MARKET UPDATE

AUGUST 7, 2023

We end the month of July on the heels of investor optimism. The economy and market indices have proven resilient, while inflation cools and interest rates have risen. Such a dynamic of controlling inflation coupled with a growing economy in the absence of meaningful increases in unemployment defines the *soft landing* scenario hoped for by the Federal Reserve. Market participants have begun to wonder whether this desired scenario may come to fruition.

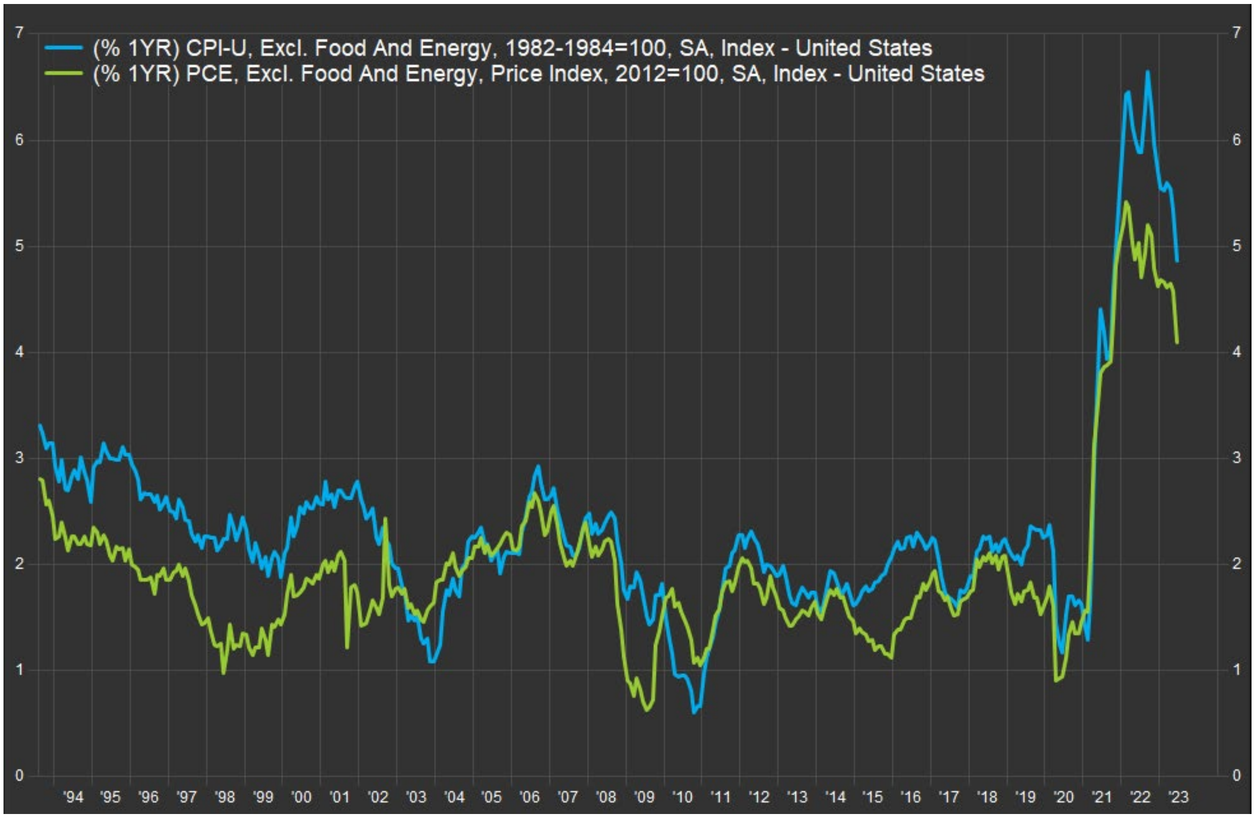
Index returns were strong over the month, particularly when considering the already sizable year-to-date gains seen through the end of June. The Dow Jones Industrial Average gained 3.44%, the Nasdaq 4.08%, the S&P 500 3.21%, and the Russell 2000 6.12%. July's gains represent the fifth month in a row of positive returns for the S&P 500 and Nasdaq Composite, driven in large part by significant index concentrations in the *Magnificent Seven* (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla). While the S&P 500 and Nasdaq Composite are up considerably in 2023, these indices have demonstrated concerning volatility in the post-pandemic period, having fallen 18.11% and 32.54% in 2022, respectively. Conversely, fixed income yields increased, with the 10-Year US Treasury settling at 3.97%, up 14 basis points from the month prior as the Federal Reserve hiked rates another 25 basis points to a range of 5.25% - 5.50%.

MAJOR STOCK INDEXES		
Index	***July %***	***YTD %***
S&P 500	3.21%	20.65%
S&P 500 Equal Weighted	3.46%	10.73%
Russell 1000 Growth	3.37%	33.36%
Russell 1000 Value	3.52%	8.82%
Dow Jones 30	3.44%	8.55%
NASDAQ	4.08%	37.71%
Russell 2000 (Small-Cap)	6.12%	14.70%
MSCI EM (Emerging)	6.29%	11.71%
MSCI EAFE (Developed)	3.25%	15.77%
Barclays Agg Bond	-0.07%	2.02%
Municipals (10 Year)	0.45%	2.62%

Source: FactSet

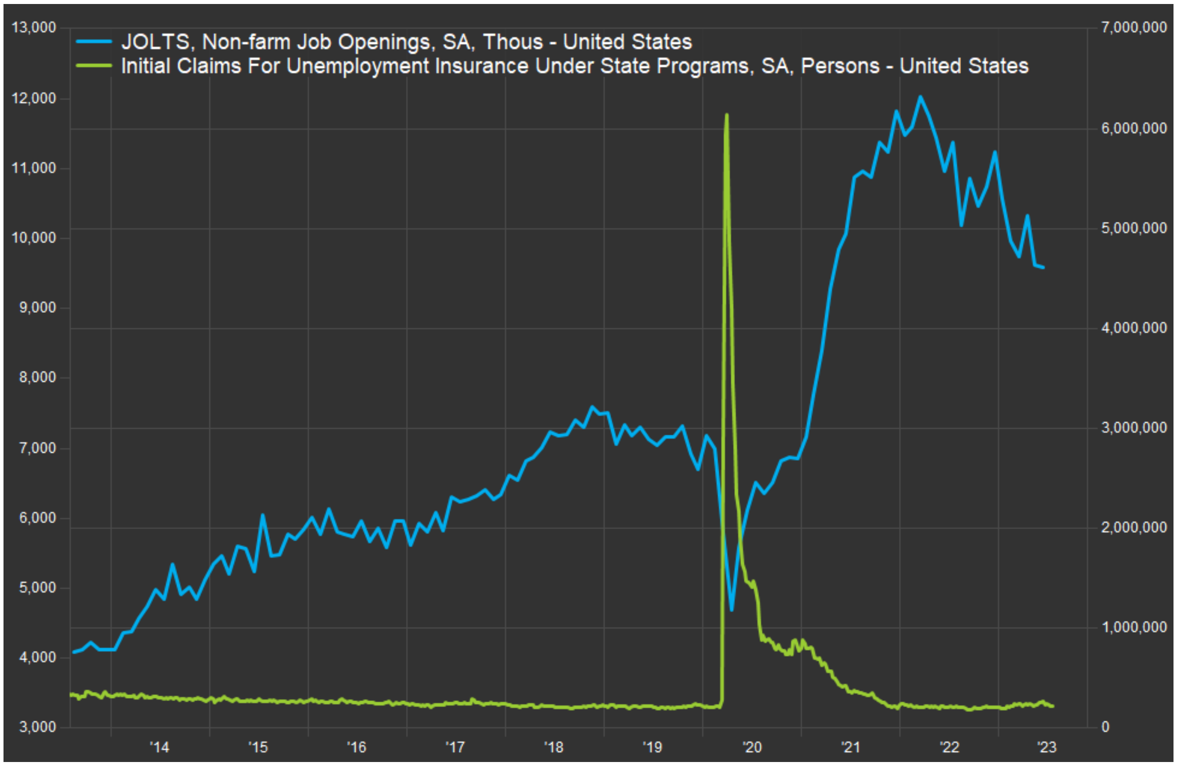
Despite rising interest rates, economic data similarly demonstrated resilience. GDP rose 2.4% sequentially in the second quarter, beating consensus predictions of 1.5% and up from 2.0% the quarter prior. Preliminary durable goods orders, a measure reflecting purchases of products with greater longevity, saw a 4.7% month-over-month increase in June while consensus was 0.5%. To the delight of consumers and the Federal Reserve, inflation has eased notwithstanding the positive and growing economic landscape. The Consumer Price Index grew 4.86% year-over-year in June while the Personal

Consumption Expenditures Index, the Federal Reserve's preferred inflation gauge, grew 4.10%. Both figures are down meaningfully from their post-pandemic highs.



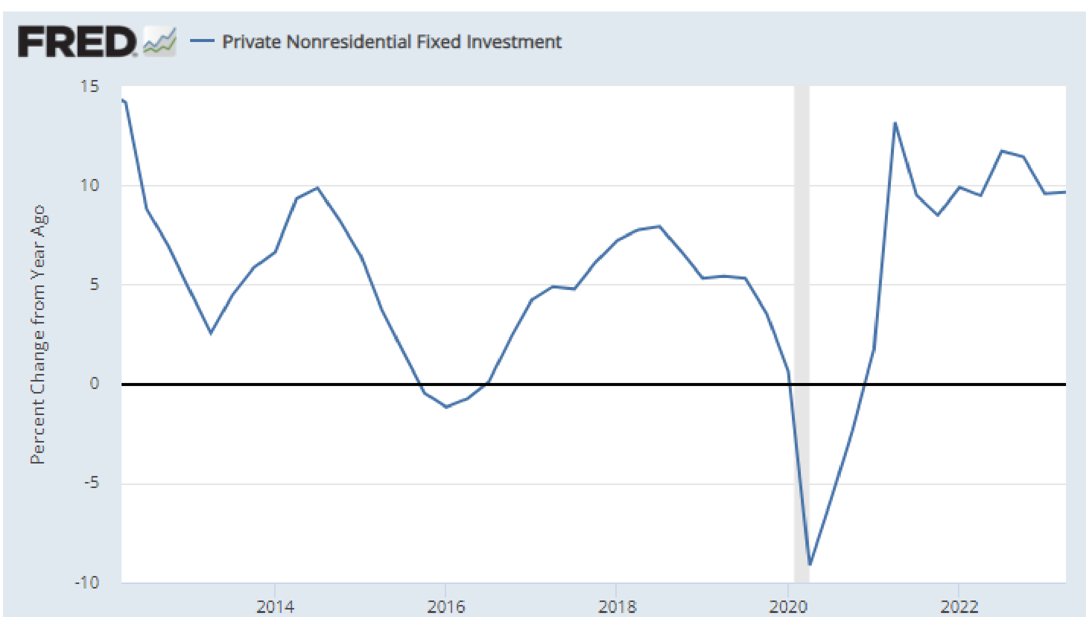
Source: FactSet

This cooling of inflation seems inconsistent with monetary theory that links downward pressure on prices to rising unemployment. Interestingly, while unemployment has remained stubbornly low, job vacancies have been declining. The June unemployment rate ticked down to 3.6%, remaining near historic lows, and initial claims ending the week of July 22nd came in at just 221,000. Meantime, JOLTS non-farm job openings peaked in March of 2022, the month the Federal Reserve began its rate hiking campaign, and has steadily trended down since. Could this dichotomy amount to threading the needle of a soft landing?



Source: FactSet

Corporate earnings calls increasingly point toward the soft landing scenario. Barron's reports that mentions of a soft landing on second quarter earnings calls are up 97% from the quarter prior. This is bolstered by an increase in consumer confidence, which ended the month of July at 117, its highest since before interest rate hikes began. Additionally, corporations seem to be acting out this sentiment. Private nonresidential fixed investment, a proxy for U.S. capital expenditures, was up 9.6% year-over-year in the second quarter, implying faith in the strength of the economy for the quarters and years ahead.



Source: Federal Reserve Bank of St. Louis

Various schools of thought exist regarding the drivers of easing inflation. For one, the supply and demand imbalance that resulted from unprecedented global lockdowns coupled with unprecedented fiscal stimulus has eased. Many economists argue that restrictive monetary policy avoided demand growth that likely would have existed absent interest rate hikes. Finally, the Federal Reserve's rate hikes, coupled with Fed Chairman Powell's hawkish tone, may have successfully tempered inflation expectations that could otherwise have led to a wage-price spiral. The extent to which these factors are responsible for the cooling inflation we see is up for debate.

We welcome the prospect of a soft landing for the economy. If achieved, the Federal Reserve would manage to pull off what many economists believe has only happened once in the history of eleven tightening cycles dating back to 1965. But despite the current desirable market and economic backdrop, downside risks remain. Inflation may retrace to higher levels in the event of surging commodity prices or supply shocks. The Federal Reserve may fail to accurately incorporate what Milton Friedman called the "long and variable lags" between monetary policy and its economic impact.

The uncertainty surrounding the hard or soft landing scenario and market outcomes more broadly underpins the importance of strategic asset allocation ranges in portfolios. Portfolio positioning that is too conservative in the short-term runs the risk of underperformance should a positive outcome present itself. Too aggressive and a portfolio may more fully participate in the downside. At Seacoast Wealth Management, we monitor headwinds and tailwinds at the asset class, sub-asset class, and individual security level, developing a firm-wide strategic allocation and incorporating this into portfolios as determined by investment horizon, risk tolerance, and other client-specific factors.

We are grateful for the opportunity to work with you. Please reach out to your Seacoast Wealth Management team with any questions.

to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.