

FORD WEALTH MANAGEMENT LLC

Independence · Integrity · Insight

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"It is not given to human beings – happily for them, for otherwise life would be intolerable – to foresee or to predict to any large extent the unfolding course of events." -Winston Churchill, eulogy for Neville Chamberlain

"Meet the new boss, same as the old boss." -Lyrics to "Won't Get Fooled Again" by the Who, written by Pete Townsend

Fellow Investors:

First things first. This letter is not being written by a chatbot, but the old-fashioned way with human intelligence (purportedly). In my nearly forty years of post-education work experience, I do not think I can remember a time when the "experts" had such a divergence of views on what is coming next given the current environment. While that may be a testament to my memory, there is an abundance of differing opinions, some wildly so, as well as more than a few pundits stealthily modifying their prognostications, hoping we do not notice. As mentioned before, we are coming out of an unusual set of circumstances, some of which are self-inflicted. But first, let's review the immediate past.

For the quarter ending June 30, 2023, the S&P 500 rose 8.30% leading to a year-to-date gain of 15.9% and a total return of 16.9%. This contrasts with a first half decline of 20.6% in 2022. As a reminder, the S&P 500 declined 19.4% (total return including dividends was a loss of 18.1%) for the full year 2022. The return year-to-date for the index has been largely driven by seven big tech names. As the S&P 500 is capitalization weighted, these very large seven stocks comprise 27.7% of the overall index. To press this point, an equal-weighted S&P 500 index only returned 7.03% for the first half of 2023. Other equity markets also had positive returns for the first half with developed markets returning 12.1% as measured by the MSCI EAFE and small caps returned 8.1% as measured by the Russell 2000.

In fixed income there was also a reversal from last year's once in a lifetime (hopefully) deterioration in the bond markets as a result of the Fed's somewhat late attack on inflation. In 2022 the Fed's target Fed Funds rate went from 0.25% to 4.50% over the course of the year and has since been raised to 5.25%. This drove the two-year treasury rate from 0.78% at the end of 2021 to 4.41% at the end of 2022. It has edged up a bit along with Fed moves in 2023 to 4.87%, but the increases have slowed as the Fed is expected to be close to ending their rate increases. A survey of the Fed's rate setting committee results in an expectation of 5.6% as the peak, while the market expectation estimates the peak at 5.38%.

The recent inflation release for the twelve months ending June of 3.0% has been very well received by the markets. A year ago, inflation was raging at 9.1%. Now the Fed may like to give credit for this to the rate hikes, but it is notable that the money supply (M2) is down 4.1% for the year contrasting to the 13.5% increase from the beginning of 2021 to the inflation rate peak.

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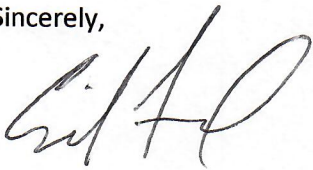
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Longer term interest rates have also moderated their increases. During 2022, the ten-year treasury rate went from 1.63% to 3.88% and finished the first half of 2023 at 3.81%. This rate is a key rate for the economy as it is a guidepost for consumer credit, including mortgages. It may be a long time before we see sub 3.0% mortgages again.

Talk of the “inevitable” recession seems to be moderating based on our informal observations of the comments of so-called “experts”. There is a lot of prediction hedging going on as the economy continues to grow, although anemically, but still growth nonetheless. Unemployment remains low at 3.6%, exactly where it was a year ago. The labor force participation rate has edged up to 62.6% but has essentially held steady for the last twelve months. There is more and more talk of the Fed landing that elusive “soft landing”. Of course, the Fed seems determined to thwart that with more rate increases. In June the Fed did not increase rates for the first time since March 2022. From all indications, they paused but intend to raise one or two more times. We have not experienced the speed and degree of interest rate increases that the Fed has orchestrated over the past year and a quarter in a long time, if ever. There is something to be said about giving what they have done a chance to sink in.

The economy needs time to absorb and adjust to these changes. It is not necessarily the level of rates that is disruptive, but the speed of change and uncertainty over the policymakers’ end game. We have had periods of very good economic performance during interest rate and inflation environments we now find ourselves. The missing component is certainty. Economic decisions are made difficult with uncertainty. Decisions on investing, hiring, capital spending, etc. are all made with greater confidence when there is a more certain outlook, not only as to interest rates and inflation, but also taxation, regulations, and global crises. While we have our share of other issues to be concerned about, it seems that interest rates and inflation concerns are driving the bus for now. Let’s all hope the bus does not crash.

Sincerely,



Erik Ford

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

The MSCI EAFE Index serves as a performance benchmark for the major international equity markets and includes companies in 21 countries in Europe, Australasia, and the Far East (East Asia).

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The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

M2 is the U.S. Federal Reserve's estimate of the total money supply including all of the cash people have on hand plus all of the money deposited in checking accounts, savings accounts, and other short-term saving vehicles such as certificates of deposit (CDs).

Index return data from JP Morgan Asset Management and YCharts. Indices mentioned are not managed and cannot be invested in directly.

Treasury yield data from YCharts.