Advisory Notes

JUNE 2023

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Summer Rally

Although the first half of the year seems to have been volatile, the markets continue to climb the wall of worry that faces investors today.

The Fed continues its hawkish stance on interest rates as the market continues to digest rate hikes to fight inflation and a low unemployment number. Earnings from the Information Technology, Consumer Discretionary and Industrials sectors have been resilient and leading estimates have been revised upwards, while Energy, Communication Services and Utilities have lagged in this inflation fighting environment.

The breadth of the market finally began to widen at the end of the second quarter as more stocks participated in the rally, beyond the magnificent seven (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla), which helped build a foundation under the market with the S&P 500 up 16.89%, the Dow up 4.94% and the NASDAQ up 32.32% year to date (See Market Table).

While there is definitely global unrest with China and Russia, the economic conditions seem to be weathering the storm. Japan and India are beginning to show signs of life in their economies as well.

The yield curve remains inverted and will potentially be there for a prolonged period of time into late 2024 or 2025, as the Fed needs quarter after quarter of slowdown and contraction before

See **Summer** *on Page 2*

Market Table

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Comparative Index Period Returns
From 03-31-23 THROUGH 06-30-23

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
03-31-23 to 04-30-23	2.57	1.56	0.07	-1.80	0.61	-0.25	0.88	-0.08
04-30-23 to 05-31-23	-3.17	0.43	5.93	-0.92	-1.09	-0.94	-1.44	-0.08
05-31-23 to 06-30-23	4.68	6.61	6.65	8.13	-0.36	1.09	0.31	0.03
Cumulative Returns 03-31-23 to 06-30-23	3.97	8.74	13.05	5.21	-0.84	-0.11	-0.27	-0.13
YTD Returns 12-31-22 to 06-30-23	4.94	16.89	32.32	8.09	2.09	2.91	3.30	-0.23

The highest compliment our clients can give is the referral of their friends and family. Thank you for your trust!

Director's Chair: The Lying Debt Ceiling

The debt crisis standoff caused a nearly 3% decline in the S&P 500 over a matter of a few days in May. How can one explain the statements made by both political parties and their so-called "news" media sycophants about the debt ceiling fight? The joke, "How do you know a politician is lying? When his lips are moving." The joke first appeared in the *Charleston Daily Mail* in 1956 and seems apropos.

One side would tell you the nation's debt is sacred and they have never used the debt ceiling as a negotiating tactic. That default is the nuclear option. The other side would tell you the debt ceiling has always been used as part of the normal Washington political give and take. Their lips are moving. It is reminiscent of the thirteen minute documentary *The House in the Middle*, available for free viewing on YouTube, which depicts a house surviving a nuclear blast because the house was freshly painted. The documentary uses real government nuclear blast test footage in the 1954 color version. Paint companies and their government supplicants attempted to sell paint by convincing the public they could better survive World War III. Their lips are moving.

It is rather simple. When one political party has control of the White House, Senate and House of Representatives, the debt ceiling is raised without much concession, particularly in the past thirty-five years, the sacred debt standard. When there is divided government, expect a fight to extract concessions, the give and take standard.

In July 2019, Nancy Pelosi used her leverage as the majority party in the House versus the Republicans by extracting $320 billion in increased spending limits that favored higher increases for discretionary spending over military expenditures in exchange of waiving the debt ceiling for two years allowing for over $6 trillion in new debt.

This year the Republicans used their leverage as the majority party in the House versus the Democrats. The Fiscal Responsibility Act of 2023 generates $1.3 trillion in reduced spending growth over the next ten years, would further cut spending by 1% if all twelve budget appropriations are not enacted by January 2024, slightly curtails the increased (from Inflation Reduction Act) enforcement budget of the IRS for two years, re-imposes Clinton era work requirements for food stamps and Medicaid, enacts a two year time limit for some Federal permitting for energy and infrastructure projects, issues the final permit for a West Virginia pipeline and ends the student loan payment moratorium this fall.

Sadly, this most likely was just theater. If one remembers the sequester fight in 2011 that was supposed to generate $900 billion in savings over ten years that never materialized or the 1997 Medicare Sustainable Growth Rate amendment that was supposed to limit Medicare spending, yet failed so miserably that it was suspended each year from 2003-2014 until it was finally gutted in 2015.

Stocks did rally 5.8% since the May lows bolstered by the announcement of an agreement between both factions, which provides relief to investors as the uncertainty of a potential debt crisis is averted.

However, believing $1.3 trillion in reduced spending growth will be coming over the next ten years is like believing a politician when their mouth is moving. Real government spending cuts are as likely as a house surviving a nuclear blast because of its fresh coat of paint. Be real nice to your grandkids, because they will be paying this mountain of debt, currently $32 trillion or approximately $91,500 for every adult and child in United States, not including the underfunded Social Security and Medicare liabilities that dwarf the current national debt.

Louis F. Ruize
Director of Research/Portfolio Manager

Summer

(Continued from Page 1)

short-term rates will be lowered. We remain optimistic that the market will continue its growth albeit with some headwinds. We will continue to monitor and invest your portfolios based on individual goals and objectives.

At VASI, we wish you a relaxing and safe summer season.

Joseph M. Valicenti
President/CEO

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Tax Planning

Tax planning is the analysis of a financial/tax situation to ensure that all elements work together to allow you to pay the lowest taxes possible. Proper annual planning may help minimize one's federal income tax liability and could take a more in-depth look into lowering your taxable income as well as boost your income into retirement. Annual tax planning allows you to break down past tax returns and find opportunities to lower the amount of taxes owed going forward. Planning also helps assure that you are paying your responsible share of taxes during the year.

For many individuals looking to save more for retirement, tax planning can take a more in-depth look at saving in a retirement account to help minimize the gross income by the amount contributed. As an example, for 2023 a filer under age 50 that meets the requirements can contribute up to $6,500 to an IRA ($7,500 if over the age of 50). Contribution amounts for retirement accounts can change from year to year, so making sure you are contributing enough is important.

Taxes should not be something you only think about in March and April as you file your tax return for the year. Changes such as new marriages, growing families, change in jobs, unemployment or retirement, etc., happen throughout the year that may change your situation going forward. Proper planning can help avoid feelings of not knowing what to expect at "tax-time." We pride ourselves in having the ability to have our tax department work closely with our investment team to ensure the best planning possible for our clients.

Melissa B. Mickley, FPQP®
Administrative and Marketing Assistant

Be on Guard: Scammers are Impersonating Well-Known Companies

Recently, some clients have received a phishing email or phone call from a fraudster pretending to work for a well-known company. We want you to have the information you need to keep you informed and protect you from falling victim to this scam.

How the impersonation scams work:

- Through a phone call, email, or other channel, the scammer makes contact and informs the client that there's an urgent matter—a "refund" or "suspicious trades" that require the client to grant remote access to their systems or accounts in order to set up "test transactions" or "catch a criminal."
- Sometimes, the impersonations involve multiple layers of deception—for example, someone who claims to represent "Microsoft" says they must connect the client to the "Financial Fraud Department."
- The scammers, posing as financial fraud employees, will convince the client not to tell anyone about the issue as "financial employees are possibly involved."
- The scammers, posing as financial fraud employees, will also convince the client that all their money will be returned.

How clients can protect themselves, and what they should do if contacted:

- Do not click on links or attachments included in unknown or suspicious emails and be on heightened alert when receiving any emails with Office, zip, or other common file types as attachments.
- Look for clues within the text of emails that may indicate they were sent by bad actors. These include errors in grammar, capitalization, or spelling.
- Listen for any voices in the background who are providing instructions to the person calling you—advice on what to say, or on the details of any proposed transactions.
- Clients should not provide any personal identifying information in an email or over the phone, even if they say they're calling from a financial institution. Note: Clients should verify that they're speaking with their financial institution by hanging up and calling their financial institutions phone number that is known to them before disclosing any personal identifying information.
- Remind clients not to click on links or call based on instructions from a computer pop-up.
- Encourage clients to always verify the phone numbers for tech support providers independently.
- Educate clients never to grant remote access to their financial accounts to anyone.
- Please contact your financial institution immediately to report all suspicious or fraudulent activity.

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Analyst Corner

The second quarter of 2023 saw equity markets continue to provide strong market returns through narrow leadership, in what is really a continuation of a trend that has been in place since last fall. For now, the banking issues which arose last quarter are less of a pressing concern for investors. To be sure, the potential for a weakening business cycle in the back half of this year and into next year is an investor concern which is still omnipresent.

The S&P 500 was up 8.7% through the quarter and 16.9% on a year to date basis. Comparatively, the Nasdaq Composite, laden with mega cap innovators, has returned a much stronger 13.1% quarter to date and 32.3% year to date. A defining feature of this year's market returns is the fact that seven large companies including; Apple, Microsoft, NVIDIA, Amazon, Meta, Tesla and Alphabet, have combined to contribute roughly three quarters of the overall S&P 500 return. Given this dynamic, Information Technology, Consumer Discretionary and Communications Services, where these companies reside, have led returns this quarter up 16.9%, 14.3% and 12.8% respectively.

While action at the front end of the treasury curve has been more volatile, the longer term rates have been contained and trading in a range. It may be the case that if inflation has peaked this cycle and growth does indeed begin to soften, then bond markets are poised to continue returning positively over the intermediate term, barring a significant corporate credit deterioration. The Barclays U.S. Aggregate Bond Index while down -0.8% in Q2 has seen a 2.1% gain register year to date.

Positive Market Influences	Negative Market Influences
Disinflation	Industrial Production
Fed Pause	Global Demand
Consumer	Hawkish Tightening

Investor focus will likely be on corporate earnings over the remainder of the year. Currently, as per FactSet, Q3 S&P 500 earnings are expected to be flat year-over-year for the quarter and Q4 is expected to register 8% growth. For the full year 2023, S&P earnings are expected to be flat. Should a business cycle downturn of any consequence materialize, then this expectation for earnings may not hold. Near term and subsequent to the Federal Reserve pausing interest rates, it will remain to be seen if a few more rate hikes will be issued before the rate-hiking cycle is truly complete.

Positive Market Influences

- **Disinflation** – Headline PCE inflation came into the year running at a 5% YoY rate. Currently, this number is running 3.8% on a YoY basis indicating that for the six-month period through June the trend in inflation has been moderating.
- **Fed Pause** – Having rapidly raised rates to counter inflation, the Federal Reserve's target Federal Funds interest rate is set to a range of 5.0% to 5.25% and, at the June meeting, the central bank paused further rate increases. This is a basis for investors to estimate that if we are not at the ultimate end of the hiking cycle, we are very near the end.
- **Consumer** – Retail Sales Control Group and Services sector sales have remained resilient with varying degrees of strength thus far in 2023 and have failed to dip into outright contraction. This is likely due to credit usage and a more resilient labor market.

Negative Market Influences

- **Industrial Production** – In the wake of the goods producing parts of the economy growing strongly post-COVID and throughout 2021 and 2022, a slowing of growth in the U.S. industrial economy is what we have been experiencing in the first half of 2023. Industrial Production on a YoY basis has ground down to near zero growth at present.
- **Global Demand** – With estimates for growth out of the World Bank and IMF more on the subdued side, so far this year, we have seen a China economic growth optimism fade as well as contractionary signs out of Europe.
- **Hawkish Tightening** – When we consider what is going on in the broader world, the interest rate story is one where multiple areas of the globe have moved up policy rates to fight inflation and this dynamic has seemingly kept a lid on any potential upside trend breakout for risk assets. The Eurozone's main financing rate is above 4%. The UK Bank Rate is at 5%. Canada and Australia each have rates north of 4%. China's difficulties are easing a bit while Japan is the main developed market exception choosing to keep its policy rate at the floor and near zero.

Daniel P. Burchill
Security Analyst

Investment Strategy

In the first half of 2023, the U.S. economy and markets remained resilient as economic conditions showed modest slowing. While the Federal Reserve attempts to obtain a soft landing and avoid a recession, there are signals of an economic slowdown however and, should inflation remain persistent, it will make their work much more challenging.

Some economic indicators signaling a slowdown are a moderating labor market and easing inflation pressures, to name a couple. The Federal Reserve paused rate increases in June, with the potential of additional rate hikes in the near-term if inflation remains sticky.

U.S. equity markets moved in an upward trend despite signs of the economy moderating. The market has seen a narrow participation rally led primarily by large cap tech companies with markets focused in on areas such as AI (artificial intelligence). As such, our equity allocation remains nimble with a range of 50-60%.

Fixed income remained volatile as the Federal Reserve continued its rate hike cycle for much of the first half of 2023. Our focus remains on high quality fixed income with a target range of 30-40%.

Money markets and U.S. Treasury instruments remain part of our tactical allocation as we continue to work through the current market conditions with an allocation between 5-10%

Our asset mix will vary based on client specific directives, needs for income and risk levels.

Jeffrey S. Naylor
Executive Vice President/CFO

Don't Leave Your 401(k) Behind

Have you recently changed jobs or retired and left behind money in a former employer's 401k plan? If so, you will want to make sure that money continues working for you and understanding your options is essential.

When you leave an employer with money in a company 401(k) plan, you generally have four options:

1. Cashing out your account is not typically the best option. Your plan administrator will withhold 20% of the taxable distribution and send to the IRS as a prepayment of the income tax owed on the entire distribution. As an example, if you have a $10,000 account balance, the plan will send $2,000 to the IRS and you will receive $8,000. In addition to paying income tax, you will owe an additional 10% tax if you are under the age of 55 when you cash out the plan. That means you may owe an additional $1,000 at tax time.
2. Leaving the money in the plan if your vested account balance is more than $5,000 ($7,000 in 2024), although the employer can choose not to pay plan expenses on former employees. You will also be responsible for staying in touch with your former employer and provide updated contact information any time things change. In addition, your investment options will be limited to those that your employer allows in the plan and you will not be able to add any money to the account.
3. If you have a new employer and are eligible to participate in your new employer's 401(k), roll the 401(k) to new employer plan, You will want to insure that your new employer's 401(k) plan accepts rollovers and that the investments, fees and services in the new plan are suited to your goals.
4. Rolling the money over to an IRA. For many reasons, an IRA is the most popular retirement savings vehicle. It is yours and is independent of any employer relationship. Depending on your choice of an IRA custodian, you can access many more types of investment options than are typically offered in a 401(k) plan. Also, you can withdraw money as needed and design your own retirement income strategy. Distributions will still be subject to income tax and a 10% additional tax if you are under the age of 59.5. Should you have other retirement accounts, IRAs can be used to consolidate them.

If you have any questions about this process, please give us a call.

Ralph H. Roberts, Jr.
Vice President of Client Services

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