



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

SECOND QUARTER 2023



*Picture by Black Diamond Partner, Dyson Dryden
Recent meetings at Lake Tahoe, California*



Federal Reserve Pauses on Further Rate Increases

The economy has proven to be remarkably resilient. The most aggressive interest rate hike cycle since 1973 may soon be over. The Federal Reserve opted to hold rates steady at its June meeting ending its streak of increasing rates at every meeting since March of 2022. The Fed's battle to contain inflation is likely coming to an end. The market now assumes that short-term government rates will approximate 5% for the foreseeable future.

Rapidly rising rates created a challenging business environment as evidenced by low levels of M&A and capital raising by large corporations. With more predictable interest rates, a resumption in business investment is anticipated.

As we highlighted in previous notes, there is always a lag between raising interest rates and the slowing of the economy and inflation. The Fed's difficult task of taming inflation while avoiding a recession, therefore remains in question. Treasury Secretary Janet Yellen believes the risk of a recession is lower today due to the resilience of the labor market. Unemployment remains near historic lows at 3.7%.

Investor confidence drove the S&P 500 up 17% during the first half of the year. Gains were heavily concentrated among large tech stocks that have been boosted by investor enthusiasm for artificial intelligence. In fact, 70% of the S&P 500 return this year has been driven by just seven companies (see page two).

Potential downside risk to 2024 earnings estimates remains a focal point for the markets during the second half of this year. Currently, stocks are priced modestly above long-term average valuation multiples. As always, we continue to believe that stocks will thrive over the long-term.

Comparative Returns

	Annualized Performance					
	Q2 2023	YTD	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks ¹	8.7%	16.9%	19.6%	14.6%	12.3%	12.9%
Small Cap U.S. Stocks ²	5.2%	8.1%	12.3%	10.8%	4.2%	8.3%
International Stocks ³	2.4%	9.5%	12.7%	7.2%	3.5%	4.8%
Real Estate ⁴	2.3%	4.8%	(1.4%)	7.7%	3.3%	5.1%
U.S. Bonds ⁵	(0.8%)	2.1%	(0.9%)	(4.0%)	0.8%	1.5%

1 S&P 500 index. 2 Russell 2000. 3 MSCI ACWI ex-U.S. index. 4 MSCI U.S. REIT index. 5 Bloomberg Barclays Aggregate Bond index.

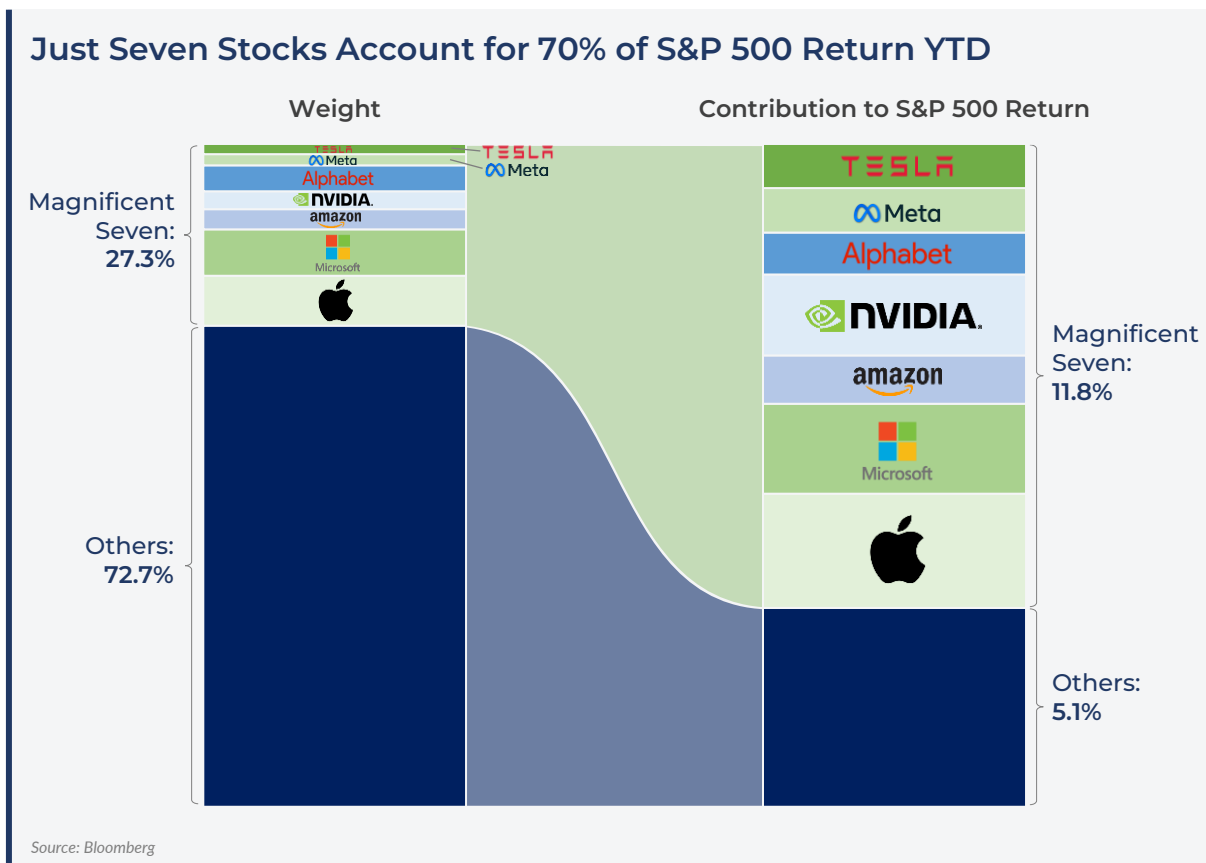
“Magnificent Seven” Drive Recent Market Gains

Just seven stocks have accounted for 70% of the S&P 500 returns during the first half of this year. The newly-coined term, Magnificent Seven, includes tech companies Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta. Collectively, these stocks rose a stunning 73% year-to-date on the heels of investor excitement for artificial intelligence. Excluding these stocks, the S&P 500 would only be up 5.1%.

This is not a new phenomenon. In the late 1960s and early 1970s, the so-called "Nifty Fifty" were a group of seemingly indestructible stocks including Polaroid, Sears and Eastman-Kodak that captured the minds of investors. In the late 1990s, the "Four Horsemen" included Microsoft, Cisco, Oracle and Intel. More recently, "FAANG" was used to depict the hottest large company tech stocks that drove market returns (Facebook, Apple, Amazon, Netflix and Google).

The S&P 500 is a market capitalization weighted index. This means that larger companies constitute bigger portions of the index's makeup and have a greater impact on index returns. For example, Apple's \$3.0 trillion market value makes it the most valuable company in the index accounting for 7.5% of the S&P 500's total value. The Magnificent Seven together comprise 27% of the index and therefore have a substantial impact on its returns.

Research has proven that it is incredibly difficult to determine which stocks will lead the market higher in the future. Therefore, it is prudent to own a well-diversified portfolio to capture concentrated returns such as experienced this year.





ABOUT US

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