CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2023 --- 2nd Quarter

SECOND QUARTER MUCH LIKE THE FIRST

To look at the second quarter of the year as a snapshot it looks much like the first quarter. However, it was a bit stronger than the first at least in terms of the U.S. stock market. The S&P 500 Index gained +8.7%; international equities in developed countries rose +2.95% (MSCI EAFE Index); and the broad U.S. bond market was flat at -0.84% (Bloomberg U.S. Aggregate Bond Index). Combine the results of the first two quarters for the S&P 500 Index to get a year-to-date total return of +16.9%. Personal investment returns for the year so far are in a range from approximately 10% to 15%, depending on the mix of stocks and bonds.

International markets have largely underperformed the U.S. this year, which is not what was expected after their recent bout of positive activity. The cool down is due in part to the fact they have fewer technology and communication services companies. In spite of that, a number of factors are pointing to positive expectations for the near-term. It is still an important piece of your investment mix.

The outstanding reason for the big returns this year has been the huge influence of just a small handful of very large companies. They are the technology giants that have some exposure to artificial intelligence (AI). Commonly referred to as the "Magnificent Seven" they are: Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla and Meta. These stocks were responsible for two-thirds of the performance of the S&P 500. Each company is either a provider or beneficiary of dominant technologies and thought to be in position to be early adopters and distributers of AI. Of course, there is debate about who wins and who loses. That debate has just begun and is far from decided.

So, how can we think about the other 493 companies in the S&P 500 Index? They, and more companies beyond this index, are still contributing and potentially growing. Their stock shares are trading at more normal values right now and present opportunities. The investment managers of portfolios, including mutual funds, will be looking for and finding "bargains" among those companies. That translates into future returns for your account.

LOOKING FORWARD. While recession isn't inevitable, the U.S. economy is on track to see slower growth and lower inflation over the rest of 2023 and into 2024. This may result in smaller investment returns as we continue to recover from the COVID related shocks to the economy.

Expect market volatility to continue a bit this year as we make our way through the current cycle. We are still seeing frequent changes as to which types of investments are doing best in the short-term. For example, value to growth, large companies over small, etc. This changeability makes the practice of diversification and asset allocation very important.

We have had very positive investment returns this year and nice recovery of account values. We are optimistic for the second half of 2023.

Feel free to call Nan or Ann at 414-431-6491 with your questions or concerns.

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