SAM NEWS

2nd Quarter 2023 Report
July 2023

Bye-Bye Bear Market

Debt Ceiling Deal Reached, New Bull Market Forms

Another looming uncertainty for the markets was put behind us in early June with the passing of the Fiscal Responsibility Act of 2023 which raised the U.S. debt ceiling. Following the passage, stocks rose to new one-year highs. The S&P 500 is now 25% above the lows of October, 2022 and is officially in a new bull market- defined as rising 20% or more from the previous low point. Believe it or not, we just exited the longest bear market since 1948. The S&P 500 had been in bear-market territory for 248 trading days- the longest bear market since the 484 trading days ending on May 15, 1948.

The most forecasted and talked about recession in U.S. history has not yet occurred. Corporate earnings have remained steady and have come in better than many Wall Street analysts had anticipated. The late May jobs report was well ahead of expectations with the U.S. adding 339,000 jobs- the 29th straight month of job growth. Inflation has trended to a two-year low with shelter (rent and home prices), transportation (used cars and trucks), and gasoline remaining "stickier." First quarter U.S. gross domestic product (GDP) was just revised to +2.0% which demonstrates the resiliency of the economy despite the Federal Reserve hiking interest rates 10 times to 5%. Based on the preponderance of the economic data, our economy may still be able to avoid a recession altogether- a "soft landing." We anticipate continued stock and bond gains in 2023. Please read our SAM Outlook and SAM Strategy sections on the following pages.

2nd Quarter 2023 INVESTMENT REPORT

The broad S&P 500 Index ended the second quarter up 8.7%, bringing it within just 8% of the all-time highs set back in early 2022. The tech heavy Nasdaq Composite added 12.8% for the quarter- rebounding an incredible 31.7% year-to-date. Small company stocks as represented by the Russell 2000 were up 7.2%, while the DOW 30 gained 4% for the quarter. International stocks as measured by the MSCI EAFE Index also advanced 1.9% for the quarter and are up nearly 10% so far in 2023. The Barclays Capital Aggregate Bond Index declined 0.8%.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses.

	YTD	2nd Quarter	2022
Dow 30	4.9%	4.0%	-6.9%
S&P 500	16.9%	8.7%	-18.1%
Nasdaq Composite	31.7%	12.8%	-33.1%
Russell 2000	8.1%	5.2%	-20.4%
MSCI EAFE (Int'l stocks)	9.7%	1.9%	-16.8%
Bloomberg U.S. Aggregate (Bonds)	2.1%	-0.8%	-13.0%

These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.

Annual Review Appointments

We are continually setting in-person, telephone and Zoom online client review appointments. If we have not gotten together this year and you would like to set an appointment, please call our office toll-free at 877-658-5193 and we will schedule with you right away.

Upcoming Stock Market Holidays

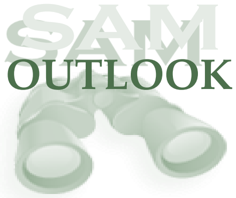
Independence Day, July 4th
Labor Day, September 4th

SIERRA ASSET MANAGEMENT

Serving Central California

40312 Junction Dr./PO Box 2389
Oakhurst, California 93644
559-658-5193
Toll Free: 877-658-5193
www.SierraAM.com
Email: info@SierraAM.com

SAM Outlook and Strategy on the following pages.



Last year was a bad one for the market, with the S&P 500 down 19%. The Nasdaq was worse, with a gut-punching 33% loss. This year, though it may not feel like it, has been very positive for investors. The S&P 500 is actually up 17% year-to-date and has officially entered a new bull market. The Nasdaq Composite has rebounded even more, up 32% since the start of the year. The Nasdaq rally has been led by the mega-cap tech companies that suffered some of the largest losses in 2022.

So why does it feel so awful? The first reason is the news. Inflation, while significantly lower than where it was last year, is still high. Furthermore, most people still believe a coming recession is a foregone conclusion. Our political climate and a host of other really bad news reported on a daily basis make us wonder if we should get out of bed in the morning. Second, while the market is higher, the bulk of the gains were achieved in the first month of the year. Since then, the market has been choppy, giving up all of those gains in February, rebounding in March and trading sideways in April and May. However, the market did break out solidly to the upside in June. By the end of June, the Nasdaq and S&P 500 were both trading at 52-week highs.

We believe that the fed is near the end of its rate hikes. The good news is that, historically, market returns have tended to be healthy after the Fed has paused. Fixed income, where performance has been dragged down by rising rates, is likely to rebound broadly through the rest of this year as yields begin to decline more meaningfully.

SAM STRATEGY

We have been closely monitoring the political and economic developments throughout the quarter. As evidenced by the self-created debt ceiling debacle, it would have been very difficult to "time" the market around that event. Stocks in general, and especially our more diversified portfolios had little volatility in the days prior to the passing of the act and the stock market rose substantially once the official agreement was reached. Our managed client portfolios remained fully invested and are continuing to benefit from the recovery in both stocks and bonds.

In early June, we did make some changes to our portfolio allocations- especially in our Balanced Stock & Bond and Conservative Stock & Bond strategies. With interest rates at 15-year highs and the Federal Reserve near the end of their hiking campaign, intermediate and longer-term bonds look more attractive. In general, the bond allocation changes have improved the quality of the bonds that we own and have extended the duration of those bonds. Ideally, we want to purchase fixed income while bond prices are still reasonable and rates are high. We also made some small strategic changes within our Aggressive All Equity and Aggressive Stock & Bond portfolios.

INTERESTING FACTS

BULL MARKETS

Since 1950, there have been 13 times when stocks rallied 20% off their 52-week low (a new bull market), and 12 of those times resulted in higher stock prices 12-months later, resulting in a win ratio of 92% and an average S&P 500 gain of 17.7%. Additionally, in 10 of those 13 times, the lows in stocks were in the rear-view mirror. The only times it didn't work? Twice during the tech bubble implosion and once during the Great Financial Crisis. In other words, some of the truly worst times to be invested in stocks.

GAINING SPEED ON THE WAY DOWN

The Social Security Board of Trustees' 2023 report projects the Social Security Administration (SSA) will be able to pay out 100% of retirement benefits until 2033, one less year than projected in 2022. At that time, OASI fund reserves will be depleted, and ongoing income would be enough to pay 77% of scheduled benefits (source: SSA).

THINGS THAT MAKE YOU GO HMM

A recent study of 28 retirement plans between 2014 to 2016 found that 41.4% of employees cashed out their 401(k) savings when they left their employers, with 85% draining their accounts completely. The study also found that pre-retirement leakage increased slightly with more generous employer matches and when a higher percentage of account assets were from employer contributions (source: Marketing Science).

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Dollar as Reserve Currency

We have been receiving an increasing number of questions from clients about the dollar losing its status as the world's "reserve currency." The dollar's role in foreign exchange markets is mostly unchanged over the last 20+ years; in 2022 the dollar accounted for ~89% of all foreign exchange transactions. In other words, the dollar was involved on one side or the other in 89% of all global transactions. The dollar's average turnover per day was $6.6 trillion in 2022, up 14% from $5.8 trillion in 2019 and in line with the change in total turnover. In addition to dominating the spot market, the dollar also dominates 85% of currency forward and swap markets. The Chinese currency, renminbi (RMB), share has grown but is still very small overall.

Part of the reason for the dollar's dominance in foreign exchange is its use as a medium of exchange in trade and international finance. Around half of all cross-border loans and international debt securities are denominated in dollars. For 65% of all global loan issuance and 88% of all international debt issuance, non-US entities are the issuer/borrower; that's a clear demonstration of the dollar's dominance in international finance. The dollar is also used for around half of all trade invoicing, much higher than the dollar's 12% share in overall global trade.

The dollar is still the dominant currency of choice for investment of foreign exchange reserves at ~60%. The dollar's share has declined by ~6% since 2015 as some Central Banks diversify holdings away from the dollar and the euro. However, most of this shift (~75%) is explained by increased allocations into currencies of smaller economies, which is a recent phenomenon: Australian and Canadian dollars, Swedish krona, and Korean won. Only 25% of the shift is explained by increased allocations to the Chinese RMB, much of which is driven by Russia which holds one third of all Chinese RMB reserves and has recently sold off large amounts of U.S. Treasuries. China's government bond market is the third largest in the world (larger than Germany, France and Spain combined) and the IMF added China to its Special Drawing Rights Basket in 2016, providing some impetus for other Central Banks to add it; but it's very slow going so far.

The Fed's International Finance Division found that 50%-60% of US "safe dollar assets" are held by foreign governments that have consistently strong ties with the US (Weiss, Oct 2022). This figure rises to 75% when including countries with military cooperation agreements with the US (non-NATO allies eligible for access to US military supplies) and neutral countries, two of which are joining NATO. Safe dollar assets include Treasuries, Agencies and short-term debts of US financial institutions.

Cash Is No Longer Trash

The Federal Reserve took short-term interest rates down to nearly zero during the financial crisis 15 years ago. Then, to the surprise of just about everyone - left them there for over 13 years. With Treasury bills and money market accounts paying next to nothing - and in some cases *literally* nothing for so long - the conventional wisdom was that "cash is trash."

That has all changed with the Fed raising rates. Yields on money market funds, CDs, and ultra-short term bond funds are now near 15-year highs. Current interest rates are around 5% on these cash alternatives- a little less in a money market fund and a little more in FDIC insured CDs and ultra-short term bonds. If you have excess savings outside of Schwab that is earning very little or no interest at your bank, it may be advisable to add those funds to your non-IRA Schwab account.

Some things to consider: 1. While a 5% rate sounds appealing, it is still right around the current inflation rate (your *real* return is zero). 2. Rates may not remain this high if the economy weakens and the Fed has to cut rates in the future. 3. This is only an idea for savings- longer term funds should still be invested in a diversified portfolio. Over the last 80 years, the DOW and S&P 500 have generated returns of approximately 10% on an annualized basis!

Workplace Retirement Account Management

We have exciting news to share! Previously, we couldn't proactively trade and monitor your workplace 401(k), 403(b), 457, etc. accounts which required you to manually update the investments and provide periodic statements to us. We have now partnered with a financial technology company called Pontera that allows us to manage your workplace retirement account just like the rest of your directly managed Schwab investment accounts! Please contact Will by email at will@sierraam.com or by phone at 559-658-5193 if you are interested in learning more.

We sincerely appreciate your continued trust and confidence. If you know of someone who may benefit from our service, please pass along our contact information. As always, there is no cost for an initial consultation.

INTERESTING FACTS

TRILLION DEFINED

One trillion equals a thousand billions, or a million millions. 1 trillion consists of 1 followed by 12 zeros, that is,

1,000,000,000,000.

It takes about 32,000 years to finish 1 trillion seconds. The U.S. national debt now stands at $32 trillion. As of April, 2023 it cost $460 billion per year in interest to maintain our debt or about 13% of total government spending for the year.

"If you're as honest and fair as you can be, not only in business but in life, things will work out."
- Kate Spade