September 7, 2023

Capital Ideas Advisors
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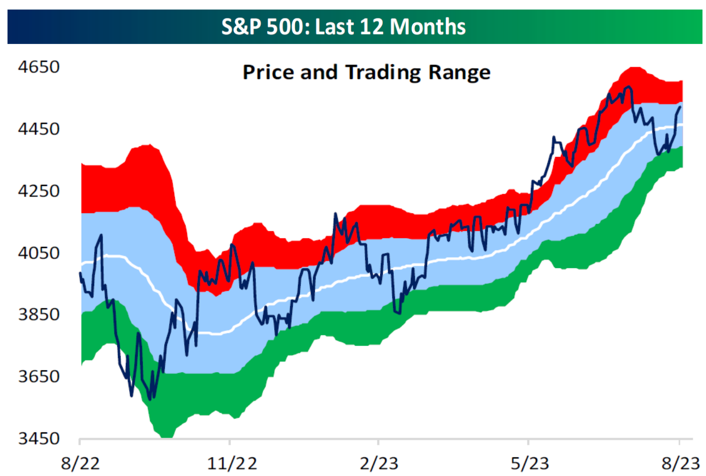
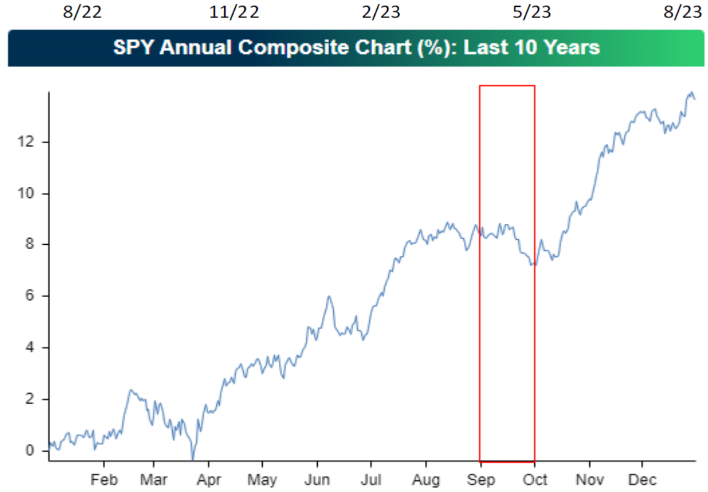
Dear Reader,

During August, stocks pared back some recent gains. The S&P 500 was down 1.6% during the month. The August-September timeframe often coincides with seasonal weakness for the stock market, which has played out thus far in 2023. That said, the S&P 500 is up 18.7% year-to-date and we believe the current bull market, which began in October 2022, is still well intact with further upside through the end of the year. We view recent weakness as healthy and an opportunity to deploy cash at more attractive levels.

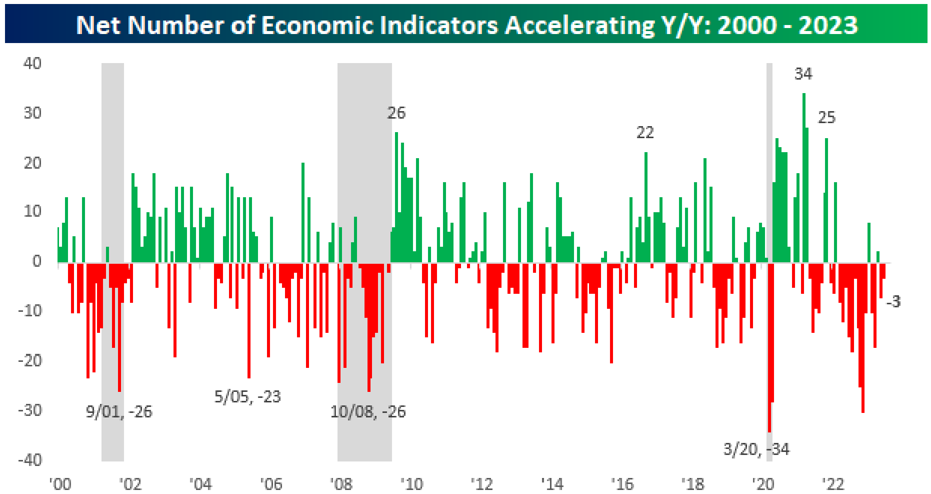




Source: Bespoke Investment Group

Despite the negative price action last month, the picture regarding corporate earnings continues to improve meaningfully. Given that stocks are typically valued based on a multiple of earnings, the most significant driver regarding a stock's performance over the long-term is a company's earnings results. Earnings for S&P 500 companies increased 4.5% during the second quarter and are expected to rise further throughout the remainder of 2023 and 2024. While most analysts had been reducing their estimates following 2021, they are now increasing their expectations for earnings going forward. Should corporate profits continue to trend higher and surpass these expectations, this bodes well for stocks and supports our view that we are in the very early innings of this new bull market.

Calls for a recession among analysts have been reduced meaningfully as the year has progressed. That said, the economic picture remains mixed. Inflation readings in the U.S. have continued to trend lower while the various data points regarding consumer and business activity have not sounded alarm bells that an imminent economic downturn is likely. GDPNow, which is a model produced by the Federal Reserve Bank of Atlanta, is forecasting annual GDP growth at a whopping 5.6% during the third quarter compared to an average of roughly 2.4% among economists. This wide range of projections from a highly regarded economic model and leading forecasters looking at the same data points highlights the continued uncertainty surrounding the current landscape. It also suggests, however, that the most likely outcome, at least in the short term, is either slow (but positive) or more robust output across the U.S. economy versus negative growth which would occur during a downturn. This is aligned with our view that corporate earnings will continue to trend higher after a cyclical low point during the second quarter of last year following the high watermark during the fourth quarter of 2021.



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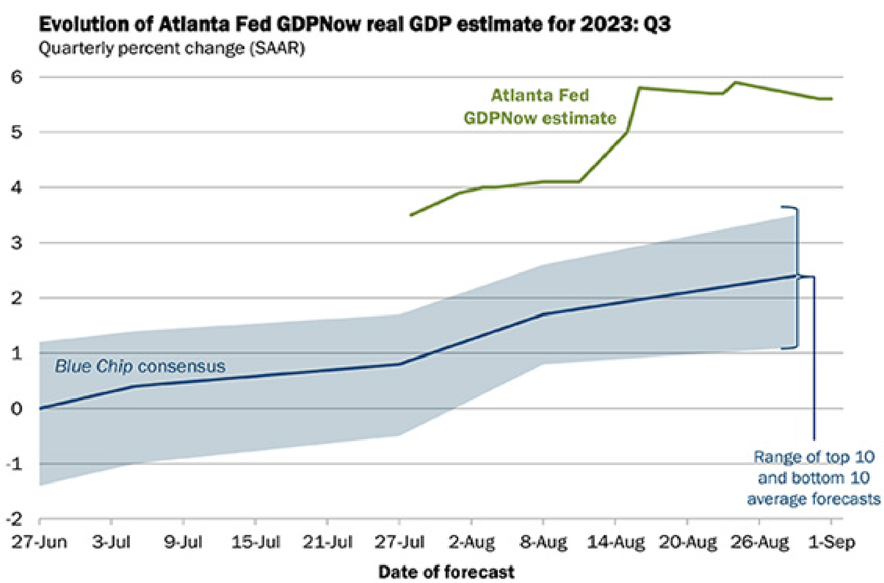

Source: Bespoke Investment Group

Overall, it is our view that this bull market is following a typical pattern. Initially, sentiment is extremely bearish, which was indeed the case during late 2022 following the market's low point in October. This, as is usually the case, coincides with analysts significantly reducing earnings forecasts and virtually every talking head suggesting that an imminent recession is all but certain. As company financial performance proves less dire than expected, market sentiment improves along with price action, which has occurred thus far in 2023. The next leg of the cycle, which we believe we have now entered, occurs as financial projections turn more bullish and growth expectations resume, setting a higher bar for companies to meet going forward, albeit against a more positive fundamental backdrop. This is usually the most extended part of the cycle which is reflected by consistent earnings growth over several years and generally strong market performance. While no two cycles are exactly the same, and there are always potential variables (i.e. war, commodities shock, political gridlock, etc.) that can abruptly interrupt this pattern, so far this cycle appears to be following the typical story line.

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