Capital Ideas

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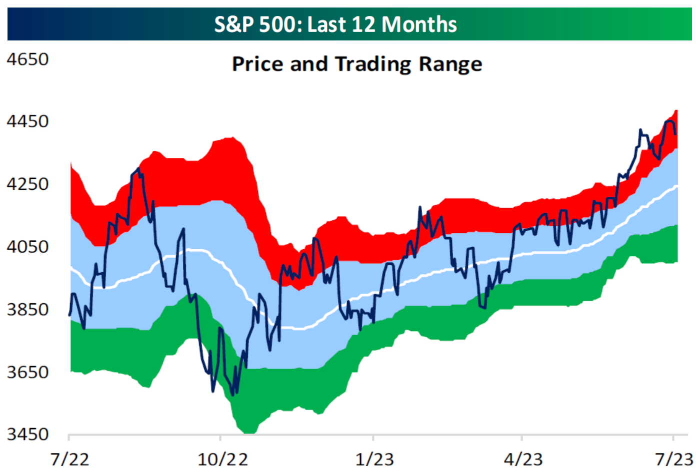
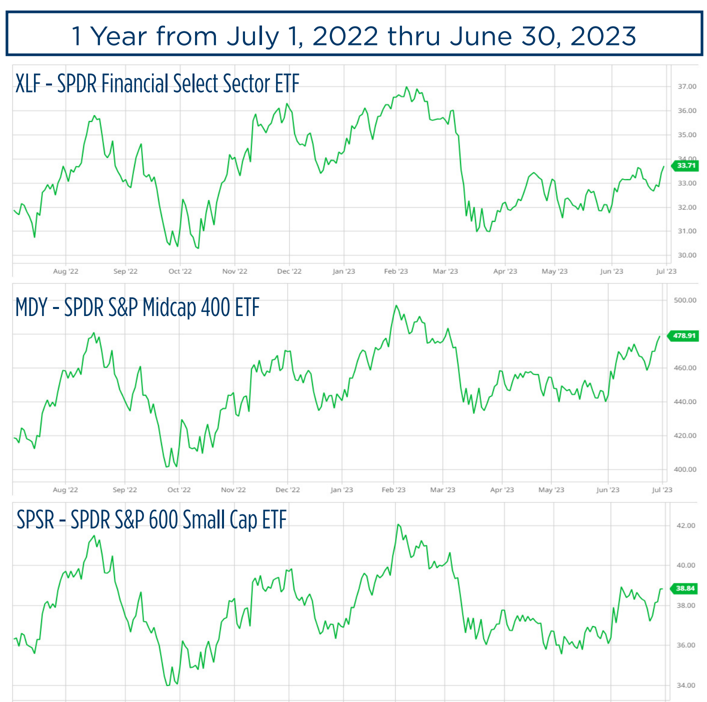
Dear Reader,

The second quarter ended on a strong note with the S&P 500 rising 6.6% in the month of June. At the halfway point of the year stocks have posted a 17% gain and are 26% higher compared to the lows of October 2022. The traditional definition of a bull market is a 20% gain from the lowest low.



Source: Bespoke Investment Group

The amount of this advance from the October lows confirms what we have believed which is a new cyclical bull market is underway. While the market's upward trend has been driven by a handful of large technology stocks there are signs the recent rally may be broadening out. For example, financial services stocks, which have been a notable laggard were up sharply in June. This was especially evident in the regional bank stocks which were affected by recessionary concerns and several bank failures. Additionally, small and mid-cap stocks which until recently were significant underperformers, enjoyed strong gains during June.



Statistically if a new bull market did emerge in late 2022, we are still in the

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early stages. Historically, the average bull market cycle has lasted roughly 34 months with stock market gains of 114%. Since the October low the return has been roughly 26% and the time taken has been just 8 months. While those technical indicators support our outlook the rally will still need to be supported the fundamental factor of earnings growth in the coming quarters. Improving fundamentals usually drive higher valuation levels and with them new market highs characteristic of bull markets.

Earnings estimates, which were consistently trending lower have been firming recently. This is happening at higher levels than anticipated earlier as analysts have been predicting an economy mired in recession. They were encouraged by relatively modest earnings declines in recent quarters. If those estimates represent the low-point and growth resumes it will be a very strong positive for the bulls. And in recent analysts calls some companies are guiding to just that scenario. A recent example is Micron Technology which during a June earnings call highlighted their belief that demand for semiconductors has already bottomed in the first half and will expand for the rest of the year.

S&P Bear Markets*

Start	End	% Change	Days
9/16/29	11/13/29	-44.6%	58
4/10/30	12/16/30	-44.3%	250
2/24/31	6/2/31	-32.9%	98
6/26/31	10/5/31	-42.5%	101
11/9/31	6/1/32	-61.8%	205
9/7/32	2/27/33	-40.6%	173
7/18/33	10/19/33	-29.4%	93
2/6/34	3/14/35	-31.8%	401
3/10/37	3/31/38	-54.5%	386
11/9/38	4/11/39	-24.4%	153
10/25/39	6/10/40	-31.9%	229
11/7/40	4/28/42	-34.4%	537
5/29/46	5/19/47	-28.5%	355
6/15/48	6/13/49	-20.6%	363
8/2/56	10/22/57	-21.6%	446
12/12/61	6/26/62	-28.0%	196
2/9/66	10/7/66	-22.2%	240
11/29/68	5/26/70	-36.1%	543
1/11/73	10/3/74	-48.2%	630
11/28/80	8/12/82	-27.1%	622
8/25/87	12/4/87	-33.5%	101
3/24/00	9/21/01	-36.8%	546
1/4/02	7/23/02	-32.0%	200
10/9/07	11/20/08	-51.9%	408
1/6/09	3/9/09	-27.6%	62
2/19/20	3/23/20	-33.9%	33
1/3/22	10/12/22	-25.4%	282
	Average	**-35.1%**	**286**
	Median	**-32.9%**	**240**

S&P Bull Markets*

Start	End	% Change	Days
11/13/29	4/10/30	46.8%	148
12/16/30	2/24/31	25.8%	70
6/2/31	6/26/31	25.8%	24
10/5/31	11/9/31	30.6%	35
6/1/32	9/7/32	111.6%	98
2/27/33	7/18/33	120.6%	141
10/19/33	2/6/34	37.3%	110
3/14/35	3/10/37	131.6%	727
3/31/38	11/9/38	62.2%	223
4/11/39	10/25/39	26.8%	197
6/10/40	11/7/40	26.7%	150
4/28/42	5/29/46	157.7%	1,492
5/19/47	6/15/48	23.9%	393
6/13/49	8/2/56	267.1%	2,607
10/22/57	12/12/61	86.4%	1,512
6/26/62	2/9/66	79.8%	1,324
10/7/66	11/29/68	48.0%	784
5/26/70	1/11/73	73.5%	961
10/3/74	11/28/80	125.6%	2,248
8/12/82	8/25/87	228.8%	1,839
12/4/87	3/24/00	582.1%	4,494
9/21/01	1/4/02	21.4%	105
7/23/02	10/9/07	96.2%	1,904
11/20/08	1/6/09	24.2%	47
3/9/09	2/19/20	400.5%	3,999
3/23/20	1/3/22	114.4%	651
10/12/22	6/16/23	24.0%	247
	Average	**114.4%**	**1,011**
	Median	**76.7%**	**522**

**Bear markets defined as 20%+ declines that were preceded by a 20%+ rally.*

**Bull markets defined as 20%+ rallies that were preceded by a 20%+ decline.*

Source: Bespoke Investment Group

We know from experience that early in bull markets the level of conviction among investors is negligible. Most of the time this is due to skepticism concerning the prospects for an improving economic future. A recent example were the dark days of spring 2009, when the stability of the global financial system was in question. Like the current Fed induced stock market decline, the 1980 – 1982 bear market was brought about by rapid interest rate increases. Reacting to the inflation of the previous decade then Fed chair Volker raised rates sharply twice.

This resulted in back-to-back recessions leaving frustrated investors in doubt as to the economic future. What followed in each instance, however, was a prolonged period of stock market gains. The secular bull market commencing in 1983 lasted nearly 17 years with the S&P 500 increasing roughly 14x from the lows in 1982 through 2000. And the current secular rise beginning in March 2009 has risen nearly 500%. As the fundamental picture improves the improvement in investor sentiment creates powerful momentum for stocks. Experience teaches there will always be some concern on the horizon but over time stocks tend to climb this wall of worry. We believe this has been the case thus far in 2023.

As always, we thank you for your patronage and encourage you to call us with any questions or concerns.

Sincerely,

CJ Brott

Karen Burns

Andrew Kerai