July 2023

Summary and Commentary

2ND QUARTER 2023

"The best way to measure your investing success is not by whether you are beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."

- Legendary investor Benjamin Graham

SUMMIT WEALTH & RETIREMENT PARTNERS

GUIDING YOU TO YOUR FINANCIAL DESTINATIONS

ROBERT CUCCHIARO, CFP

Partner

HAL PORTER, MBA

Partner

Second Quarter in Review

Despite widespread pessimism throughout the financial markets, their actual performance through the end of the second quarter of 2023 has been very strong. We started 2023 with concerns ranging from an economic recession looming; high, sticky levels of inflation; a collapse in corporate earnings; a possible U.S. default over the debt limit; the possible demise of the U.S. dollar; and a possible banking crisis with the failure of several banks.

So, what really happened during the first half of 2023:

· Recession: This might still be coming, because the Federal Reserve's monetary tightening often works on a long lag.

· Federal Reserve Tightening: They have signaled they are not done but are closer to their end point.

· Inflation: We still have a long way to go to meet the Fed's target rate of 2%, but inflation is moderating.

· Corporate earnings: Down a bit in the first half but less than consensus expectation.

· Default: This did not happen.

· U.S. Dollar Strength: We are about where we were a year ago with no significant weakness.

· Banking: The banking system seems to have stabilized with no contagion so far.

In looking at the performance of domestic equities, we see that a significant portion of the brisk climb in 2023 has been driven by the world's largest technology stocks. In fact, the top ten stocks in the S&P 500 account for nearly two-thirds of this rally. To truly experience what many would classify as a thriving bull market in equities, we still need to see a rally from small and mid-cap stocks and a broader participation from diverse sectors.

So, What's next?

We see a potentially choppy second half of 2023 in the equity markets impacted significantly by two key factors. First, the trajectory of inflation and the possibility of the Federal Reserve implementing additional interest rate hikes, and second, the corporate earnings outlook, which is closely being watched due to concerns about a potential recession.

Going back to Benjamin Graham's quote above is important as we face an economy and financial markets with both positives and potential challenges and risks on the horizon.

Positives we see:

· The economy remains in the late-cycle phase of the business cycle, with modest growth and no signs of an immediate recession.

· Moderation of inflation.

· Corporate earnings estimates are recovering for the 2nd half but are still high for 2024.

· The residential housing market remains resilient keeping prices high and a tailwind for consumer wealth.

· Despite higher prices, consumer spending remains resilient.

· The services sector continues its expansion.

Potential challenges and risks:

· Leading Economic Indicators (LEIs) have declined over the past 16 months.

· Manufacturing sector has been weak.

· Direction of Federal Tightening.

· The lag effect of Federal Reserve policy and recession.

· Will banks tighten lending standards after the banking failures in Q1?

· Congress must fund government operations and pass 12 appropriation bills by the end of the year.

Social Security 2033

The recently released 2023 Social Security Trustees report concluded that income from payroll tax revenue is expected to fund 77% of scheduled social security benefit in 2033. Social Security and Medicare spending growth is shown to rapidly outpace the growth in federal tax revenue over the next ten years. This is a product of the wave of Baby Boomers reaching retirement age and beginning to utilize these programs that provide a guaranteed income and health insurance from the time benefits are claimed until death. As our population ages, there are more retirees and fewer workers paying into these programs.

Unless congressional action is taken to shore up these programs, we will not only see reduced Social Security benefits in the future but also reductions in Medicare reimbursements going to hospitals and doctors' offices.

The longer Congress wait to act, the more severe the eventual solutions will be and few anticipate a solution will be struck in the current, divided Congress.

There are several possible solutions or combination of solutions in the Trustees Report.

· Do nothing: Reduced Social Security benefits and a health care spike in cost for seniors. No one wants this outcome.

· Increasing the retirement age: Setting the full retirement age higher over time to age 69 or 70 would close about 30%-40% of the projected funding shortfall.

· Increasing the taxable wage base maximum: For 2023, the taxable maximum is $160,200 of earnings. When Congress last addressed Social Security's financing problems in 1983, the payroll tax covered approximately 90% of Americans' earnings. Today, it covers only 83%.

If this cap is eliminated entirely, only 75% of Social Security's long-term shortfall is covered. If the 12.4% tax kicks in on income above $250,000, only 73% of the shortfall is covered, and if we use the $400,000 level proposed by President Biden even less is covered.

· Making more of Social Security Benefits taxable and add some form of means testing to benefits: This is highly controversial and very complicated and, in the end, it is not clear how much of Social Security's shortfall would be covered.

A solution to the funding of both Social Security and Medicare for the long term will require a combination of benefit changes, increase qualifying ages, and increase in taxes. It will not be a simple solution and the sooner it is addressed by Congress the better.

As we finish the first half of 2023, we want to welcome a new team member to our Summit family. Nick Lemus recently joined us and will be working in trading, operations and portfolio management. Nick comes with an institutional trading background and has recently passed his Level II exam as part of his Chartered Financial Analyst (CFA) designation.

Nick Lemus, Portfolio Trader & Administrator

We thank you for your continued support and confidence in managing your family's long term financial and wealth management plans.

All our best

Your Summit Team

Hal, Rob, Ryan, Scott, Jennifer, Dustin, Geoff, Nick Kevin & Maryline.

SUMMIT WEALTH & RETIREMENT PARTNERS
GUIDING YOU TO YOUR FINANCIAL DESTINATIONS

Sources:

Blackrock

JP Morgan

Goldman Sachs

Charles Schwab

Bloomberg

Raymond James Investment Research

MFS

S&P Global

Ned Davis Research

Vanguard

Nick Murray