



# Halftime Report 2023

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## Review of first half of 2023

## Inflation and the Fed

## Recession and the Stock Market

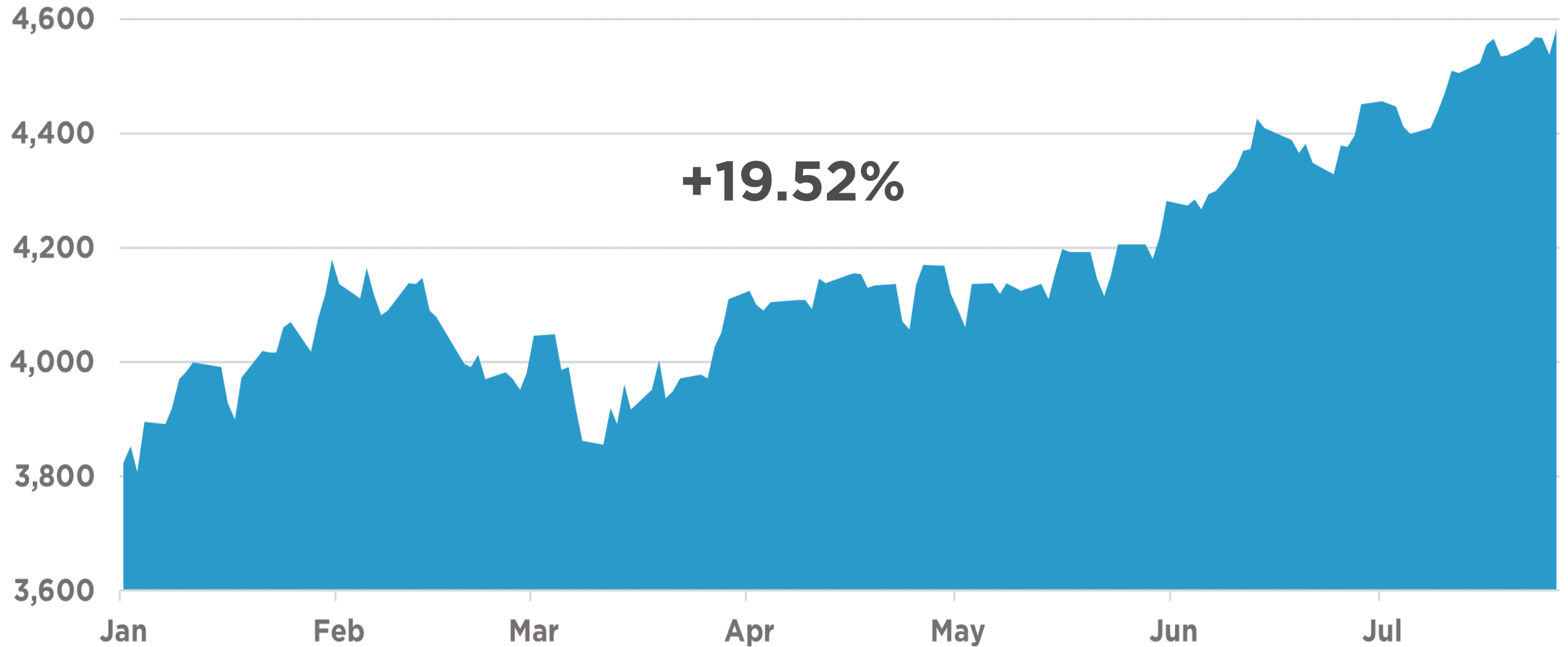
## Federal Finances and the Consumer

## Artificial Intelligence

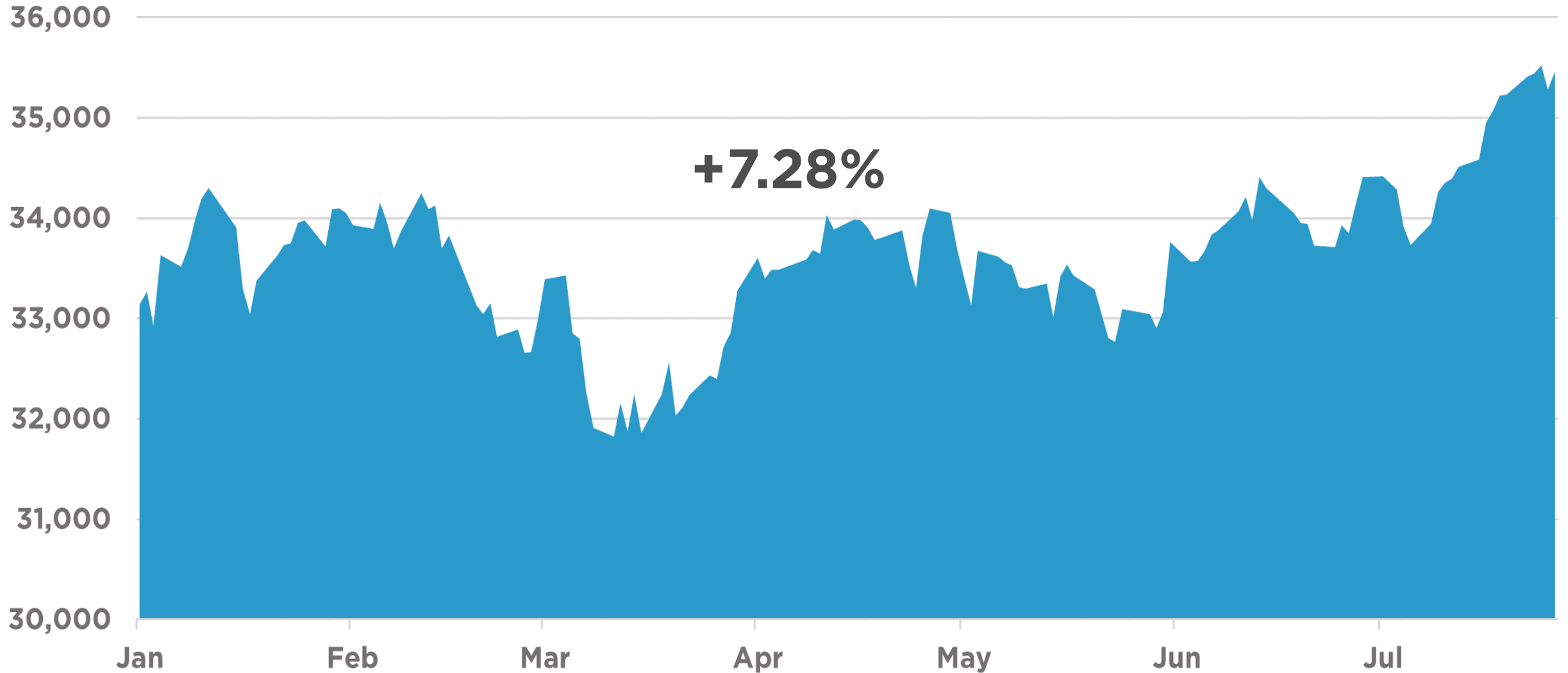
# Review of first half of 2023

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# S&P 500 YTD



# Dow Jones YTD

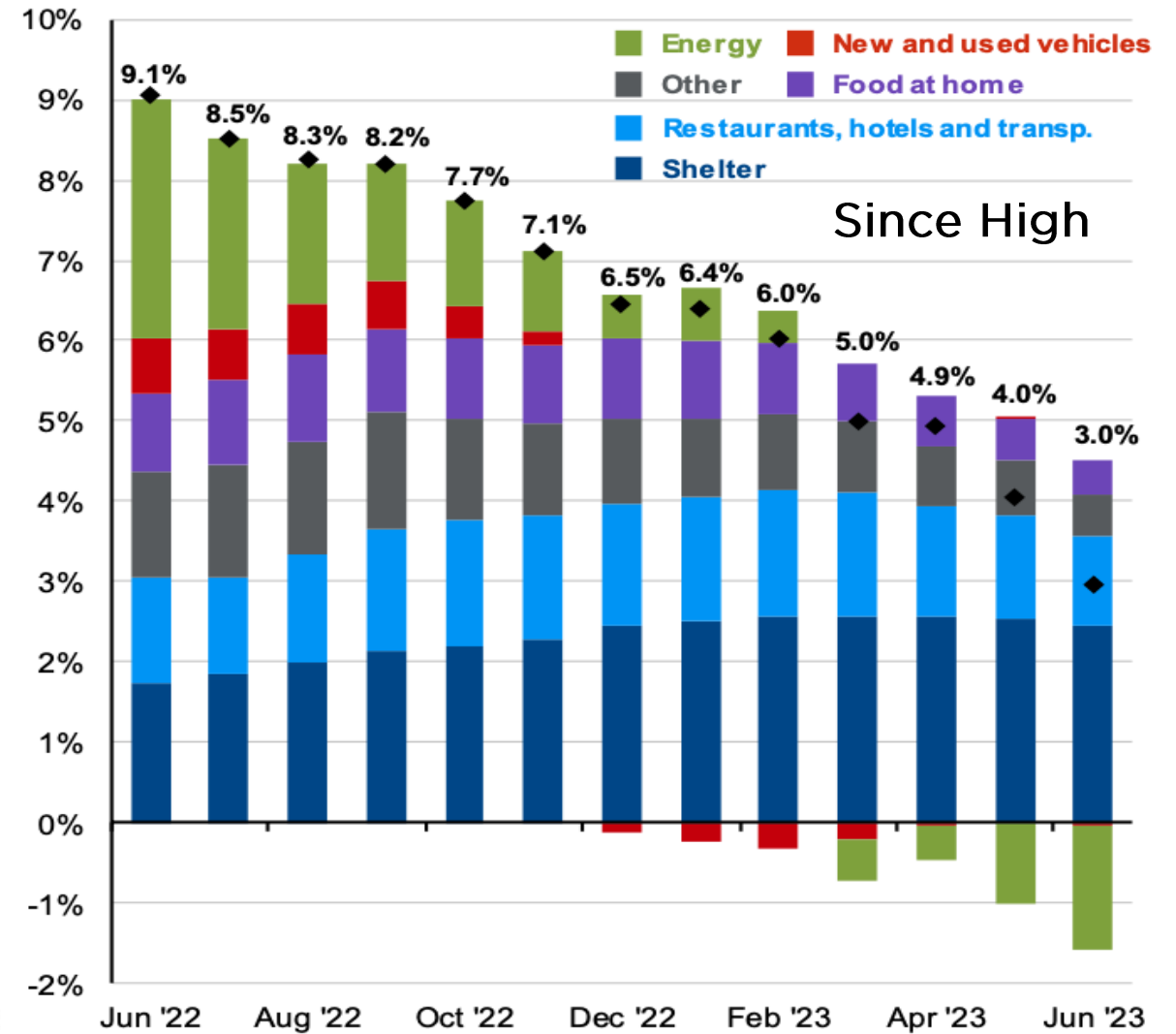
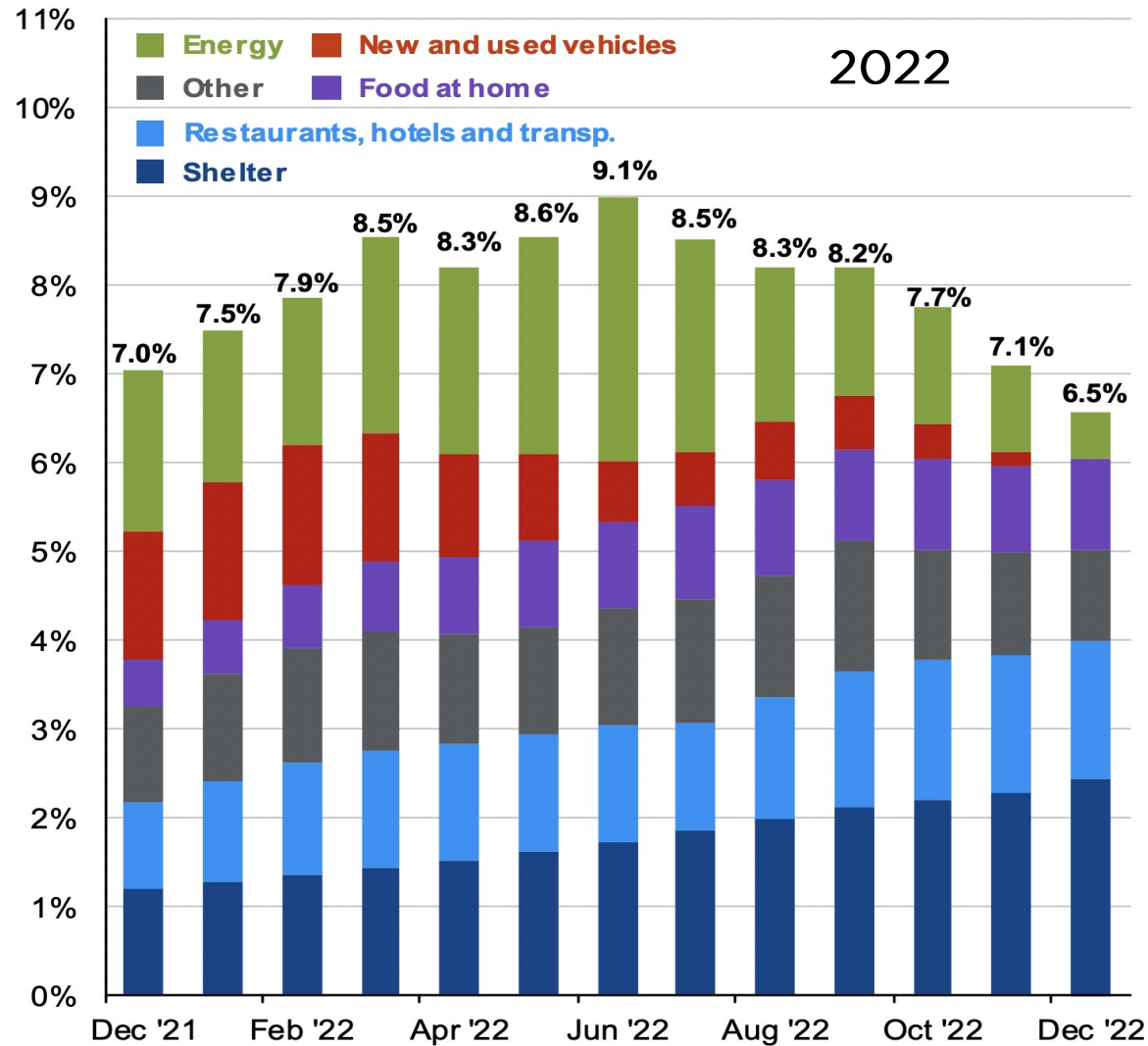


**+7.28%**

# Inflation and the Fed

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# Drivers of Inflation

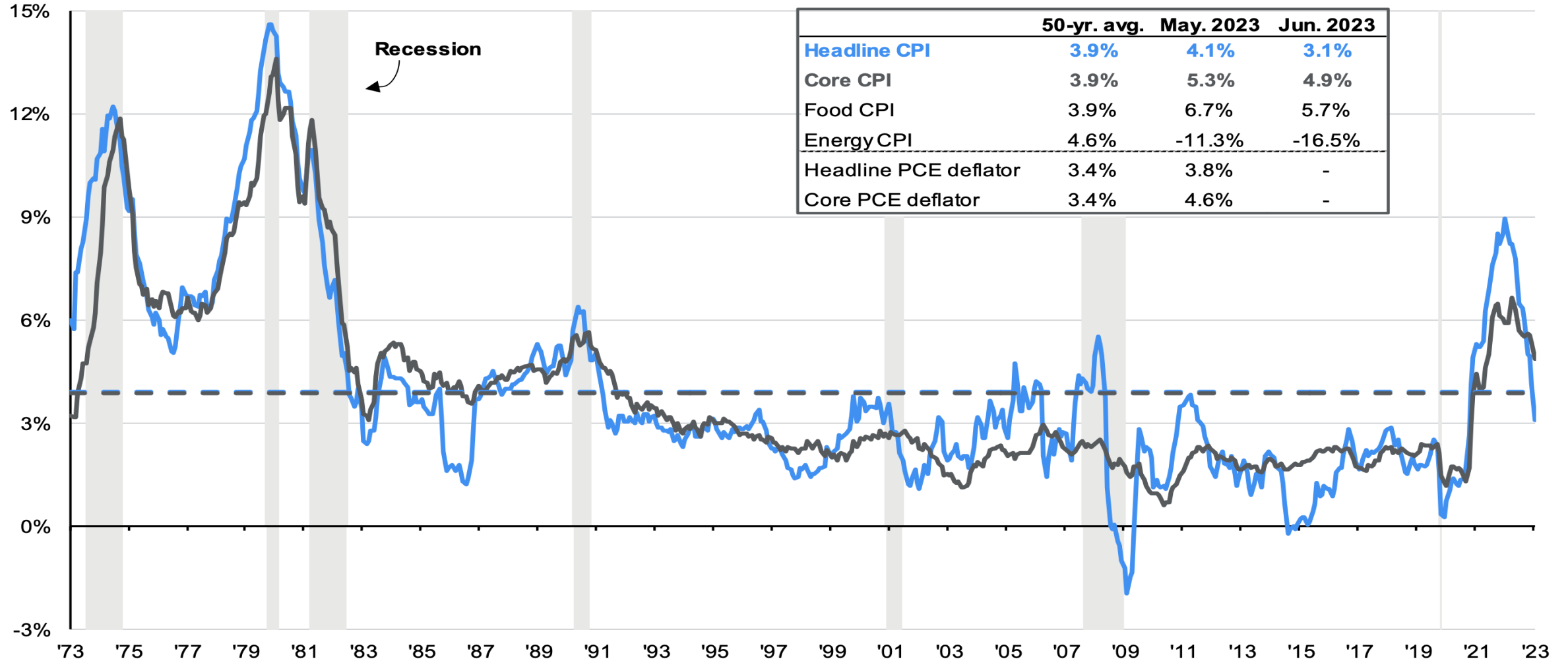


Source: Bureau of Labor Statistics, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. \*Core services ex-shelter CPI is a custom index using CPI components created by J.P. Morgan Asset Management. Left: "Shelter" includes owners' equivalent rent and rent of primary residence; "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services. Right: "Transportation services" primarily includes leased cars and trucks, motor vehicle insurance and motor vehicle maintenance and repair. Airline fares are broken out from transportation services. Guide to the Markets – U.S. Data are as of July 31, 2023.

# Inflation - The Last 50 Years

## CPI and core CPI

% change vs. prior year, seasonally adjusted



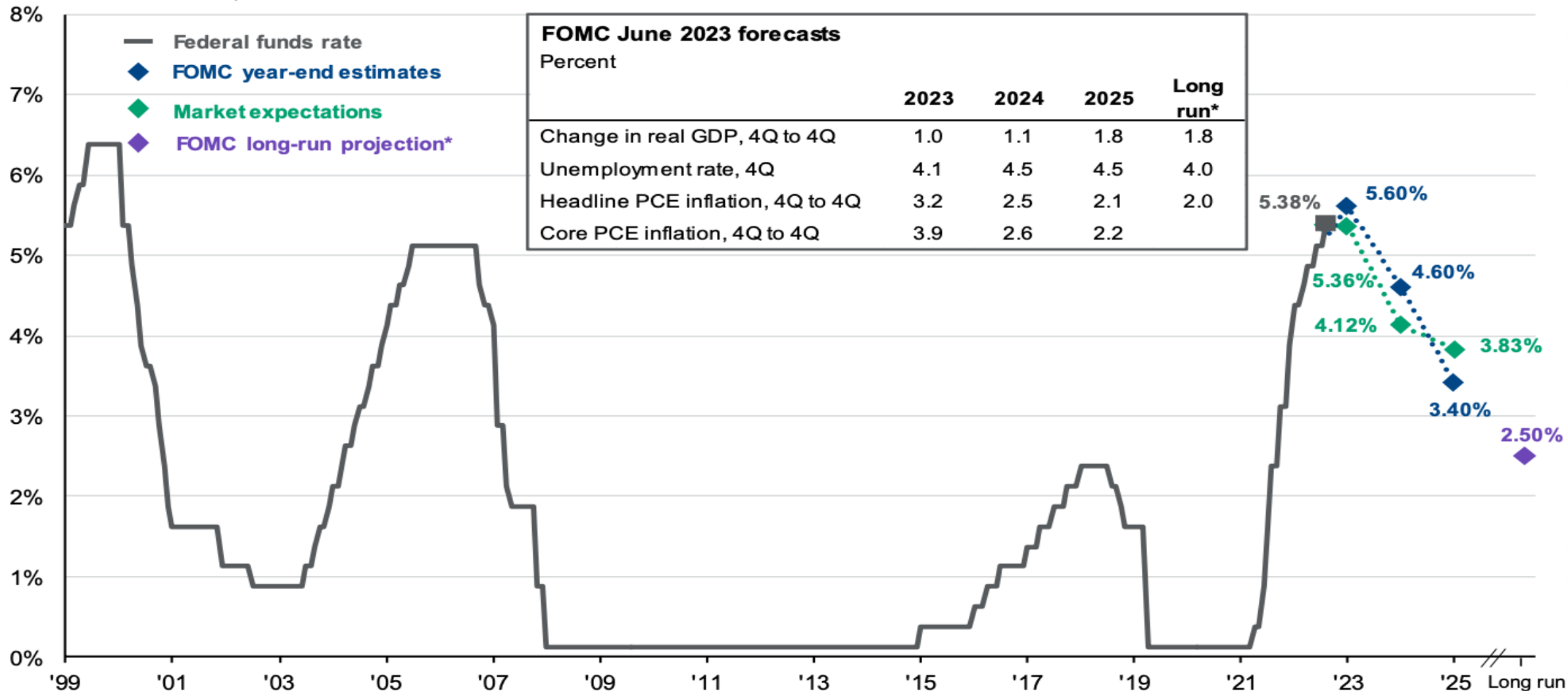
Source: BLS, FactSet, J.P. Morgan Asset Management CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. Guide to the Markets - U.S. Data are as of July 31, 2023.



# The Fed and Interest Rates

## Federal funds rate expectations

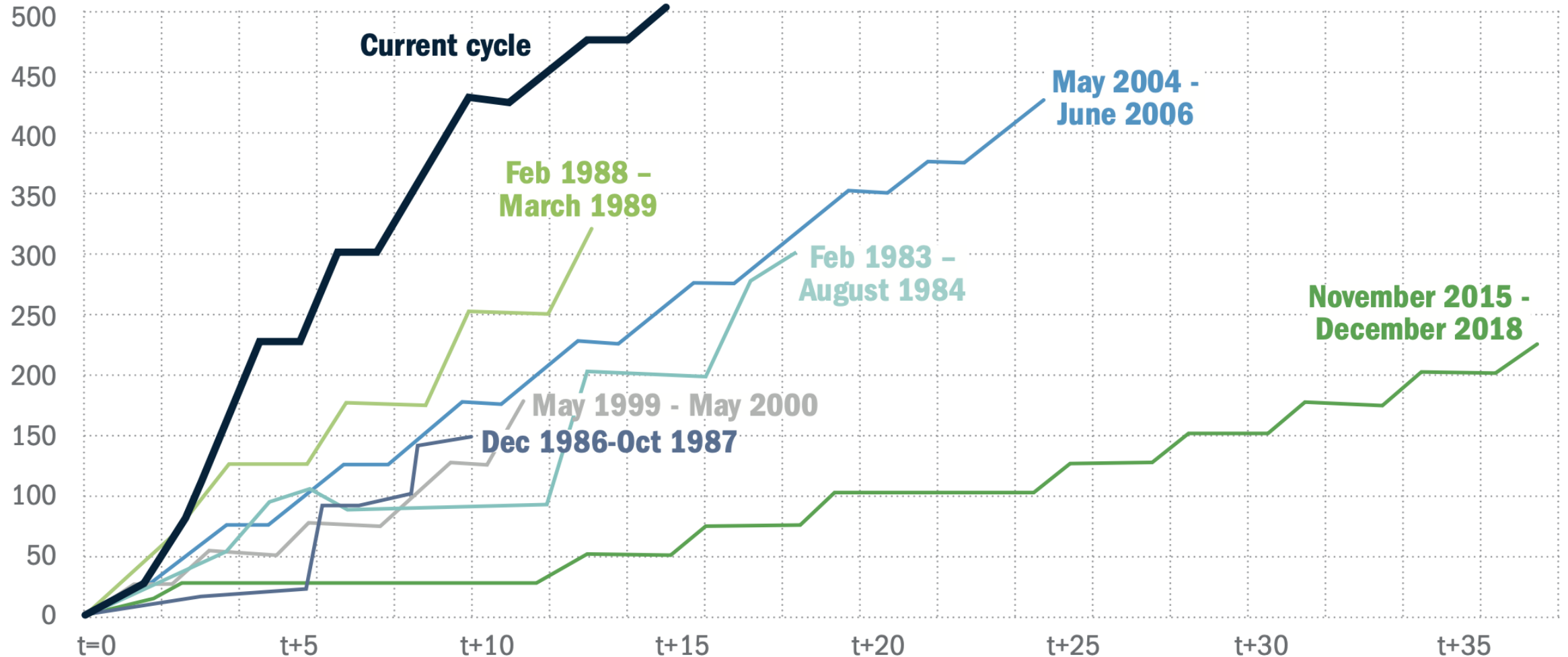
FOMC and market expectations for the federal funds rate



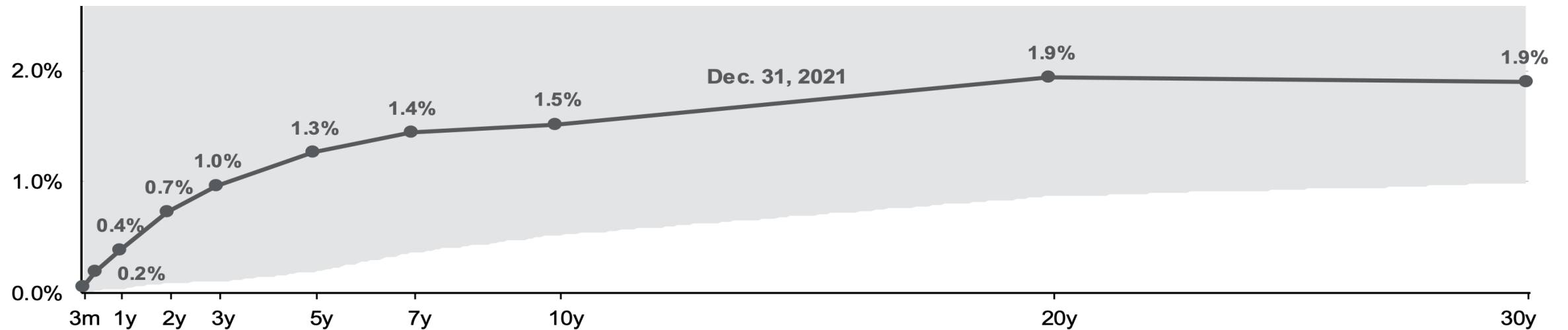
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. \*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of July 31, 2023.

# The Fed and Interest Rates

## United States: Cumulative Change in Federal Funds Rate Since First Hike (Previous 40 Years)



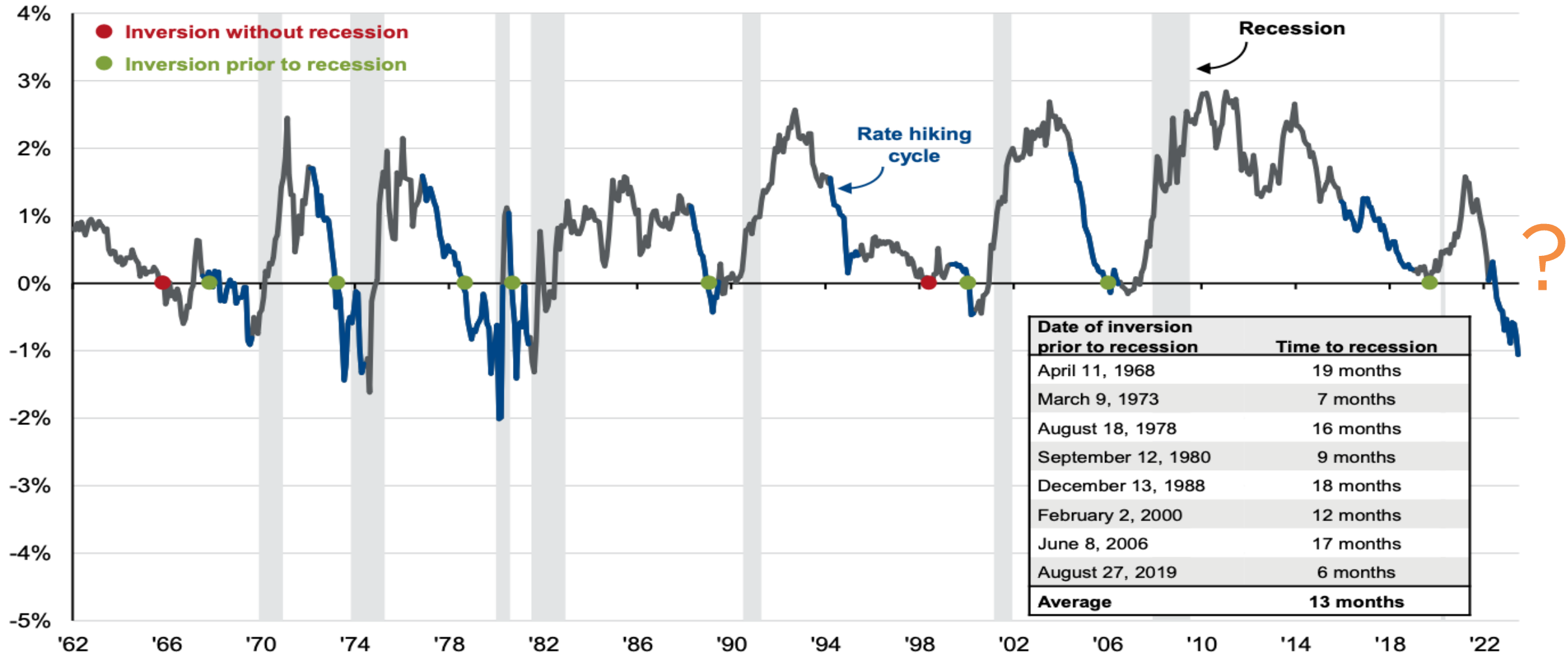
# US Treasury Yield Curve



# Recession Predictor?

## U.S. yield curve steepness

Difference between 10-year and 2-year U.S. Treasuries\*



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. \*From January 1962 to May 1976, short-term bond is U.S. 1-year note, and from June 1976 onwards the short-term bond is the 2-year note due to lack of data availability. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession and the onset of recession. Guide to the Markets – U.S. Data are as of June 30, 2023.

# Recession and the Stock Market

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# S&P 500 at Inflection Points

## S&P 500 Price Index

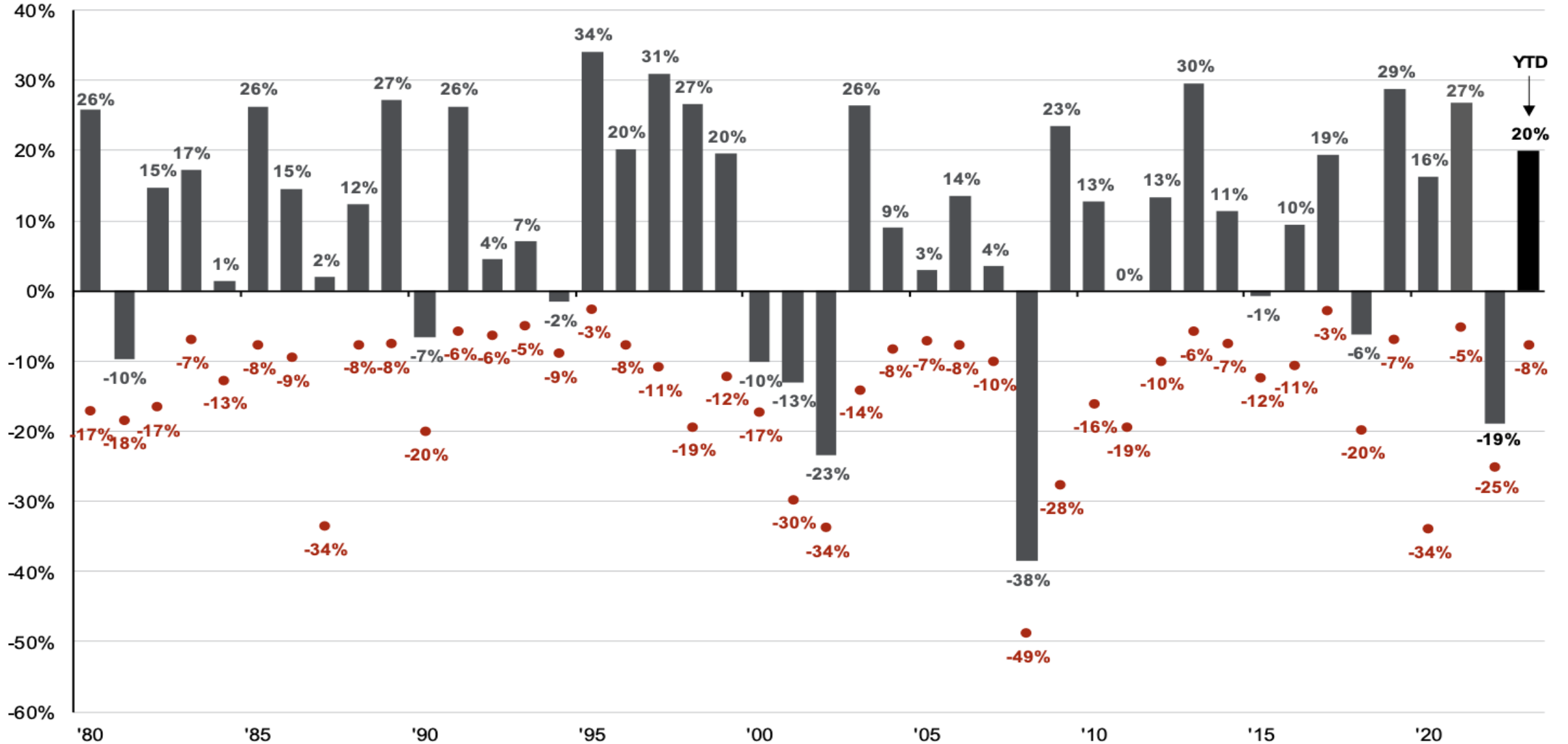


Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data are as of July 31, 2023.

# Market Volatility

## S&P intra-year declines vs. calendar year returns

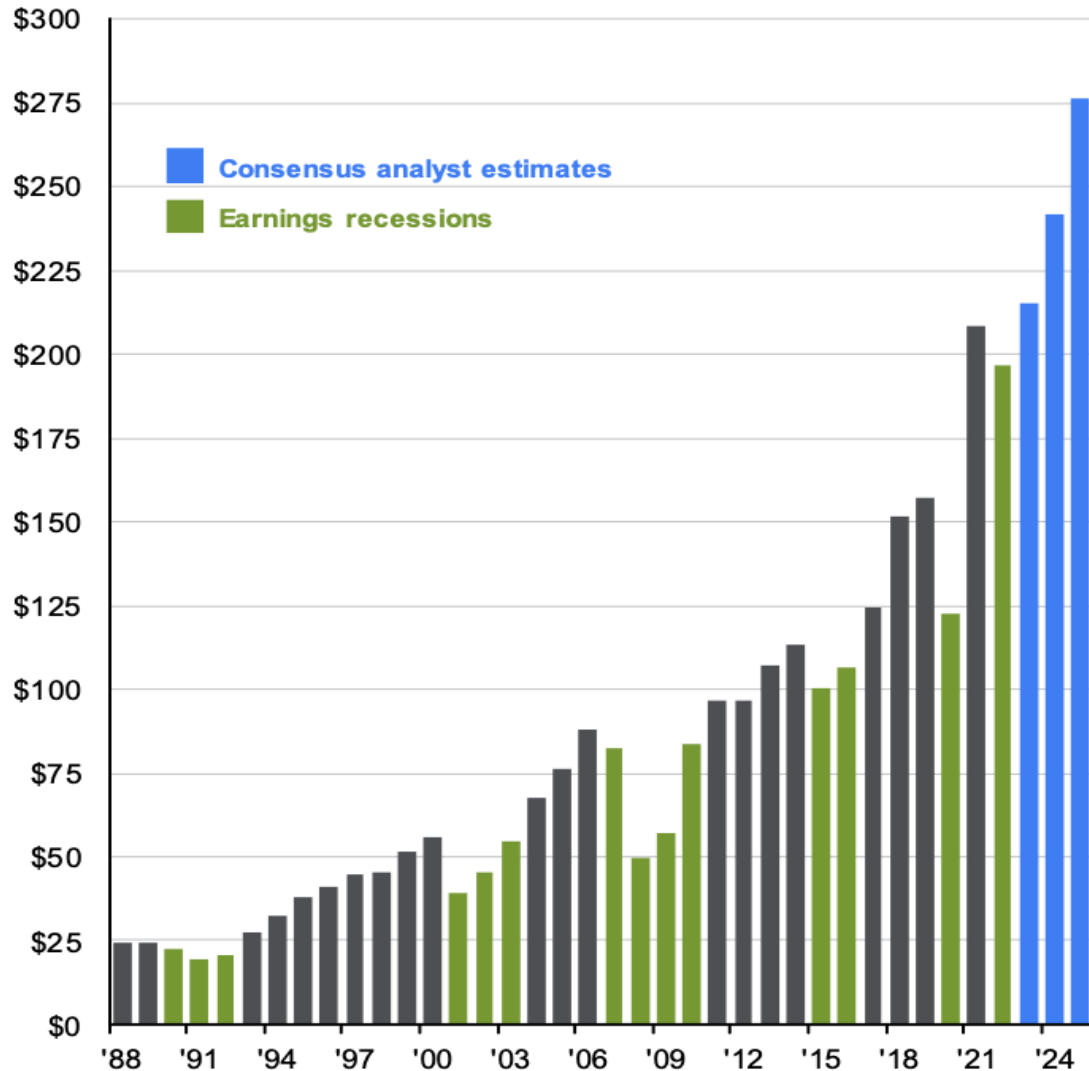
Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



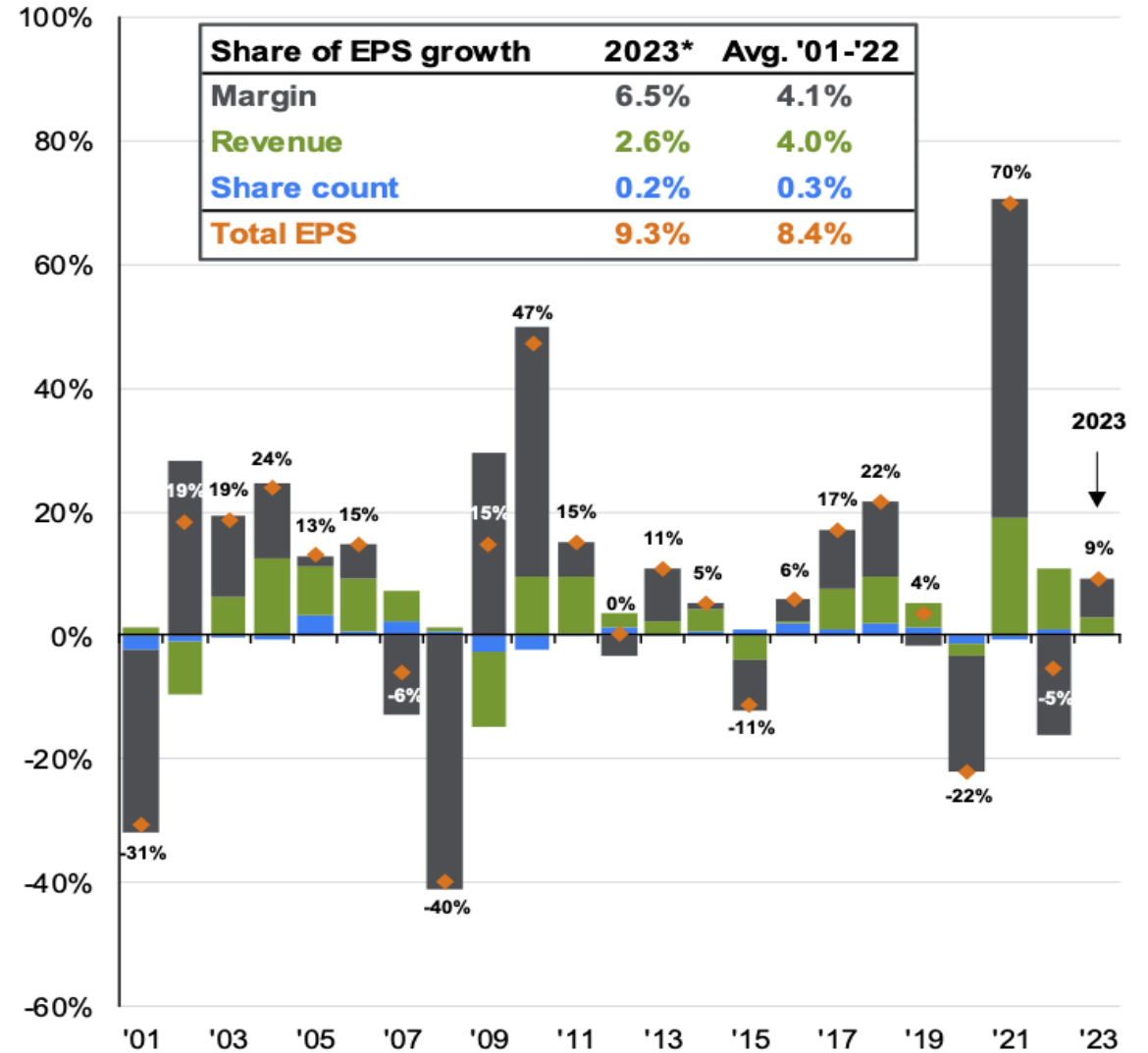
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2022, over which time period the average annual return was 8.7%. Guide to the Markets – U.S. Data are as of July 31, 2023.

# Corporate Earnings Growth

**S&P 500 earnings per share**  
Index annual operating earnings, USD



**S&P 500 year-over-year operating EPS growth**  
Annual growth broken into revenue, changes in profit margin & changes in share count



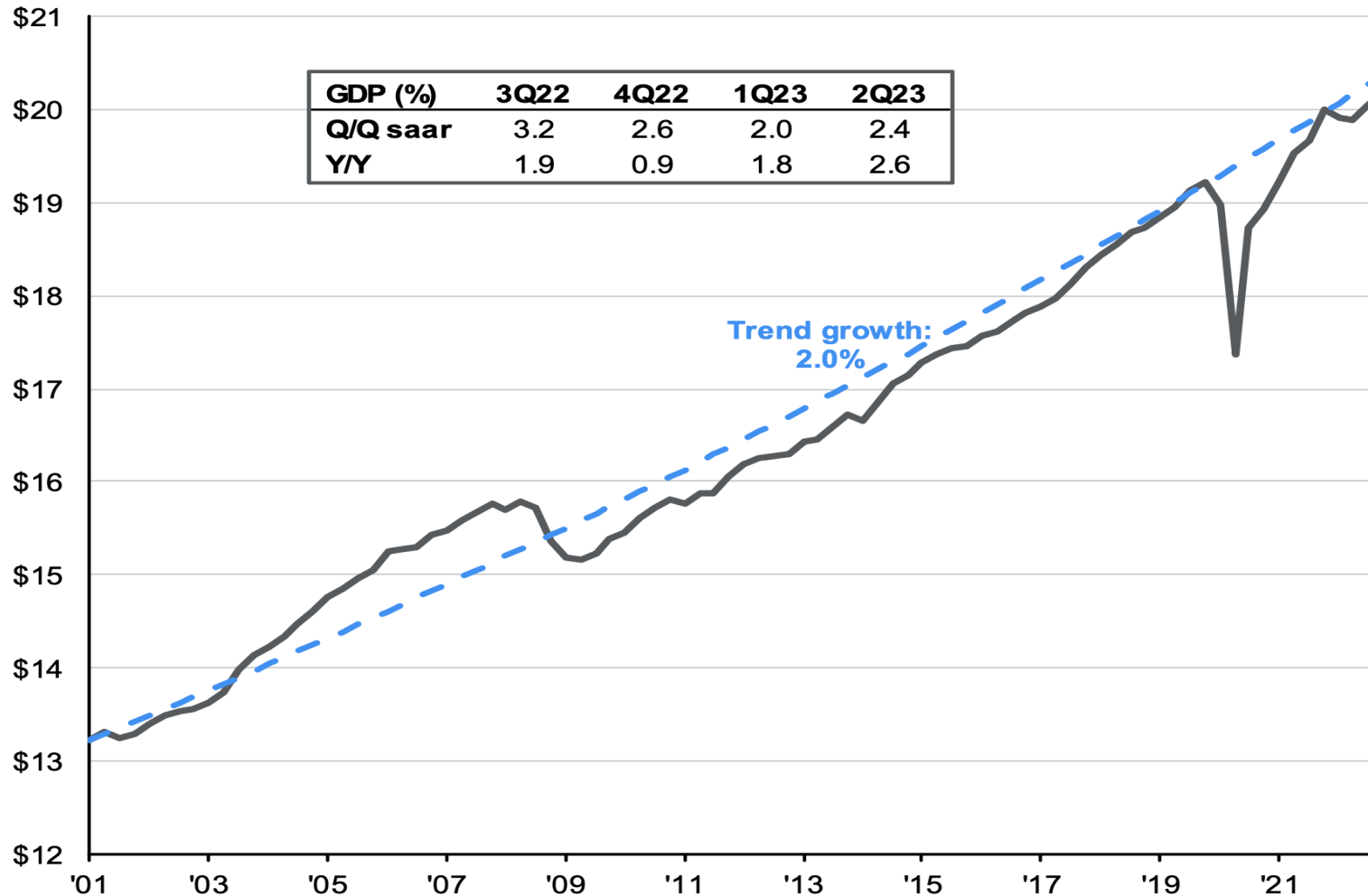
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Historical EPS levels are based on annual operating earnings per share. \*2023 earnings estimates are based on estimates from Standard & Poor's and FactSet Market Aggregates. Percentages may not sum due to rounding. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data are as of July 31, 2023.



# Economic Growth

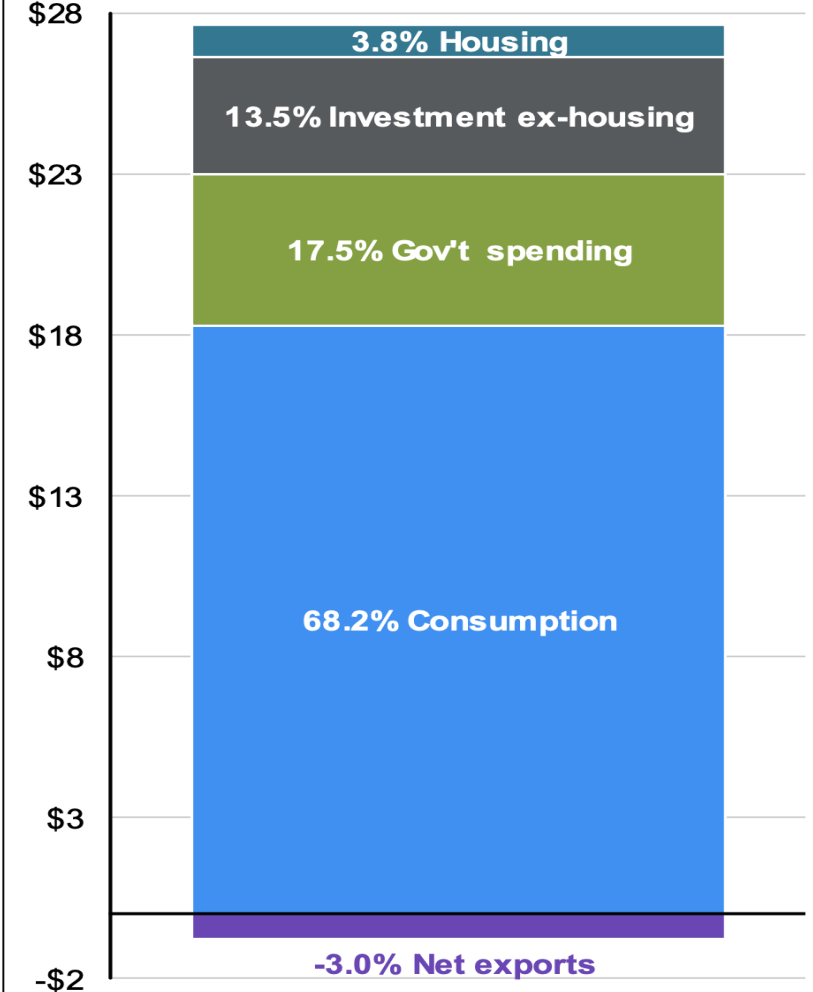
## Real GDP

Trillions of chained (2012) dollars, seasonally adjusted at annual rates



## Components of GDP

2Q23 nominal GDP, USD trillions



# Headwinds and Tailwinds



Tight Federal Reserve policy



Commercial real estate market



High cost of debt



Strong corporate earnings



High cash on the sidelines



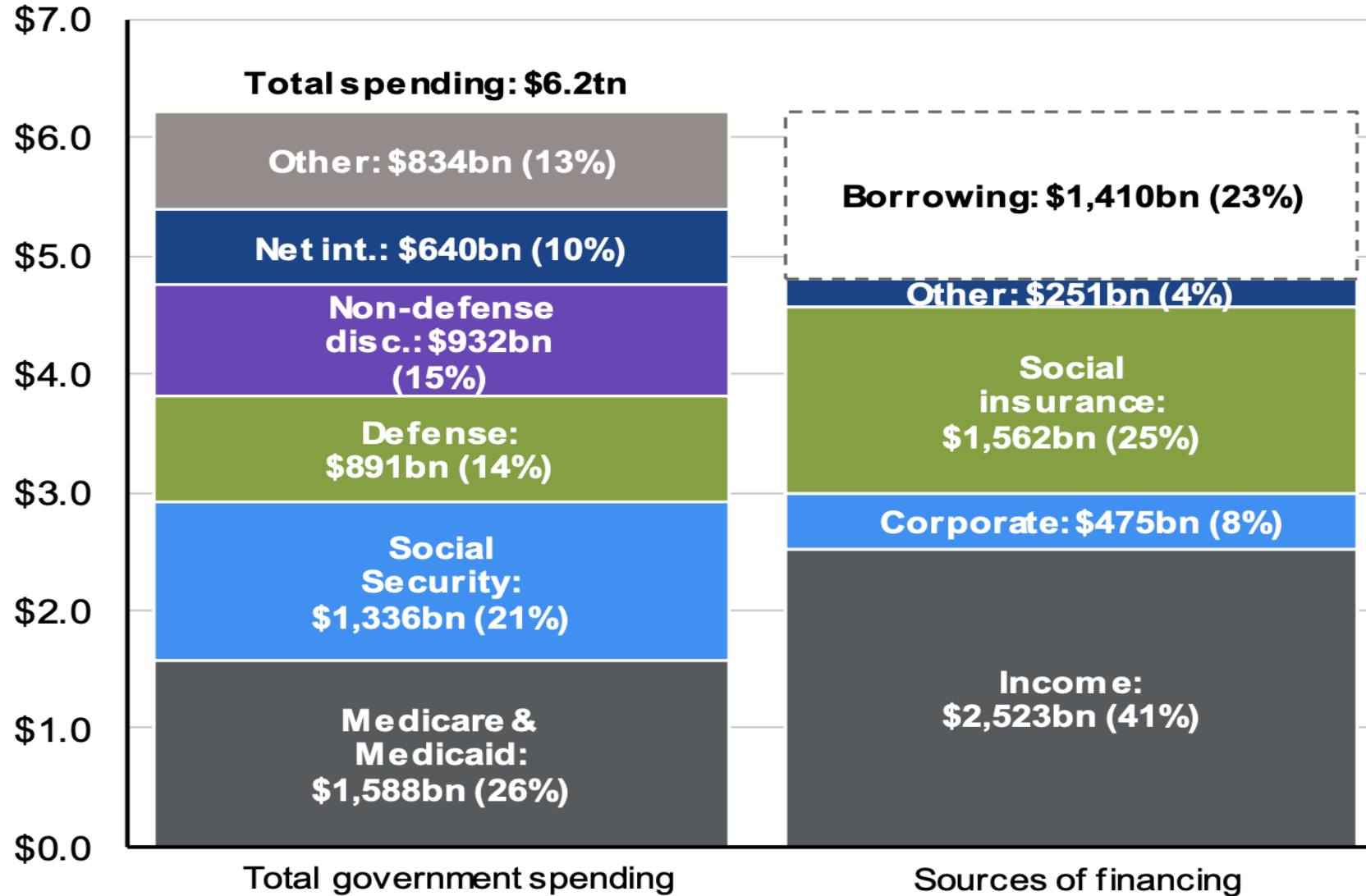
Low unemployment

# Federal Finances and the Consumer

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# 2023 Federal Budget

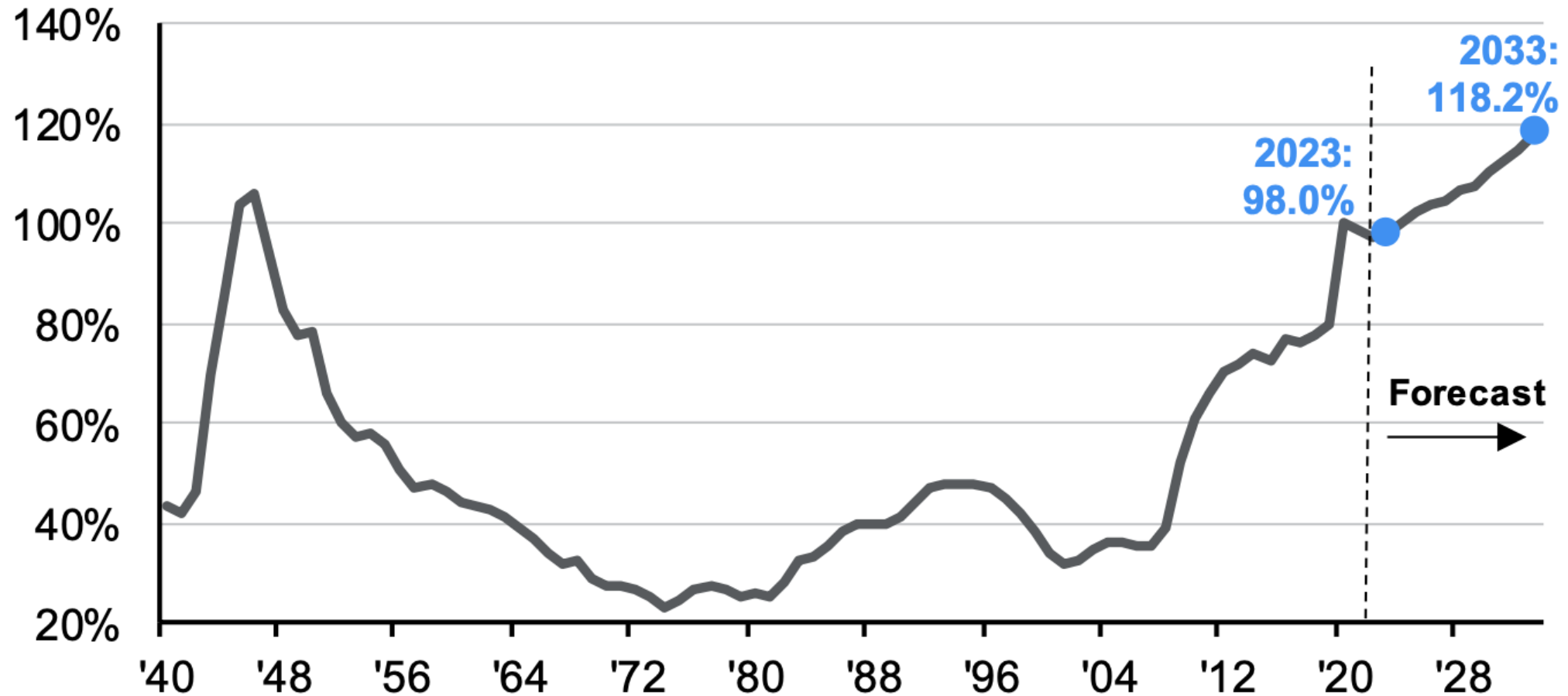
CBO Baseline forecast, USD trillions



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department. Estimates are based on the Congressional Budget Office (CBO) February 2023 Update to the Budget and Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of July 31, 2023.

# Federal Debt

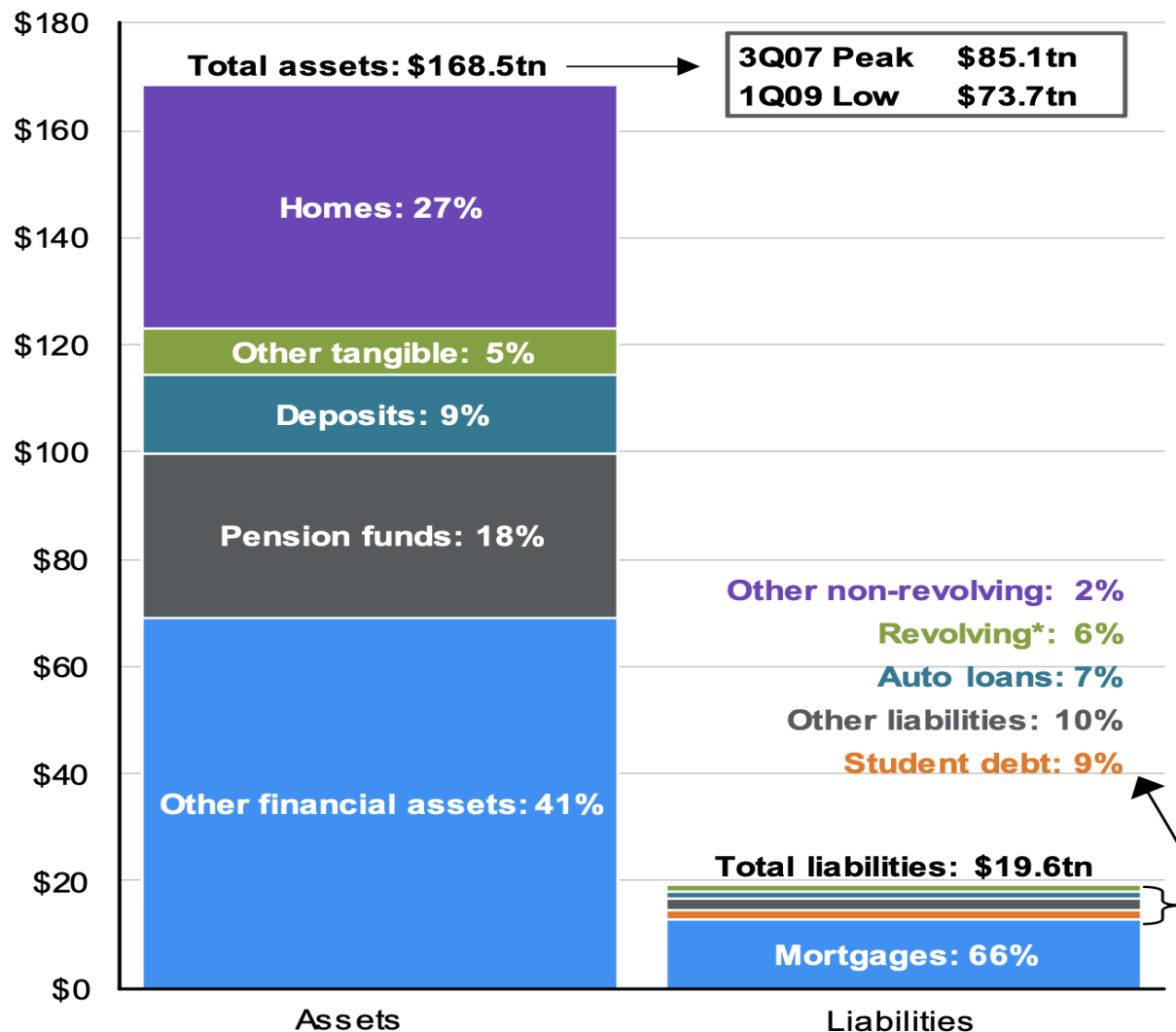
% of GDP, 1940 – 2033, CBO Baseline Forecast, end of fiscal year



# Consumer Finances

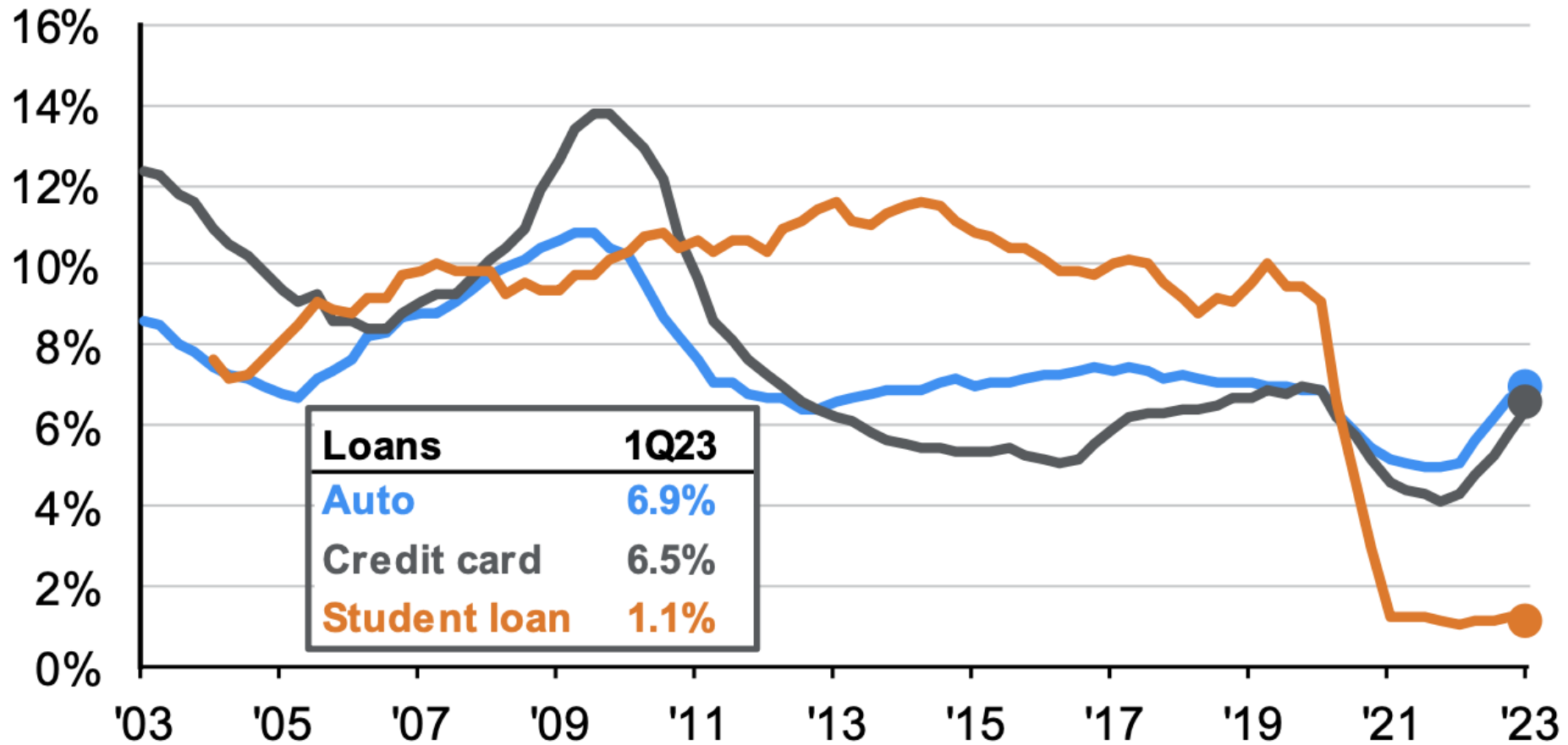
## Consumer balance sheet

1Q23, USD trillions, not seasonally adjusted



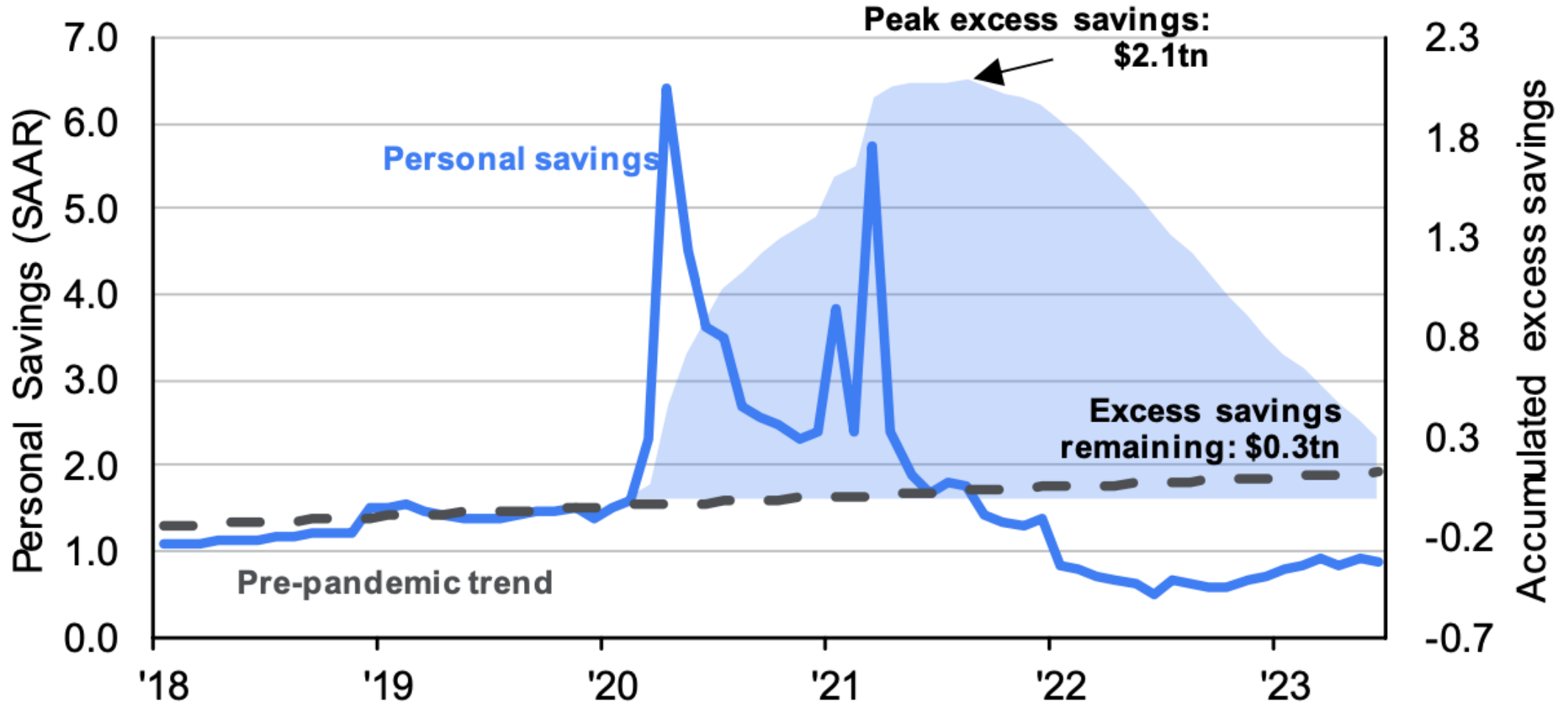
## Flows into early delinquencies

% of balance delinquent 30+ days



## Household excess savings

Trillions of USD

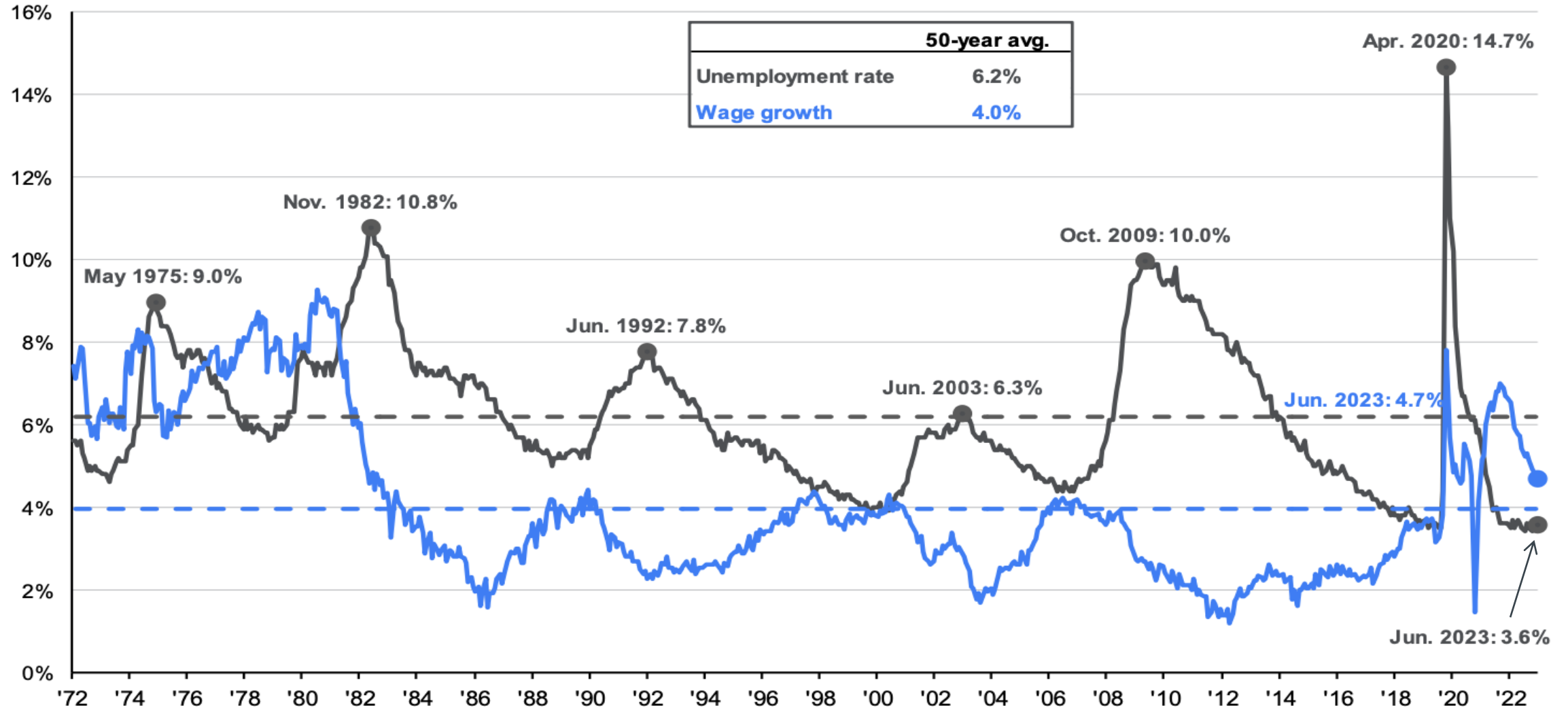




# Unemployment Historically Low

## Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent



# Artificial Intelligence

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# What is Artificial Intelligence?



**What is Conversational AI?**

**Advantages?**

**Disadvantages?**

**Concerns?**

# In Summary

- The balance of 2023 could be difficult for the stock market, but the bond market is expected to rebound.
- Risk management strategies will continue to be a key tool in mitigating the potential risk going forward.
- The Fed tightening cycle should end this year, leading to brighter days ahead.
- There may be better entry points to acquire more stock later in the year.
- Through it all, our focus: quality investments, proper diversification and a disciplined process.

# Wealth Management Matrix

Investment Management	Retirement Planning	Risk Management	Estate Planning	Tax Planning	Business Planning
Asset Allocation	Income Distribution	Asset Protection	Document Review	Corporate Benefits	401(k) Plan Design
Manager Research	Scenario Analysis	Liability Insurance	Estate Tax Mitigation	Deferral Techniques	Deferred Comp.
Performance Analysis	Benefit Planning	Long-term Care Insurance	Beneficiary Review	Loss Harvesting	Succession Planning
Education Funding	Social Security Optimization	Life/Disability Insurance	Charitable Planning	Dividend Strategies	Buy/Sell Agreements
Trust Management	Tax Efficiency	Prop/Casualty Insurance	Proper Use of Trusts	“Stretch” Planning	Key Man Insurance

# Our Team!



Michael Clark\*\*  
CIMA®, CRC®



Zachary Clark\*\*  
CFP®



Jane Weekley\*\*  
MBA



Denise Salzman\*\*  
CPA®



Chip Tencza\*\*  
Operations Analyst



Justin Horsman  
Operations Analyst



Jacqueline Williams  
Event Coordinator



Ghilda Rodriguez  
Office Administrator



Kima Lewis  
Office Administrator



Evita Hernandez  
Client Services



Amara Rollman  
Client Services



Micah Wakefield  
Portfolio Consultant

# Thank you!

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