RESILIENCE

BY JAMES H. DRYDEN

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PRIVATE WEALTH MANAGEMENT

Welcome to June! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all in an attempt to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.

Think of all the issues that could have rattled the financial markets last month. May kicked off with the third bank failure of the year, this time it was First Republic. The bank started the year with $176 billion in deposits but by the time it was brokered to JP Morgan on May 1st, its deposits had declined to $92 billion[1]. Shareholders saw their investment in the company wholly evaporate1 and concerns mounted that 2023 may wind up being a redux of 2008's banking crisis. Then within days of First Republic's failure the Federal Reserve raised interest rates for the tenth time in this cycle, capping the fastest interest rate tightening in 60 years[2]. The Wall Street opinions that crossed our desks were overwhelmingly on the side that May's rate hike would be the last for a while, yet stronger consumer spending trends reported later in the month showed re-accelerating inflation and the implication that interest rates may stay higher for longer. Then of course there was the elephant in the room and the very distinct possibility that our elected officials could allow the United States to be thrown into the abyss of default.

Yet throughout it all, the S&P 500 remained remarkably calm, was confined to the narrowest trading range in at least three years and gained an ever-so-slight, yet positive 0.26% for the month[3]. Of course we view this resilience as a reason for optimism, but in reality we've been hoping for a little bit more. As we wrote last month, we've been eyeing 4,292 as the level the S&P 500 needs to hit to reach a 20% rally from the market's October lows and signal the beginning of a new bull market in stocks. At 4,179 (as-of 5/31/23) we're inching closer but it's going to take a push to get us there.

A big part of the problem right now is competition. For much of the past 15 years, interest rates have hovered near zero, providing no meaningful competition for stocks. But at 5% everything changes and Treasuries suddenly become an attractive alternative, especially when one considers the widely held reputation of U.S. Treasury Bills as a (relatively) risk-free holding and one of the safest investments available.

But as the market continues to grind through its trading range with resilience, and especially now that Washington appears to have avoided default, we'll take the view that stocks will eventually break out to the upside. The question you may ask is when, but since we're not in the guessing business, we'll leave that to others. We can, however look at history for guidance. Birinyi Associates looked back at seven other periods during which stocks were confined to rather narrow trading ranges similar to today's. Two of the periods in review corresponded to bear markets (in 1990 prompted by the US invasion of Kuwait; in 2008 it was the start of the Great Financial Crisis), and three of the periods corresponded to Fed tightening cycles. Their conclusion was that in five of the seven periods, the S&P 500 was higher six months after stocks exited their trading range, and by an average of 12.2%. We're not about to lean on past performance as a guarantee of future results, but it is a comforting, and perhaps encouraging study nevertheless.

Regardless of the path stocks end up taking over the next six months, we do know the following: the crises we experienced last month…and really, the crises we've experienced these last three years…will eventually fall off our newscasts and social media feeds, only to be replaced with new crises, both real and imagined. Meanwhile, the companies we encourage our clients to own will adapt and adjust and they will continue to grow their earnings and increase their dividends, as history has always shown them to do. We will remember that markets can remain remarkably resilient in the face of crise de jour, just as they did in May, and we'll remain mindful that successful investing is, and always will be, a long-term proposition guided by faith, patience and discipline.

As always, there's more to come.

Onward.

[1]Birinyi Associates [2]First Trust Advisors [3]Wells Fargo Investment Institute

200 N. Westlake Blvd., Suite 202 · Westlake Village, CA 91362 · 818.436.6800 · www.WestlakePWM.com

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