August 2, 2023

# MARKET SIGHT*LINES*

## Our Focus for the Second Half of 2023: A Summary of a Recent Client Webinar

By Michael O'Keeffe, *Chief Investment Officer*

I am fortunate at Stifel to work with several talented colleagues, including many thought leaders in their respective fields. I recently joined two of them, Dr. Lindsey Piegza, Stifel's Chief Economist, and Brian Gardner, Stifel's Chief Washington Policy Strategist, in a client webinar. During the session, we discussed the remainder of 2023, focusing on how our outlook for the year has unfolded; where we are with inflation, monetary policy, and the risk of recession; and important happenings and areas of focus in Washington, D.C.

In this Sight|Lines, we share a summary of our recent client webinar: **Our Focus for the Second Half of 2023**.

### THE TAKEAWAY: BOTH THE ECONOMY AND MARKETS HAVE BEEN RESILIENT, BUT RISKS ARE PRESENT.

Set against our 2023 outlook, the economy and markets have been resilient so far this year, but we expect an economic slowdown and tensions in D.C. going forward. In summary:

- We've been focused on finding balance with things like inflation, Federal Reserve (Fed) policy, a slowing economy, earnings, and a positive stock market.
- Dr. Piegza is anticipating at least one more 0.25% Fed rate hike, in line with the central bank's recent Summary of Economic Projections (SEP).
- She sees the economy slowing in the second half, with the potential for a decline in GDP as soon as the fourth quarter, but with the chances of a deep recession reduced greatly.
- While the economy overall has been resilient, weaker areas include manufacturing and housing.
- Turning our focus to D.C., Brian Gardner sees a strong possibility of a government shutdown in October, the potential for the impeachment of a senior government official, increased scrutiny of foreign investment and antitrust, and a likely 2020 presidential election rematch in 2024.
- Even against this backdrop of potential risks, we're seeing the forecasts for 2024 earnings improve, but even with that, stocks may be overvalued in the near term.

As we move past a surprisingly resilient first half of 2023, we'll be mindful of risks for the rest of the year.

### IN-DEPTH: WE HAVE BEEN FOCUSED ON *FINDING BALANCE* IN 2023, AND WE'VE EXPERIENCED RESILIENT CONDITIONS THIS YEAR. BUT RISKS IN THE ECONOMY AND MARKETS ARE PRESENT, AS ARE POLITICAL RISKS IN D.C.

Our outlook for 2023 focused on finding balance, and both the economy and markets have been resilient. But we expect economic slowdown and tensions in D.C. in the second half, with some market risk present. Going deeper:

- When it comes to "finding balance," we've seen:
  - Headline inflation cool, with recent monthly trends close to the Fed's 2% target.
  - Fed policy coming into line with market expectations.
  - A somewhat looser labor market that is still tighter than the Fed prefers.
  - Better-than-expected economic growth in the first half, and a strong equity market.
- Dr. Lindsey Piegza sees a slowdown, but still the potential for a soft landing. She sees:
  - Continued weakness in manufacturing and housing.
  - One more 0.25% Fed rate hike at some point, in line with the central bank's recent SEP.
  - A consumer that remains resilient for another quarter or two, then subject to a slowdown.
  - A slower economy in the second half, and the potential for contraction as early as the fourth quarter.
  - The potential for a technical recession, defined as two sequential quarters of negative growth.
- Brian Gardner has identified many risks and tensions in D.C. He sees:
  - A strong possibility of a government shutdown in October, since Congress must pass 12 appropriation bills to fund spending.
  - A continued focus on antitrust, with scrutiny on big tech as well as mergers and acquisitions.
  - Increased oversight of investments abroad, with particular focus on hardware, software, and AI.
  - The prospect of an impeachment of a senior official, with focus on Attorney General Merrick Garland, Secretary of Health and Human Services Xavier Becerra, or even President Biden.
  - A likely presidential election lineup for 2024 to be a rematch of 2020, Biden versus Trump.
- As we look forward, there are signs of stock market improvement, but some risks:
  - We expect inflation to cool further and the Fed to eventually pause, but a slower economy.
  - The price-earnings ratio for the S&P 500 sits at 19x, above the 10-year average level of 17.4x, creating the potential for near-term negative volatility.
  - Analysts are forecasting 2024 earnings growth of 12%, an improving figure. Higher earnings in the future are supportive of stock market levels.

## CONCLUSION

Recently, I was joined by two Stifel thought leaders, Dr. Lindsey Piegza, Stifel's Chief Economist, and Brian Gardner, Stifel's Chief Washington Policy Strategist, for a client webinar where we discussed risks and opportunities for the remainder of 2023. The economy and markets have been more resilient this year than first anticipated, and while risks remain, we continue on our path to finding balance and the prospect for a soft landing and support for equity market recovery, with some volatility.

**Michael P. O'Keeffe, CFA**
*Chief Investment Officer*
michael.okeeffe@stifel.com
www.stifelinsights.com

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Past performance is no guarantee of future results. Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. The Standard & Poor's 500 index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896. The MSCI EAFE index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. VIX is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 index options.

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com

0823.5849491.1