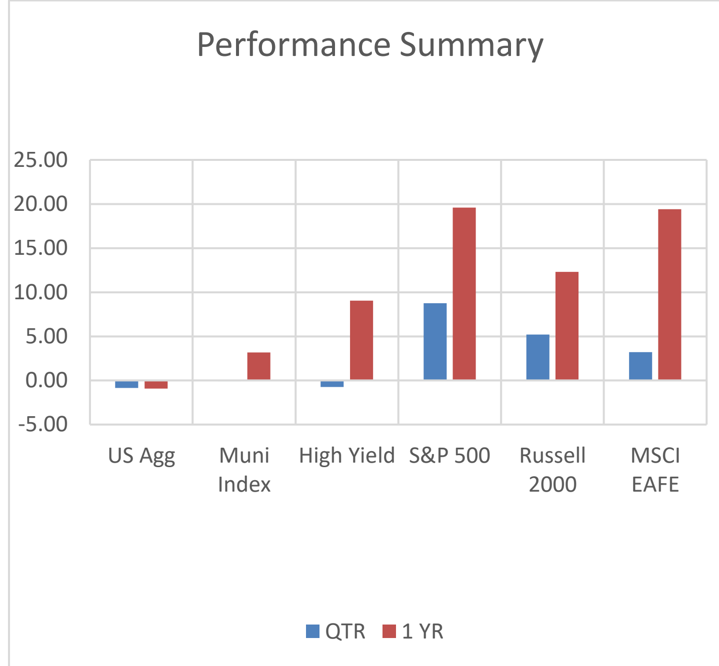
Bolstered by robust gains in June, global and U.S. stocks delivered strong returns in the second quarter. Bonds in the U.S. pulled back in June and declined for the quarter but maintained year-to-date gains.

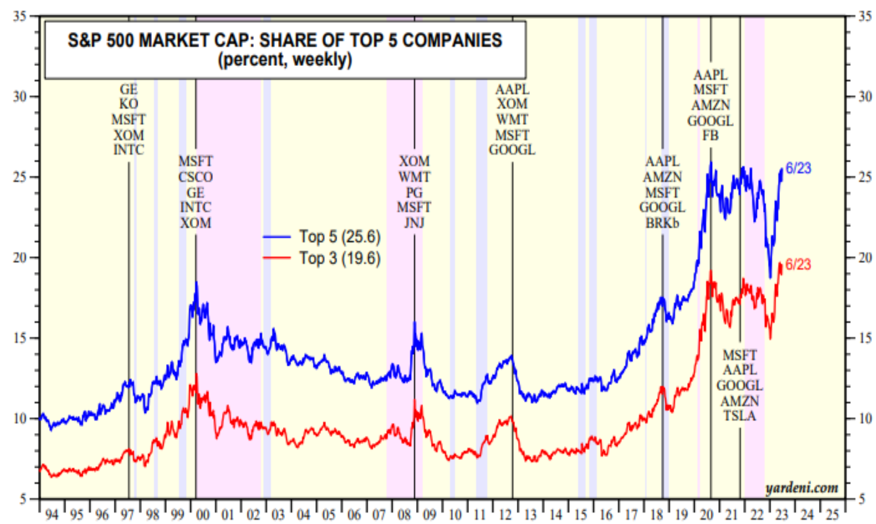
- Lingering worries about a potential recession, tighter credit conditions, and the Fed's future inflation-fighting path didn't slow stocks in the quarter. The S&P 500 was up over 6% in June and 8% for the quarter.
- Huge gains in several mega-cap tech stocks boosted the broad indices for the quarter, leaving the S&P 500 the most concentrated it has been in decades.
- Foreign developed and emerging market stocks rallied for the quarter but couldn't keep up with the strong performance in the U.S.
- Inflation in the U.S. continued to slow and the Fed paused raising rates in June. Inflation moderated in Europe and the U.K. but remained well above targets.
- US Treasury yields rose for the month and quarter, and the broad bond market declined.



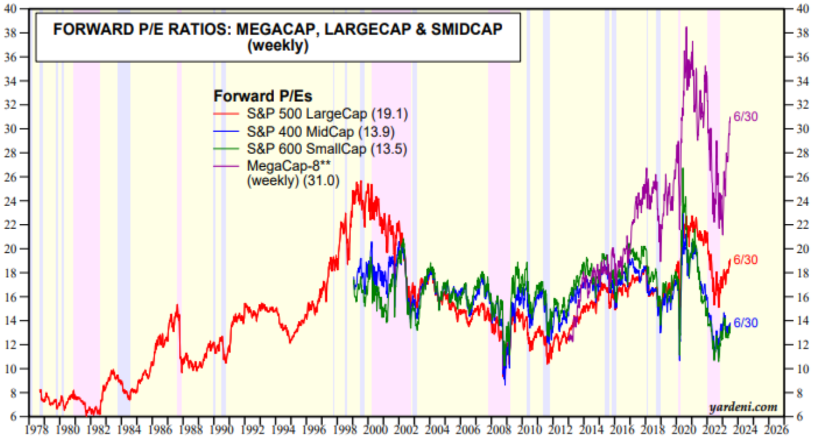
Topics in this quarter's commentary: Déjà vu (all over again!); Values Abound.

Déjà vu (all over again!)

The hall of fame baseball player and Yankee great Yogi Berra famously once said in regards to how events tend to repeat themselves, "It's like déjà vu all over again." Well, the stock market is seemingly having a "déjà vu all over again" moment, similar to the late 1990s. If you recall, central bankers in the late 1990s had flooded the market with liquidity in response to the Long-term Capital Crisis and fears about the upcoming Y2K date change, which lead to a speculative bubble mania in tech stocks, and a highly concentrated stock market. In 1999 only a handful of stocks rose in value, but they went up so much that they pulled up the entire index. Even though most stocks we flat or negative for the year. That pattern of performance is eerily similar to what is happening in the market today. The chart to the right shows how the concentration in the S&P 500 has reached all-time highs. With just 5 stocks accounting for roughly 25% of the index and the top 3 stocks at close to 20%. Clearly, the concentration in today's market is even greater than we experienced in 1999.



Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Blue shaded areas are correction declines of 10% to less than 20%. Yellow areas are bull markets.
Source: Yardeni Research using Standard & Poor's and I/B/E/S data by Refinitiv.

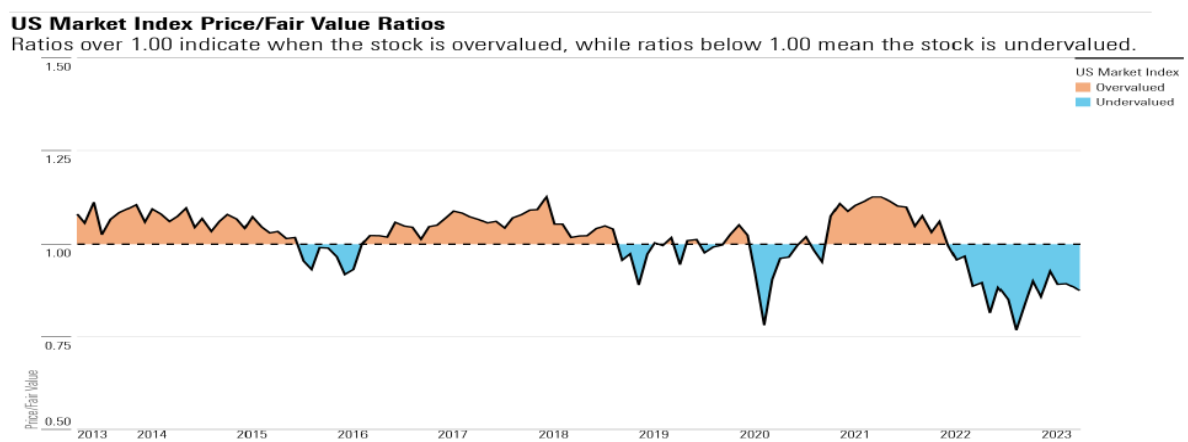


* Weekly stock price index divided by 52-week forward consensus expected operating earnings per share.
** MegaCap-8 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Netflix, NVIDIA, and Tesla. Both classes of Alphabet are included.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Blue shaded areas are correction declines of 10% to less than 20%. Yellow areas are bull markets. Source: I/B/E/S data by Refinitiv and Standard & Poor's.

We do not anticipate a crash in the stock market similar to what happened in 2000-2002, however, valuations in parts of the stock market are reaching levels that give us pause about future returns. The chart to the left shows the valuation of several parts of the stock market using a forward price-to-earnings ratio (P/E). The valuation for the 8 largest stocks in the index is now trading at a P/E of over 30, while the S&P 500 as a whole is trading at 18.7; and the mid and small-cap indices are trading closer to a P/E of 13. The 8 largest stocks have reached a level that suggests sub-par returns going forward. Investors should factor this into their allocation and investment decisions.

Values Abound:

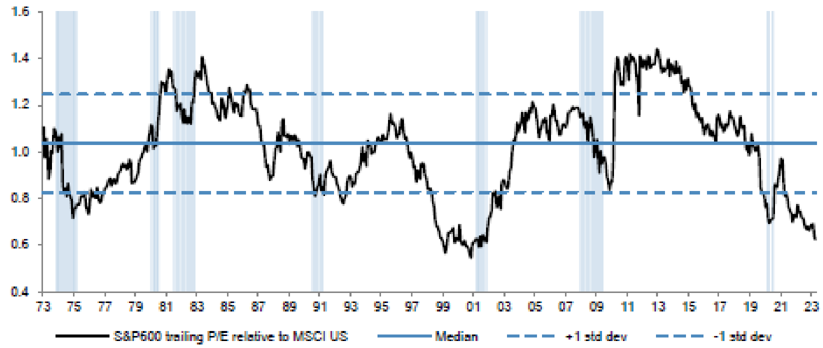
Most investors remember the challenges that stocks faced after the 1999 bubble tech collapsed, with stocks down for several years and not bottoming until 2002. However, they often forget about the incredible investment opportunities that were created in other asset classes. Several asset classes that were ignored during the run-up of the 1990s tech bubble reached very low valuations and ultimately went on to sharply outperform the broad market for years following the crash. The list of outperforming asset classes back then included small-cap stocks, foreign stocks, real-estate-investment-trusts (REIT), and others. Picking up on the "déjà vu all over again" theme mentioned above, we are seeing similar valuations in today's market that we believe are positioned to outperform on a multi-year time frame. Below we highlight a few valuation models and asset classes that are showing good value today and have the potential to outperform in the years ahead.



This chart is from Morningstar and is a composite market valuation based on the over 700 companies their analysts follow. It has a good track record of indicating when the broad market is overvalued or undervalued. Their undervalued reading suggests there are still good values available in the market today if you look beyond the very largest tech/growth companies. Below we highlight several asset classes that have the potential to outperform in the next few years.

U.S. small-cap stocks are trading near historically low levels relative to large-cap stocks:

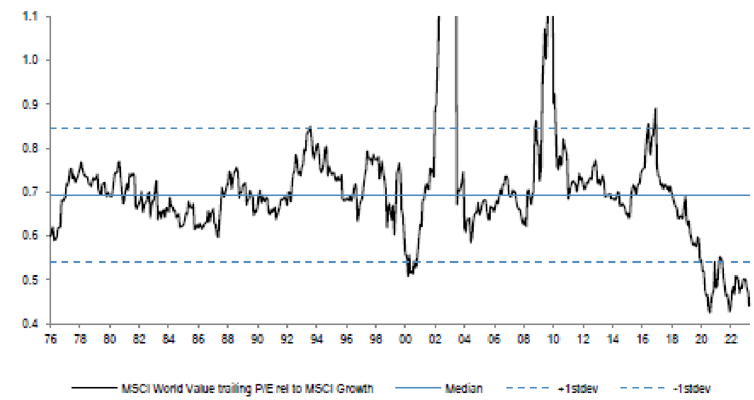
S&P600 small caps trailing P/E relative to MSCI US



Source: Datastream, shaded bars denote recession

Value stocks across the globe are trading at historically low levels compared to growth stocks:

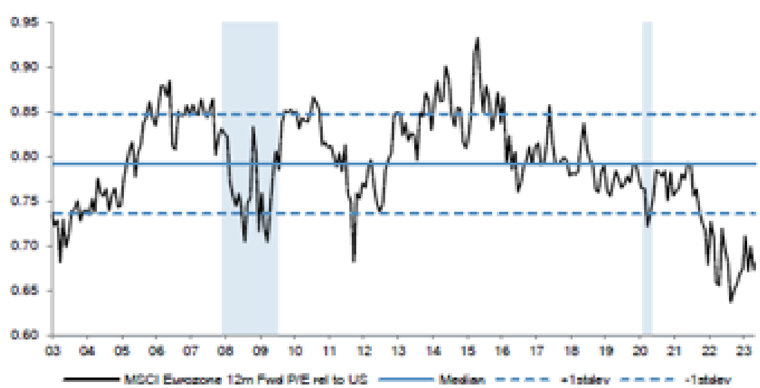
MSCI World Value vs Growth trailing P/E



Source: Datastream

Foreign stocks are near historically low levels relative to U.S. stocks:

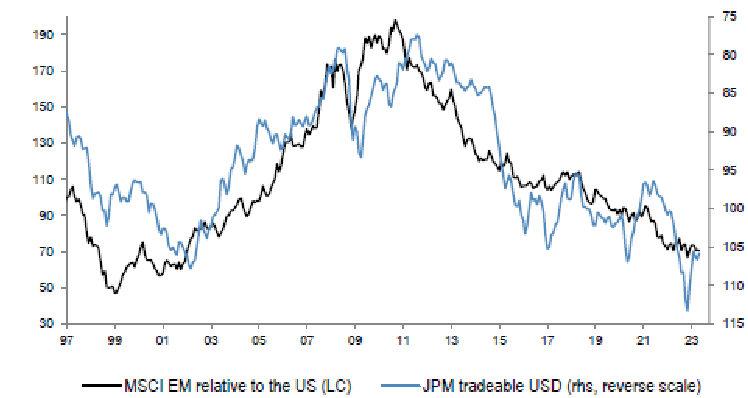
MSCI Eurozone 12m Fwd PE relative to US



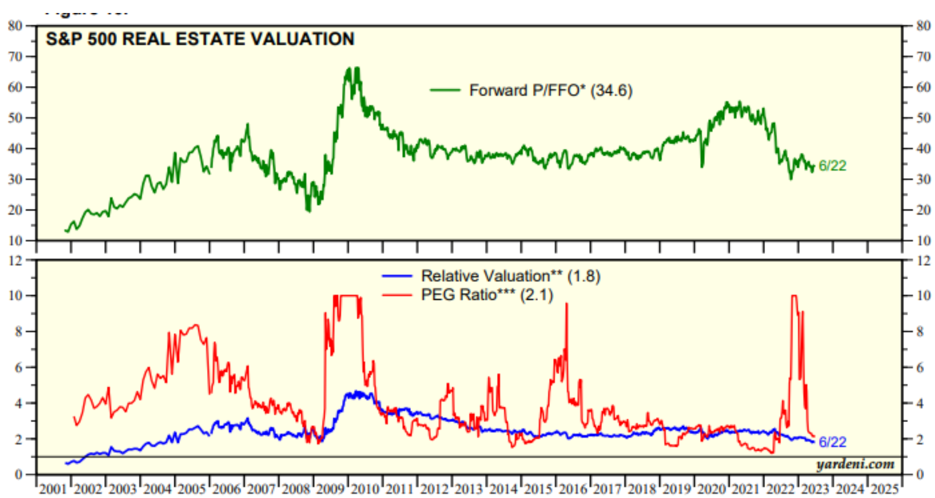
Source: IBES

Emerging market stocks are relatively inexpensive:

EM relative performance and USD in the long term



Source: Datastream



* Price divided by 12-month forward consensus expected operating earnings per share.
** Sector or industry forward P/E relative to S&P 500 forward P/E.
*** Sector or industry forward P/E relative to sector or industry consensus 5-year LTEG forecast.
Source: I/B/E/S data by Refinitiv.

Real estate investment trusts have sold off sharply and are approaching reasonable valuation levels.

We are often asked what is the toughest market environment that you've faced, and are surprised when our response is 1999. The reason we answer 1999 is that the market forced you to either buy the few speculative stocks that were performing well but trading at crazy valuations, or to buy reasonably valued assets and risk lagging the broad market performance. The current market environment is similar to what we experienced in 1999, hence the "Déjà vu (all over again)" comments above. The bright side to today's market environment is that great values are being created in assets beyond the "Great 8" stocks that can lead to very good returns in the years ahead. 2022 gave us a glimpse of how assets trading at good values can lead to very good relative performance. Even though some of the relative performance for attractively valued assets has reversed in the first half of 2023, we are highly confident that investors that stick with a disciplined approach of buying good value will be well rewarded in the years ahead. We plan to resist the temptation to chase the performance of speculative assets that are overvalued… we've seen this story before. Déjà vu (all over again)!

If you have any questions about your portfolio or investment strategy don't hesitate to give us a call.

Best regards,

Steve Giacobbe, CFA, CFP®

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	Valuations for large-cap stocks are above long-term averages, mainly due to very high valuations on some of the largest stocks in the index. The top 8 stocks in the S&P 500 are trading at over a forward P/E ratio over 30, a very high level.
U.S. Small/Mid Cap	↑	Valuations for small-cap stocks relative to large-cap have fallen to historically low levels last seen in the early 2000s, the beginning of a very good run for small-cap stocks. Long-term investors should view this as an opportunity to overweight the asset class on a 3 to 5-year time horizon.
International Developed	↑	We believe the valuation of foreign stocks is attractive relative to US stocks and investors with a longer time horizon should be overweight. Relative performance is never a straight line so stay patient in your asset allocation to this asset class.
Emerging Markets	↔	Valuations are attractive for the long term. Emerging markets tend to be volatile and are always susceptible to further selloffs, but over a multi-year time frame, they should outperform. Risk tolerant investors should be overweight for the L/T.

Fixed Income		
Investment Grade	↔	Interest rates have risen to a level that bonds should provide good risk protection, returns, and diversification in balanced portfolios. Investors should be allocated close to their benchmark in this asset class.
High-Yield Bonds	↓	We don't believe they have priced in the risk of a potential recession in in the next year. We would stay on the sidelines for now and look for opportunities to buy into this asset class on further sell-offs.
Municipal Bonds	↑	With higher yields, municipal bonds continue to be attractive, especially for high tax bracket investors.
TIPS	↔	TIPs are a hedge against higher inflation, we would hold positions in tax-deferred accounts as a long-term hedge against inflation hedge.
Floating-Rate Loans	↓	Similar to HY bonds, FRLs have a significant risk in a recessionary environment. We would move to the sidelines for this asset class for now and look for better opportunities down the road.
Emerging Markets	↔	EM bonds are trading at a level that should provide solid returns relative to other global bonds. However, given the complexity of this asset class, our default is to leave it to the pros, as several of our bond managers have the flexibility to add to this asset class when attractive.

Alternatives		
Absolute-Return/Alternatives	↔	We like alternative funds as a way to hedge volatility, provide real returns, and improve the risk vs reward in portfolios. We favor simple and low-cost strategies like hedged equity, real return, clean energy transition, and global macro. Over a full market cycle, they should add value to portfolios. If traditional stocks and bonds become "cheap" we would reduce our weighting in this asset class.
REITs	↔	We remain neutral on REITs due to improved valuations from 2022's sell-off. There are diversification benefits from owning REITs, however, we recognize REITs may be structurally impaired in the future as a result of secular trends and valuations are only fair. Small positions are appropriate for diversification in global portfolios.
Commodities/Gold	↔	We view exposure in this area as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. These positions can be volatile in performance but may provide some relief over a full market cycle.

U.S. Stocks

Market Performance, Second Quarter 2023

Index	Q2 2023	1 YR
S&P 500	8.74%	19.59%
Russell 1000	8.58%	19.36%
Russell 1000 Value	4.07%	11.54%
Russell 1000 Growth	12.81%	27.11%
Russell Midcap	4.76%	14.92%
Russell 2000	5.21%	12.31%

Source: Morningstar

- Stocks had a very strong quarter, led by big returns in the month of June.
- Growth stocks widely outperformed value stocks, a reversal of 2022's performance where value stocks widely outperformed.
- Small-cap stocks had a strong quarter but lagged the performance of large-cap stocks. They are trading at very attractive levels for long-term investors.

International Stocks

Market Performance, Second Quarter 2023

Index	Q2 2023	1 YR
MSCI EAFE	3.22%	19.41%
MCSI EME	1.04%	2.22%
MSCI BRIC	(1.13%)	(5.02%)

Source: Morningstar

- Foreign developed stocks were up solidly for the quarter but lagged the performance of U.S. stocks. Last year foreign stocks widely outperformed, this year they are lagging.
- Emerging market stocks were flat for the quarter. Risk tolerant investors should be overweight over the next 3 to 5 years. Investors will need to be disciplined and patient because this is a volatile asset class.

Fixed Income

Market Performance, Second Quarter 2023

Index	Q2 2023	1 YR
Vanguard Total Bond Index	(0.93%)	(1.00%)
Bloomberg Muni Bond	(0.10%)	3.19%
Bloomberg US High-Yield	1.75%	9.06%
JPM GBI- EM Global Diversified	2.51%	11.38%
iShares TIPS Bond	(1.47%)	(1.59%)
BofA Merrill Lynch 3-month Treasury Note	1.18%	3.44%

Source: Morningstar

- The 10-year Treasury rate rose slightly and core bonds were down a little. Looking forward, interest rates have reached a level that bonds can generate reasonable returns and offer a decent alternative to stocks.
- High-yield bonds have not fully priced in recession risks. We would stay on the headlines for now, but look for opportunities to buy on sell-offs.
- EM bonds have attractive yields relative to other global bond markets. However, given their volatility, we suggest leaving any direct investments to the pros.

Alternative Assets

Market Performance, Second Quarter 2023

Strategies	Q2 2023	1 YR
AQR Diversified Arbitrage	0.25%	2.26%
BNY Mellon Global Real Return	(0.97%)	(2.59%)
JPMorgan Hedged Equity	5.93%	15.18%
PIMCO All Asset	0.74%	4.68%
Vanguard REIT	1.64%	(3.95%)

Source: Morningstar

- We remain optimistic about alternative assets as a way to diversify portfolios and improve risk-adjusted returns. We believe alternatives can add value to portfolios over a full market cycle and are a nice complement to traditional asset classes.
- We view the real return, commodity, precious metal, and alternative strategies in general as an effective way to hedge against higher inflation.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India, and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Bloomberg Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Bloomberg Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Bloomberg US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3-month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks a maximum real return, consistent with the preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of the Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, and other types of derivative instruments.
JPMorgan Hedged Equity	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
BNY Mellon Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds, and cash; and generally, to a lesser extent, other asset classes, including real estate, commodities, currencies, and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.