

NEWSLETTER – JULY 2023

MARKET TRENDS 6.30.23

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	6.9%	15.3%
US Stocks		
S&P 500	8.7%	16.9%
Large Cap Value	4.0%	5.0%
Large Cap Growth	12.8%	28.9%
Mid Cap	4.8%	8.8%
Small Cap	5.2%	8.1%
International Stocks		
Developed Markets	3.2%	12.0%
Emerging Markets	1.0%	5.1%
Fixed Income		
Taxable Bonds	-0.8%	2.3%
Municipal Bonds	-0.1%	2.4%
Alternatives		
EM Bonds	1.7%	3.7%
Floating Rate	1.9%	3.3%
Preferred	1.1%	4.9%
Gold	-3.5%	5.3%
Real Estate	2.3%	3.8%

Source: Factset

Tim Vanech

tim@shorepointpartners.com

Luis M. Raposo, CFA

luis@shorepointpartners.com

Chris Stuart, CFA

chris@shorepointpartners.com

Rand Folta, CFA

rand@shorepointpartners.com

Kevin Raposo

kevin@shorepointpartners.com

Main 781 341 7250 | Fax 781 341 7246

220 Norwood Park South
Norwood, MA 02062

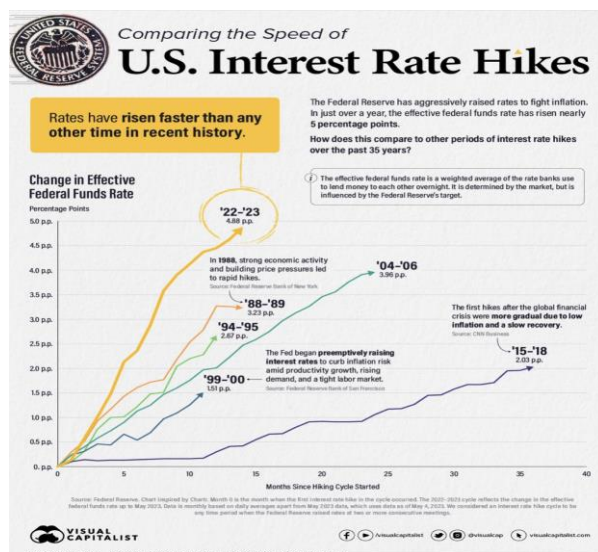
www.shorepointpartners.com

Shorepoint
Capital Partners

A Dragnet Quarter— “JUST THE FACTS, MA’AM”

The second quarter of 2023 was eventful:

- Congress averted, or at least delayed for 2 years, the latest debt limit crisis of its own making
- In May, The Fed hiked interest rates to a range of 5-5.25% for the 10th consecutive time, the highest level in 17 years and the most aggressive rate hike cycle in recent history.



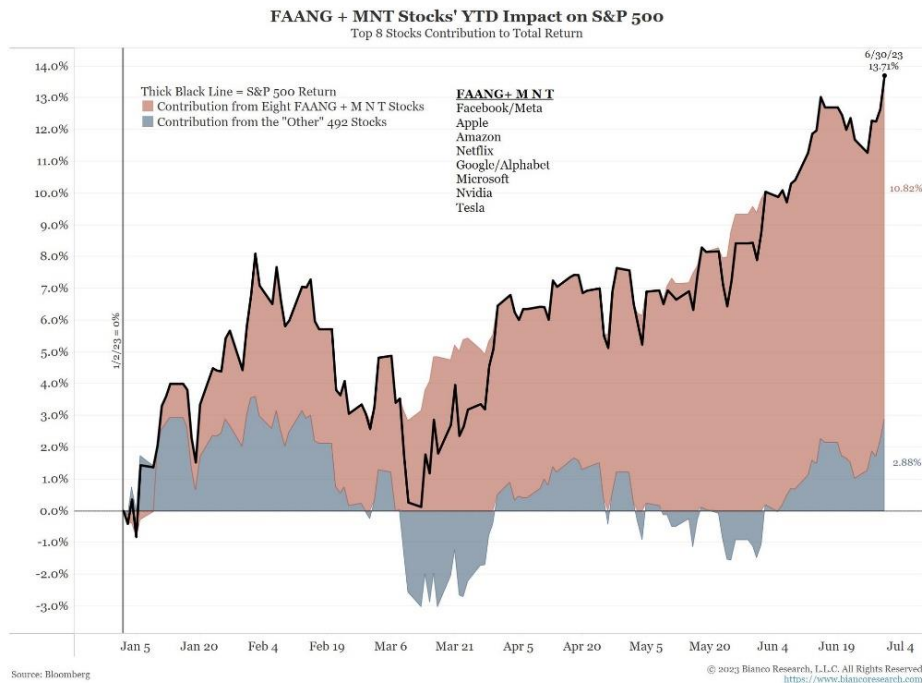
- As signs of lower inflation occurred by their subsequent meeting, the Fed chose to pause raising interest rates
- The banking crisis rolled on as regulators seized First Republic Bank (FRB), selling all its assets and most deposits to JP Morgan (JPM)
- The Russia/Ukraine War continued, and a break between the Wagner military leadership and Putin almost resulted in a rebellion indicating strife within Russia about its war policy/strategy

The Markets Yawn

Despite the backdrop of significant news events, the market was NOT volatile. It's unclear at this moment whether we are at a pause in the bear market, consolidating a base before another bull market, or already in a new bull market. The coming quarter will be full of data points and reports, which should clarify the micro view of investors betting bullishly on individual companies versus a more macro view of the real economy and where it may be heading.

IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

For the quarter, markets continued to snake up like vines on the proverbial wall of worry. Growth continued to significantly outperform value and dividend-oriented stocks, with the S&P 500 up almost 17% for the year after being down almost 20% in 2022. S&P 500 returns this year have been concentrated to a select group of stocks, particularly the mega-cap growth stocks affectionately referred to as the FAANG (Facebook, Apple, Amazon, Netflix, Google), along with Microsoft, NVIDIA, and Tesla. These eight stocks accounted for nearly 80% of the total returns of the S&P 500 this year. However, the return of the evenly weighted S&P 500 was less than 7%, while dividend stocks produced negative returns. *That's why we diversify!*



Other signs of optimism in the equity markets include the return of the IPO! The demand for Mediterranean fast food indicated by the recent Cava IPO seems to say more about the demand for stocks than it does for souvlaki, and that is coming from a Greek American principal of Shorepoint.

Other “bubbly” signs of equity life have been evident in the rise of AI (artificial intelligence). For instance, NVIDIA, a key player in AI chip processing, has seen its stock soar by almost 200% in 2023. There is little doubt that AI is likely another major, revolutionary wave of innovation. Investors are placing their bets early, not only focusing on “pure” AI companies, but also on larger technology companies with deep intellectual talent, wide customer bases, and deep pockets. We DON’T know how all this will shake out over time (remember all the lost .coms?), but the recent mania feels like the makings of an “internet bubble 2.0” scenario.

One more thing to note is that bonds are paying the highest yields that we have seen in over a decade. At this writing, 2-year U.S. Treasuries and money market mutual funds are yielding around 4.7%! This will help provide some stability for client portfolios. It also may provide a wealth effect to savers who are now getting paid “something” on their bank and CD accounts. In a post-COVID period, where excess cash has been absorbed into a more expensive world, it will be helpful that we are paid interest on our savings. But it seems unlikely that higher rates on our savings will make up for the COVID-related cash/entitlements diminishing. And higher interest rates on cash and bonds make them a strong alternative to stocks, should the encouraging signs we see in the real economy falter.

The Question Remains: is a Recession Looming or Not?

The topic of an impending recession has been discussed for a while and is the most widely predicted recession in our times. Yet here we are in mid-2023, having overcome major bank failures and enduring the fastest rate tightening cycle in history, and the overall economic conditions still appear relatively stable.

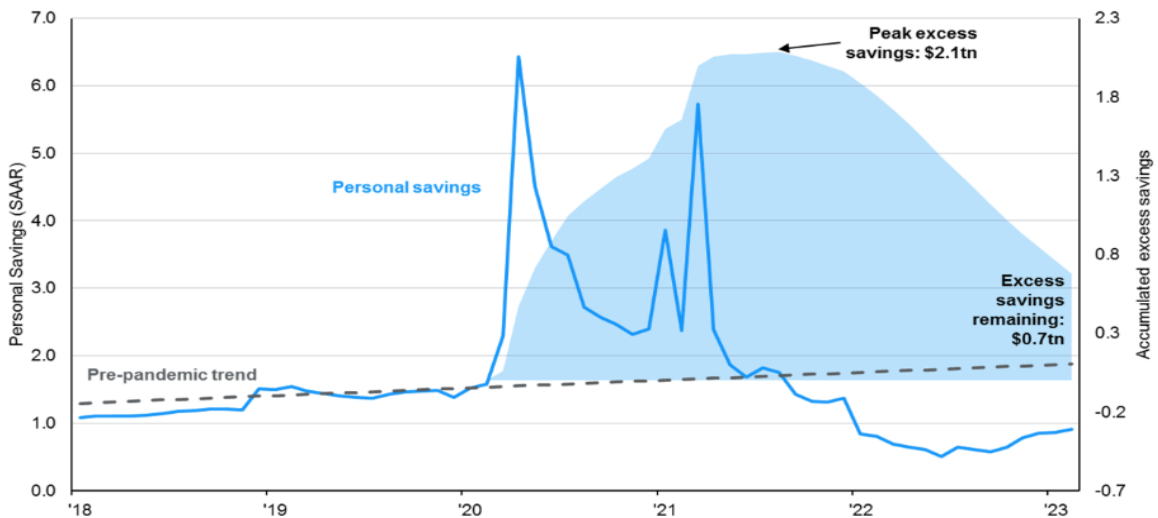
Bloomberg Economists See 100% Chance of a Recession Within a Year

Published on Oct. 18, 2022

Yes, there are still concerns. Despite a pause by the Fed at its most recent meeting, Fed officials still appear quite hawkish, with plans for two more rate hikes through the end of the year. Inflation remains stubbornly persistent, and with the Fed intent on reaching an inflation target of 2%, there is a lot more pain that the economy might need to endure to get there. Still, the labor market remains on good footing, wage growth has been persistent, and consumers are in relatively good shape despite depleting much of their pandemic-driven savings.

Household excess savings

Trillions of USD



IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

At Shorepoint, we focus not on predicting recessions but on taking advantage of market opportunities regardless of economic uncertainty. It is essential to remember that stocks have demonstrated resilience even during average recessions, which typically last around 10 months.

Stock Market Performance & Duration : U.S Recessions

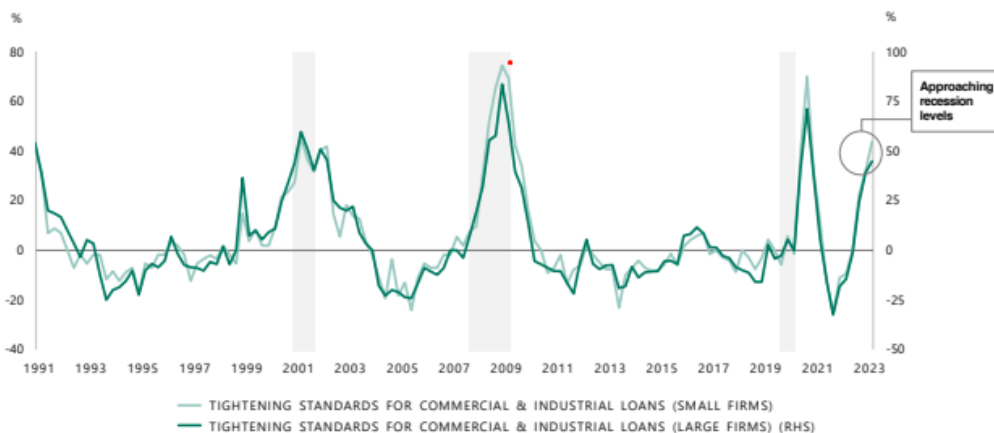
Recession	Length (Months)	S&P 500 Performance
Feb 1945 - Oct 1945	8	28%
Nov 1948 - Oct 1949	11	4%
Jul 1953 - May 1954	10	28%
Aug 1957 - Apr 1958	8	-7%
Apr 1960 - Feb 1961	10	18%
Dec 1969 - Nov 1970	11	-4%
Nov 1973 - Mar 1975	16	-18%
Jan 1980 - Jul 1980	6	16%
Jul 1981 - Nov 1982	16	15%
Jul 1990 - Mar 1991	8	8%
Mar 2001 - Nov 2001	8	-7%
Dec 2007 - Jun 2009	18	-36%
Feb 2020 - Apr 2020	2	-23%
Average	10.1 Months	+1.7%

Created by: Market Sentiment | Source: awealthofcommonsense.com & Yfinance | Made with Datawrapper

Looking Ahead

The Fed's actions will likely have more unintended consequences beyond the recent bank failures. The elevated cost of capital will likely continue to rise, affecting consumers and businesses as banks tighten credit. As the Fed intensifies its efforts to control inflation, the resulting economic consequences will likely leave some dust in its path, with a recession in late 2023 or 2024 remaining a plausible scenario.

Exhibit 8: Banks are tightening lending standards significantly, for both commercial and industrial loans...

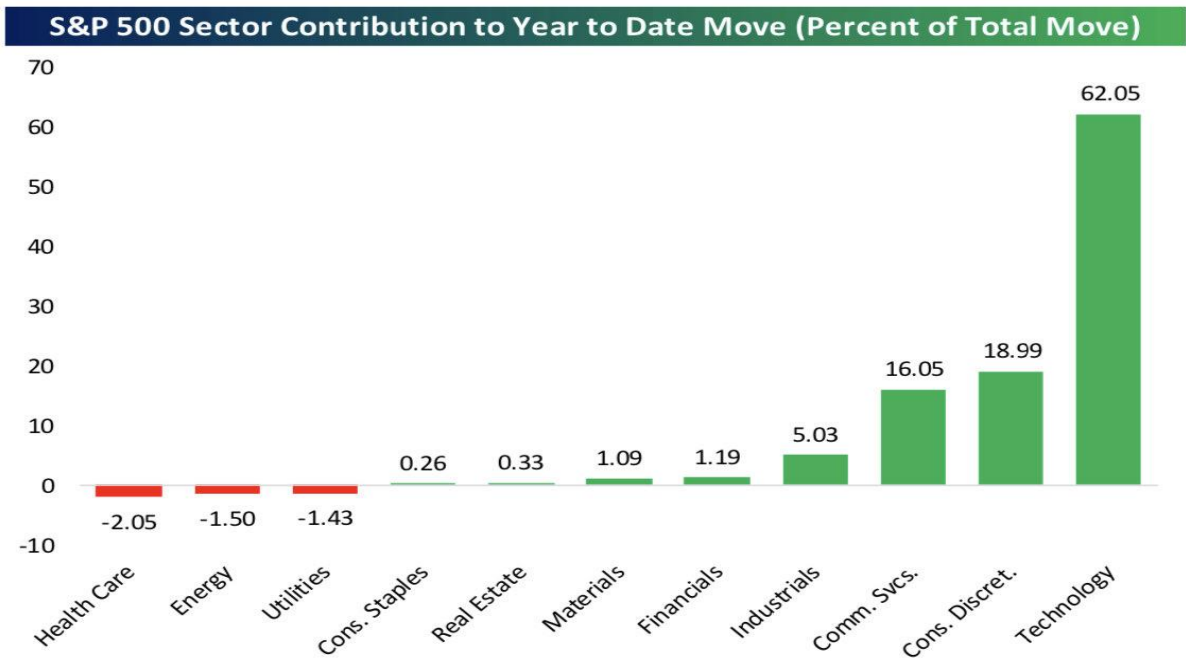


Sources: FRB, Bloomberg, Apollo Chief Economist. Data as of Q2 2023.

One of the significant concerns, particularly in the realm of commercial real estate, is the connection to regional banks that hold substantial exposure to the commercial real estate (CRE) space. US regional banks account for approximately 75% of all commercial RE lending. Due to headwinds in the regional banking sector, we have recently divested from several regional banking stocks and redirected proceeds to larger banks with stronger balance sheets and brand reputation, minimizing potential headline risks.

IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

Despite the prevailing economic concerns, as investors, we must look through the noise and focus on what matters most – identifying high-quality companies that can benefit from any economic malaise. With many potential risks still lurking, we continue to opt for companies with durable cash flows, strong balance sheets, and strong competitive positions, trading at attractive valuations.



While our portfolios include some of the outperforming big tech titans like Meta, Alphabet, Apple, and Microsoft, the recent underperformance outside of technology has led us to find more opportunities in areas such as healthcare, where we have identified several attractive, high dividend-yielding candidates. We continue to hold high cash positions in accounts (yielding almost 5%), which provides us with dry powder to take advantage of opportunities, reduce portfolio volatility, and generate robust cash flow. We hold higher quality bonds and a gold miner stock/ETF as a hedge to higher inflation, weakness in the U.S. dollar, and general global turmoil.

We also plan on launching the Shorepoint Income Fund II, LP, later in 2023 – we are available to discuss with you if this is appropriate for your situation.