



Market Review

June 2023

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KESTRA

INVESTMENT
MANAGEMENT

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A city skyline at dusk with a river and bridges in the foreground. The sky is a deep blue, and the city lights are visible. The river is in the foreground, with several bridges crossing it. The city skyline is in the background, with many tall buildings.

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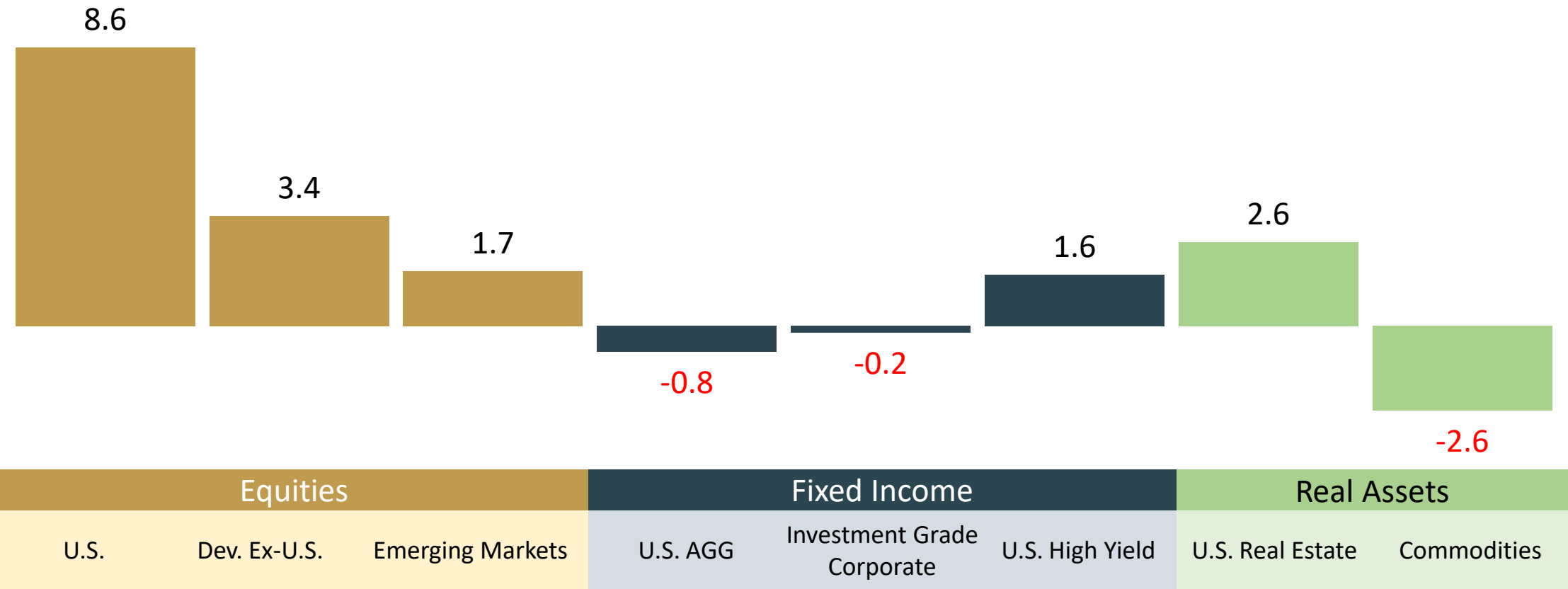
- **Market Review**
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- **Stocks and Bonds**

An aerial photograph of a city skyline, likely Chicago, featuring a dense cluster of skyscrapers and modern buildings. In the foreground, a river flows through a green park area, with several bridges crossing it. The sky is a clear, deep blue.

Market Review

Market Review

Q2 '23 Returns, %



Delayed Landing

June 2023

- Economic growth has been stronger than previously expected with a resilient consumer and abundant jobs.
- This resilience, coupled with stubborn inflation, has pushed the Federal Reserve to become more hawkish than anticipated. Expectations for when the Fed will begin cutting rates has also been pushed out further.
- Despite continued strength in the economy, leading indicators suggest economic slowing ahead. While we continue to expect recession, the timing has been delayed.
- Relatively robust consumer and commercial balance sheets will help prevent any downturn from becoming deep.
- Above-average stock valuations and heightened sovereign debt around the developed world remain additional risks.



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Economic Overview

Economic Dashboard

Even though many leading economic indicators point to tougher conditions ahead, economic growth remains resilient. Weakness on the manufacturing side is being offset by a strong consumer and labor market.



Monetary Policy



The Federal Reserve is nearing the end of its interest rate increases, though future rate cuts have been pushed out



Manufacturing



Manufacturing indicators remain in negative territory, signaling likely economic contraction ahead



Consumer



Consumer balance sheets remain relatively healthy and spending continues. Confidence has rebounded somewhat



Housing



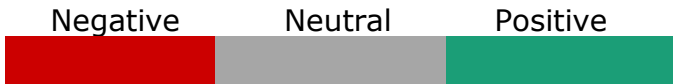
While mortgage rates remain high and affordability low, home activity has reaccelerated.



Labor

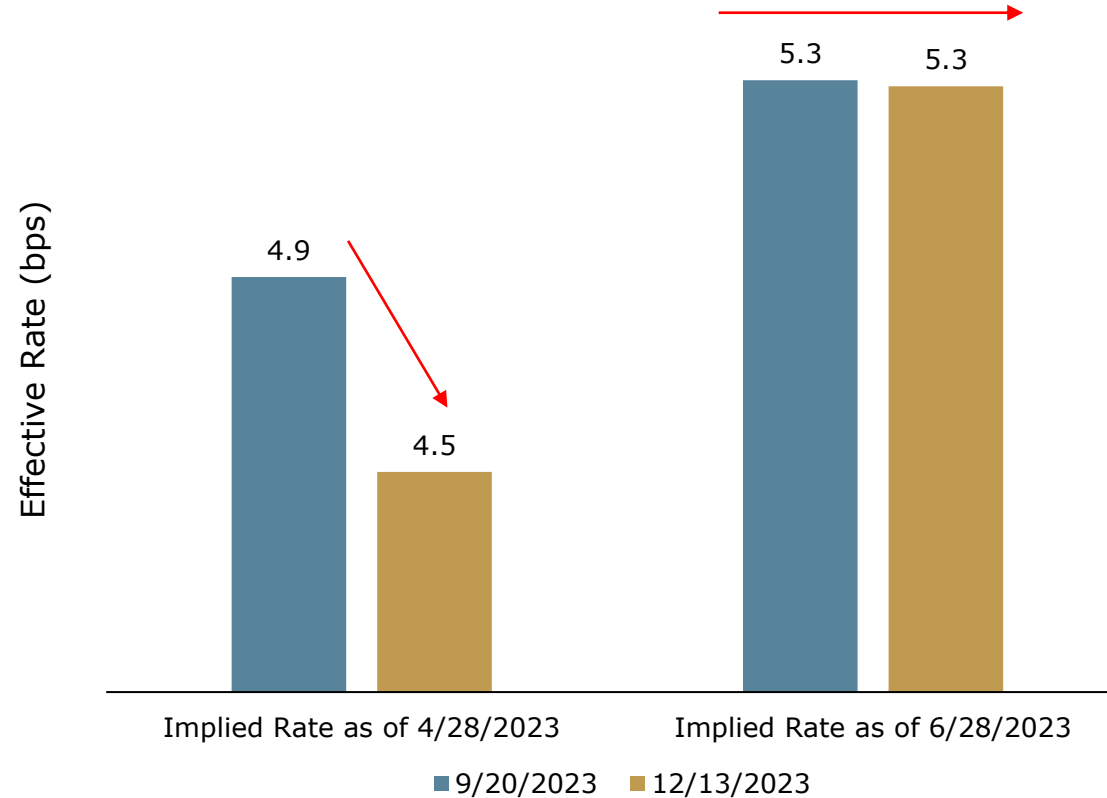


Jobs remain plentiful. Despite an increase in job losses, the newly unemployed are tending to find new positions quickly.



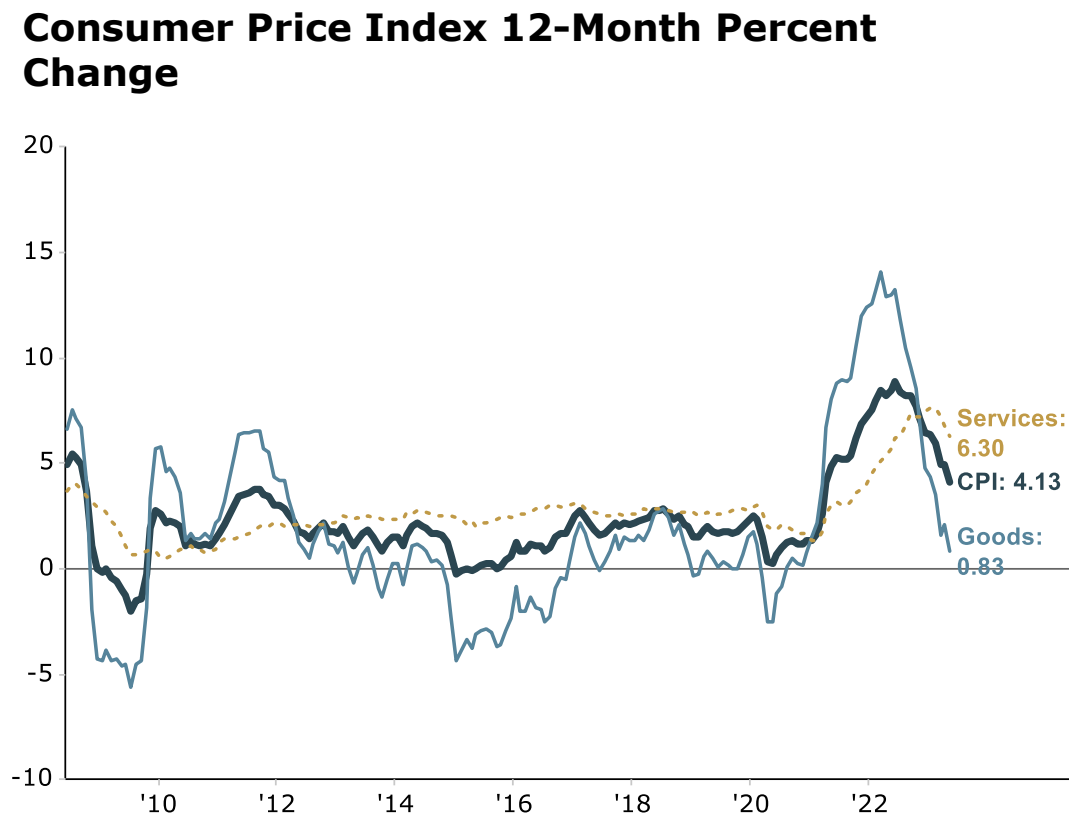
Higher Interest Rates for Longer

Fed Funds Futures as of 4/28/2023 and 6/28/2023

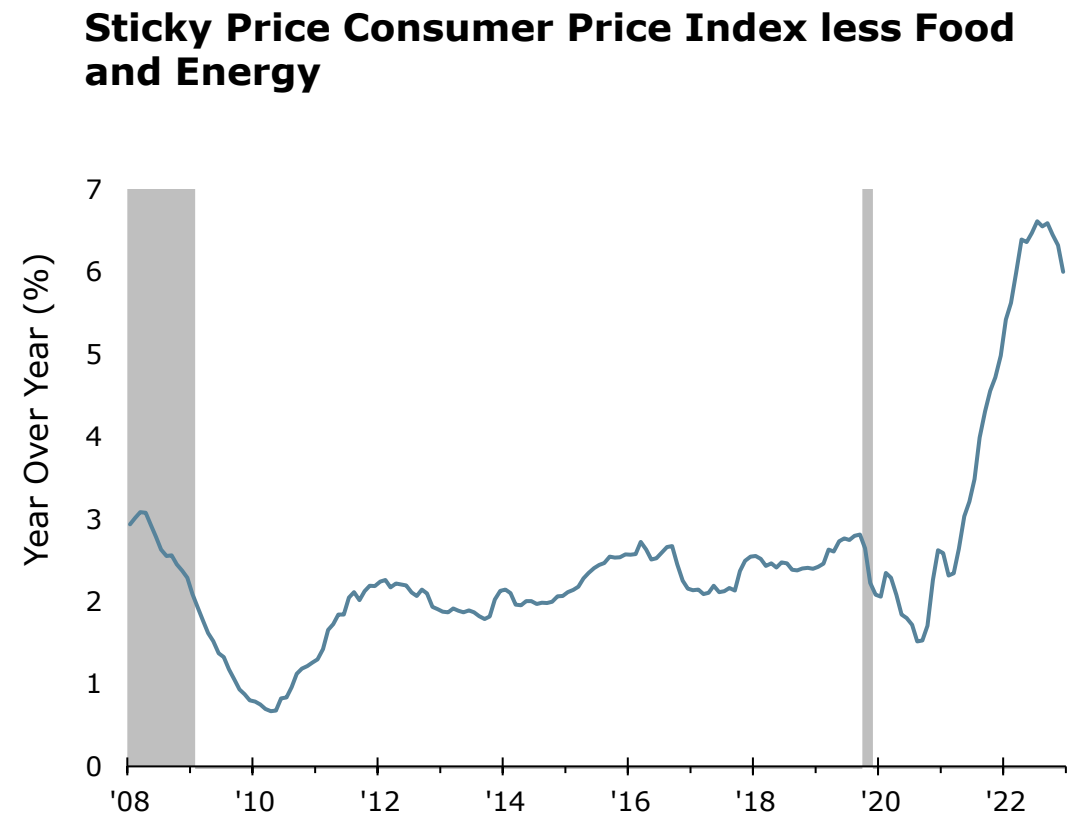


Futures markets currently predict that the Federal Reserve will begin cutting the fed funds rate at the very end of 2023.

Inflation Falling But Some Prices Remain Sticky



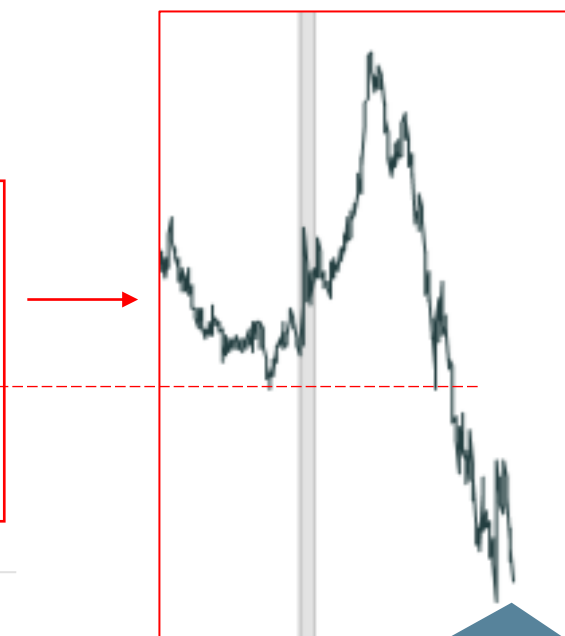
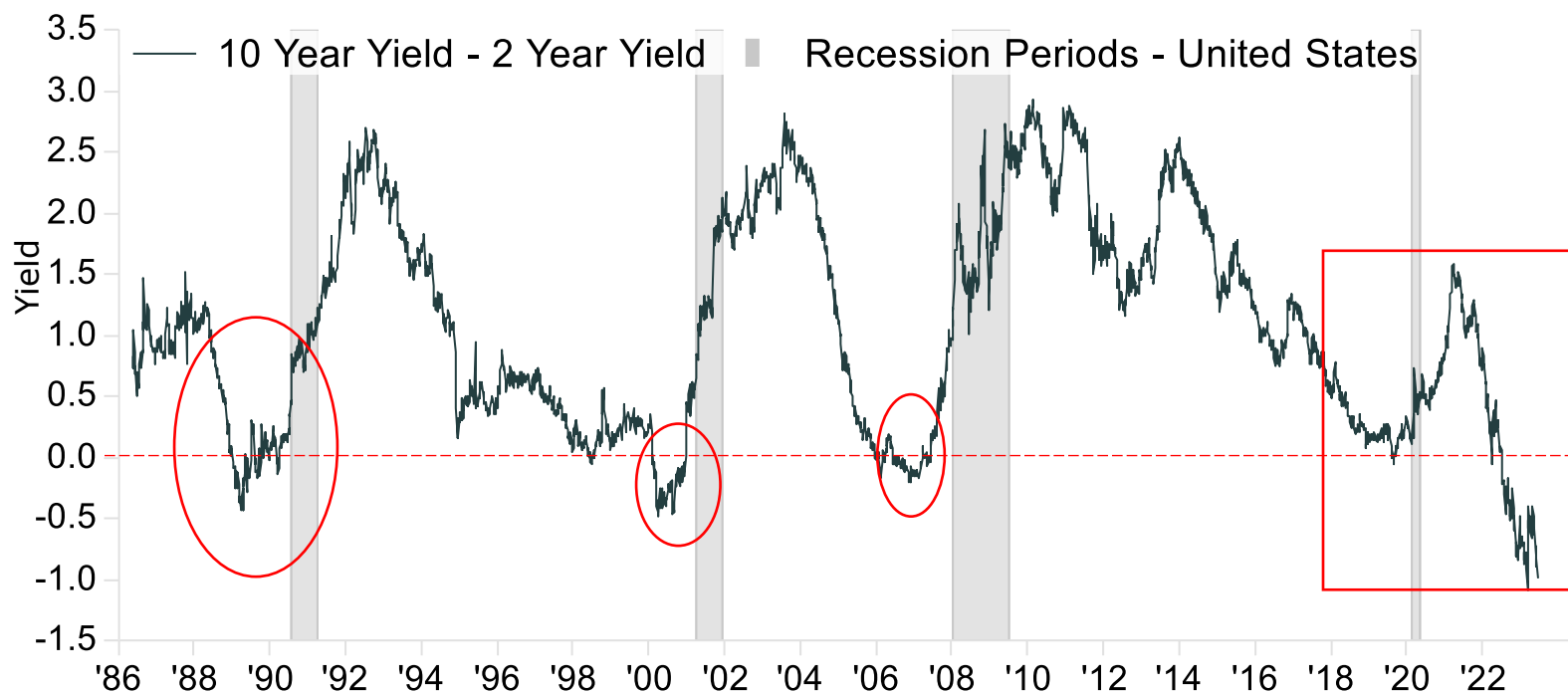
Goods price increases are already well below the Federal Reserve’s target of 2%, but services price increases remain well above.



Inflation of sticky prices – items like rent, food away from home, personal care products – remain well, sticky

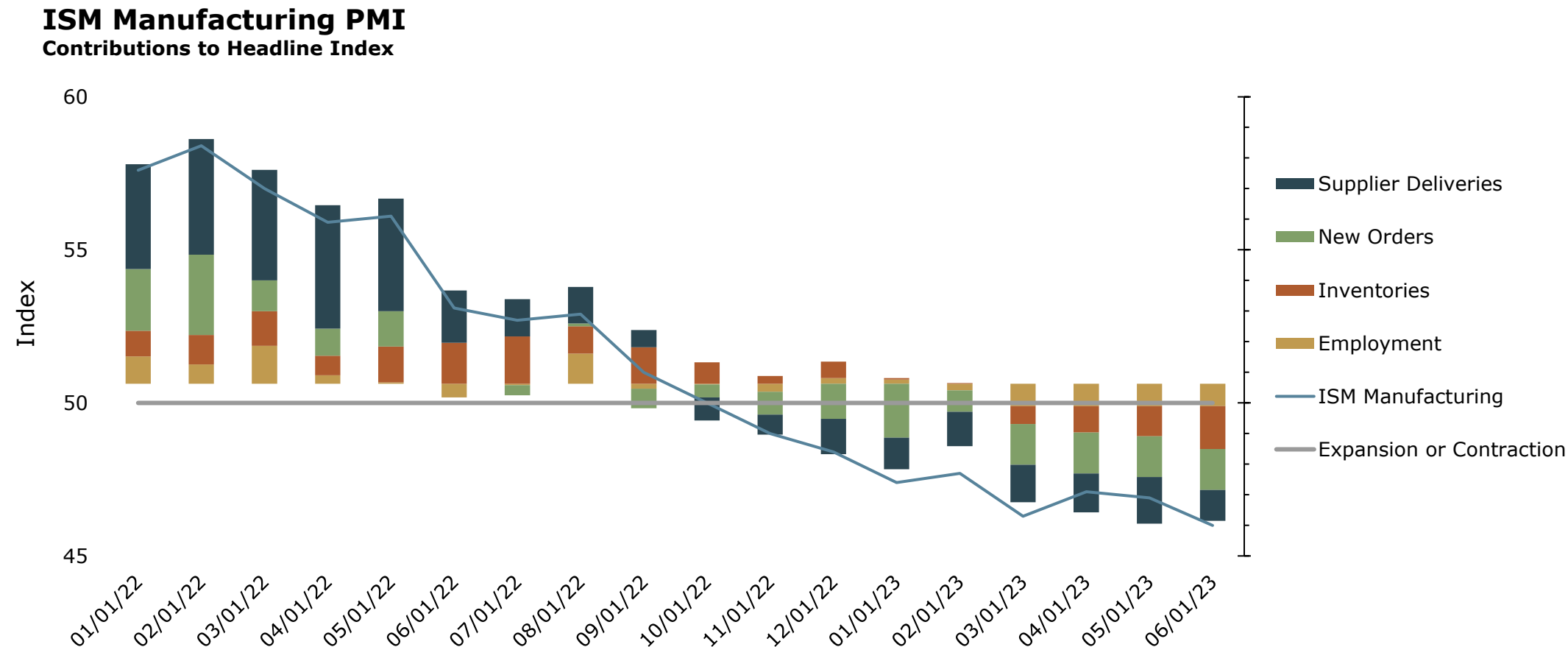
Treasury Yield Curve Flashing a Warning Signal, Still

Yields on the 10-year Treasury bond have dropped well below 2-year yields. In previous periods when this has happened, a recession has typically followed within 6 months to 2 years.



Yield curve has been inverted since May 2022 and is currently inverted by more than 100 basis points

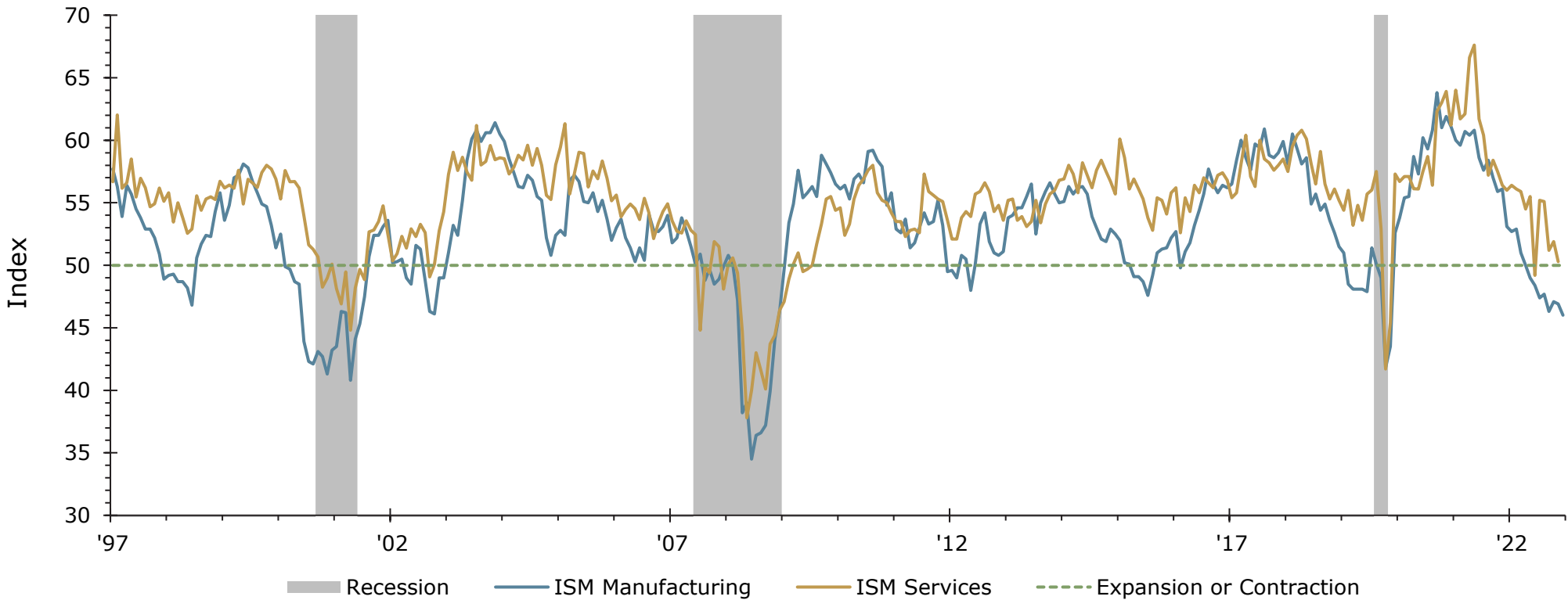
Slowing Manufacturing Activity Points to Likely Recession



ISM Manufacturing Index remains weak, suggesting that the economy is likely headed toward recession. Its companion index, ISM Services has also weakened, though to a lesser extent.

Manufacturing Activity Continues to Contract

ISM Manufacturing and Services Indexes



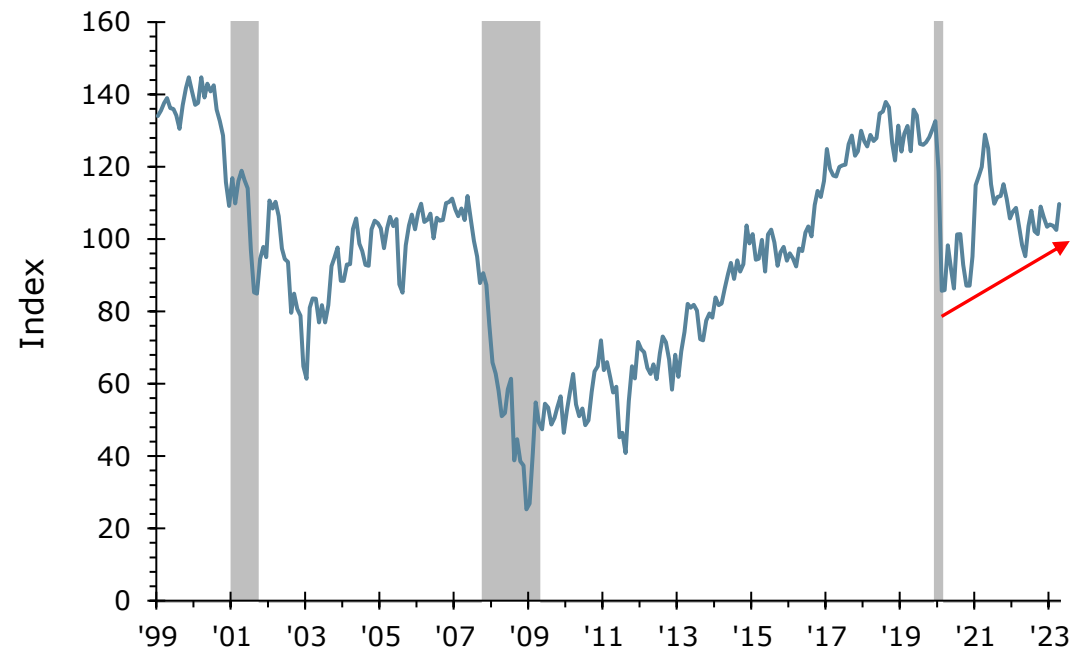
ISM Manufacturing Index continues to weaken, dropping below 50 which indicates contraction. Its companion index, ISM Services, has also weakened, but remains in expansion territory.

Forward looking projections may not come to pass.

Source: Kestra Investment Management, Institute For Supply Management and FactSet. Data as of June 30, 2023.

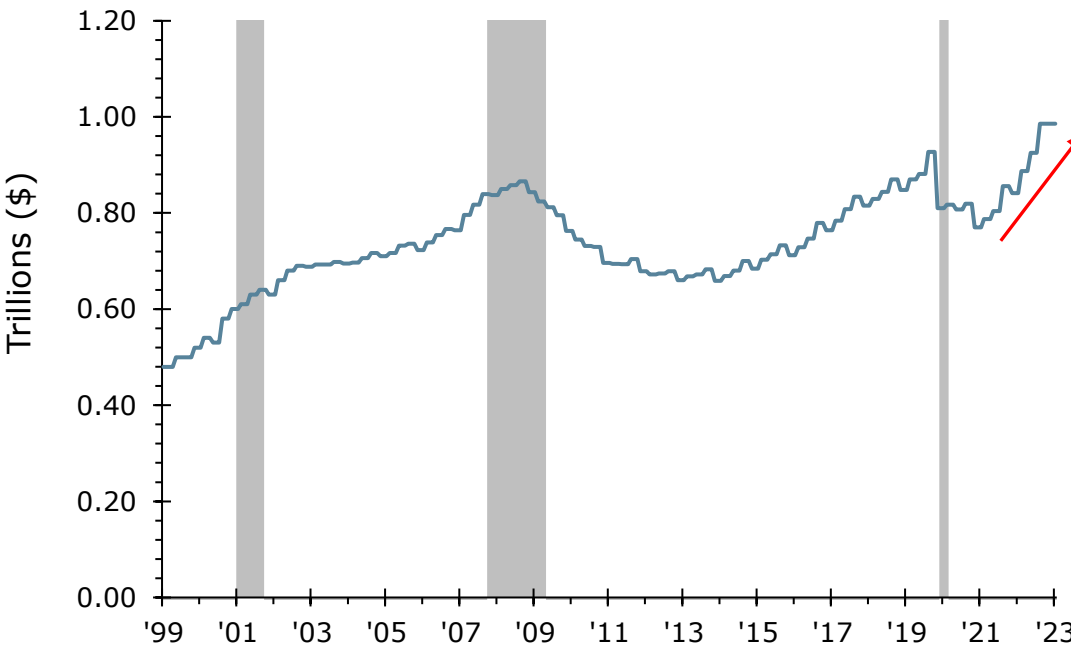
Consumers: More Confident, More Spending

Consumer Confidence Index



Consumer confidence increased in June to its highest level in 18 months as a strong labor market continues to support the economy

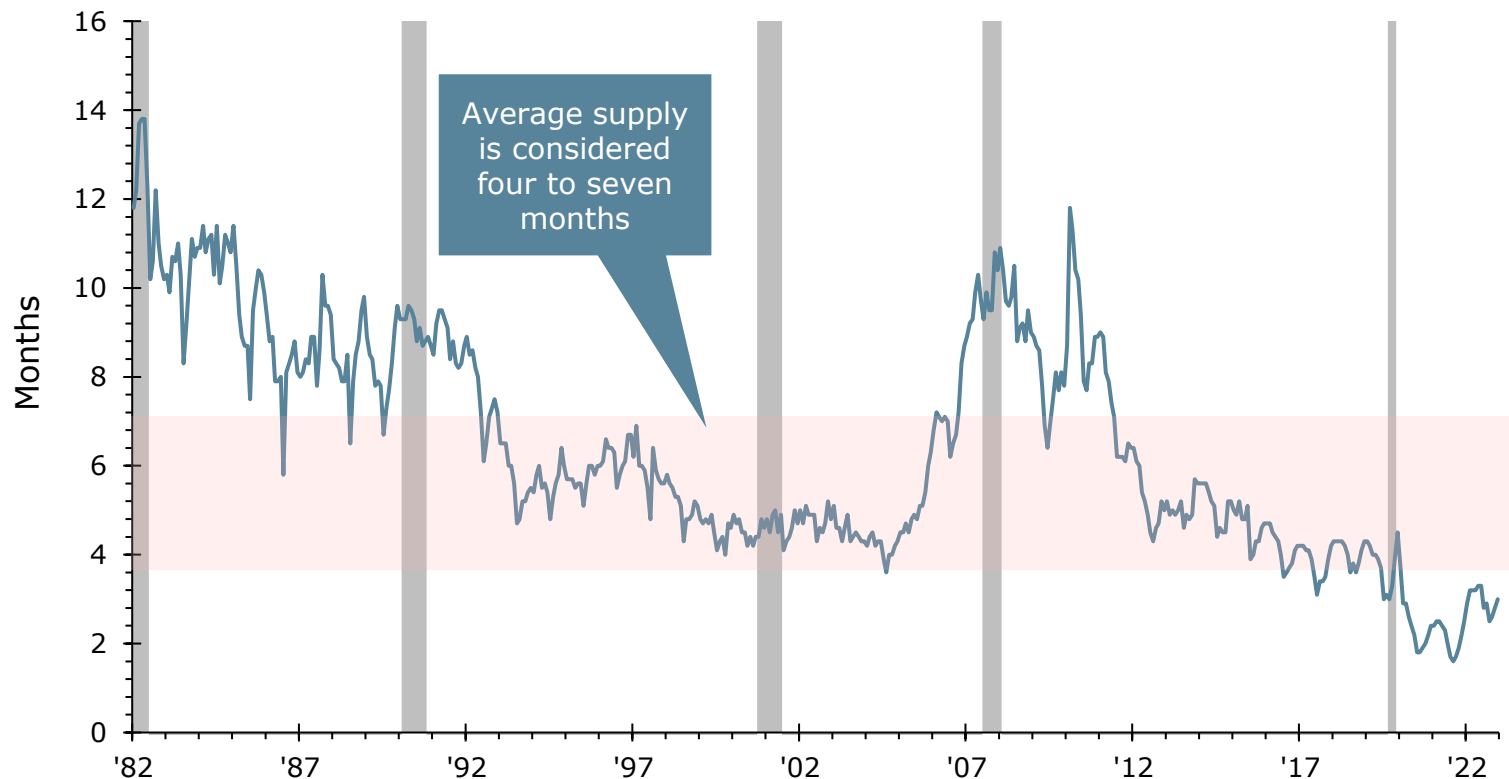
Household Debt Balance, Credit Cards



After dropping in 2020 and 2021, credit usage is back to new highs as Americans ramp up spending and cope with higher prices

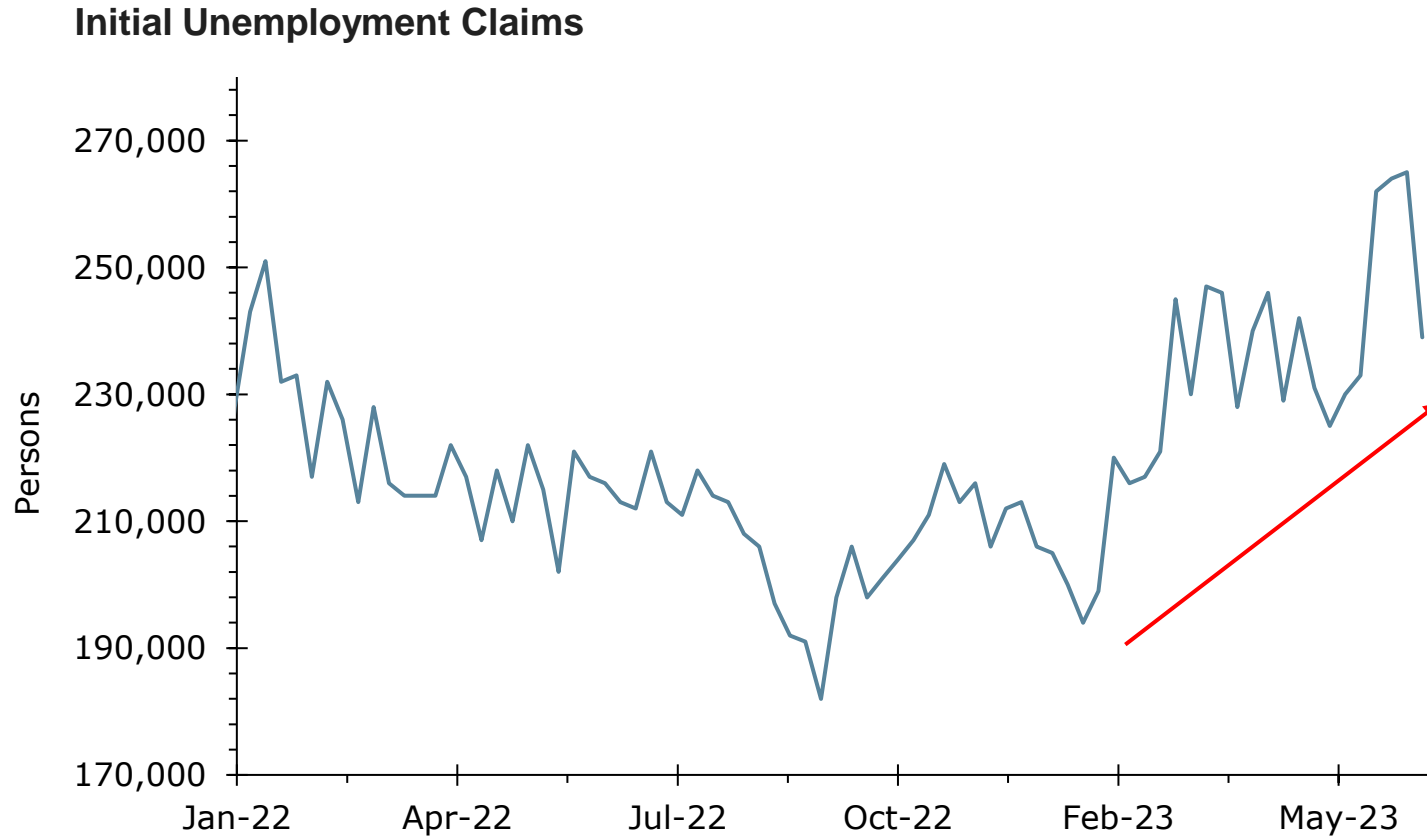
Housing Market Remains Tight Despite Higher Interest Rates

U.S. Supply of Existing Single-Family Homes For Sale



- At the current pace of sales, it would take just 3 months to exhaust the current inventory of existing homes on the market.
- While up from 2.6 months a year ago, a “healthy” level of home supply, one that is balanced between supply and demand, is considered four to seven months.
- Tight supply has helped buoy home prices and supported new home sales

Moderate Softening in the Labor Market



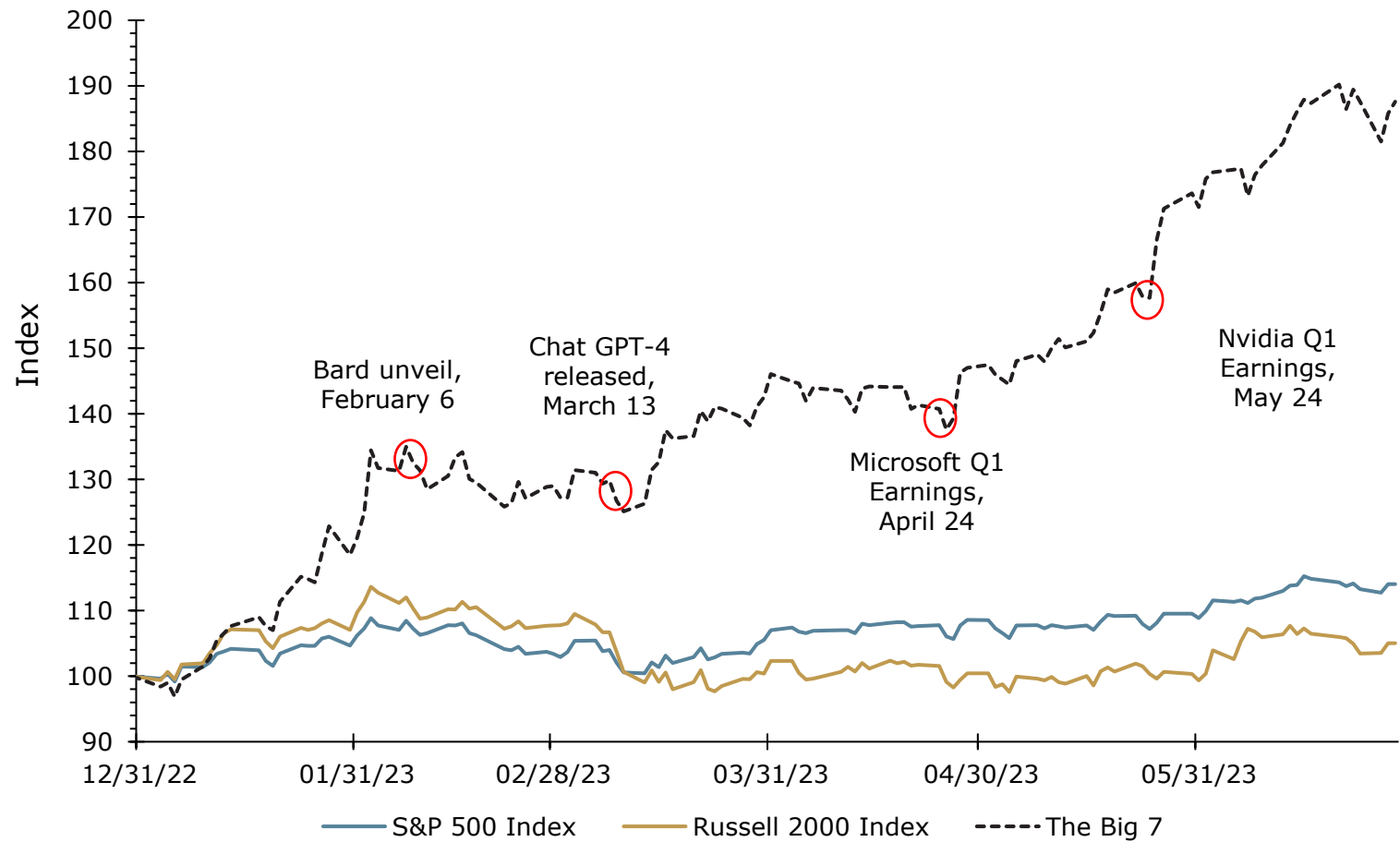
- Initial unemployment claims are beginning to increase modestly
- The low level of continuing claims suggests that newly unemployed individuals are quickly finding new jobs

An aerial photograph of a city skyline, likely Chicago, featuring a dense cluster of skyscrapers and modern buildings. In the foreground, a river flows through a green park area, with several bridges crossing it. The sky is a clear, deep blue.

Stocks and Bonds



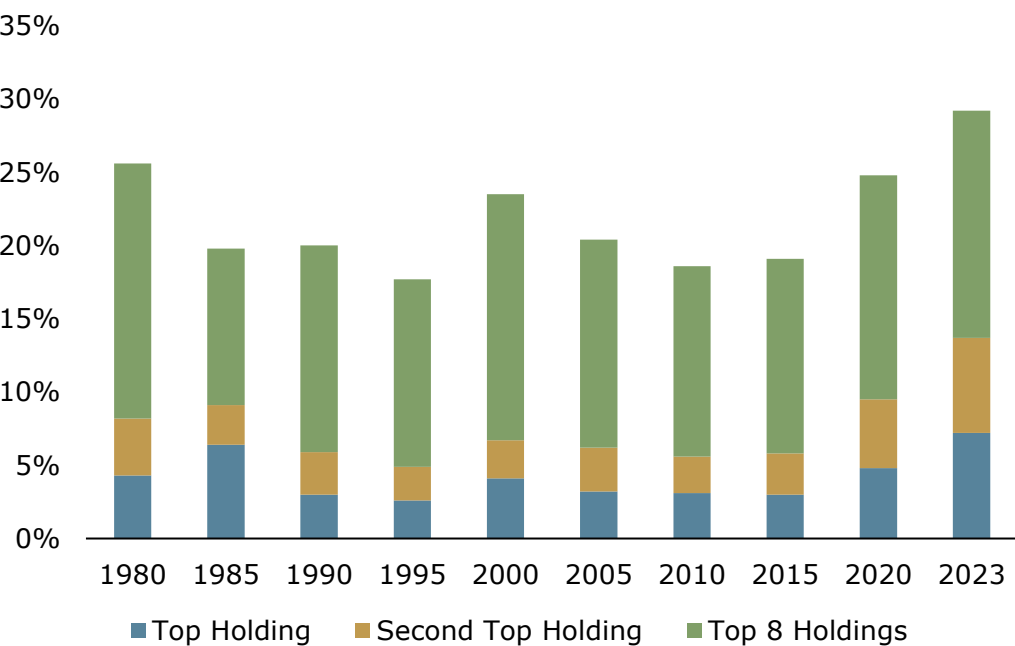
Stock Market Run Fueled by Technology Innovations



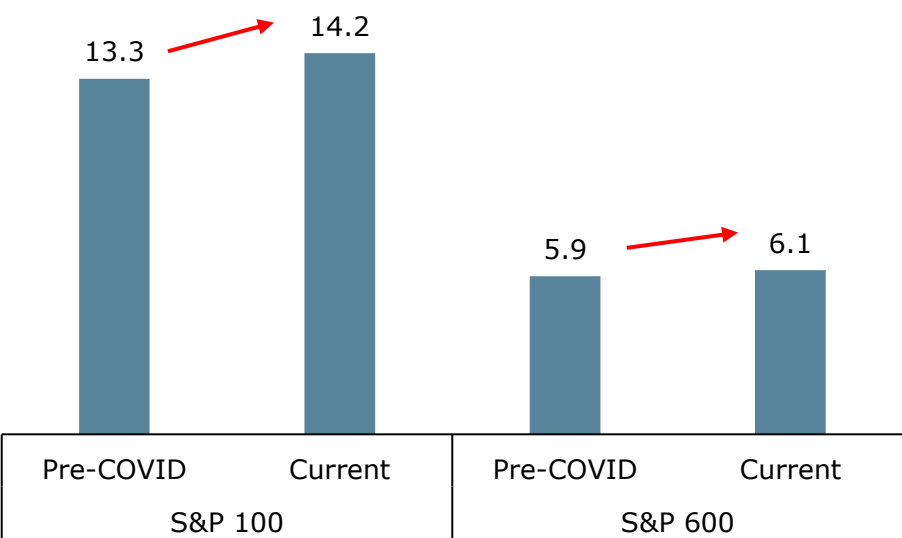
NOTE: Values are indexed to 100. **Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.** Note: views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. Source: Kestra Investment Management with data from FactSet. Index proxies: S&P 500, Russell 2000, and The Big 7 (Apple, Amazon, Alphabet, Microsoft, Meta, Nvidia and Tesla). Data as of June 30, 2023.

The Largest Companies Have Benefited from Stronger Profits

S&P 500 Index Dominated by a Few Names

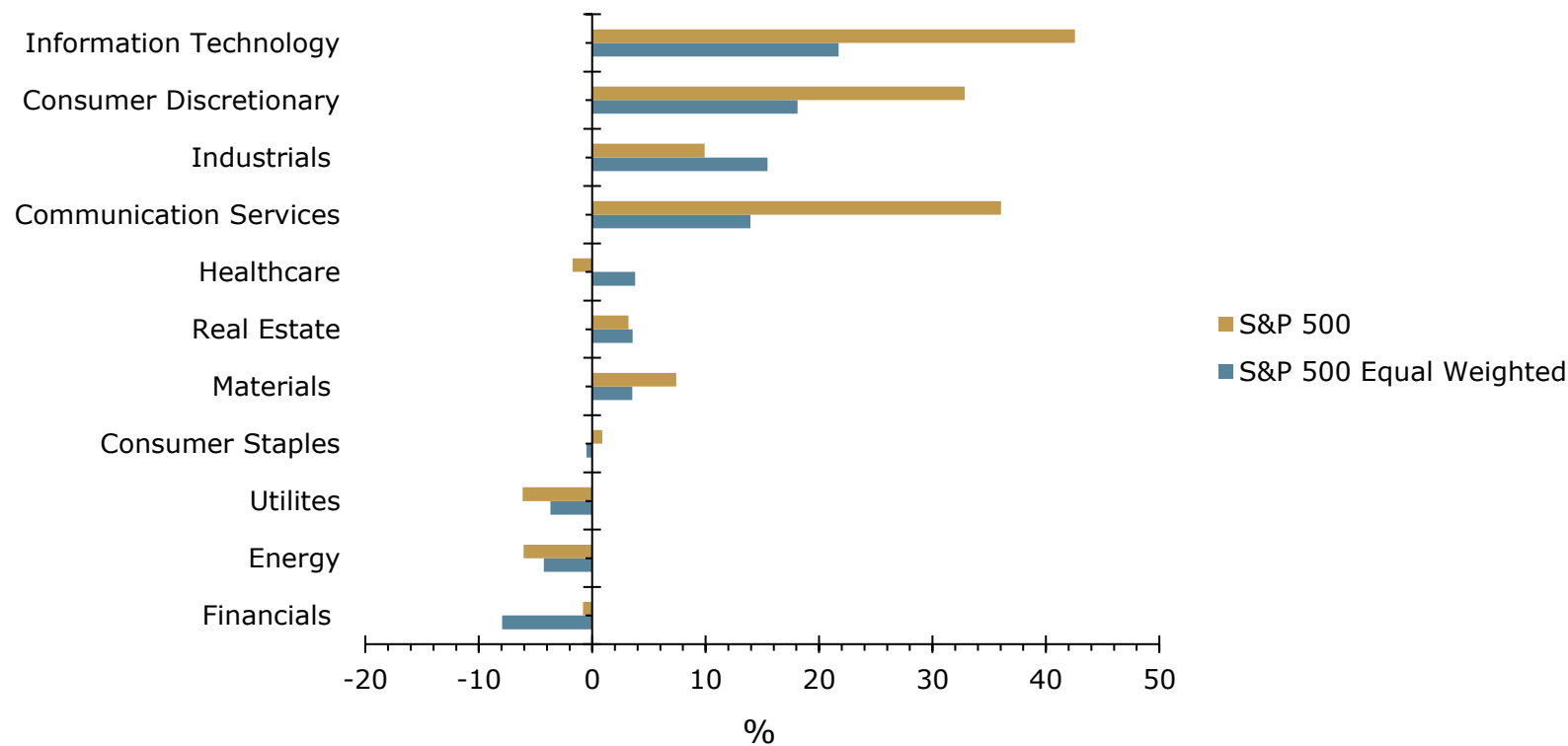


Largest Companies Have Raised Profit Margins More than Smaller Ones



Returns for Some Sectors Driven by Largest Stocks

S&P 500 and S&P 500 Equal-Weighted Index Returns by Sector, Year to Date



US Market Heavily Weighted to Technology

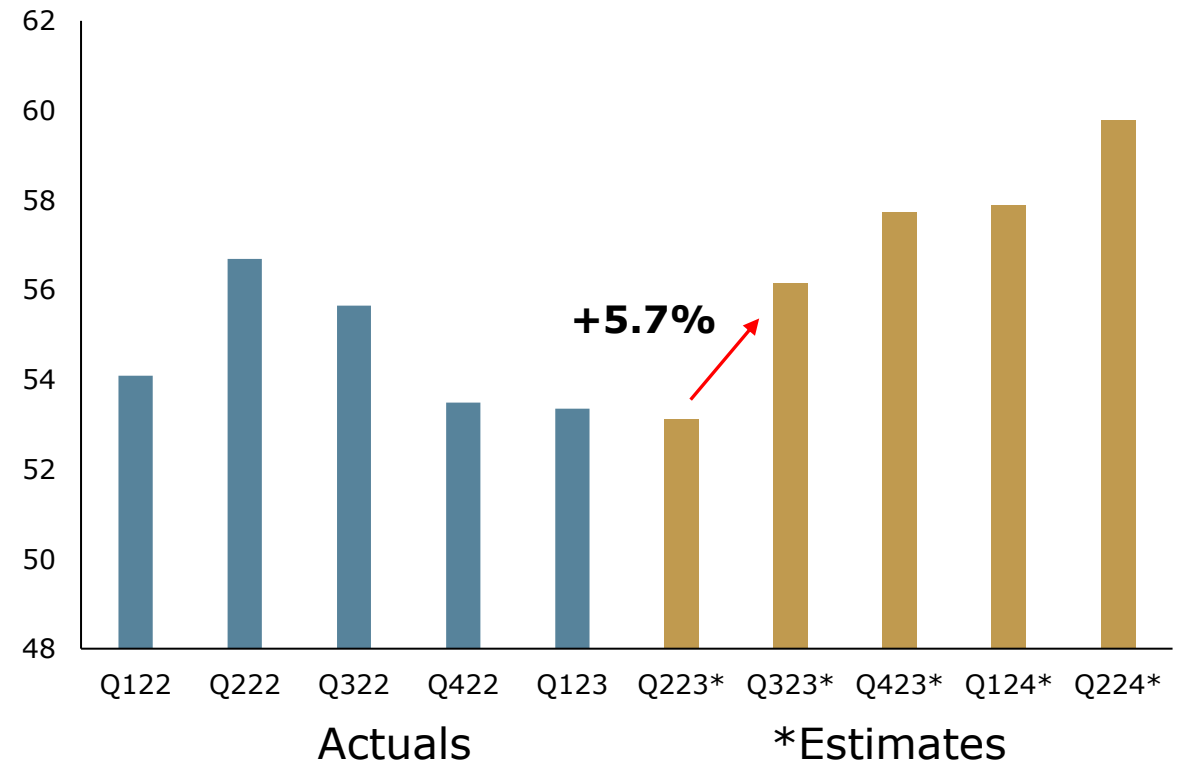
Sector Weights of Various Regional and Country Indexes

Sector	MSCI Euro % Weight	MSCI Japan % Weight	MSCI China % Weight	S&P 500 % Weight
Basic Materials	4.7%	4.7%	3.2%	2.3%
Consumer Cyclical	17.6%	15.3%	28.3%	10.8%
Financial Services	15.9%	11.3%	16.3%	12.0%
Real Estate	0.8%	2.9%	3.1%	2.5%
Communication Services	4.3%	7.1%	19.6%	8.4%
Energy	4.2%	0.7%	3.2%	4.1%
Industrials	14.7%	24.6%	6.2%	8.4%
Technology	14.7%	17.1%	6.0%	28.9%
Consumer Defensive	9.1%	5.9%	5.7%	6.6%
Healthcare	8.0%	9.3%	6.1%	13.5%
Utilities	6.1%	1.0%	2.3%	2.6%

Corporate Earnings Have Stabilized

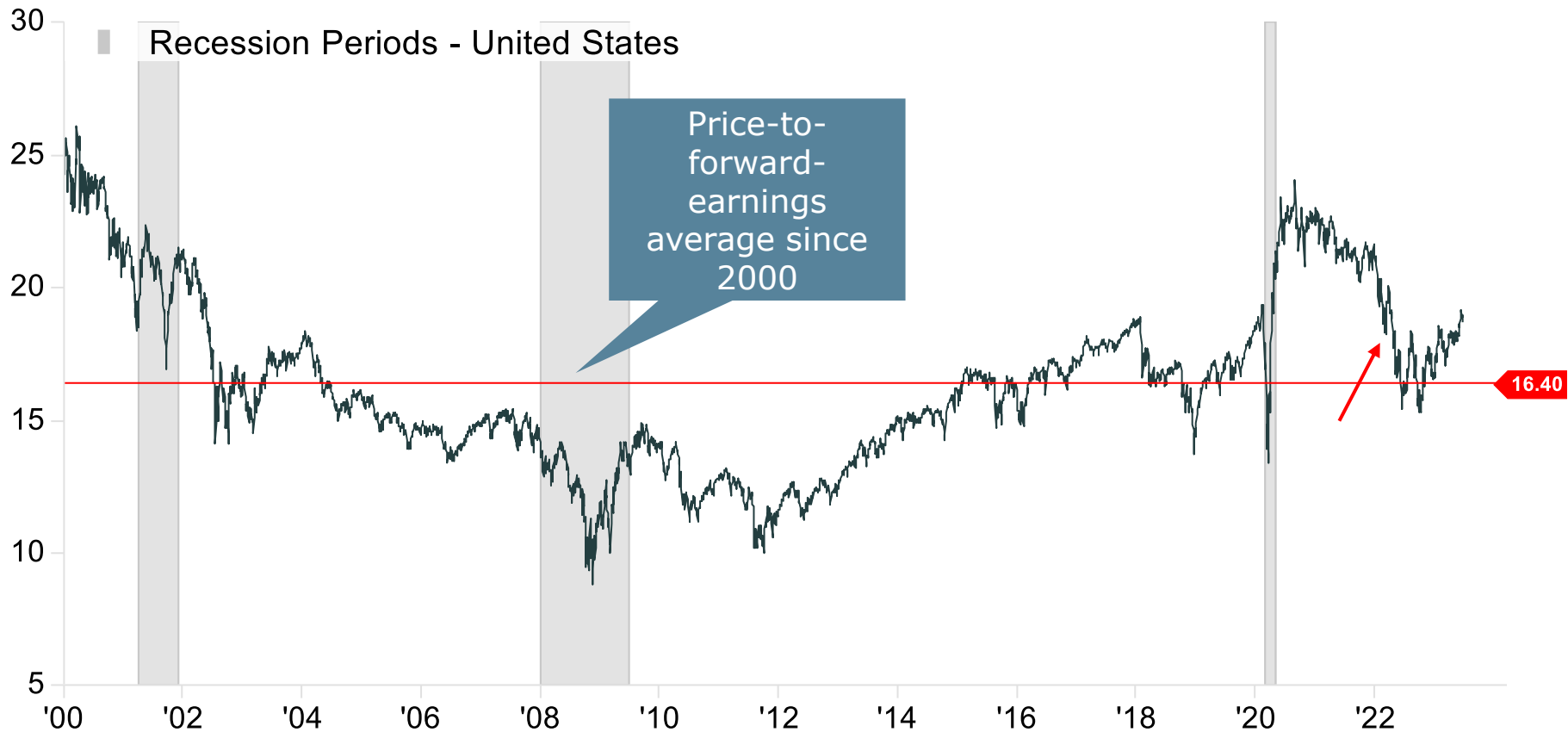
- After moderating significantly over the last six months, earnings estimates have stabilized
- Analysts currently expect 11% increase in earnings in 2024 versus 2023

**S&P 500 Calendar Year Bottom-Up EPS
Actuals & Estimates**

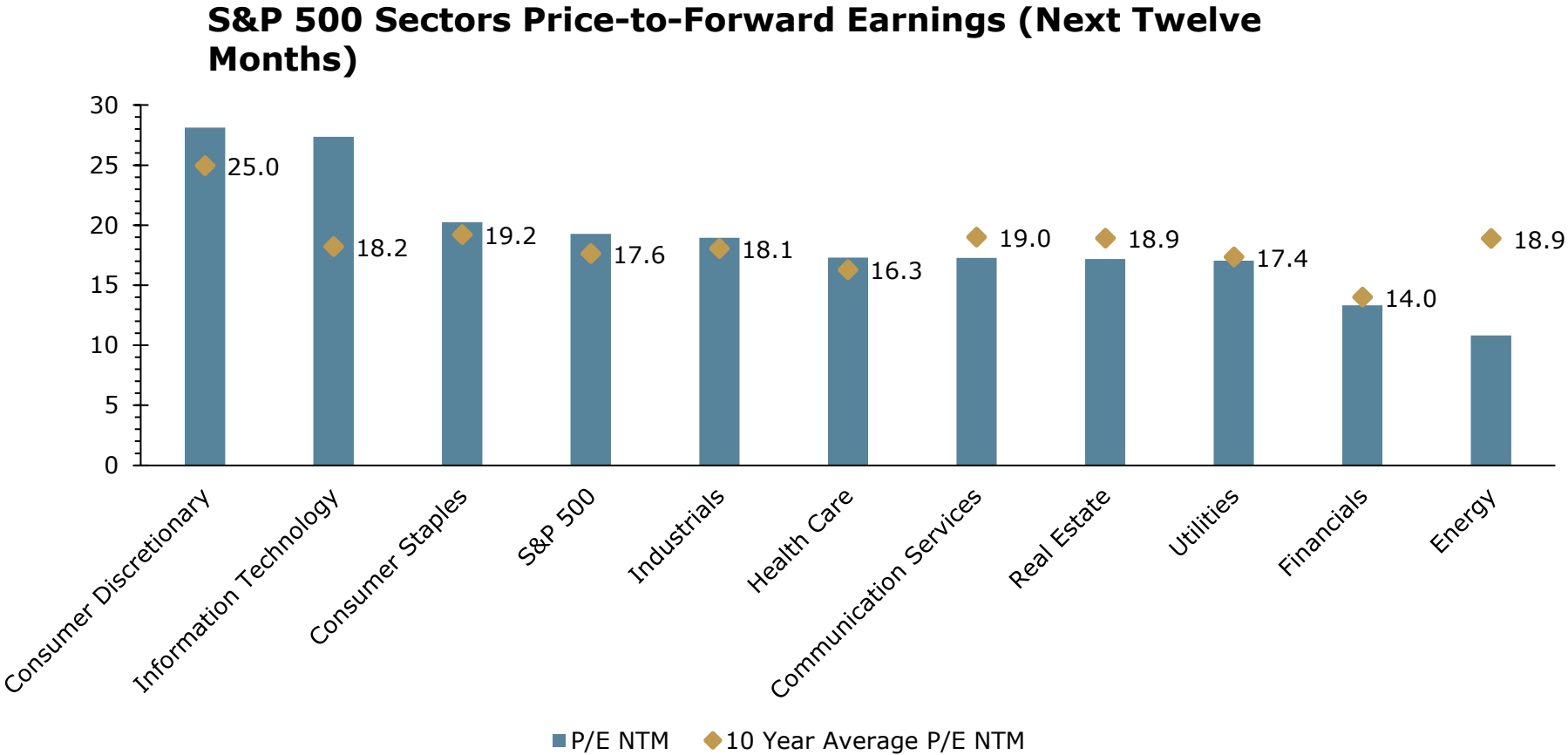


Valuations Rebounded in Early 2023

S&P 500 Price to Forward Earnings (Next Twelve Months)

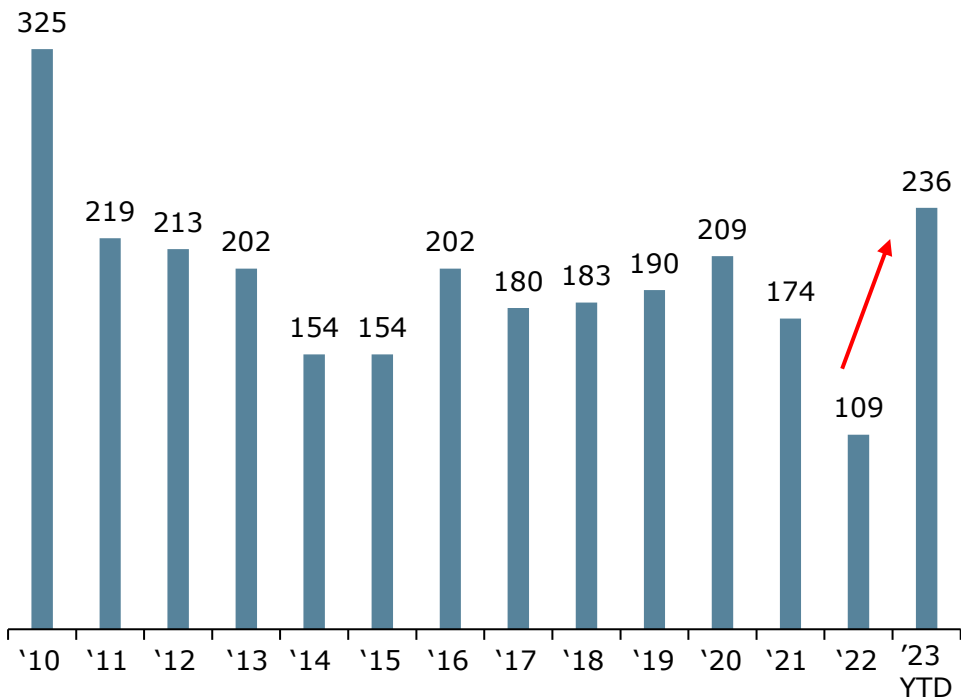


Valuations by Sector

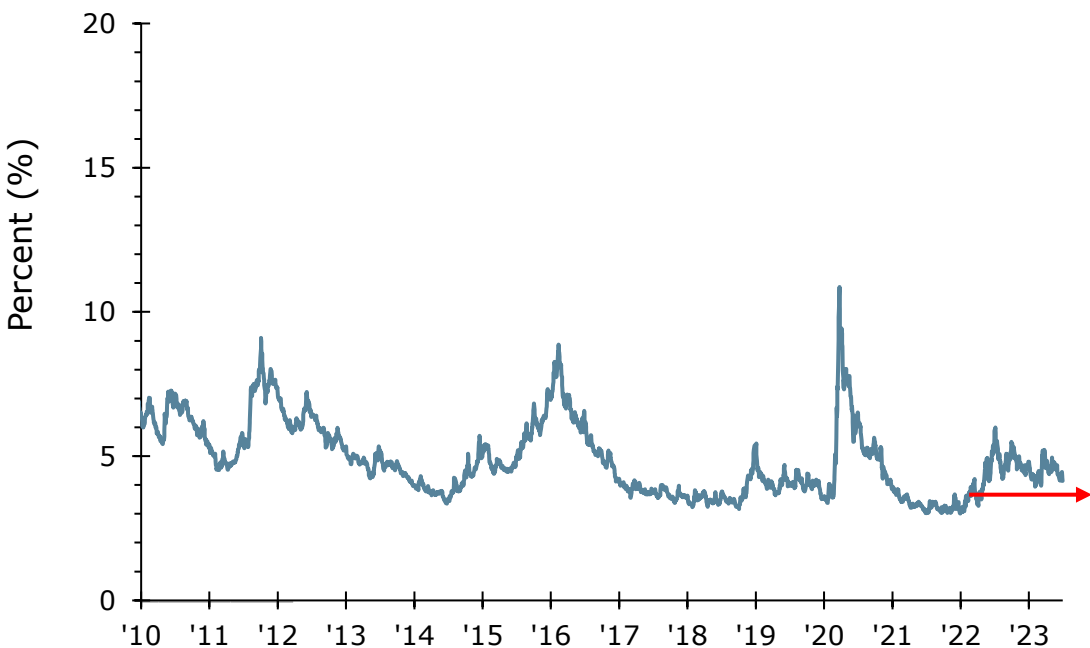


Moderate Signs of Stress in Corporates

U.S. Bankruptcy Filings By Year

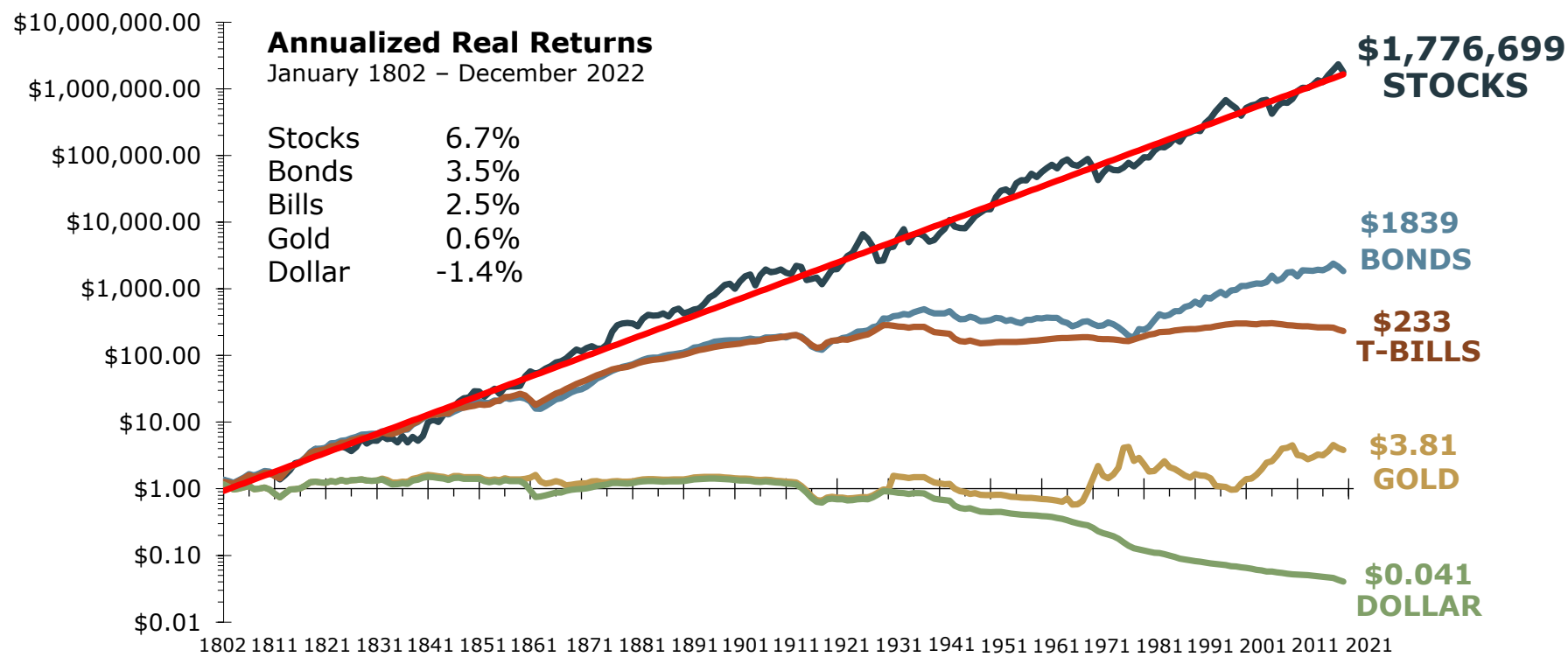


U.S. High Yield Option-Adjusted Spread



While bankruptcies have begun to increase, stress has not appeared in the high yield market as spreads have remained near historic lows

Stocks for the Long Run



“Stocks are the most volatile asset class in the short run,
but the most stable in the long run.”
Professor Jeremy Siegel

An aerial photograph of a city skyline. In the foreground, a river flows through a lush green park area with a stone-lined path. A bridge crosses the river in the middle ground. The background is dominated by a dense cluster of modern skyscrapers and high-rise buildings, some with glass facades reflecting the sky. The sky is a pale blue with soft clouds.

**Invest Wisely,
Live Richly**

KESTRA
**INVESTMENT
MANAGEMENT**