



2nd Quarter 2023 Newsletter

- The growth in the market in the first 5 months was largely due to a small group of stocks, demonstrating the difficulty in selecting the “winners” (see reverse side graph). Although economic indicators have been signaling a slowing U.S. economy, breadth expanded in June and the markets performed well.
- It is worth noting that the economy and markets can be on different tracks. Currently, Europe is in a recession and a bull market simultaneously.
- While economic data is showing uncertainty for the remainder of the year, predicting market movements is highly speculative in nature. We will continue a long-term strategy of disciplined rebalancing – taking some profits when markets are high, and buying some stocks when prices are low. Selling all stocks in anticipation of a downturn risks having to buy back into the market at higher prices.
- With inflation reaching a four-decade high last year, I-bonds paid as much as 9.62%. Now that inflation has cooled, the I-bond rate for new issues has dropped to just 4.3%. While higher rates are available in CDs and Treasuries, selling I-bonds held less than 5 years will result in the loss of the last three months of interest.
- Is the stock market currently pricey? If you exclude the eight largest market cap stocks, the forward P/E is only 14.7 per Yardeni¹. This is below the historic norm of 16-17.

News and Observations

- For the first time since March 2022, the Federal Reserve refrained from a rate hike during its June meeting, though they didn’t rule out possible rate hikes at the next two meetings.
- With interest rates now higher, the Fed has the flexibility to pivot and lower interest rates in the future if needed to combat a recession.
- After only holding short-term bonds for some time, we have begun to lengthen the duration of our bond portfolios to take advantage of higher yields for longer periods of time.
- In early June, the U.S. Senate passed the debt limit bill to avoid a default and suspend the debt limit until 2025.
- Payments will resume in October on student loans held by the US Department of Education, after a more than three-year pause. Per the Census Bureau, borrowers will pay between \$5-10 billion a month, which could negatively affect consumer discretionary spending.

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Market Index Returns

	Q2	YTD
S&P 500 (Large Cap)	8.74%	16.89%
Russell 2000 (Small Cap)	5.21%	8.09%
MSCI International Index	3.30%	11.75%
MSCI Emerging Markets	1.04%	5.10%
US REIT Index	2.92%	5.77%
Bloomberg Commodity Index	-2.56%	-7.79%
BofA 1-3 yr Corporate & Govt. Bond Index	-0.34%	1.14%

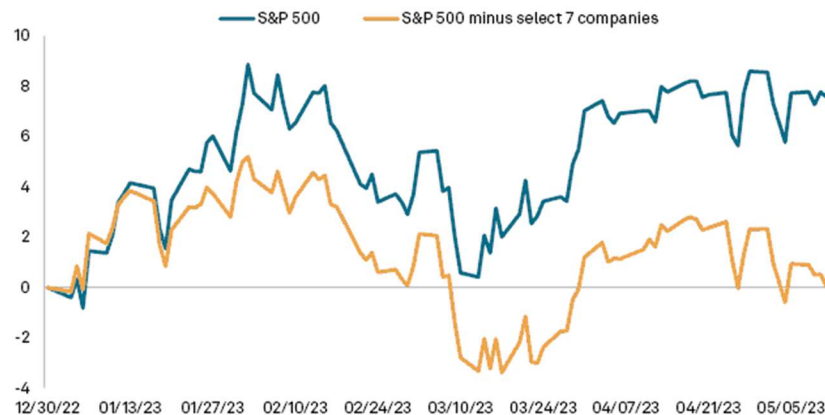
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Gold as an Investment²

- ❏ During periods of high inflation, gold rises in popularity as a supposed inflation/currency hedge. This results in more advertising campaigns selling gold to consumers.
- ❏ Many of these campaigns significantly understate the volatility of gold and its downside risk. The more that people are pessimistic about the Federal Reserve's actions, economic forecasts, and personal financial circumstances, the more they tend to like gold.
- ❏ Gold's return is "statistically not distinguishable from zero" and it did not serve as a hedge in 56 disasters across 19 different countries. Over the long-term gold has not been an effective hedge against inflation or currency.
- ❏ A study covering 1975-2012 found that the real price of gold was largely unrelated to currency value changes and stock market movements. Gold often dropped when stocks posted negative returns, and there was little relation between the nominal price of gold and inflation over as long as 10-year periods.
- ❏ Gold has lost more than 20% of its real value (inflation-adjusted) from its peak of about \$2,533 in February 1980, indicating over 43 years of significant loss in real value. Goldman Sachs also found in 2013 that in 60% of episodes when inflation surprised to the upside, gold underperformed inflation.
- ❏ For our clients contemplating a gold investment, we strongly advise steering clear of sales gimmicks, unreliable dealers, and vendors offering gold-mixed products instead of pure gold.

2023 Growth of S&P 500

The S&P 500's 2023 gains are largely due to success of 7 companies
Index value change calculated from Dec. 30, 2022, to May 16, 2023



Data compiled May 17, 2023.
Select companies excluded from the custom index are Alphabet Inc., Amazon.com Inc., Apple Inc., Meta Platforms Inc., Microsoft Corp., NVIDIA Corp. and Tesla Inc.
Source: S&P Global Market Intelligence.
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1 "The MegaCap-8's Impact on the S&P 500," Dr. Ed Yardeni, Yardeniquicktakes.com. July 5, 2023.
<https://www.yardeniquicktakes.com/the-megacap-8s-impact-on-the-s-p-500/>.

2 "Misguided Investor Expectations on the Risk and Returns of Gold," Larry Swedroe, WealthManagement.com. June 13, 2023.
<https://www.wealthmanagement.com/alternative-investments/misguided-investor-expectations-risk-and-returns-gold>.