PORTFOLIO REVIEW

Q2 2023

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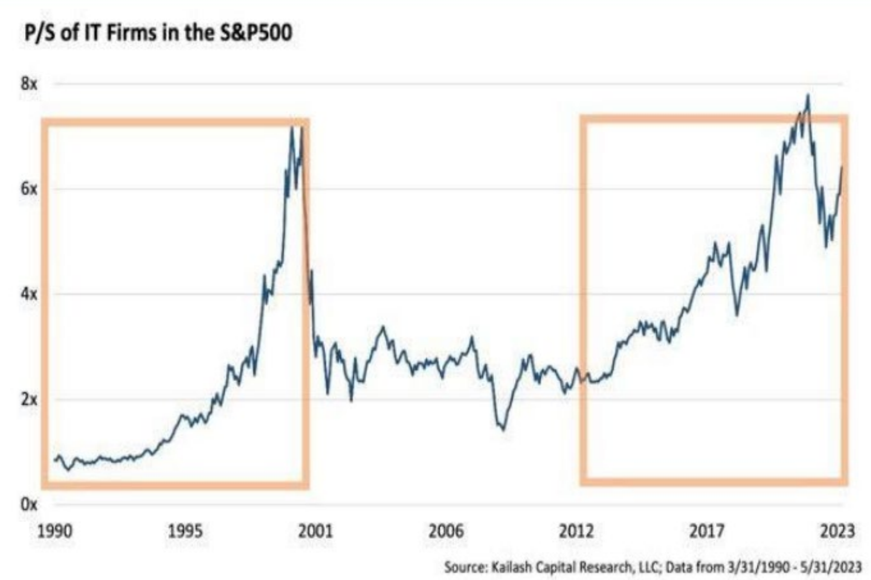
ECONOMIC AND MARKET OUTLOOK

The market volatility witnessed in Q1 of this year eventually settled down as the banking crisis appeared contained, with stocks then marching higher during Q2 2023. The stock rally has thus far though been led by a select few mega-cap tech (AI-related) stocks. Although also posting positive returns, international stocks (both developed and emerging markets), value stocks, and bonds were the laggards during Q2.

It is noteworthy that the recent mega-cap equity returns have been largely driven by a rise in price-to-earning (p/e) and price-to-sales (p/s) multiples as shown in the graph below.

Price-to-sales ratios are approaching historic high levels



In other words, as graph shows, the mega-cap tech sector has become abnormally expensive. This matters because over the long term, equity returns are driven largely by growth in real corporate profits (higher sales and earnings). So, unless future earnings rise more than the current lofty expectations (possible but unlikely), periods like this with abnormally high p/e and p/s ratios are typically followed by lower-than-average market returns in months ahead. We'll have to wait and see how things unfold this time. For now, however, our rigorous evidence-based process leads us to favor the long-run probabilities as history suggests and lean away from expensive sectors of the market.

On the economic front, the U.S. economy has proven to be more resilient than many (including us) anticipated. Higher interest rates and the sudden failure of two US banks (Silicon Valley Bank and Signature Bank) in March have not yet led to the anticipated slowing of economic growth. Inflation on the other hand has been slowing this year, coming down from over 9% last year, now running at an annual rate of just over 4%. We expect inflation to continue to fall in the coming months along with a slowing of the economy.

Moving into the second half of 2023, the economic forces still appear titled against global capital markets. Here we observe that when rates have risen in the past, the resulting impact on markets and the economy typically occurred with a lag of between 12-18 months. Viewed in this way, the market may still be overly confident in the ability of central banks to engineer positive outcomes.

Perhaps the Fed will accomplish their goal of an economic "soft landing" and earnings will remain strong. The accumulated evidence however suggest that the Fed tightening will increasingly weigh on global economic activity, as it has in the past, prompting global growth and inflation to continue slowing. As we've argued in prior letters, overall risks remain to the downside.

For now, we think the market is a bit too optimistic and so we maintain our defensive posture in the face of heightened uncertainty. Should a violent repricing of the markets occur, we will be well-positioned to rotate into an attractive opportunity. That is, we prefer to patiently wait for a so-called "fat pitch" where the odds favor a better return for the risk taken.

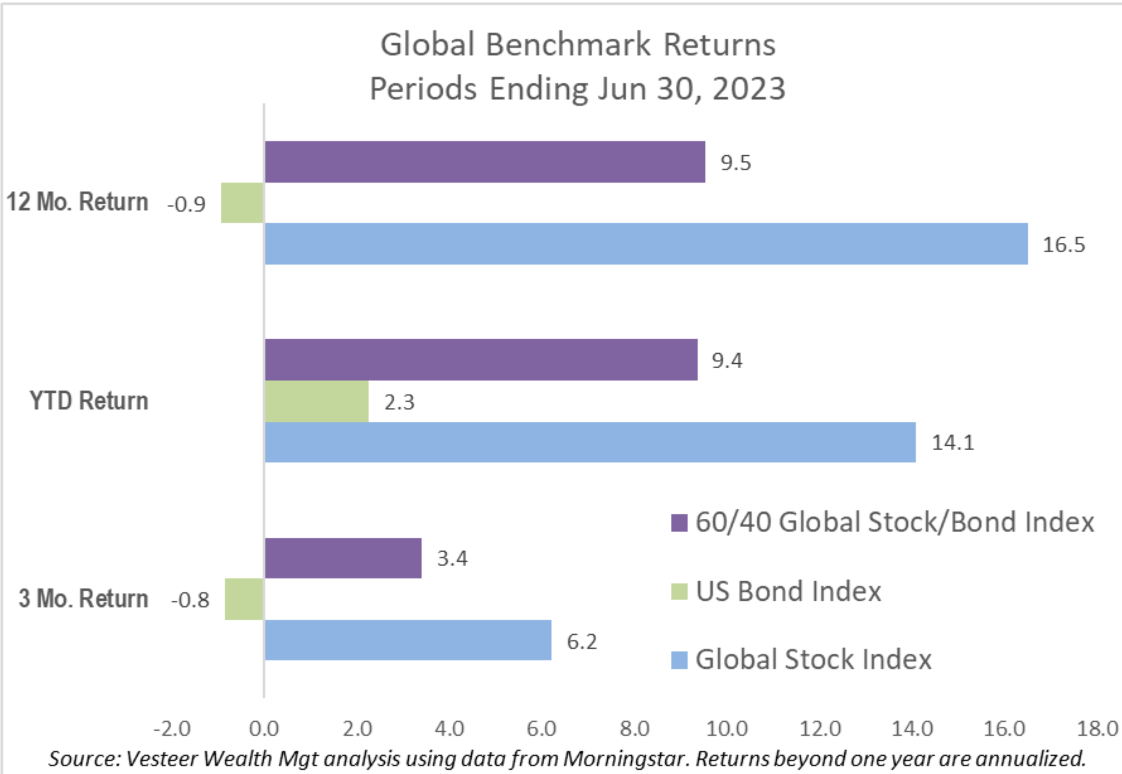
In the meantime, our strategy is to hopefully continue to provide some upside return while offering downside protection should a recession unfold in the coming months. We take seriously our responsibility to help our clients grow and preserve their wealth over the long term and will adjust accordingly should our outlook change.

VESTEER PORTFOLIOS

Given this backdrop, Vesteer client portfolios continue to favor a defensive posture with a focus on higher-quality stocks and bonds. This approach should allow our portfolios to continue to participate in any market upside while hopefully mitigating downside risks. There are no guarantees in markets, of course, but as we've discussed, this strategy has worked well across a variety of market environments historically, like during last year's market downturn.

During Q2, risk assets have been in rally mode pushing global stocks higher. For 2023 YTD, the MSCI ACWI (All Countries World Index) is up 14.1%, while bonds, as measured by with the Bloomberg Barclays Bond Index, have gained 2.3%. The YTD 2023 total return of our usual 60/40 stock/bond benchmark portfolio is 9.4% while the 50/50 stock/bond portfolio is higher by 8.2% YTD.

Figure 2: Global Benchmark Returns



The portfolios shown are hypothetical portfolios and do not necessarily represent any actual Vesteer portfolio or strategy. The results are hypothetical and are not an indicator of future results and do not represent returns that any investor might actually achieve. Indexes are unmanaged, do not reflect management or trading fees, and one cannot invest directly in an index. Purchases are subject to suitability. This requires a review of an investor's objective, risk tolerance, and time horizons. Investing always involves risk, whenever you invest you are at risk of loss of principal as the market fluctuates. Past performance is not indicative of future results.

Vesteer client portfolios have also increased this year, but less so than our usual 60/40 stock/bond benchmark. Depending on chosen risk profile, Vesteer client portfolios report total returns of between 2.0% and 6.8% YTD, falling behind our typical 60/40 benchmark after subtracting advisory fees and fund expenses. As discussed in our prior report, the slightly lower relative return so far this year for Vesteer portfolios comes from our defensive posturing versus the benchmark. We are taking risks, but doing so prudently

Our strategy takes a long-term view by gently adjusting our long-term strategic global diversified portfolio over the medium- to long-term towards areas of the market we view as potentially offering the best return for the risk taken. Our goal is to both grow and preserve your wealth over the long term.

Though we spend a majority of our quarterly updates on a market review and outlook, it is important to note that we also seek to add value by going beyond managing your investment portfolio to fully support all of your financial planning needs. Please reach out to us if we can ever be of service to your long-term financial success.

As always, thank you for your trust. We hope everyone had a wonderful 4th of July Holiday!

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