

Financial Advocates for Nonprofits


fairlight
Financial Resilience for Nonprofits

Market & Economic Snapshot
Second Quarter 2023

Market & Economic Snapshot

What Happened

Why It Matters

Stock Market

The US stock market* gained 10% in the second quarter of 2023 and 16% year-to-date.

Equity investors are more optimistic about the economy and concerns about the banking sector and the technology supply chain may be in the rearview mirror.

Bond Market

Bond yields continued to go up (bond prices lowered), with the shortest-maturity bonds yielding more than longer-term bonds.

The **inverted yield curve**, short-term bonds yielding more than long-term bonds, is believed to be a precursor to a recession.

Interest Rates

The Federal Reserve paused interest rate hikes in June but is likely to continue increases to tackle persistently high inflation

Interest rate hikes have not tipped the economy into a recession, yet consumer and corporate borrowers are still getting squeezed by higher interest costs.

Inflation

While **headline inflation** was down, mostly due to a reduction in energy prices, **core inflation**, excluding food or energy, is still high at 4.8%.

Core inflation is still far from the 2% target, which suggests the Fed will continue its policy of raising interest rates.

Labor

The labor market remained robust, with inflation-adjusted wages increasing for the first time in 26 months.

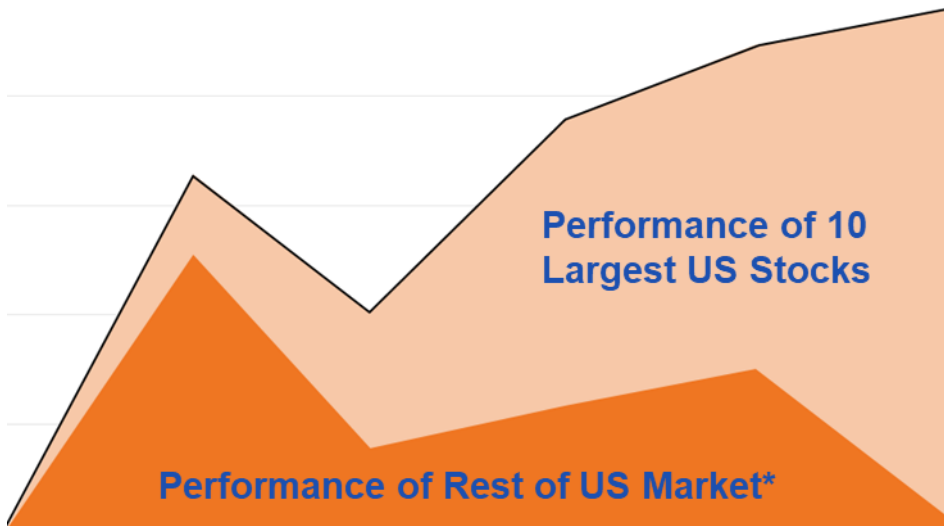
Wage gains can fuel spending, which may keep inflation above the Fed's 2% target for some time.

*Morningstar US Stock Market Index

Stock Market Snapshot

United States

The U.S. stock market* gained roughly 9.6%. While impressive, 9.3% of gains came from the 10 largest stocks. The top 5 stocks Apple, Microsoft, Alphabet, Amazon.com, and Nvidia accounted for 7.5% of the gain. Without these huge returns, the overall market would be flat.



Source: Morningstar

Outside the US

Eurozone gains were led by the financials and IT sectors, while energy and communication services were underperformers.

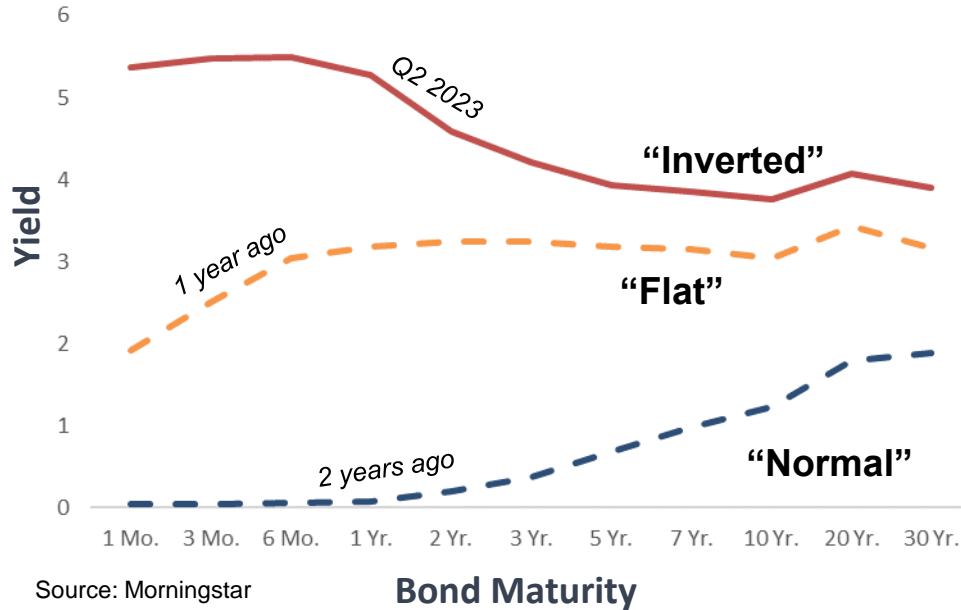
UK energy and basic materials groups were hit the hardest amid weak commodity prices.

Concerns about China's poor economic recovery contributed to Emerging Market underperformance, while Hungary, Poland and Greece were the top performers despite rising recessionary fears.

*Morningstar US Stock Market Index

Bond Market Snapshot

Yield Curves





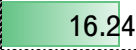








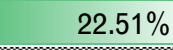












The second quarter was a mixed picture for the bond market.

Bond yields continued to go up (bond prices went down), with the shortest-maturity bonds yielding more than longer-term bonds.

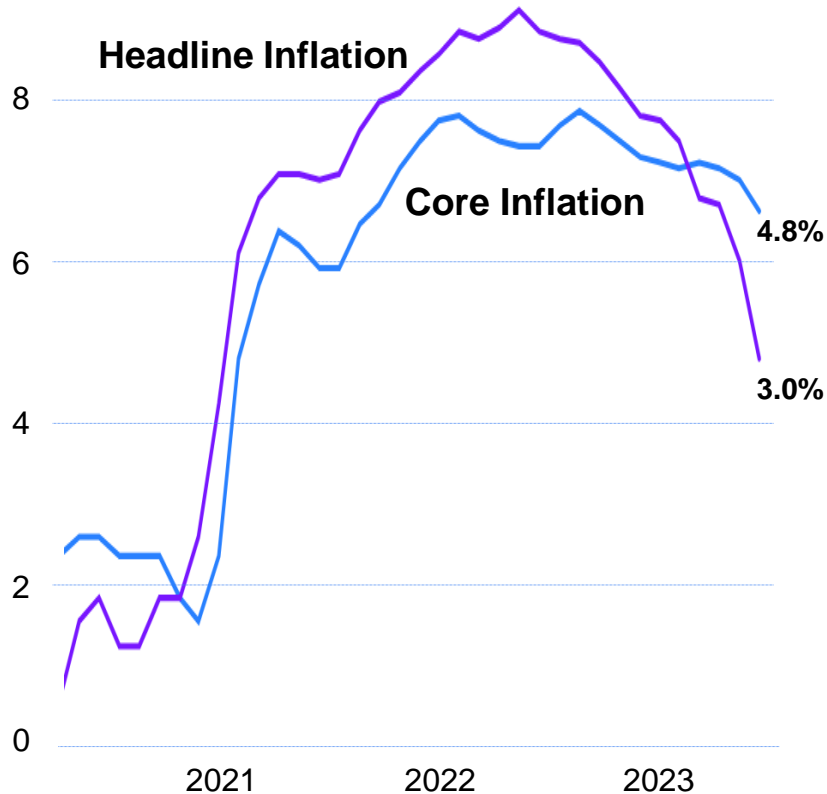
On the flip side, high-yield bonds, which are less sensitive to interest rates and more closely tied to the stock market performance, made modest gains.

While yields of all maturities have risen slightly this quarter, the **yield curve** has remained steeply inverted, believed to be a precursor to a recession.

Stock & Bond Index Performance

Asset Class	Performance	
	Q2 2023	Q1 2023
Equities		
U.S Stock Market	 8.49%	 7.40%
Developed Stock Markets ex-US	 16.24%	 7.53%
Emerging Stock Markets	 9.29%	 3.58%
Sectors		
Utilities	 -2.75%	 -3.04%
Energy	 -0.48%	 -4.99%
Technology	 16.48%	 22.51%
Real Estate	 2.30%	 1.23%
Fixed Income		
U.S. Core Bonds	 -0.82%	 2.92%
U.S. Treasuries	 -1.37%	 2.97%
U.S. High Yield	 1.65%	 3.68%
TIPS	 -1.45%	 3.38%
10+ Year Treasury Bond	 -2.35%	 6.18%

Inflation Snapshot



Source: Koyfin

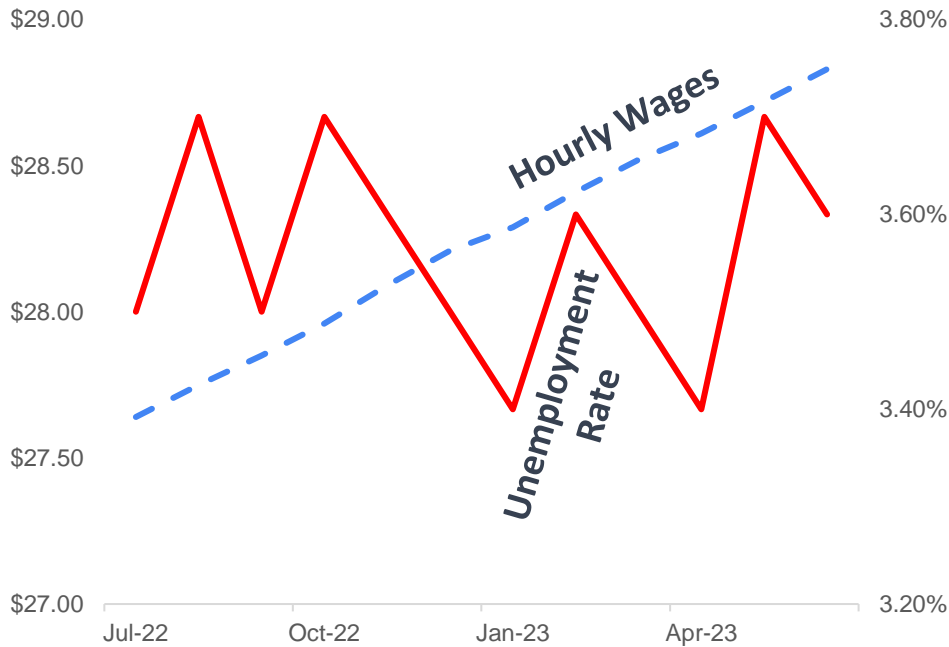
While **headline inflation** was down to 3.0%, mostly due to a reduction in energy prices, **core inflation**, excluding food or energy, is still high at 4.8%.

Prices for medical care and education tend to track wage gains and the strength of the overall economy.

Both sides of the Atlantic are showing inflation driven by the price of local services as well as strong domestic spending.

Inflation in Europe has decreased more slowly than in the US, partly due to Europe's exposure to Russia's invasion of Ukraine, causing higher food and energy prices.

Labor Snapshot



Source: U.S. Bureau of Economic Analysis
Koyfin

3.80% Though quite healthy right now, the labor market shows signs of cooling. People are spending fewer hours on the job, indicating that employers have less for them to do.

3.60% Wage growth, although strong, is easing. Job growth now looks to be concentrated in fewer industries, pointing towards a tightening of the general economic expansion.

3.40% There is a positive side associated with these negative events: the Fed is constantly monitoring inflation and it's hard to reach the goal until wages stop rising so quickly.

3.20%

Glossary

Headline Inflation

The general increase in prices that includes all goods and services in an economy. It considers the price changes across various sectors, including food, energy, housing, transportation, and other consumer goods.

Core Inflation

The general rise in prices that excludes certain volatile components, such as food and energy prices. The purpose is to focus on the underlying inflation trend by removing the short-term fluctuations. Core inflation provides a more stable and long-term measure of inflation, reflecting the general price changes in non-volatile sectors of the economy.

Yield Curve

Graphical representation that plots bond time-to-maturity against yield.

Normal Curve: An upward-sloping curve in which bond yields of the same credit quality increase as time-to-maturity increases. A normal yield curve is most commonly associated with positive economic growth.

Flat Curve: A horizontal line in which there is little difference between short-term and long-term rates for bonds of the same credit quality. A flat yield curve is typically an indication that investors and traders are worried about the macroeconomic outlook.

Inverted Curve: A downward-sloping curve in which bond yields of the same credit quality decrease as time-to-maturity increases. An inverted yield curve reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions.

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