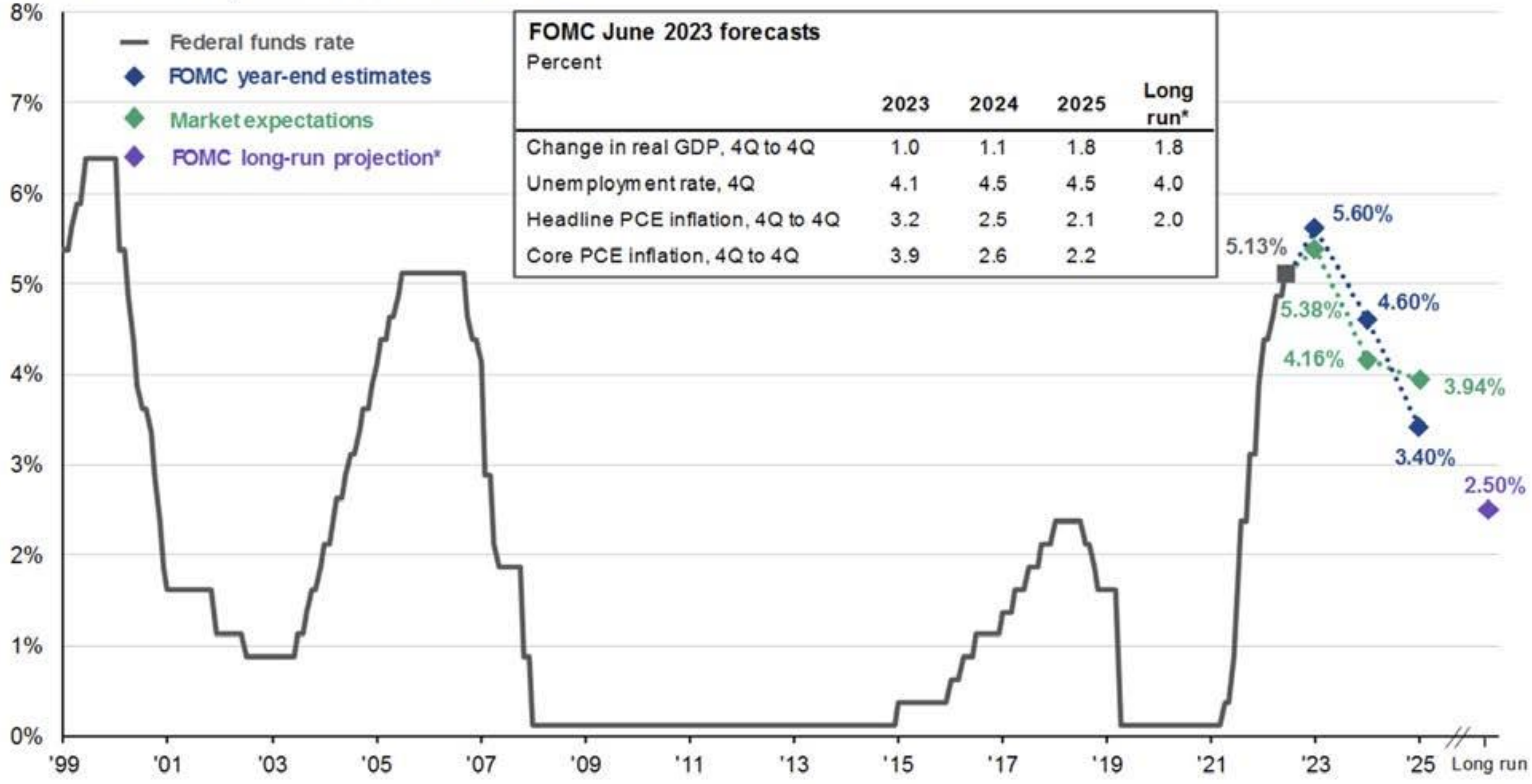
Year-to-date sector returns (%) across the S&P 500 through May 31



Sources: Capital Group, FactSet, Standard & Poor's. Sector returns reflect total returns in USD. As of May 31, 2023. Past results are not predictive of results in future periods.

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC June 2023 forecasts

Percent

	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	1.0	1.1	1.8	1.8
Unemployment rate, 4Q	4.1	4.5	4.5	4.0
Headline PCE inflation, 4Q to 4Q	3.2	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.9	2.6	2.2	

SOURCE: BLS, FactSet, J.P. Morgan Asset Management.

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

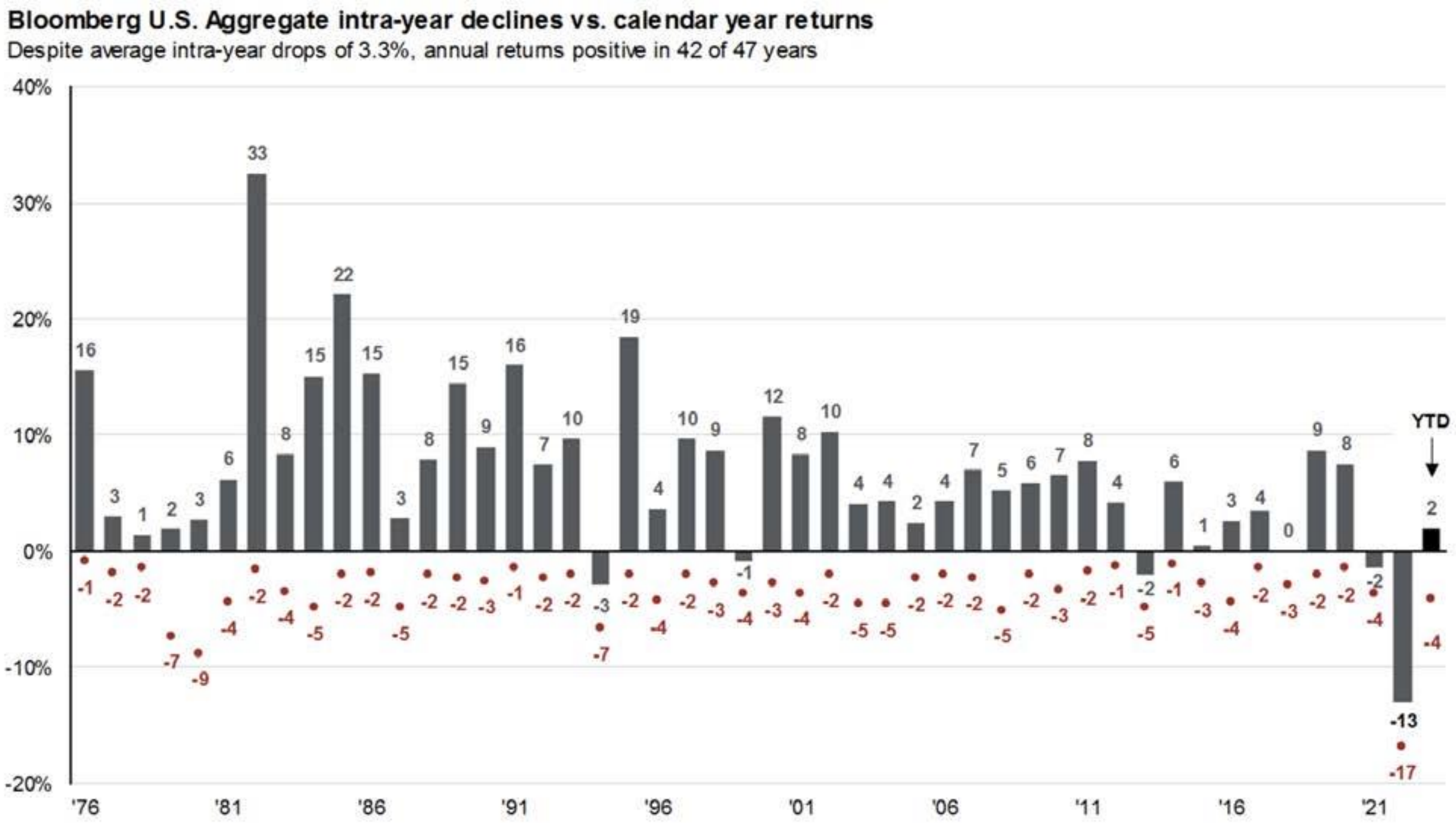
Guide to the Markets – U.S. Data are as of June 30, 2023.

AFTER A HISTORIC RISE, WHERE WILL INTEREST RATES NORMALIZE AND WHEN?

With the price of many investments directly or indirectly tied to interest rates, when, and at what level interest rates find their new normal is an important factor for investors and long-term planning.

2022 WAS AN EXTREME OUTLIER FOR BOND MARKETS

The swift and sudden return of higher rates lead to historical declines in the bond market in 2022, but with higher rates, bond markets are poised to play a meaningful role within portfolios again.



SOURCE: Bloomberg, FactSet, J.P. Morgan Asset Management.

Returns are based on total return. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1976 to 2022, over which time period the average annual return was 6.6%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterward.

Guide to the Markets – U.S. Data are as of June 30, 2023.

SOURCE: Capital Group, Bloomberg Index Services Ltd. As of May 31, 2023. Average forward two-year returns are annualized, based on each quartile of starting yield to worst. Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. Past results are not predictive of results in future periods.

FROM POORLY PRICED TO VERY ATTRACTIVE, BOND YIELDS ARE BACK

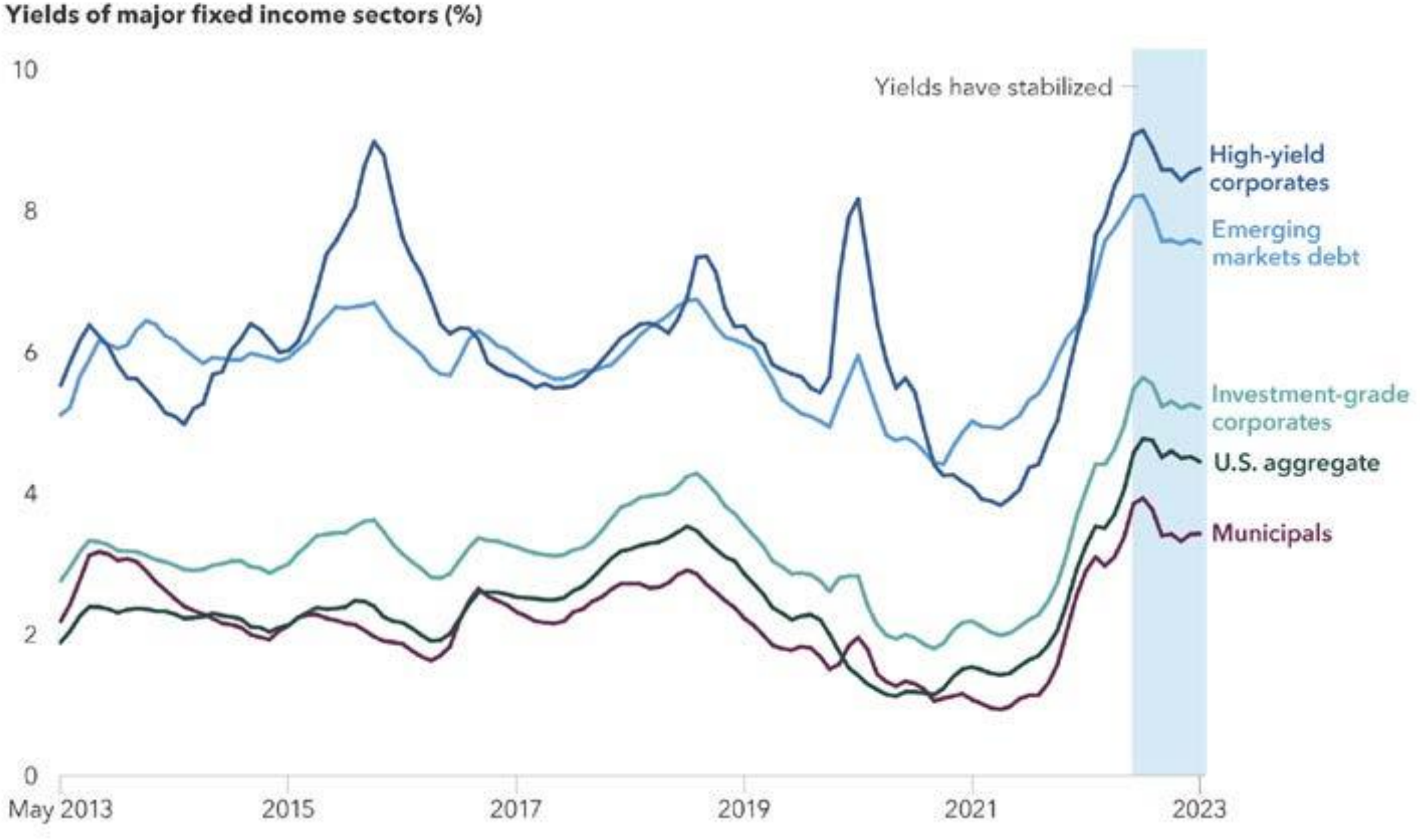
Higher rates have historically led to higher returns and income streams over time. Should rates fall within the coming years, it would only bolster returns (at least in the short term). Remember, bond prices move inversely to interest rates – when rates fall, values rise – the exact opposite of 2022.

INCOME STREAMS VARY BETWEEN AREAS OF THE BOND MARKET

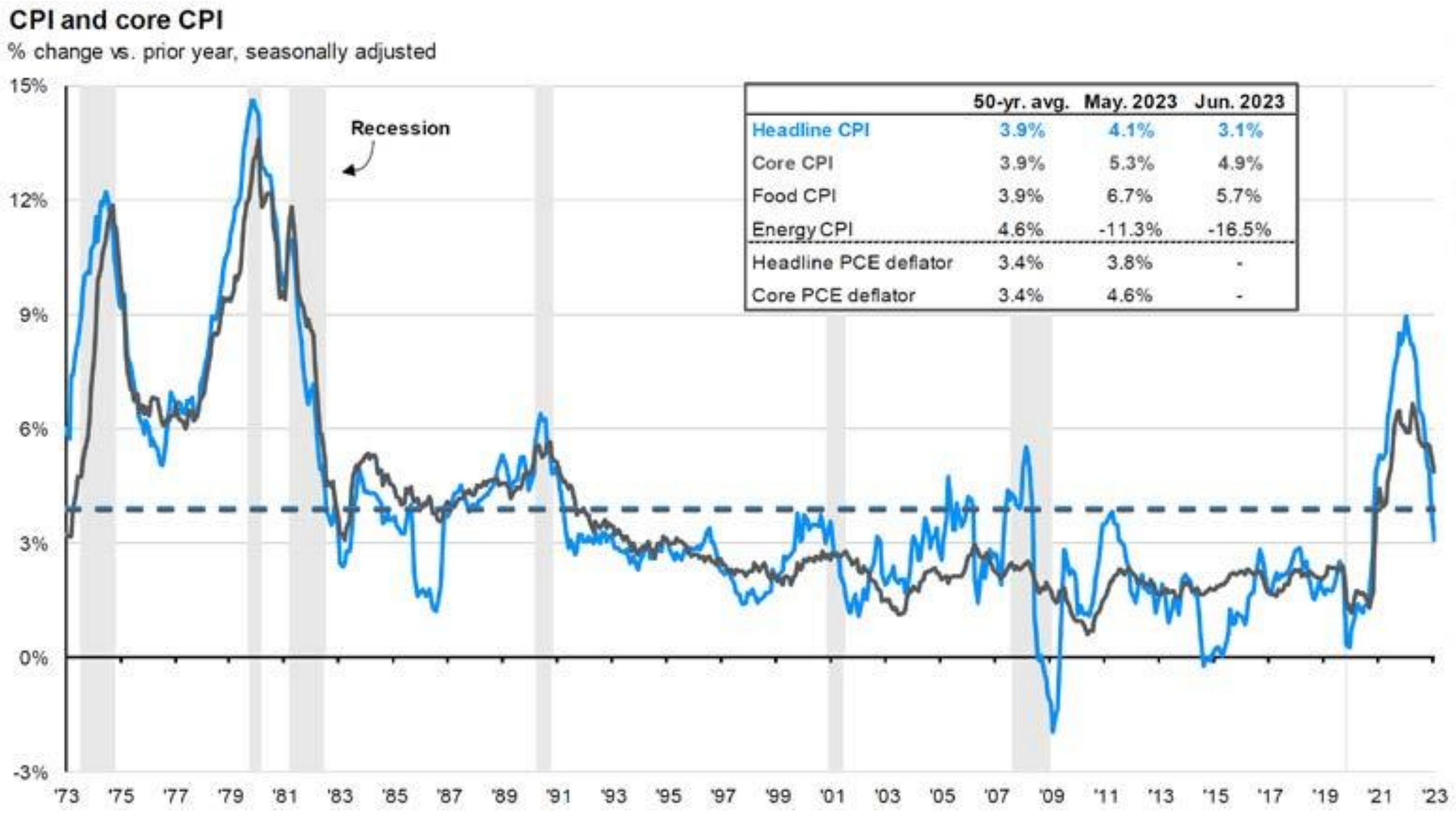
For the first time in a long time, higher risk bond markets, such as High-Yield Corporates and Emerging Market Debt, are generating attractive income streams in alignment with their risk profile.

To put this in perspective, in 2021, High-Yield Corporate bonds (higher risk bonds) were yielding less income than a 'risk-free' Treasury Bill yields today, which represents a complete reshaping of the bond world in less than two years.

Strong income may persist as bond yields stabilize at elevated levels



SOURCE: Bloomberg Index Services Ltd., RIMES. As of May 31, 2023. Sector yields above include U.S. aggregate represented by the Bloomberg U.S. Aggregate Index, investment-grade corporates represented by Bloomberg U.S. Corporate Investment Grade Index, high-yield corporates represented by Bloomberg High Yield Index, municipals represented by Bloomberg Municipal Bond Index and emerging markets debt represented by 50% J.P. Morgan EMBI Global Diversified Index/50% J.P. Morgan GBI-EM Global Diversified Index blend. Yields shown are yield to worst. Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. Past results are not predictive of results in future periods.



	50-yr. avg.	May. 2023	Jun. 2023
Headline CPI	3.9%	4.1%	3.1%
Core CPI	3.9%	5.3%	4.9%
Food CPI	3.9%	6.7%	5.7%
Energy CPI	4.6%	-11.3%	-16.5%
Headline PCE deflator	3.4%	3.8%	-
Core PCE deflator	3.4%	4.6%	-

SOURCE: BLS, FactSet, J.P. Morgan Asset Management.

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

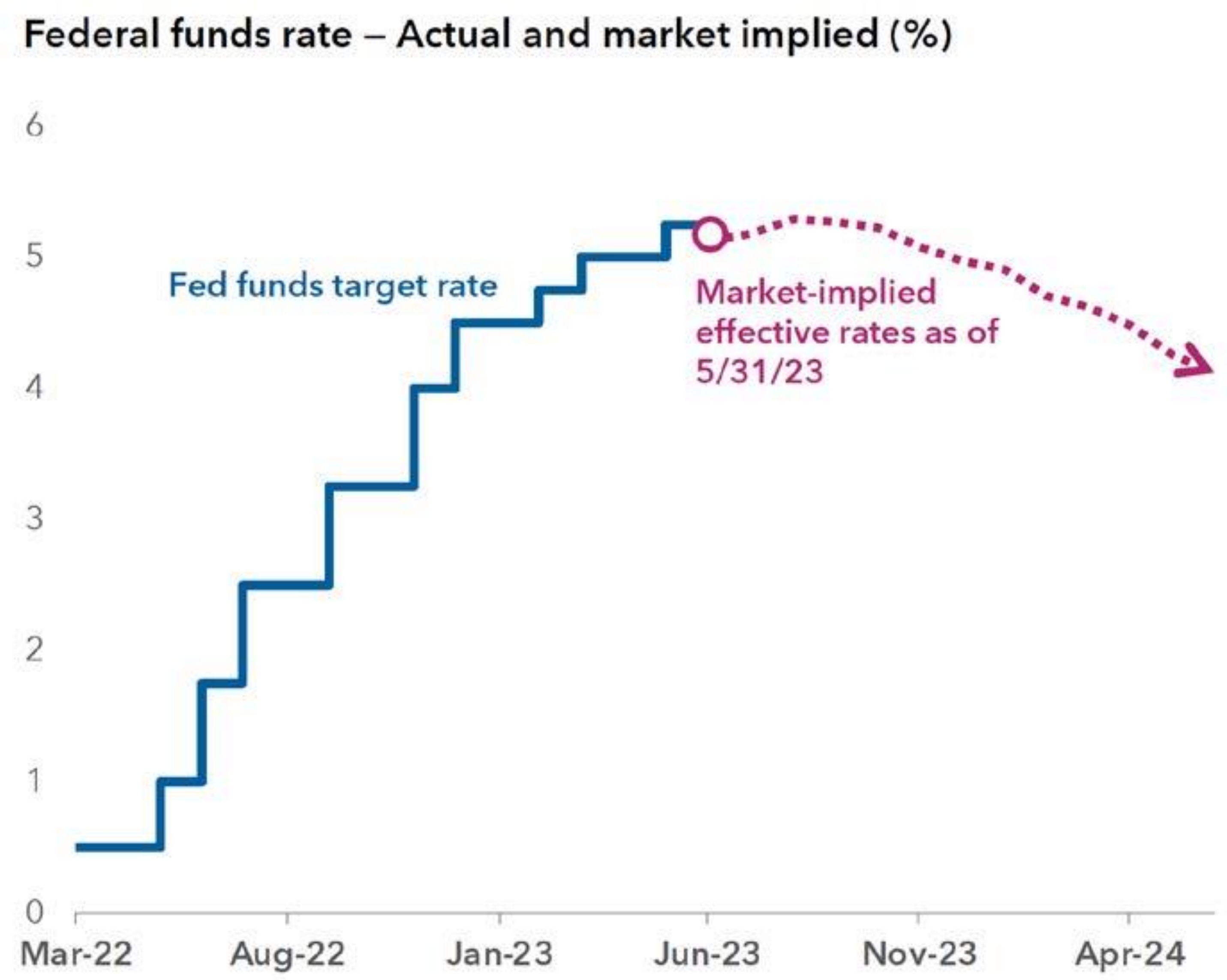
Guide to the Markets – U.S. Data are as of July 17, 2023.

INFLATION IS BEGINNING TO EASE

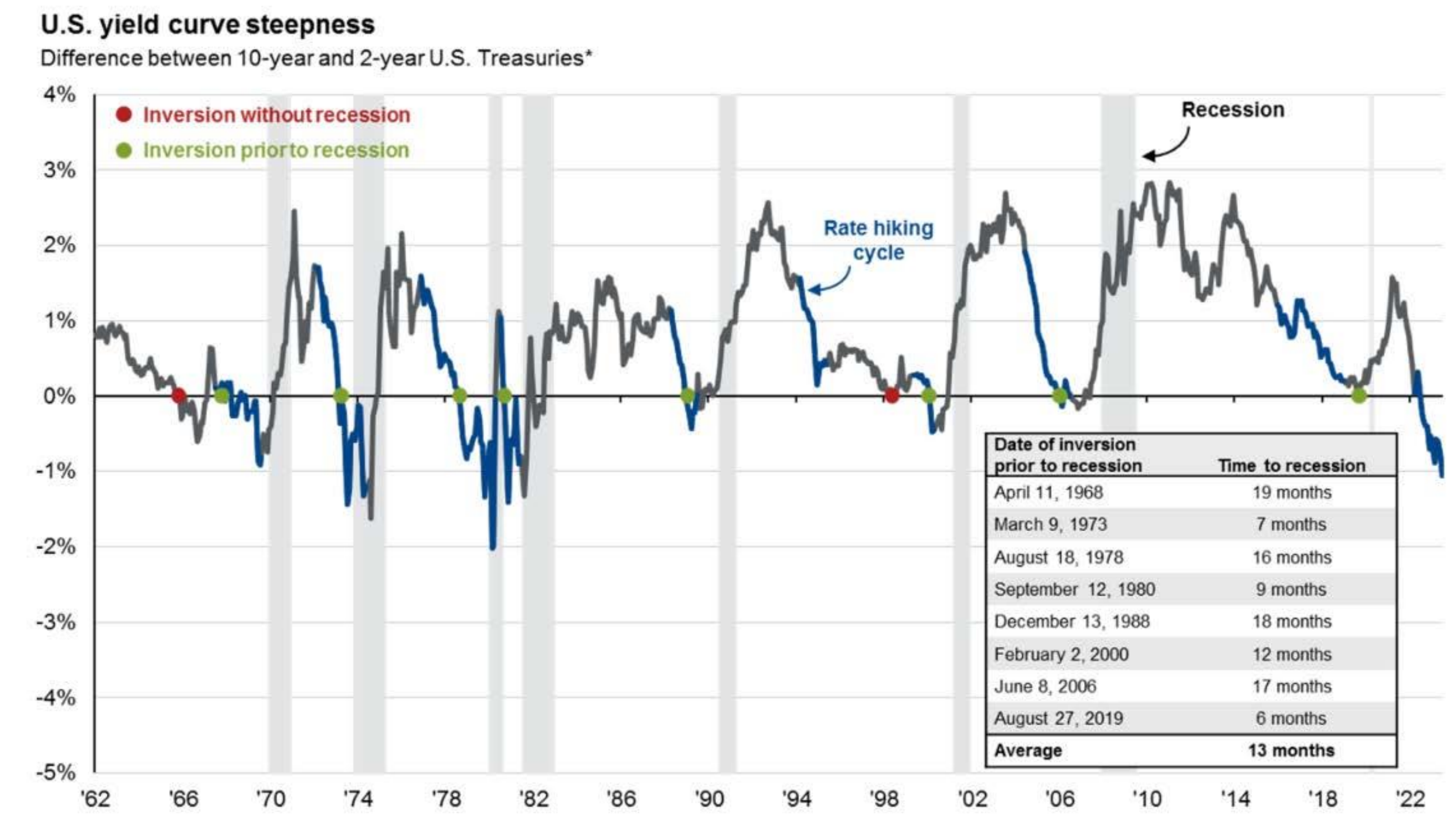
Inflation is beginning to ease, though in our opinion, overdue and much needed wage growth may support a higher new norm. Also, it’s been speculated that excess consumer cash has helped consumers afford the most recent bout of inflation, but as excess cash balances dwindle, it will be interesting to see if consumers are forced to change their spending habits. If so, will it further assist the Fed in their quest for 2% inflation?

HIGHER FOR LONGER

As much as many investors (and home buyers needing a mortgage) may crave a fall in interest rates, markets are forecasting that a "higher-for-longer scenario" is very much possible.



SOURCE: Capital Group, Bloomberg Index Services Ltd., Refinitiv Datastream, U.S. Federal Reserve. Fed funds target rate reflects the upper bound of the Federal Open Markets Committee's (FOMC) target range for overnight lending among U.S. banks. As of May 31, 2023.



Date of inversion prior to recession	Time to recession
April 11, 1968	19 months
March 9, 1973	7 months
August 18, 1978	16 months
September 12, 1980	9 months
December 13, 1988	18 months
February 2, 2000	12 months
June 8, 2006	17 months
August 27, 2019	6 months
Average	**13 months**

SOURCE: FactSet, Federal Reserve, J.P. Morgan Asset Management. *From January 1962 to May 1976, short-term bond is U.S. 1-year note, and from June 1976 onwards the short-term bond is the 2-year note due to lack of data availability. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession and the onset of recession. Guide to the Markets – U.S. Data are as of June 30, 2023.

Fun Facts:

- Almost 6 out of every 10 years the stock market has seen gains in excess of 10%.
- A little more than 1 out of every 3 years has experienced a return of 20% or more.
- Nearly 1 out of every 5 years was a 30% up year or better.
- Less than 1 out of every 10 years has seen a calendar year-end with gains in the 5% to 10% range.
- Around 1 of every 4 years has finished the year down.
- Roughly 1 out of every 8 years has been a double-digit down year.

U.S. YIELD CURVE AND RECESSIONS – IS A SOFT LANDING POSSIBLE?

Historically, an inverted yield curve combined with rising rate cycle has been a reliable precursor for a recession. If the Fed is able to prevail with their desired soft landing, it would be a historical accomplishment.

Keep in mind, since the summer of 1929, the U.S. economy has been in the midst of a recession for 188 months. That means we've been in a recession roughly 16% of the time over the past 90+ years.

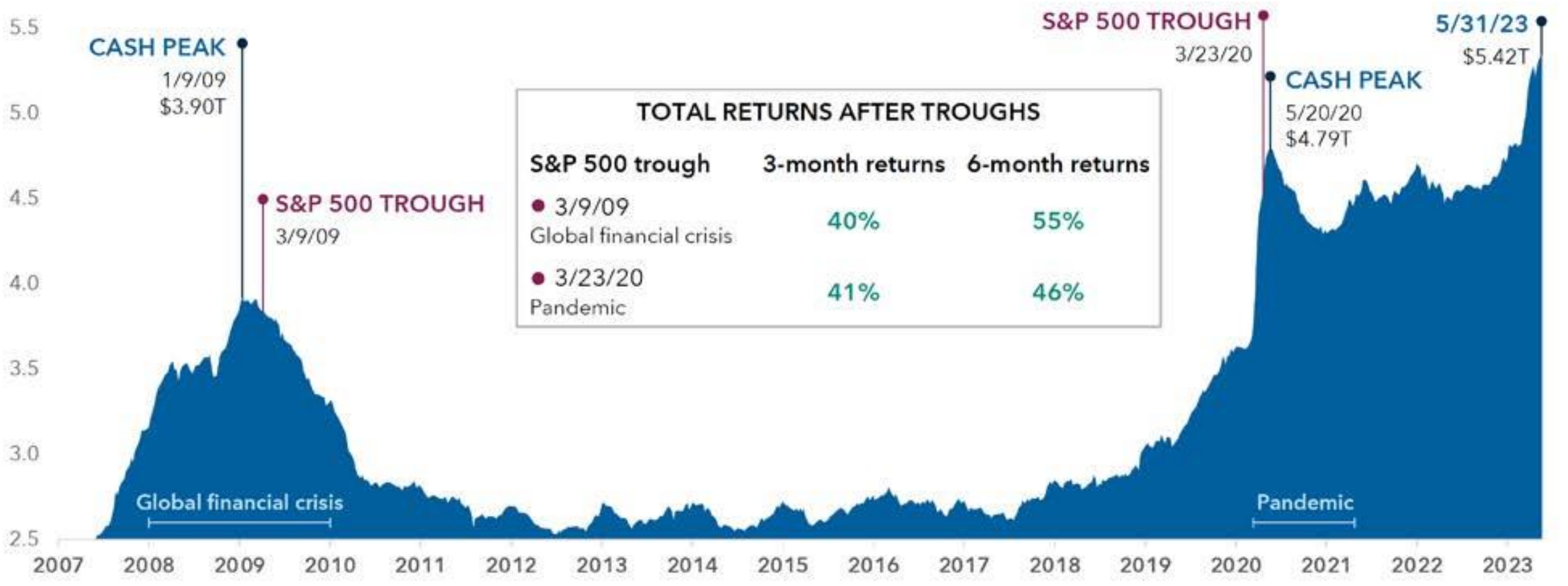
Alternatively, this means 84% of the time the economy is not in a recession and is thus in an expansion. In simple terms, the stock market goes up a lot more than it goes down.

WHAT'S UP WITH ALL THE CASH?

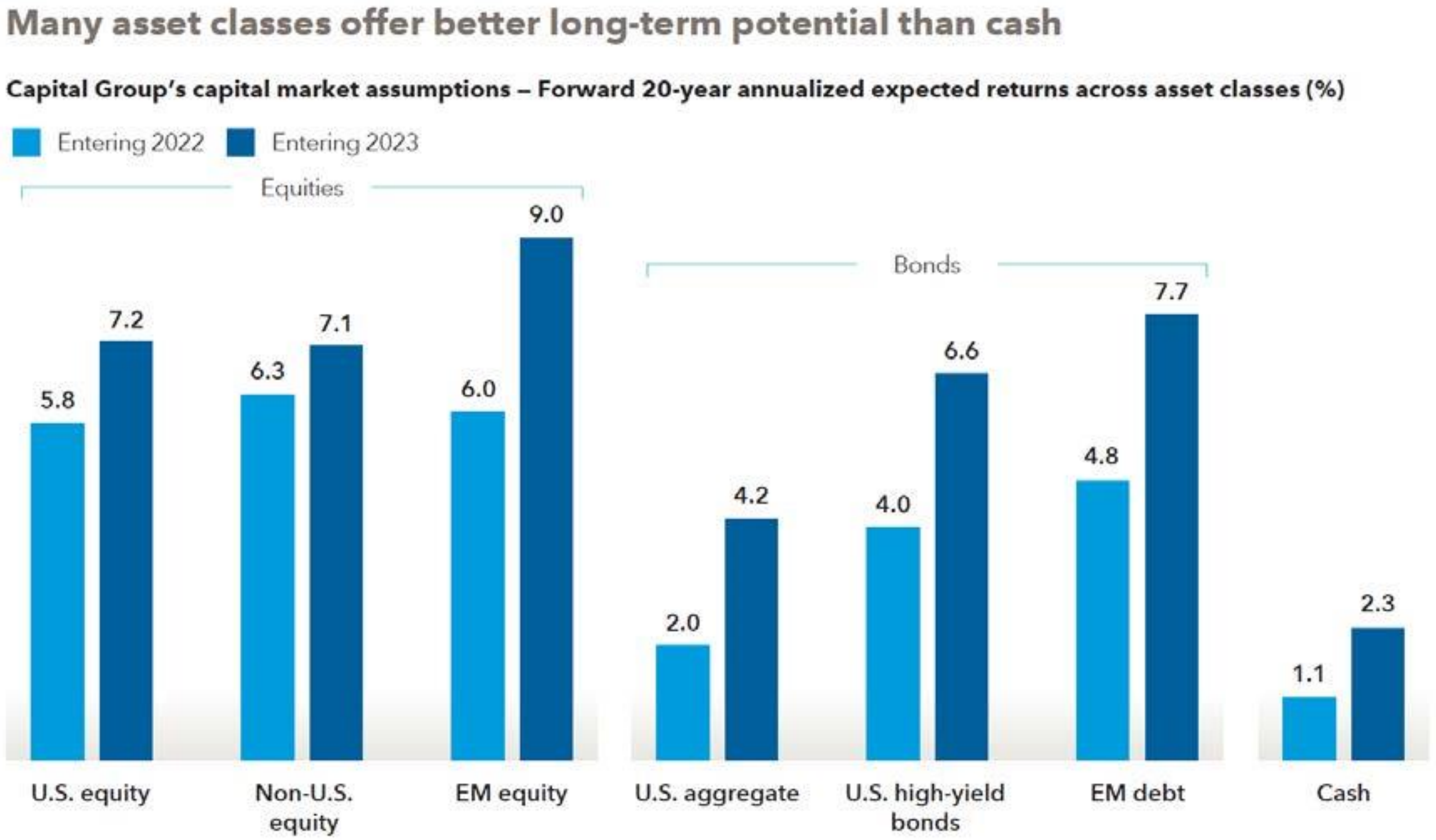
Cash peaks have typically coincided with market bottoms.

One of the arguments in support of an economic soft-landing relates to the amount of cash on the sidelines. In recent history, large cash balances have been associated with market lows and times of economic distress. It's possible these balances may help prevent any sort of major economic downturn.

ICI Money Market Fund Assets (USD trillions)



Sources: Capital Group, Bloomberg Index Services Ltd., Investment Company Institute (ICI), Standard & Poor's. "Cash peak" refers to peak levels of assets held in U.S. money market funds as reported by the ICI. S&P troughs reflect the date of the lowest value in the S&P 500 Index before a subsequent recovery. As of May 31, 2023. Past results are not predictive of results in future periods.



SOURCE: Capital Group. All asset classes reflect asset class proxy benchmarks used in Capital Market Assumptions (CMAs). All assumptions are for market asset classes only and are reviewed at least annually. These figures represent the views of a small group of investment professionals based on their individual research and are approved by the Capital Market Assumptions Oversight Committee. They should not be interpreted as the view of Capital Group as a whole. As Capital Group employs The Capital System™, the views of other individual analysts and portfolio managers may differ from those presented here. They are provided for informational purposes only and are not intended to provide any assurance or promise of actual returns. They reflect long-term projections of asset class returns and are based on the respective benchmark indices, or other proxies, and therefore do not include any outperformance gain or loss that may result from active portfolio management. Note that the actual results will be affected by any adjustments to the mix of asset classes. All market forecasts are subject to a wide margin of error. EM = emerging markets. EM debt is a blend of 50% emerging markets debt denominated in U.S. dollars and 50% emerging markets debt denominated in domestic currency.

CAPITAL MARKET ASSUMPTIONS HAVE IMPROVED

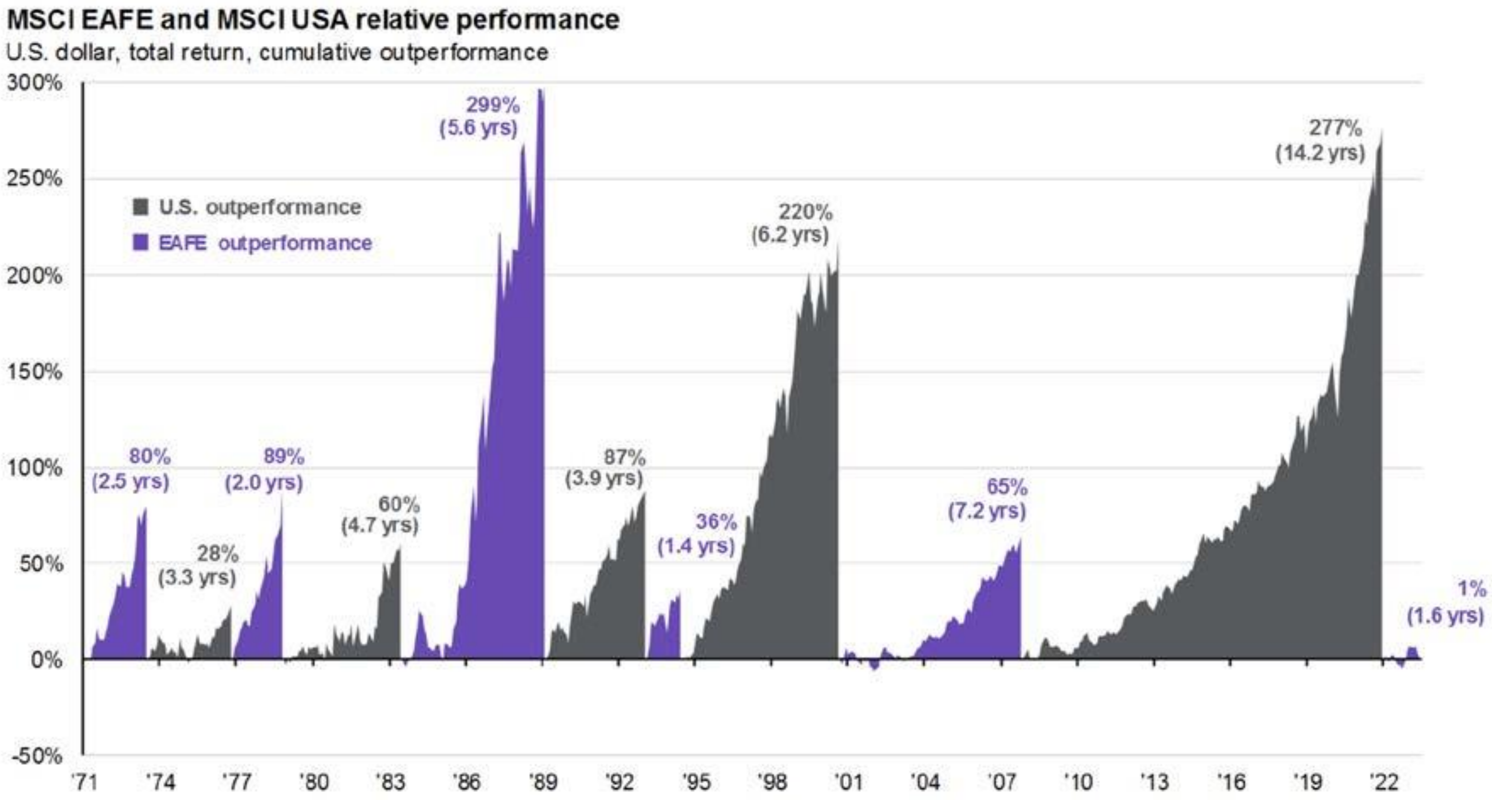
Forecasting is a difficult exercise, and Capital Group uses 20-year assumptions in contrast with many other firms that publish 5–10-year projections.

Either way, projected returns have improved across all major asset classes, and some quite dramatically.

ARE FOREIGN MARKETS POISED TO OUTPERFORM?

Cycles of U.S. equity outperformance:

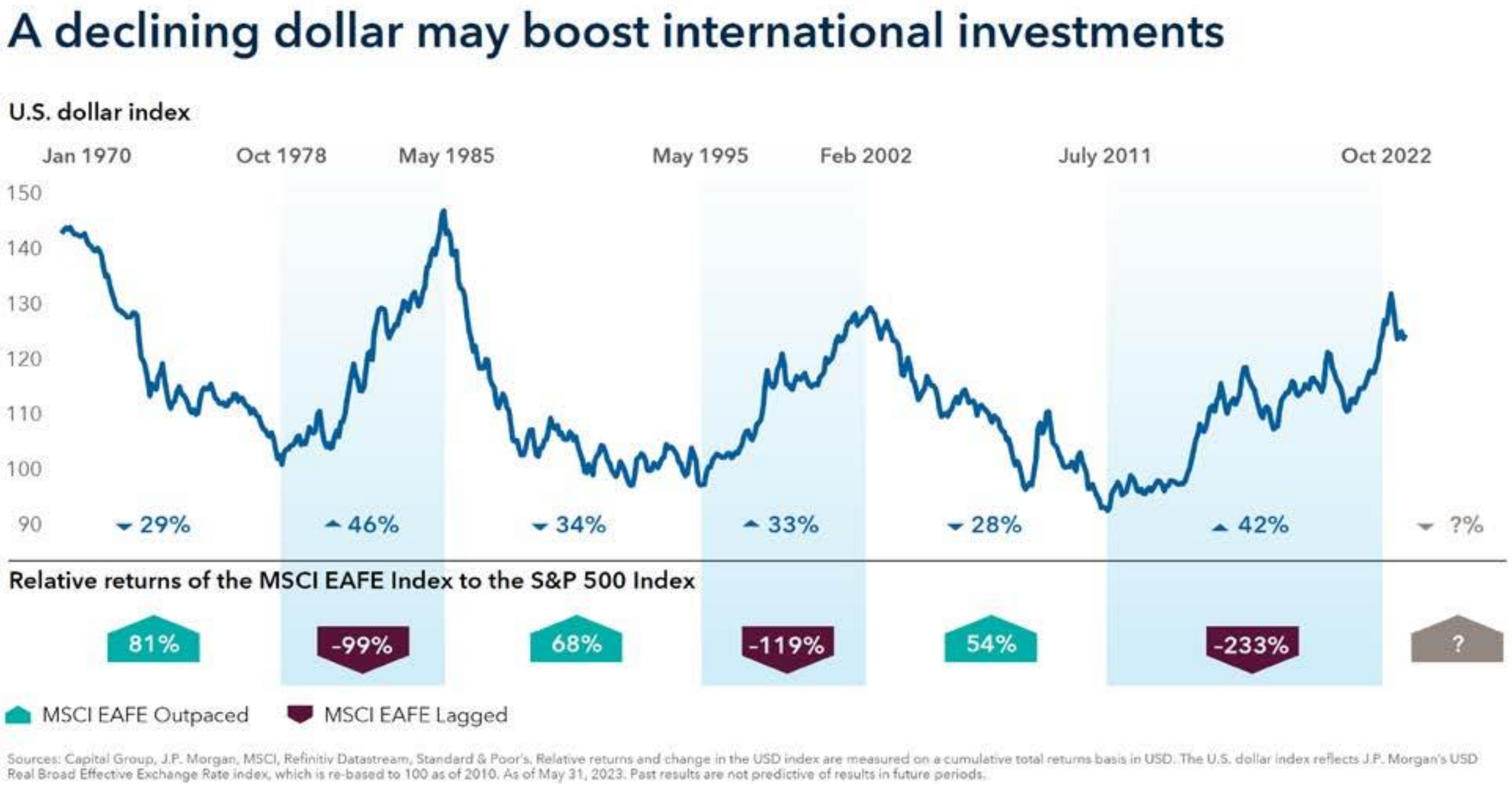
Over the past 50 years, there have been different cycles of U.S. vs. international outperformance. In other words, outperformance comes in waves. After a long period of U.S. outperformance, it is worth considering whether we may be transitioning to a new wave. The stars seem to be aligning for international markets to take the baton from the U.S. over the next decade, including: cheaper equity valuations, cheaper currencies and a combination of cyclical and structural investment themes than can help boost long-term returns.



SOURCE: FactSet, MSCI, J.P. Morgan Asset Management. Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period. Guide to the Markets – U.S. Data are as of June 30, 2023.

Fun Fact:

From 1970 through mid-2014, the cumulative returns of the S&P 500 Index and MSCI EAFE Index were nearly identical. It's only been since 2014 that the S&P 500 raced ahead, and in our opinion, it was largely attributable to two factors: US dollar appreciation & U.S. Tech supremacy, both of which we see facing potential headwinds in the years ahead.



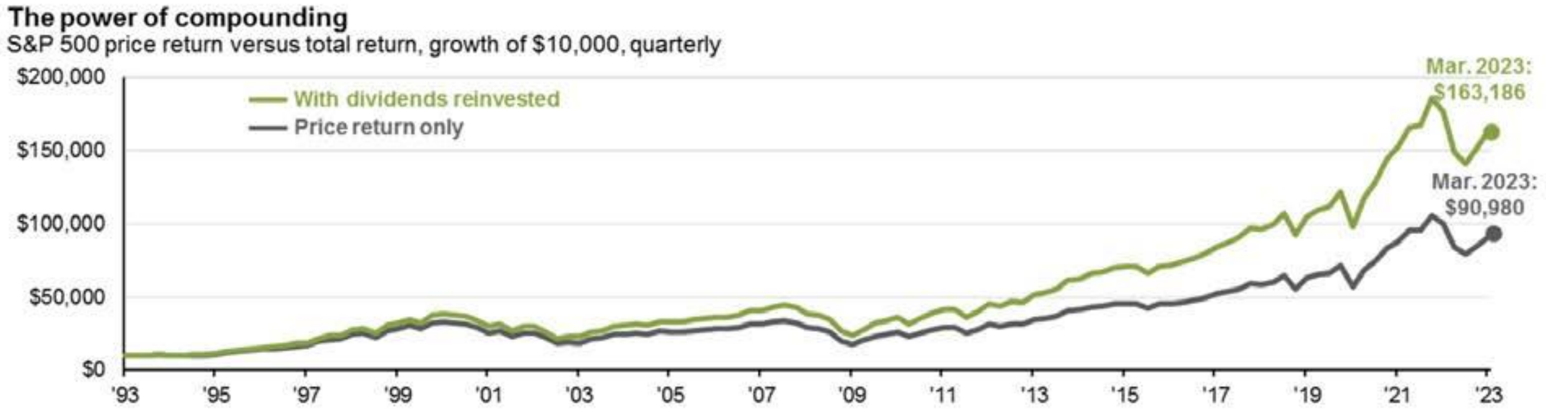
THE PUBLIC MAY OVERLOOK THE IMPACT OF A DECLINING DOLLAR

From Oct 2011 through Oct 2022, the U.S. dollar appreciated in value creating a headwind for foreign equities. If that cycle has begun to reverse, it may bode well for foreign holdings in the years ahead.

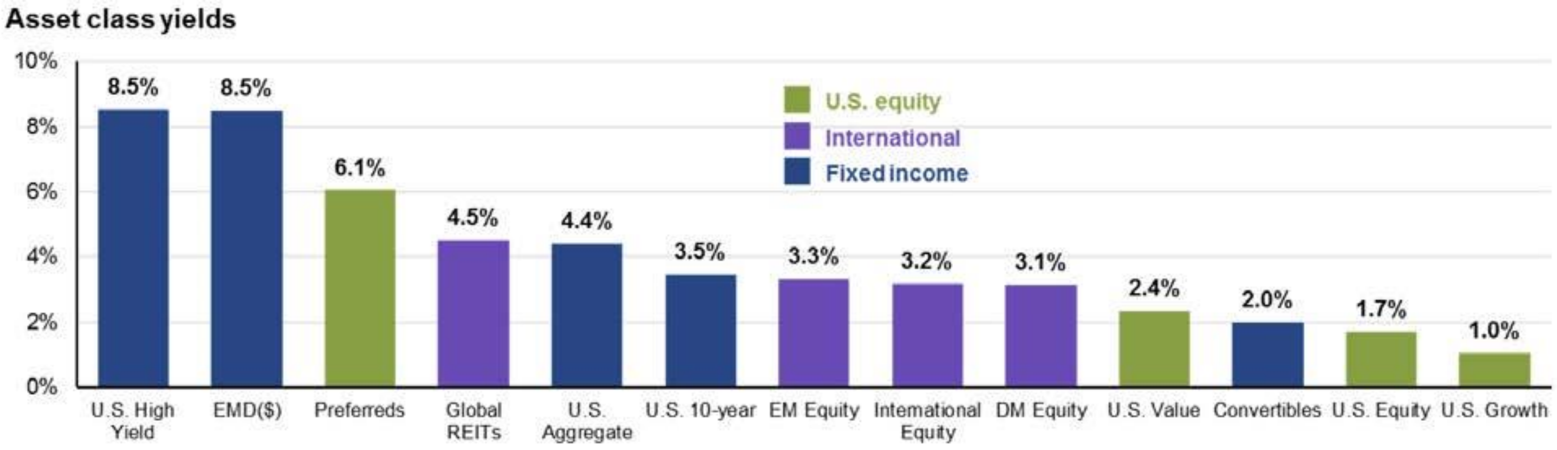
COMPOUNDING: THE EIGHTH WONDER OF THE WORLD

Notice how long it takes for compounding to begin to pull ahead, but once it does, how quickly the gap begins to widen. This approach takes patience but has a long history of rewarding those with discipline.

Whether someone is a saver in search of compounding or a retiree in need of income, foreign equities continue to generate higher dividend yields.



SOURCE: Ibbotson, Standard & Poor's, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of March 31, 2023.



SOURCE: Yields are most current. Preferreds: BAML Hybrid Preferred Securities; U.S. High Yield: Bloomberg US Corporate High Yield; Global REITs: FTSE NAREIT Global REITs; U.S. Aggregate: Bloomberg US Aggregate; EMD($): J.P. Morgan EMBIG Diversified; Convertibles: Bloomberg U.S. Convertibles Composite; International Equity: MSCI AC World ex-U.S.; EM Equity: MSCI Emerging Markets; DM Equity: MSCI EAFE; U.S. Equity: S&P 500; U.S. Growth: Russell 1000 Growth; U.S. Value: Russell 1000 Value; U.S. 10-year: Tullett Prebon. Positive yield does not imply positive return. Guide to the Markets – U.S. Data are as of June 30, 2023.

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