



CAPITAL MANAGEMENT GROUP

## The Hefter Report – July 2023

Economic activity in the first half of 2023 has remained resilient despite the Federal Reserve's hawkish stance over the past 18 months. In our view, the risk of recession has not completely dissipated but seems to have been reduced. This is primarily due to estimated GDP growth trending at 1.7-2% for 2023, a recovery in real consumer disposable income, and stability in the housing market.

Inflation remains stubbornly high with the current PCE reading around 4.5%. Many analysts predict that this rate will decline to around 3.8% by year-end and fall to about 3% by December 2024. The Fed's stated target inflation rate remains at 2% but it may take additional time to get there, perhaps through 2025, due to a strong labor market and high wage inflation. It's worth noting that the labor shortage is improving in some sectors, such as manufacturing and retail, but in short supply in most other service industries. Job openings remain high at 10.1MM while the number of unemployed is 6.0MM.

Persistent high inflation, geopolitical risk (China/Taiwan, Russia, Middle East) and fear of recession are causing investor pessimism to remain elevated. Stocks, however, have rallied despite these concerns. Higher US equity prices in the first half of 2023 have been relatively narrow with a small number of mega-cap stocks contributing to most of the gain. We are now starting to see this rally broaden with more companies participating. On the fixed income side, the yield curve inversion remains in place with the 2-10-year treasury spread still hovering around 100 basis points. Money market rates and near-term Treasury bills are now exceeding 5% which makes a compelling case to keep at least some portion of our fixed income allocation short.

Our outlook for the remainder of the year is modestly bullish for stocks and we may add additional exposure to equities on market corrections. For fixed income, we plan on staying relatively short duration and will extend maturities at some point when the yield curve normalizes.

As always, we greatly appreciate your introductions and referrals!

Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN), Member SIPC. HLM Capital Management is a separate entity from WFAFN. CAR -0623-04390

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