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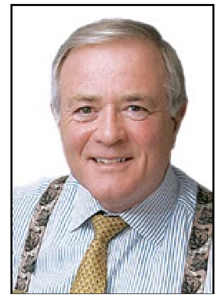
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OP-ED: What a difference a year makes: U.S. equities surge in first half of 2023

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As the Federal Reserve took its foot off the brakes, interest rates declined and stocks powered ahead. With the Fed's downward pressure on the market declining, the NASDAQ in particular found reason to bid up stock prices. Large-cap technology stocks like Apple powered on, fueled by excitement over the developments in artificial intelligence. Apple closed for the first time at a $3 trillion market cap, which is more than the gross domestic product of France and many other countries. These large company stocks' rises spread to the broader NASDAQ universe, where the slight ease of inflation and the Fed pause in rate hikes were celebrated. The NASDAQ closed the first half of 2023 up 32 percent – the largest such gain in 40 years.

For months, the Federal Reserve has kept a lid on the stock market as inflation took the spotlight. The remedy for inflation, according to the Fed, was to raise interest rates until inflation was brought under control. A year ago, the supply chain crisis was raging, and the Fed was initiating its aggressive rate-hike policy. The war in Ukraine was a few months old at mid-year 2022, and China was still in its zero-tolerance phase of COVID-19 lockdowns. As July 2023 advances, the Fed largely has completed its rate-hiking campaign. The annual rate of change in inflation is about half the peak level reported in June 2022. The supply chain crisis briefly flipped to a glut, and supply chains now appear to be normalizing. China has reopened, and Russia is experiencing internal turmoil and surrendering a bit of ground in Ukraine.

Last week, the U.S. Commerce Department revised U.S. GDP growth for the first quarter of 2023 higher, to 2 percent instead of the 1.3 percent previously reported. The sense that the global economy is on the downslope of multiple major challenges is expressed in stock prices, which are up strongly year to date, not just in the U.S. but in most major markets.

Yet the outlook here and abroad is not without concerns. Europe's economies appear to be weakening, and China has not recovered as fast as expected. Both are important markets for U.S companies. As inflation appeared to be cooling somewhat, the Fed eased its pressure on rates; predictably, stocks improved. Having been oversold, particularly in the tech sector, stocks recovered like a loaded spring. Will it continue? A note of caution: Fed Chairman Jerome Powell says a strong majority of the Fed members favor more rate hikes, albeit at a slower pace.

So, what comes next? Despite the recent multiple expansions, we think the U.S. stock market continues to be the place to invest your long-term savings – and technology continues to be the best sector. Why technology? The reason is that it is broadly diversified across products, services and customers, namely all of us and everything we use. People and entities continue to require ever more sophisticated technology to achieve their goals. Technology facilitates growth and makes operations more efficient. With improved efficiency comes improved cash flow, enabling further investment in growth. Innovation improves the user experience – think Apple and Tesla. Many believe the recent developments in AI could cause changes akin to the Industrial Revolution. Time will tell.

Technology stocks will remain volatile, and investors should maintain well-diversified portfolios. Health care is also a growing sector. It is somewhat resistant to economic downturns, as nondiscretionary health care needs grow with the aging population. Medical researchers are continuing to develop improved devices and treatments, which consumers want, and that also is driving demand in this sector. Pricing pressure from Medicare will impact earnings in some sectors.

Consumer stocks seem to be resilient in good times and bad. The consumer is 70 percent of the U.S. economy, so as the consumer goes so goes the economy. Consumer demand is showing some signs of weakening as stimulus payment savings get spent, interest and food prices consume more of household budgets, and many people soon face the resumption of student loan payments – a total of $6 billion to $9 billion per month. Yet consumers will spend what they can.

Other important sectors of the economy are communications, financials, industrials, and transportation. How will data and entertainment be transmitted? How are banking habits changing, both for consumers and businesses? Currently, demand for air travel is soaring, but the movement of goods is declining, as consumers choose experiences over things. Who is going to move the goods and people that we need? How will that movement occur? Which fuel will power it? Who will replace the armaments being consumed in Ukraine? Consider these questions when constructing a diversified investment portfolio.

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