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THIRD QUARTER 2023 NEWSLETTER

A Narrow Market

The S&P 500 has been off to the races, posting a 15.91% advance thus far in 2023. A look beneath the surface is warranted, however, as just 7 stocks accounted for virtually all the gains. These 7 companies – Apple, Alphabet, Meta, Microsoft, NVIDIA, Amazon, and Tesla have experienced tremendous upside in a reemergence of the growth trade, reversing much of the damage in technology shares in the market selloff of 2022.

Contrast the S&P 500 with the Dow, which has delivered a return of 3.8%, much more in tune with the average non-tech S&P 500 stock. At this time, the highly concentrated, market cap weighted S&P may not be the most useful benchmark for the US equity sleeve of most portfolios.

Small cap and non-US stocks have participated in the advance. US Treasury and CD yields continue to look attractive as low-risk, fixed-income investments.

Review of Previous Quarters:

	<u>12/31/2022</u>	<u>03/31/2023</u>	<u>06/30/2023</u>	<u>YTD Change as of 06/30/2023</u>
S&P 500	3,839.50	4,109.31	4,450.38	+ 15.91%
Dow	33,147.25	33,274.15	34,407.60	+ 3.80%
NASDAQ Composite	10,466.48	12,221.91	13,787.92	+ 31.73%
Russell 2000	1,761.25	1,802.48	1,888.73	+ 7.24%
MSCI EAFE	1,943.92	2,084.49	2,131.72	+ 9.66%
10-Year Treasury Note	3.87%	3.48%	3.85%	- 2 basis points
3-Month T-Bill Rate	4.30%	4.77%	5.32	+ 102 basis points
Price of Gold (COMEX)	\$1,829.70	\$1,987.60	\$1,929.40	+ 5.45%
Crude Oil (NYMEX)	\$80.41	\$74.37	\$70.64	- 12.15%
US Dollar Index	103.48	102.57	102.91	- 0.55%

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

- A **basis point** is 1/100th of one percentage point.
- **Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.
- **Treasury Notes** are marketable U.S. government debt securities with a fixed interest rate and a maturity between one and ten years.
- The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The **NASDAQ composite** is an unmanaged index of securities traded on the NASDAQ system.
- The **Russell 2000** is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.
- The **Dow Jones Industrial Average (DJIA)** commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.
- The **US Dollar Index** measures the value of the U.S. dollar relative to a basket of top 6 currencies: EUR, JPY, GBP, CHF, CAD and SEK.

A Resilient US Economy

The Federal Reserve raised the Federal Funds Rate, which guides overnight lending among US banks, on May 3 for the 10th time since March of 2022 to a level of 5-5.25%. After a pause in June, it is anticipated there will be two more rate hikes later this year.

This is all part of an effort to slow the economy and tame rampant inflation, which peaked at 9.1% in June of last year. The rate of inflation currently stands at 4% and is forecast by *Kiplinger* to decline to 3.6% at year-end.

Despite the headwinds of higher borrowing costs, the US economy grew at an annualized rate of 2% in Q1 2023. *Kiplinger* sees growth slowing to 1.7% for 2023 and just .5% for 2024 as higher rates ultimately have an impact.

The labor market remains remarkably strong. The unemployment rate is just 3.7% now. The *Kiplinger* forecast is 4% unemployment at the close of 2023 and peaking at 4.2% in 2024.

The US economy has demonstrated amazing resilience; however, we anticipate that higher rates, tighter credit, slowing job growth, rising expenses, and diminishing savings will ultimately take their toll. This all suggests the likelihood of a mild recession starting late this year.

Market Wisdom

At MCM, we maintain a positive bias toward equities but would caution against unbridled enthusiasm.

In the first half, market participants embraced a small group of high performing companies thought to benefit from AI, wagering that the law of gravity may not apply to exceedingly high valuations. Our experience is that price matters and trees do not grow to the sky. We suggest buying on weakness or dollar cost averaging when considering such companies.

In our view, investors are wise to maintain diversity well beyond the S&P 500 where 31.5% of the index weight rests in just 10 stocks. We continue to favor representation in value-oriented stocks, mid cap and small cap shares and non-US companies in client portfolios where appropriate.

Opportunity may be found in the rest of the market narrowing the valuation gap in coming months. Broader participation would be most welcome and might well signal a healthier and more durable market advance.

We believe bonds continue to look attractive. The US Treasury yield curve remains inverted (short-term rate higher than long term rates). This can be observed in the chart above with the 3-month T-Bill rate at 5.32% and the 10-year note at just 3.85%

While the Fed is likely to continue to raise rates in the short run, it appears increasingly likely that rates may decline in the intermediate term as the US economy slows down.

Given this outlook, we are seeking opportunities to extend maturities where appropriate to lock in what we see as today's attractive rates. This is particularly true with tax advantaged municipal bonds. The yield curve for municipal bonds is not inverted such that investors are rewarded with higher yields by going out the curve.

MCM Notes



Orlando & Friends at Fenway Park

Q2 was a most eventful time for **Orlando** both personally & professionally. On the business side, he passed his second Certified Financial Planner (CFP) exam and furthered his community involvement as the founder of University of Rhode Island New Jersey network and served as anchorman on the MCM foursome playing with Bill at the Friendly Sons of St. Patrick golf outing. On the personal side, he managed a beach weekend in Lavallette over Memorial Day, a college buddy trip to Boston for golf and a Red Sox game at Fenway and even a visit to Italy with his mother and brother. Impressive!

Dan has dedicated an amazing amount of time and effort serving the greater Morristown business community these past seven years and has established himself as one of the most prominent young business leaders in this part of NJ. He recently hosted his annual Young Professionals Golf Outing at Fiddler's Elbow Country Club providing a most enjoyable sporting and networking event to a very appreciative group of his peers. This spring, Dan was honored to be asked to serve on the Fairleigh Dickinson Alumni Board of Governors. He is very enthusiastic about being part of FDU's continuing success story!



Dan & FDU Alumni Board of Directors



Kerry at the Elevate RJ Conference

Kerry was thrilled to attend *Elevate*, the Raymond James National Conference for Professional Development in April. She loves interacting with so many talented peers from around the country and staying on top of the latest ideas and information. She is passionate about helping clients achieve their goals, particularly planning for and navigating a successful retirement. Kerry and husband, Garrett, are proud parents of Gavin (9), a true student athlete competing in hockey, baseball and swimming while staying on top of his summer reading list!

No one puts in more office hours than our market professional, **Bob**, however, he has recently been spotted giving a little more attention to his golf game. He supported the New Providence Lions Club with a foursome in their recent fundraiser. Beyond that, he was selected *Most Improved Golfer* at the MCM team outing just last week. It's almost time for Bob to smell the roses and chase the little white ball. His youngest, Matt, has just one more semester at Miami University (Ohio) and then Bob will have completed the college education marathon! Also, Bob and wife, Maureen, recently had the opportunity for a pleasant trip to visit daughter, Erin, in Charlotte, NC.



MCM Team Golf Outing at Fiddlers Elbow



Bill w/ Clients and Friends at the Fiddlers One Day Golf Outing

As you might imagine, it's not easy for **Bill** to keep up with such an active, talented group of young compatriots. Nonetheless, he is determined to try. He was able to participate in some wonderful learning experiences with the *Elevate* conference and an opportunity to visit with Capital Group (American Funds) at their Los Angeles headquarters. Bill has also ramped up his volunteer efforts with greater involvement with the Cancer Hope Network, Mayo Performing Arts Center, The Knights of Columbus, The Friendly Sons, Grow it Green Morristown, the Schiff Natural Lands Trust, and several additional worthwhile organizations. Freshly recovered from March shoulder surgery, he has also jumped at every opportunity to play golf over the last several weeks.

Our practice continues to grow, in large part from referrals from our valued clients. We would be honored to take care of a friend, colleague, or family member in the same fashion we have served you.

Thank you for your continued trust and support.

Sincerely,

William F. Burke, Jr.
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Registered Principal, RJFS

Robert J. Burke
Vice President, Mendham Capital Management
Investment Consultant, RJFS

Kerry Mellott
Vice President, Mendham Capital Management
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