

Making economic forecasts and stock market predictions can be humbling. It's especially tough when you expect stocks to go higher and get a big drop instead. The environment today is the opposite, but still tricky, as recession hasn't followed the chorus of predictions. In some ways, figuring out what to do now that stocks have gone up is as difficult as considering what to do when stocks are down.

Today's more fully valued stock market is pricing in an increasingly optimistic outlook for economic growth and corporate profits, but the economy still faces challenges that will likely lead to slower growth in the second half — and perhaps even a mild economic contraction. So why stay invested?

First, it's difficult to time the market. We've seen this play out several times in just the past few years. For example, few foresaw the strong market rebound that occurred as we came out of lockdown in 2020, or that inflation would become the ongoing problem that we're still dealing with today. We saw it again this past spring — professional portfolio managers and investors alike were broadly pessimistic about the stock market, particularly in the wake of several bank failures. Yet, stocks have gone virtually straight up since.

Another reason to stay invested is recent and encouraging economic data, which supports higher stock prices as the odds that the U.S. economy achieves a soft landing have increased. The U.S. economy grew 2.4% in the second quarter, a solid pace for a typical economic expansion these days. The job market remains healthy with near record-low unemployment. A resilient economy has fueled better profits for corporate America than most expected, setting up a likely end to the ongoing earnings recession in the current quarter.

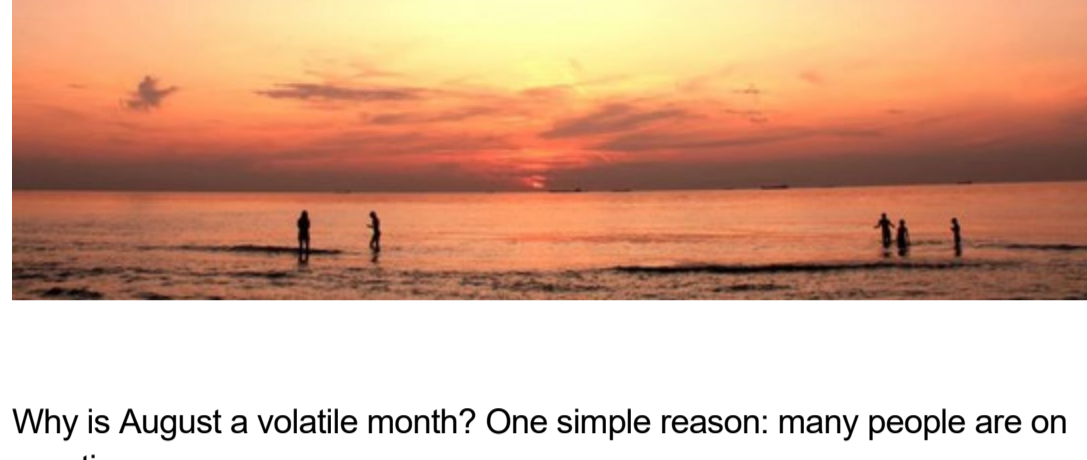
Third, lower inflation may continue to support stocks in the months ahead as the Federal Reserve (Fed) winds down its interest rate hiking campaign. The Fed's preferred inflation measure (the core PCE deflator) dropped a half point in June to 4.1% and could potentially reach the mid-3s by year-end — not far from the central bank's 2% target. Lower inflation may also be good news for bonds by enabling the Fed to cut interest rates in 2024 as most expect.

Fourth is historical comparisons. Since 1950, stocks have gained an average of 40% one year following bear market lows. Nearly 10 months since our bear market low, our current bull market is up about 28% so far. Keep in mind, once the S&P 500 has gained 20% off a bear market low (which it did June 8, 2023), the one-year average historical gain is 18.9%. We're also in the best year for stocks within the four-year presidential cycle. In other words, more gains, and record highs, in the coming year are reasonable to expect.

Finally, for those worried that gains in the broad market have been driven by only a handful of stocks, stock market leadership has started to broaden out. We believe that's a necessary condition for the next leg of this bull market. Small cap stocks fared better than large caps in July and the average stock in the S&P 500 rose more than the index over the past two months.

For those who may have missed the rally, we would advocate for dollar cost averaging which is simply investing at regular intervals over a period of time. This can be a great approach as it takes emotion off the table. Consider maintaining a cash reserve so you can take advantage of dips that will inevitably come and use volatility as an opportunity to get back to long-term target allocations.

## Why August Can Be a Volatile Month

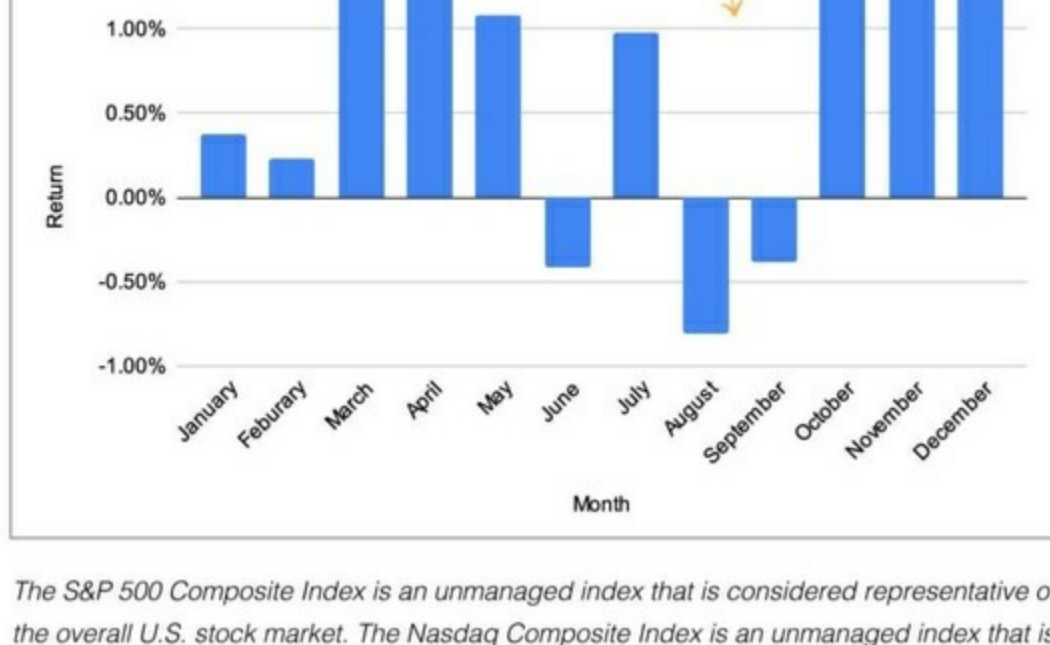


Why is August a volatile month? One simple reason: many people are on vacation.

And when people are out of the office, the financial markets often see less trading, which can cause big price swings following news events.

### It's a Seasonal Thing

Average Returns by Month: January 1990 through April 2019



*The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. The Nasdaq Composite Index is an unmanaged index that is considered representative of small-capitalization companies. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.*

Investing.com, July 28, 2023

The Fitch Ratings news was a great example. When the news started to circulate that the rating agency downgraded U.S. debt, the stock market started to trend lower. And by the end of trading on August 2, the Nasdaq Composite saw its worst day since February.<sup>1</sup>

If the Fitch news hit in April, would stocks have reacted the same way? That's difficult to answer. But when markets are thinly traded news events tend to get magnified.

So don't be surprised to see a few more volatile days this month as we get updates on inflation and the jobs market—two key economic numbers tracked by the Fed. Also, don't be surprised to see some market volatility when Fed Chair Jerome Powell speaks at the Fed's Jackson Hole Symposium on August 24-26.

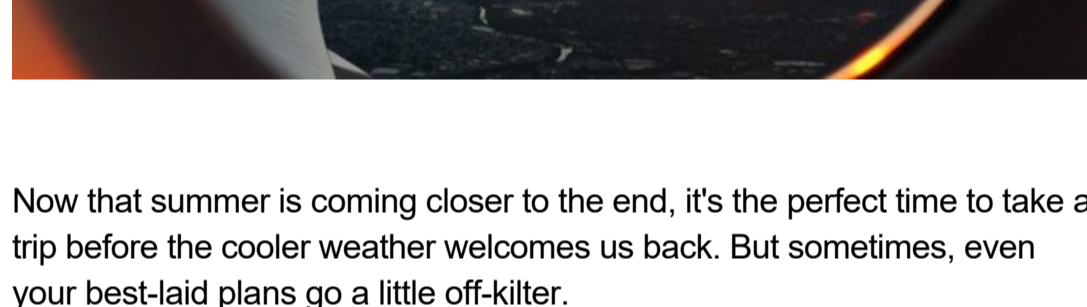
At last year's meeting, Powell's speech was seen as "hawkish" on interest rates, and it triggered a 3.4% drop in the Standard & Poor's 500.<sup>2</sup>

Our two cents is to enjoy the last few days of summer. It won't be long before schools are in session and people will return to school-year routines.

1. CNBC.com, August 2, 2023. "Nasdaq drops more than 2% in worst day since February as Fitch downgrade ignites selloff."

2. CNBC.com, August 26, 2022. "Powell's comments fuel 1,000-point market rout Friday as stocks slide for a second week."

## End of Summer Travel Tips



Now that summer is coming closer to the end, it's the perfect time to take a trip before the cooler weather welcomes us back. But sometimes, even your best-laid plans go a little off-kilter.

Here are a few of the most common travel issues and how to make sure that no matter what happens, you're prepared to weather any bumps on the road.

- **Baggage Fees:** Many airlines charge additional fees for checked baggage. Researching airline policies in advance can help you prepare accordingly. Plus, if you plan on bringing back souvenirs from your trip, you won't be surprised about any extra fees at the airport.
- **Travel Delays and Rebooking:** Travel delays are an unfortunate reality, but they don't have to derail your vacation. Set aside a portion of your budget to cover potential expenses due to travel delays, like flight rebooking fees or to cover a flat tire.
- **Accommodation Incidentals:** When booking accommodations, it's important to consider any additional charges that might arise during your stay. Some hotels may have resort fees, parking fees, or charges for amenities such as Wi-Fi or gym access. Researching these potential incidentals beforehand allows you to budget accordingly and avoid any surprises at check-out.
- **Local Transportation Costs:** Getting around your destination can sometimes incur unexpected expenses. Whether it's public transportation fares, taxi fees, or rideshare charges, it's wise to estimate and include these costs in your travel budget. Planning ahead ensures that you have adequate funds set aside for convenient and hassle-free transportation during your trip.

Travel insurance may be worth considering, but always read your policy carefully to see what's covered. Another great tip is to set aside one-third of your travel budget for unexpected expenses. That way, should the unforeseeable happen, you're prepared and can return to your vacation with minimal stress.

Have a fabulous rest of your summer - we can't wait to hear about your travels.

## Weekly Market Insights



If you like to stay up to date on what is happening in the markets, we have added a new section to our website! Each Monday, we post a timely update for you on [Weekly Market Insights](#).

## Recent Blog Posts

Check out some of our most recent blog posts we thought would be beneficial to you. As always, we try to keep you up to date with financial news and topics!

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- [Deciding When to Take Social Security | Prinvest Advisors](#)
- [FIRE Retirement](#)
- [Retiring Earlier than Expected?](#)
- [Understanding Equity Compensation](#)

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**If you know of someone who could benefit from a free/no obligation portfolio review with us, please send them our way. We are more than happy to help!**

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*References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.*

*Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue and purchase through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.*

*All data is provided as of August 1, 2023.*

*Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.*

*All index data from FactSet.*

*The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*

*This Research material was prepared by LPL Financial, LLC. All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.*

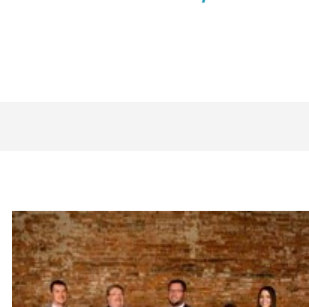
*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

*There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.*

*Past performance does not guarantee future results.*

*Asset allocation does not ensure a profit or protect against a loss.*

*For a list of descriptions of the indexes and economic terms referenced, please visit our website at [lpresearch.com/definitions](http://lpresearch.com/definitions).*



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