August 7, 2023

Capital Ideas Advisors
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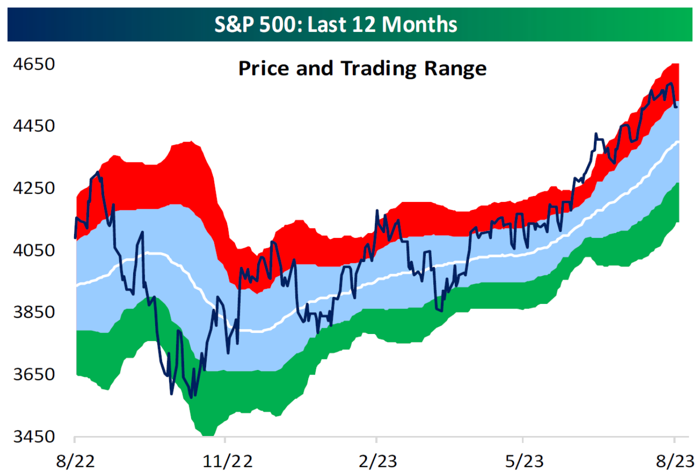
Dear Reader,

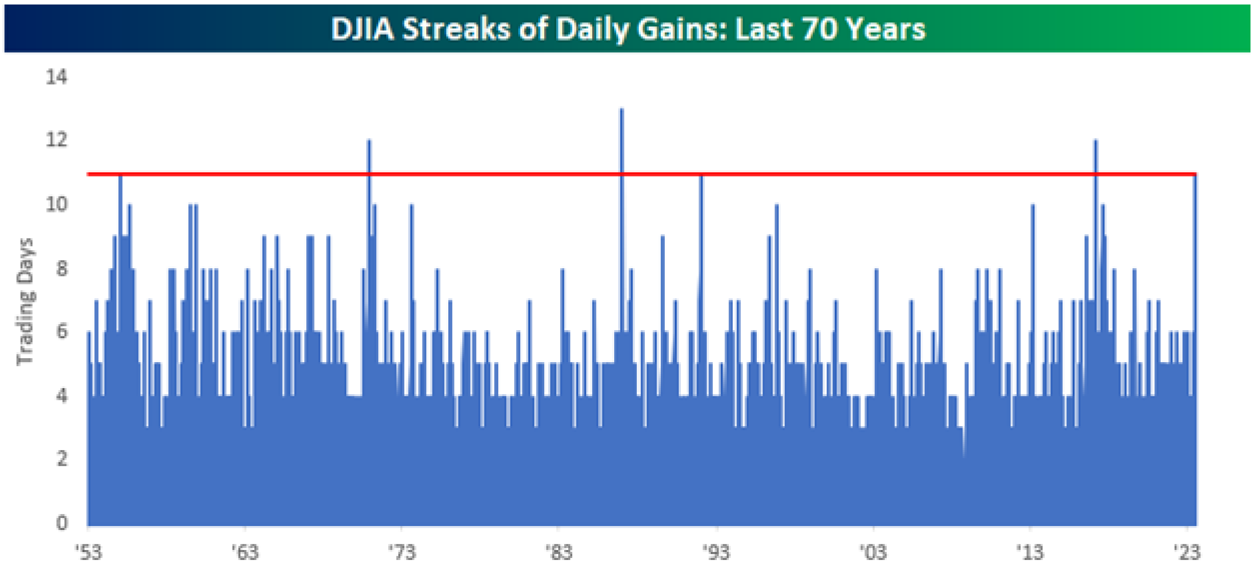
July saw more market gains following a very strong first half of the year – the S&P 500 was up 3.2% during the month and is now 21% higher year to date. Stocks have now recovered roughly 84% of their losses from the October 2022 lows and are within 5% of the highs which occurred in January 2022. It remains our view that a bull market began late last year and a new market high will be eventually reached during this cycle as the rally gains further momentum.



Source: Bespoke Investment Group

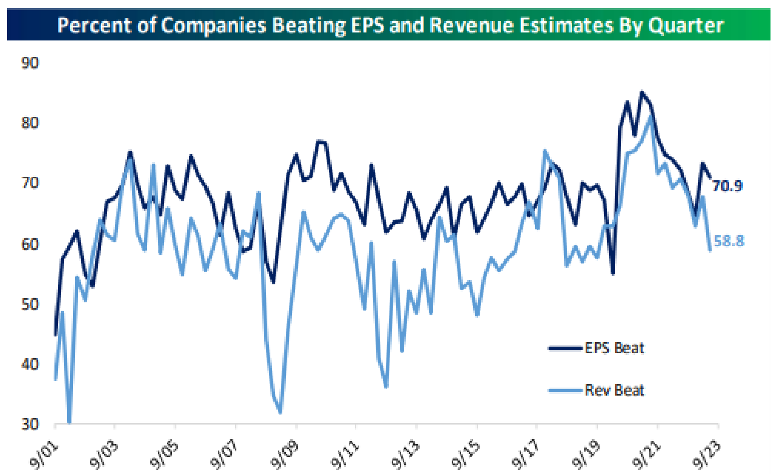
Late afternoon on August 1, Fitch Ratings downgraded U.S. Treasury debt to AA+ from AAA. You may recall that in 2011, the U.S. credit rating downgrade from Standard & Poor's coincided with a sharp decline in stocks and a temporary halt to the bull market that began in 2009. However, it is our view that in 2011 a number of other factors, including concerns regarding several European countries' (i.e. Greece, Italy, Spain, etc.) ability to service their debts and potential spillover effects, concerns regarding credit availability, and the pain from the financial crisis still fresh on investors' minds, were also factors which drove the sell-off during that period. In fact, buyers flocked to Treasury bonds, bidding up their price, in a flight to safety following the downgrade that year. With the debt ceiling scare now behind us earlier in 2023, and none of those other concerns present, we expect the subsequent sell-off this time around (the S&P 500 is roughly 2% lower following the announcement) to be shallow and short-lived and does not change our view that a cyclical bull market is now in place.

We continue to see evidence that market gains are broadening out beyond the largest technology companies, which is healthy when establishing a strong base for a sustained bull market. The Dow, for example, which is an index more heavily weighted



Source: Bespoke Investment Group

towards traditional manufacturing companies (i.e. Caterpillar, Boeing, Home Depot, etc.) compared to the S&P 500, experienced a whopping 13 straight days of gains during July! A Dow winning streak this long hasn't happened since 1987.

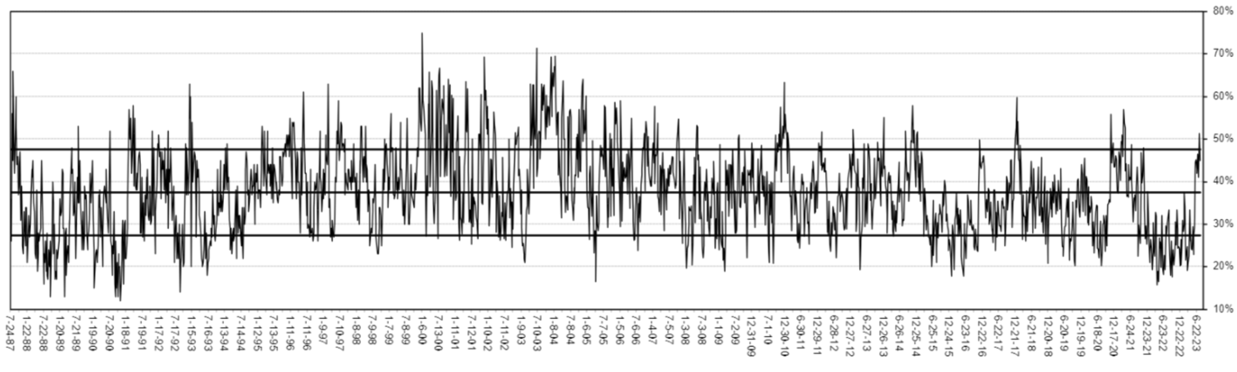


Source: Bespoke Investment Group

While it's encouraging to see positive market momentum building, it remains our view that corporate earnings results will be the ultimate driver behind the next leg of this rally. We are encouraged that forward earnings estimates now appear to be stabilizing at higher levels after being continuously reduced since the beginning of last year. Should companies continue to meet or exceed expectations for results in coming quarters and earnings trend higher, that should provide fundamental support for this evolving bull market. Given that we are now more than halfway through the year, and companies typically exceed expectations (which are managed through forward guidance), we are optimistic that this improved financial outlook should play out during the remainder of the year and into 2024.

While investor sentiment was extremely negative entering 2023, it has since become more balanced among bulls and bears as the market has run higher. It is not uncommon for the initial leg of a bull market to be driven by an improvement in sentiment among investors feeling extremely pessimistic regarding the economic outlook. Subsequently, the bull market is carried

AAII Investor Sentiment Survey: 7/24/1987 thru 7/26/2023



forward as fundamentals improve across the economic landscape and companies show higher levels of profitability. We believe we are at this inflection point in the cycle as market gains from the end of last year have largely been driven by a shift regarding investor sentiment from extremely bearish to more normalized. According to the AAII Sentiment Survey, investor sentiment is currently 44.9% bullish (24.1% bearish), which is modestly above the long-term average of 37.5%. Coming into the year, only 26.5% of investors surveyed were bullish (more than one full standard deviation below the mean) and the shift in mood was a key driver propelling market action in the first half of the year.

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