

2ND QUARTER 2023 MARKET OVERVIEW

WHAT'S GOING ON?

It was a perplexing first half of 2023. Wall Street was caught offside at what unfolded in the markets and this has led to growing uncertainty about the optimum strategy for the rest of the year.

At the beginning of the year, we remember, the dominant outlook was for a looming global recession. At this time, bonds were the favored asset class by strategists. Projections for equities were universally muted. It was anticipated the Fed would soon be able to stop and even reverse the rate hikes that did so much damage, last year.

Instead, the bearish outlook proved ill advised. The NASDAQ (31.5%) and the S&P 500 (15.9%) scurried to nearly record first half moves. Bonds fizzled as interest rates rose. The economy absorbed the pressure from further Fed rate hikes and a short lived banking crisis. Meanwhile, the Fed continues on its course to push rates higher.

Markets defied conventional wisdom. As a result, broad disagreement swirls about the looming uncertainty for the months ahead. Forecasts for equities vary widely for the rest of 2023; from a gain of 10% by the most bullish strategist, to a decline of 27% from the most doof one.

From its current perch, the S&P 500 has now surged 20% above its low point, last October, and is now only 7% below its 2021 all time high. This strong recovery is a relief for investors but it is probably time to expect a breather in this third quarter.

WHAT ELSE HAPPENED IN THE STOCK MARKET?

The predominant portion of the stock market gains were supported by the “Magnificent 7”, which comprise 36% of the total value of all of the stocks in the S&P 500. These stocks staged vigorous recoveries from their steep declines, last year.

	2023	2022
Nvidia	190%	-54%
Meta	138%	-67%
Tesla	113%	-62%
Amazon	55%	-50%
Apple	50%	-55%

The heady returns in a short period from such giant companies is far from normality in terms of investing. The axiom, the “higher they go, the further they fall”, can’t be ignored.

In other respects, stock market bulls were more restrained as the Russell 2000 has only gained 6% in 2023, while the DOW is almost unchanged.

Furthermore, it is worth considering that most of the gains in the S&P 500 occurred in the two bookend months of January and June (13%). During the other months, the market barely gained.

THE BULL NEEDS A BREAK

Largely supported from the burst in the month of June, stocks have now gained three quarters in a row. It stands to reason that prices should soften in the months ahead. At best, there could be rotation within the stock market where some of the areas that have been left behind, play catch up with the mega cap tech stocks. Last year's leaders like Lockheed Martin (-4%), Merck (-4%) General Mills (-8%), and United Healthcare (-12%) might offer examples.

Unlike the outset of the second quarter, there is good reason to be cautious and take something off the table from the winners.

First of all, historically, stocks weaken following such a large first half advances. Of the 15 largest gains in the first half, the market slips in the second half more than one half the time and in almost every case, momentum slows.

Secondly, TINA no longer applies. Simply said, there is an alternative to stocks. Cash now pays 5% and is trending higher. People can now earn a solid return on their money without taking any risk. This, almost certainly, will be a strong headwind for the market in the months ahead.

With stocks at elevated levels, rising interest rates, continued inflation pressures, and the beckoning call of a "sure thing", we are at a decidedly different juncture than we were at the beginning of Q2.

PEREGRINE STRATEGY

- We are encouraged by continued growth in client accounts and the prospects for the new investments made in the second quarter.
- We see continued progress in the trading ledger so that client accounts can secure gains from their stock market investments.
- The cornerstone of our equity weightings are in industrial companies that address burgeoning needs to be more efficient in the delivery of power, water, and clean air.
- Many stocks that suffer sudden drops following earnings reports, offer attractive investment and trading prospects. We plan to use this strategy in the months ahead for longer term commitments and for short term trading tactics.
- A more challenging second half will necessitate continued use of riskless cash tools, like TBills.

DAN BOTTI

Investment Adviser

July 15, 2023



PEREGRINE ASSET ADVISERS

9755 SW BARNES ROAD, SUITE 610 • PORTLAND, OREGON 97225

503.459.4651

PEREGRINEAA.COM