MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT ***CHARLOTTE, NORTH CAROLINA***

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

What an amazing time in which to live. It seems that we routinely learn of new technologies that will change the way we live, work, and play. Engineers and scientists continually amaze us with new and exciting discoveries and inventions that promise to change our lives. Sometimes these new technologies result in a publicly traded company that offers an opportunity for investors to participate in their vision and the potential for financial gain.

Today, as we suffer through one of the hottest summers on record, the invention on my mind is the low- tech air conditioner which was credited to 25-year-old Willis Haviland Carrier in 1902[i]. Without this technology, the modern world would simply not be possible. Not only does AC make our summers bearable but without its temperature regulation, our high-tech computers, robotics, and factories would overheat and shut down. 1902 was the beginning but it took quite a few decades before air conditioners were widely in use in hospitals, office buildings, movie theaters and then eventually our homes but can you imagine life today without air-conditioning? I can still remember stories from our late father about how on hot summer mornings during his teenage years in the early '40's, he would mow yards to earn a dime. With that dime in hand, he could buy entry to the local theater with his buddies where they would enjoy a cool air-conditioned afternoon of cartoons, westerns, and newsreels. The media has changed over the last 80 plus years but our dependence on air conditioning has only increased.

The most impactful new technologies are often characterized by their disruptive and sometimes even destructive nature. Today there are new technologies breaking out in virtually every sector of the economy such as medicine, energy, and information technology. Of particular interest this year is Artificial Intelligence (AI). Many are speculating today on how AI will affect our lives for good or bad, but no one can know with any certainty. After all, could the early developers of air conditioning possibly have imagined its impact on our lives 121 years later?

Today, artificial intelligence related stocks are on a run in the U.S. stock market. We are both excited and a bit concerned about the future of AI. As with all new technologies, we believe there will be ups and downs and winners and losers as companies attempt to integrate it into their business models. The market's response to tech stocks in general, and AI related companies in particular, is having a significant impact this year that we believe could lead to a correction in prices if inflation remains persistent and broader economic conditions do not improve. We've witnessed the euphoria that comes with new technologies in the early stages. Artificial Intelligence is not exactly new, but it has only recently gained the attention of investors in such a broad manner. Since we cannot imagine where and how AI will ultimately impact our economy, it's nearly impossible to project the earnings of the companies that produce the technology and those that may benefit from it. This much we know, like the air conditioner, AI is here to stay and its impact will be far reaching.

After ending down -28.19% last year, the U.S. "tech sector" is up 42.77% through mid-year in 2023.[ii] This astonishing reversal is being driven by several important factors including the excitement over the long-term potential for Artificial Intelligence which gained great interest in the first half of this year. To give you an idea of how the S&P

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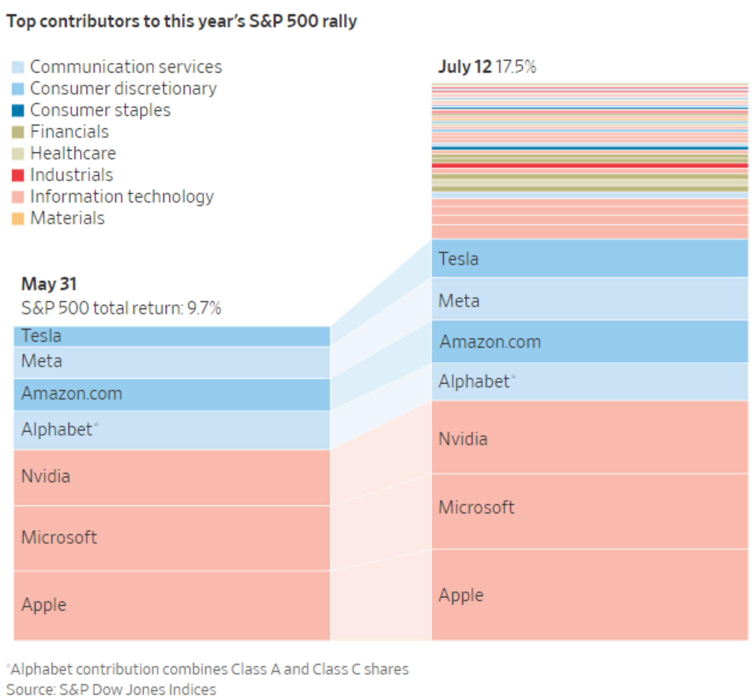
500 Index is weighted, the top 10 stocks out of 503 make up more than 30% of the index according to FACTSET[iii]. As you would expect, those 10 stocks have a significantly disproportionate effect on the performance of the index. *The Wall Street Journal*'s Hannah Miao refers to the "Magnificent Seven" stocks that have provided most of the performance for the S&P 500 this year as depicted in the chart nearby.[iv] Those seven stocks are classified as tech or communication services companies.



When we step back and look at the market more broadly, the S&P 500 was down 18.11% last year but is now up 16.89% as of June 30, 2023, or 17.5% through July 12th as seen nearby. Again, this reversal is being driven primarily by technology and communication services companies – the very same sectors that were hit hardest last year. For a little more context, the S&P 500 was up nearly 29% in 2021 with 89% of the companies producing positive returns for the year. By contrast, only 62% of the index companies are positive through mid-year this year. According to Miao, an equally weighted S&P 500 was down 1% through May 31st.[v] That means if we had invested $1 equally in each stock in the S&P 500 on the morning of the first trading day of this year, we would have actually lost money by the end of May rather than gaining nearly 10% as the capitalization-weighted model has done. However, the equal-weighted index has outperformed the capitalization-weighted index in the six weeks since May 31st. This recent broadening of stock sector performance is a positive indicator as a market rally concentrated in a handful of stocks is generally not an indicator of a healthy or sustainable rally.

Select Financial Markets Performance	2022 Year End	2023 Thru 6/30/23
S&P 500 Index	-18.11%	16.89%
Dow Jones Industrial Average Index	-6.86%	4.94%
NASDAQ Index	-32.54%	32.32%
Russell 1000 Value Index	-7.54%	5.12%
Russell 1000 Growth Index	-29.14%	29.02%
S&P 500 Energy Sector	65.72%	-5.52%
S&P 500 Information Technology Sector	-28.19%	42.77%
S&P 500 Communications Services Sector	-39.89%	36.24%
S&P 500 Financial Services Sector	-10.53%	-0.53%

Source: Morningstar / Raymond James

While we are pleased to see the market performance broadening to include stocks outside the "magnificent seven", we remain concerned that much of the market's growth this year remains tied to information technology and communications services. You may recall from newsletters last year, we commented on our view that value stocks were likely to outperform growth stocks should the economy enter a recession. As expected, value did outperform growth by more than three times (3X) in 2022 as evidenced by the Russell 1000 Value and Growth Indexes noted nearby but the U.S. economy never entered a recession.[vi] The tables have turned as many market participants have lowered their expectations of a recession this year or next which has improved growth expectations.

The big question as we enter earnings season is: Will corporate earnings live up to the hype? Maybe, maybe not. According to Justin Lahart of *The Wall Street Journal*, market analysts are now estimating that S&P 500 company earnings are estimated to fall by 8.1% from a year earlier.[vii] The economy is growing but profit margins are tightening. Supply chains have improved significantly. Competition is picking up which squeezes margins. And with the recently released June unemployment rate of 3.6%, wage pressures remain.[viii] We believe companies are going to feel additional pressure to produce earnings growth if inflation persists and demand wanes. This will weigh most heavily on the companies with the highest price to earnings multiples. In other words, the most expensive companies are at the greatest risk to reduced earnings expectations in our judgment.

Meanwhile the Fed desperately seeks to achieve the goal of a soft landing to the overheated economy following the economic fiscal and monetary inputs during the pandemic. We have stated previously and maintain today a view that the likelihood of a smooth landing for the economy is low but not out of the realm of possibilities. The U.S. money supply increased dramatically following the pandemic while interest rates were far too low. We are encouraged by a significant decrease in the money supply that started in July 2022 and has resulted in a reduction of nearly 5% through May. As I write this newsletter, the Fed just announced another 0.25% (25bps) rate hike as expected. The combination of higher rates and a lower money supply should eventually return the economy to more stable footing but therein lies the challenge.

A well-diversified and carefully allocated investment portfolio is as important today as ever. If you would like to discuss your investment strategy with us, please give us a call.

As you may have noticed, we are finally back in our Colony Road office after nearly six (6) months of remote work. We are grateful to Shelton Insurance and Stokes Construction for helping us return to this comfortable work environment. We look forward to seeing you in person soon if schedules and geography allow. Otherwise, we look forward to speaking with you over the phone or through Zoom. One more thing, I'm especially happy to share that Ivey and her boys have returned to Charlotte as of last month. Again, thank you for your continued confidence in our team. We are honored to serve you!

Best wishes,

Robert J. Gaskin, CIMA®
Managing Principal
Senior Financial Advisor, RJFS

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[i] https://www.asme.org/topics-resources/content/global-cooling-the-history-of-air-conditioning
[ii] Raymond James Weekly Market Flash. December 30, 2022 & June 30, 2023
[iii] Source: FACTSET. July 24, 2023.
[iv] https://www.wsj.com/articles/whats-behind-the-stock-market-rally-its-not-just-big-tech-dcac2678?mod=Searchresults_pos4&page=1
[v] https://www.wsj.com/articles/whats-behind-the-stock-market-rally-its-not-just-big-tech-dcac2678?mod=Searchresults_pos4&page=1
[vi] Source: Morningstar/Raymond James. Weekly Market Flash. December 30, 2022.
[vii] https://www.wsj.com/articles/companies-and-the-terrible-horrible-no-good-very-bad-earnings-season-fe6f1d5b?mod=Searchresults_pos1&page=1
[viii] Source: Bureau of Labor Statistics. July 7, 2023.