WILLIAM HOWARD & CO.
FINANCIAL ADVISORS, INC.

International Place II • 6410 Poplar Ave., Suite 330 • Memphis TN 38119
901.761.5068 (P) • 901.761.2217 (F)
whc@whcfa.com • website**whcfa.com**

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Summer is traditionally seen as a time to step back from the daily grind and embrace a slower pace of life. It's an opportunity to spend quality time with loved ones, explore new hobbies, or simply unwind in the sunshine. Whether you have plans for a vacation or prefer to stay close to home, I hope you are able to enjoy some rest and relaxation during these summer months.

Looking at the first half of 2023, investors have been pleasantly surprised with the economic and financial results. Despite concerns about slowing momentum, a U.S. banking crisis, and the Federal Reserve's aggressive monetary tightening policy, the U.S. economy showed remarkable resilience and continued to grow. The resulting financial heat wave in equity markets was particularly beneficial for investors, as large technology-focused companies continued their winning streak with sizeable gains, sending stocks soaring.

The S&P 500 Index (a barometer for the domestic financial markets) enjoyed a second quarter total return of 8.74%. This marks the third consecutive quarter of strong returns, and a complete reversal of bear market conditions experienced during the first 9 months of 2022. The index is up 16.89% in 2023; it has recovered a significant portion of the losses from the previous year; and it is only 7.2% or 346 points away from reaching the all-time high originally set back in January of 2022.

While the market rally has benefited most investors, not all stocks have participated equally. The mega-cap stocks have dominated lately as evidenced by the 10 largest names in the S&P 500 index being responsible for 73% of the index's return. This concentration and narrow market leadership has fueled the tech heavy NASDAQ index to outperform other major indices and advance to the lead position at the 2023 midpoint with a total return of 32.32%. The rising tide also benefited international stocks as they boosted their 2023 first half total return to 11.67% in developed markets and a 4.89% total return in emerging markets. Additional gains of varying degrees were recorded in cash, bonds, domestic small company stocks, and real estate over the same period. Unfortunately, oil and gas (energy) and commodities (raw material) sectors fell out of favor and suffered moderate declines.

The current trajectory for financial markets seems promising, but there are no guarantees of continued success, and recent returns are a reminder for investors of how quickly markets can change direction without notice.

See the table below for the year-to-date total returns for bonds and stock.

Bond and Stock Index Total Return January 2023 - June 2023		
Sector	**Index**	**Return**
Short-Term U.S. Bond	Bloomberg 1-3 Year Treasury	0.98%
Intermediate-Term U.S. Bond	Bloomberg Interm Treasury	1.10%
Long-Term U.S. Bond	Bloomberg Long-Term Treasury	3.72%
Inflation Protected Bond	Bloomberg Treasury TIPS	1.87%
Domestic Large Company	Dow Jones Industrial	4.94%
Domestic Large Company	S&P 500	16.89%
Domestic Small Company	Russell 2000	8.09%
Domestic Large/ Information Tech.	NASDAQ	32.32%
Developed International	MSCI EAFE	11.67%
Emerging Markets	MSCI EM	4.89%
Real Estate/REITs	DJ U.S. Select Real Estate	5.77%
Oil and Gas	DJ U.S. Oil and Gas	-5.44%
Commodities	Bloomberg Commodity	-7.79%
Source: Morningstar		

As the Federal Reserve's quest to tame inflation continued, economic growth during the quarter slowed but remained positive at 2.0%. The major hotspots of inflation (energy and supply chains) turned lower to help inflation decelerate from a peak of 9.1% a year ago to the latest reading in June of 3.0%. Supportive economic data showed low unemployment, labor market strength, stronger than expected corporate earnings, and solid consumer spending. Detracting data showed weaker manufacturing activity, softer activities in the housing market, and tighter credit conditions. The 2023 conclusion has yet to be decided, but the economy's resilience to weather numerous headwinds has been a welcomed outcome.

The Federal Open Market Committee (FOMC) confirmed the modest pace of economic expansion, tight labor market conditions, low unemployment, robust job gains, and elevated inflation at their June meeting. The Committee also stated that tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. In support of their goals, the Fed decided to pause their rate hike path in June after a May increase of .25%. The June pause halts a streak of 10 consecutive rate hikes that boosted the target range for the federal funds rate to a 16-year high at 5.0% to 5.25%. The Committee's decision to maintain the current target rate should provide the opportunity to assess information and the implications for monetary policy. During the meeting, they also affirmed their commitment to monitor a wide range of incoming data (labor markets, inflation pressures and expectations, and financial and international developments) and to make policy adjustments if risks emerge that could impede the attainment of maximum employment and inflation at the rate of 2.0% over the long-term.

Our outlook for the domestic economy in the second half of 2023 remains cloudy. We have seen some rays of sunshine peeking through those overcast skies, but the evidence indicates slower economic activity over the next couple of quarters due to the lagged and cumulative effect of high interest rates. The economic resilience this year makes us hopeful the Federal Reserve can successfully navigate a soft landing (improved inflation without a recession). While we acknowledge this outcome is not without its challenges and uncertainties, we believe the strength of households and businesses will be a stabilizing force should a recession materialize.

We also expect strong labor market conditions to continue with some gradual cooling in the months ahead, and we anticipate weaker demand and supply side improvements that will translate into lower inflation. Core inflation, specifically shelter prices, have remained sticky (stubbornly high), which we believe will likely keep the Fed from deviating from their hawkish stance. While the end of the Fed's rate hike cycle is near, the FOMC has been crystal clear in their language and commitment to lower inflation. At a minimum, we expect a July rate increase of another .25% from the Committee, then another pause this fall with one last increase on the table before year end. Even if the Fed considers a pivot for their rate hike strategy, it is probably a safe assumption to expect rates to stay higher for an extended period.

Our international outlook is not as optimistic due to an array of challenging conditions. Europe continues to struggle with high inflation and a volatile energy crisis; China's pandemic recovery is fading; Japan's growth is stagnant; and emerging markets are demonstrating varying degrees of weakness and resilience with Mexico, Brazil, and India as bright spots. We still believe in the potential opportunities for international investing, but we think most international economies will continue to struggle for the remainder of the year.

The landscape of global risks is long and filled with familiar names. We are keeping a watchful eye on the usual suspects, but we also wanted to spotlight a few newer items. First, an important domestic fiscal deadline is approaching. Congress must pass budget appropriations or a continuance to avoid a government shutdown by September 30th. After narrowly avoiding the debt ceiling crisis, we are hopeful our elected officials can exercise some efficient negotiations instead of instigating another unnecessary crisis. An additional concern on the horizon is the economic fallout from the ongoing war in Ukraine and the strained U.S.-China relationship. We speculate a fundamental shift is already underway regarding deglobalization which most likely results in rewiring global supply chains with allies to focus on national security and resilience over efficiency. Our third spotlight revolves around the evolving and popular topic of Artificial Intelligence (AI). Technology innovations and improvements to productivity are undoubtedly beneficial, and these advancements will have a significant impact on the future. However, we feel it is crucial to approach the development of this unique technology with caution. Experts in the field and researchers have already issued warnings about the profound risks associated with AI's rapid growth. Although some may view these concerns as extreme, they are not entirely far-fetched. In the meantime, we are staying vigilant, and we will closely monitor these and other risks as they evolve.

As part of our commitment to providing comprehensive advisory services, we believe in educating our clients and sharing valuable information to help them feel more comfortable with various financial subjects. This quarter, we want to emphasize the importance of maintaining a long-term perspective and not making impulsive decisions based on short-term market fluctuations. History has shown that markets tend to recover and grow over time, even after periods of volatility. By staying invested, you give your investments the opportunity to benefit from potential growth and compounding returns that the market can offer. The performance in the market this year is evidence that investor sentiment can turn on a dime, and the recent history of bear markets and short-term corrections illustrate how sentiment often reverses when least expected. This was true at the start of the year when few believed markets would recover, just as it was in April 2020, mid-2011, March 2009, October 1987, and so on.

All these market downturns were driven by real events, but in each case, investors expected the fallout to be worse while fundamentals quietly improved. This is why we always remind our clients of our fundamental investment philosophy. ***We believe it is time---not timing---that matters most.*** Prudent investors focus on what they can control. They create an investment plan to fit their needs and risk tolerances; they diversify globally; they stay informed; they stay patient and disciplined through market dips and swings; and they don't panic when faced with challenging market conditions.

The summertime respite will be over before you know it, and we want to take this opportunity to remind you that a financial check-up could be beneficial before life gets too hectic again.

Whether you are planning for retirement, saving for a child's education, or simply looking to review your investments, a financial check-up can provide valuable insights and strategies to help you achieve your financial objectives and bring peace of mind for you and your family. By conducting a thorough analysis, we can help identify any gaps or areas for improvement and provide recommendations to ensure you are on track.

If you would like to discuss modifications to your financial situation, schedule a financial check-up meeting, or have any questions, please do not hesitate to reach out to us. We are here to support you every step of the way.

I am delighted to announce that we have a new addition to the William Howard & Co. family. Please join me in welcoming Valerie L. Adelman, CFP®, CDFA™, who has recently joined our firm as a Senior Financial Advisor. I have personally known Valerie for over 20 years, and she brings with her 35 years of experience in advising clients on financial matters. She will continue working with her existing clients in New York City and other states while also developing new client relationships in southeast Florida. We look forward to serving our clients with Valerie as part of the team, and we are confident her extensive knowledge and commitment to providing exceptional financial advice will be a great benefit to all.

In other exciting news, we have redesigned our website (whcfa.com). Along with a description of our firm philosophy, approach, and services, the new website will provide links to your investment and financial planning client portals under the Client Center section. Please visit the new site at your convenience and let us know what you think. We always appreciate your feedback.

In closing, I want to wish you a wonderful summer filled with sunshine, laughter, and cherished memories, and I want to thank you for the opportunity of working with you and for your continued confidence and trust.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

William B. Howard, Jr., ChFC®, CFP®

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Enclosures: Index Performance and U.S. Economic Data

2023 Total Return Index Performance			
Asset Class	**Index**	**2nd Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	1.17%	2.25%
U.S. Bonds	Barclays Intermediate-Term Treasury	-1.15%	1.10%
U.S. Large Co. Stocks	S&P 500	8.74%	16.89%
U.S. Small Co. Stocks	Russell 2000	5.21%	8.09%
International Stocks	MSCI EAFE (net div.)	2.95%	11.67%
Real Estate	DJ Select Real Estate Securities Total Return	2.92%	5.77%
Source: Morningstar			

U.S. Economic Data	
GDP	2.0% increase (annual rate) – 1st Quarter 2023
Inflation	4.8% CPI (less food and energy) and 3.0% CPI (all items) over last 12-months ending June (Energy index down 16.7%; Food index up 5.7%).
Interest rates	Federal Funds Rate range = 5.0% – 5.25%. 2023 YTD increases = 75 bps. June pause. July increase expected.
Jobs	June 2023 data - Unemployment at 3.6%; non-farm payroll employment rose by 209,000 jobs; Labor force participation rate 62.6%; Employment continued to trend up in government, health care, social assistance, and construction.
Manufacturing	Manufacturing activity contracted for the 8th consecutive month following a 28th month period of growth; June ISM Manufacturing Index registered at 46%. This lower trend was reflected across all industries. An ISM reading of 50 is the economic breakeven point for manufacturing.
Business Spending	Private non-residential investment continued to improve (9.57% increase since Jan 2022); New durable goods orders increased 1.8% in May (up three consecutive months).
Corporate Profits	1st Quarter 2023 - U.S. corporate profits decreased 4.1%. S&P 500 Earnings per share = $52.54 (one-year increase of 6.44%).
Housing	May 2023 year-over year data - New home sales up 20.0%; Existing home sales declined 20.4%; Median sales price of existing homes declined 3.1% to $396,100; Housing starts increased 5.7%; Building permits fell 12.7%; Housing inventory dropped 6.1% from last year; Unsold inventory = 3 month supply; MBA fixed 30-yr mortgage rates = 6.75% ending 6/28/2023.
Consumer Spending	Disposable income showed minor improvement but remained low; Consumer Confidence Index improved; Retail and food services sales increased; Total vehicle sales fluctuated but trended higher; Personal durable and nondurable spending remained elevated; Personal savings rate continued to hover below 5.0% .
Energy	Oil price (West Texas Intermediate) = $70.66/bbl – 06/30/2023 (2023 decrease of 11.85%); Gas price (U.S. average regular unleaded) = $3.571/gal – 06/26/2023 (2023 increase of 15.53%)