Market & Economic Outlook 2023 – July Update: An Unloved Rally

Major Indices	Value (6/30/2023)	2Q23 (3/31/23 - 6/30/23) Price Return	2Q23 Total Return*	2023 YTD (12/31/22 - 6/30/23) Price Return	2023 YTD Total Return*
S&P 500	4,450.38	8.3%	8.7%	15.9%	16.9%
Dow Jones Industrial Average	34,407.60	3.4%	4.0%	3.8%	4.9%
NASDAQ Composite	13,787.92	12.8%	13.1%	31.7%	32.3%
Russell 2000	1,888.73	4.8%	5.2%	7.2%	8.1%
MSCI EAFE (USD)	2,131.72	1.9%	3.2%	9.7%	12.1%
MSCI Emerging Markets (USD)	989.48	-0.1%	1.0%	3.5%	5.1%
Bloomberg Commodity Index	101.48	-3.8%	-2.6%	-10.0%	-7.8%
Bloomberg U.S. Aggregate Bond	89.79	-1.4%	-0.8%	1.0%	2.1%

Data Source: FactSet through 6/30/23; Further discussion of market indices can be found in the Appendix section; Price Returns refer to the change in prices from the beginning of the period (3/31/23) to the end of the period (6/30/23); Total Returns include dividends paid.

Outlook Summary:

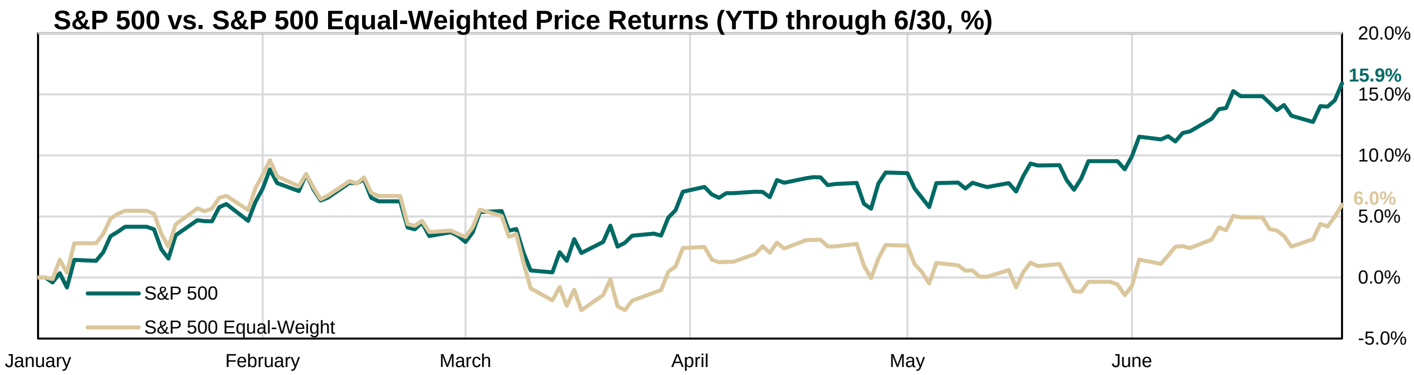
Global equities rallied in the second quarter (2Q23), extending gains that began in mid-October 2022. We attribute equity market strength to a range of drivers, including positive consumer spending data, improving (lower) inflation trends, a recovery in housing construction, and an emerging technology capital investment cycle (tied to artificial intelligence, or AI). Those positive factors out-dueled material potential headwinds, including fears of economic slowdown, a sudden bank deposit crisis, elevated interest rates (including higher policy rates from the Federal Reserve Bank), negative year-over-year (Y/Y) earnings growth (S&P 500), and geopolitical uncertainty. The S&P 500 exceeded our cautious outlook entering the year as economic growth remained positive, leading to increased expectations for a “soft landing” (no recession). Despite our conservative outlook, we have advocated “staying the course,” by remaining invested in equities despite uncertainty. This has enabled most of us to participate in 2023’s rally and highlights the difficulty in consistently calling market tops and bottoms. Our S&P 500 fair value estimate of 4,100 is unchanged from our June update, and we continue to believe that the index will largely stay range-bound, remaining below the index’s all-time closing high of 4,797 (January 2022). We advise building diversified (by sector) equity portfolios of high-quality stocks and looking to rebalance (trim positions that become overweight and add to underweight positions) during periods of volatility.

We see a potential S&P 500 trading range of 3,800 to 4,400; however, the index ended June modestly above that range and the early July trajectory appears higher. Additional near-term gains could be paced by expectations that the Federal Reserve Bank (Fed) is nearing the end of its 15-month-long higher interest rate policy, that S&P 500 second quarter 2023 (2Q23) earnings could exceed expectations, and that market gains could broaden to include lagging sectors. However, our more cautious outlook reflects our view that in the second half of 2023 the labor market and consumer spending could slow, economic growth will remain below full potential (from 2012 to 2019, eight years, pre-pandemic, U.S. gross domestic product, or GDP, averaged growth of 2.3% annually), and interest rates appear poised to stay higher for longer. In our view, slowing GDP growth could pressure earnings while elevated interest rates can pressure valuation, both creating headwinds for further gains.

First Half Review. On 6/30/23, the S&P 500 closed at 4,450, a 52-week high (the highest close since April 2022) and up 24.4% from the bear market low in mid-October 2022. For the first half of 2023 (1H23), the S&P 500 increased 15.9% (price change) and 16.9% including dividends. This was the highest S&P 500 first-half return in four years (18.5% total return in 2019) and significantly better than last year’s (1H22) first-half decline of -20.0%. The second quarter (2Q23) S&P 500 total return of 8.3% exceeded the 1Q23 return of 7.5% as all three 2Q23 months were higher and the June total return of 6.6% was the best month of the first half. While the S&P 500 is now above a 3,600 to 4,300 trading range that existed for 12 months, the index at the end of June remained nearly 8% below its all-time closing high set in early January 2022. Even more impressive than the S&P 500 return to begin the year, the large-company, growth- and technology-centric Nasdaq Composite index surged 32.3% in 1H23 as the 2Q23 return of 13.1% added to its 17.1% first quarter return. The Nasdaq has recovered much of its equity market-worst -32.5% decline (total return) in 2022 but remained nearly 21% below its all-time high set in late 2021.

Data Source: FactSet as of 6/30/23. S&P 500 Daily Closing Prices 12/31/19 to 6/30/23

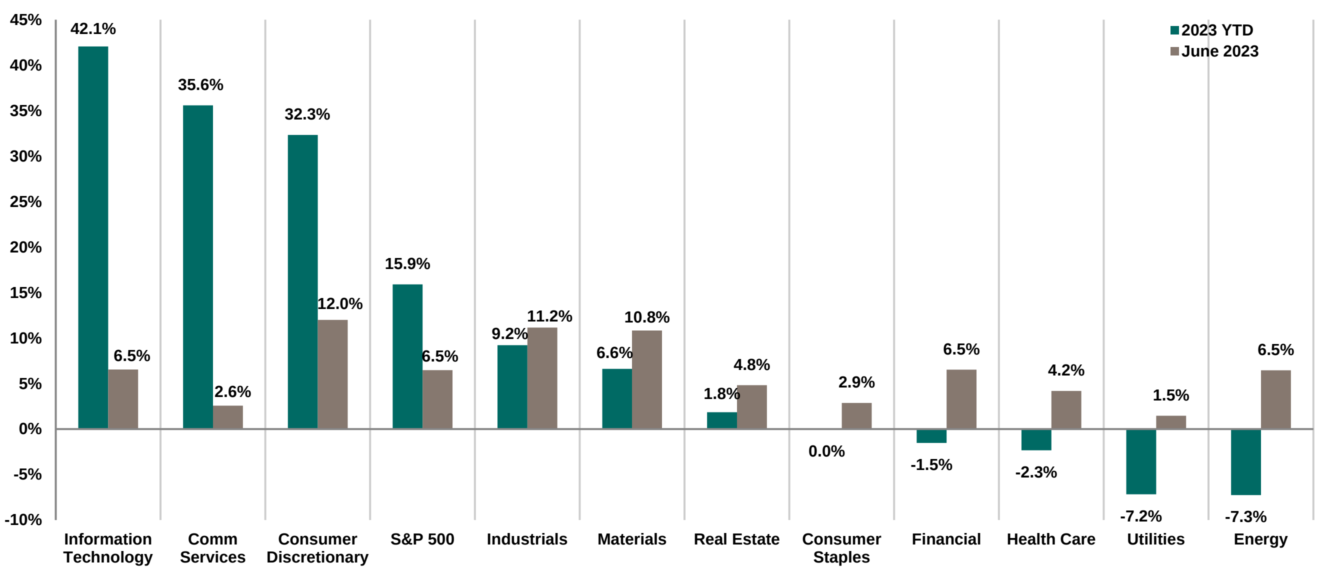
2023 Large Stock Leadership Was Narrow. The S&P 500's 1H23 price return of 15.9% benefitted from the market capitalization-weighted composition (the largest companies by equity market value comprise a larger proportionate share of the index). As of 7/10/23, the top seven most highly valued companies comprised 27.5% of the value of the S&P 500 (per FactSet and S&P Global). We estimate that those seven companies contributed about 74% of the 1H23 index return, indicating that, collectively, the other 493+ companies contributed just 26% of the return. This is partially represented by looking at the equal-weighted S&P 500 (all 500+ companies are weighted equally in the index calculation). The equal-weighted S&P 500 index gained 6.0% in 1H23 compared to the 15.9% price gain of the market cap-weighted S&P 500. This reveals that the average stock performed much worse than the index. There could be multiple reasons for the disparity of returns between the market cap-weighted and equal-weighted versions of the S&P 500 indices, but the outperformance began in early March, coinciding with the short-term regional bank crisis. As many banks faced the potential loss of low-yielding customer deposits, the Federal Reserve Bank and U.S. Treasury created a Bank Term Funding Program that allowed banks to access funds, if needed. This helped to avert a "run" on deposits, but bank stocks still lagged and perhaps led to increased investor demand for large, technology-centric growth stocks. In addition, in 1Q23, the long-awaited availability of advanced artificial intelligence (generative AI) and machine learning networks led to investment in hardware and software to support product enhancements and future growth opportunities. This surged investor interest in technology-centric leaders deemed well-positioned to deploy the technology. While the equal-weighted S&P 500 could continue to lag the broad index as timing is uncertain, over time the S&P 500 and equal-weighted S&P 500 returns are more closely aligned. Since the end of 2009 through 2022 (13 years), the price return of the equal-weighted S&P 500 has compounded annually at 10.3%, while the S&P 500 has compounded annually at 10.0%.



Data Source: FactSet and closing index prices from 12/31/22 to 6/30/23. Price return excludes dividends.

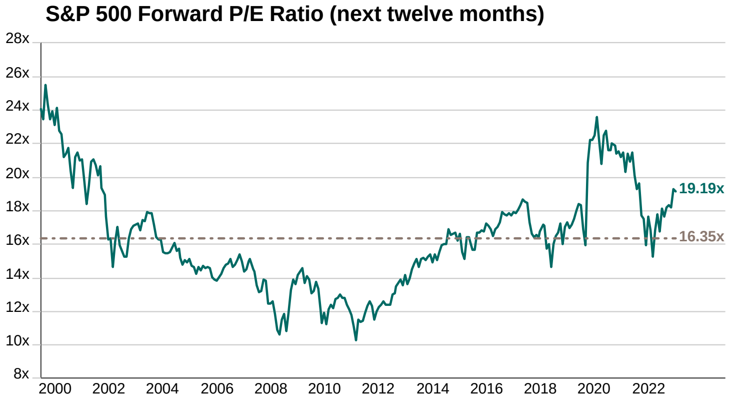
The narrow rally is further shown by looking at the 1H23 returns of the eleven macro industry groups comprising the S&P 500 sectors (using MSCI's Global Industry Classification Standards, or GICS). Just three sectors – Information Technology, Communication Services, and Consumer Discretionary – generated returns above the index, and by a wide margin (green bars below). Of the seven companies mentioned above that contributed an estimated 74% of the S&P 500's first-half gains, all reside in one of those three performance-leading sectors. On the other side, five sectors posted negative 1H23 price returns, a stark contrast to the 15.9% price gain of the index. We would prefer to see more broad stock and sector participation in equity market gains to confirm a more durable rally that can go meaningfully higher. We saw some evidence of this in the month of June, which not only represented the S&P 500's best monthly return in the first half of 2023, but included gains for all 11 GICS sectors, with seven of those sectors matching or exceeding the index's 6.5% price gain. If broad sector participation continues in 2H23, investor sentiment is likely to stay high.

S&P 500 Sector Price Return

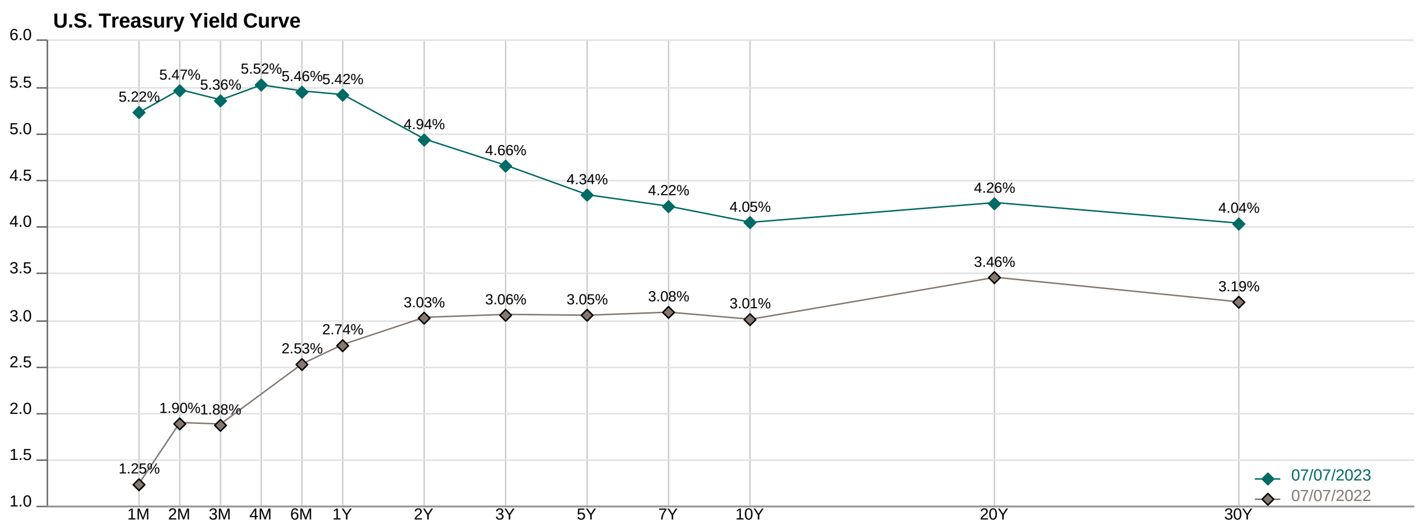


Data Source: FactSet and S&P Global as of 6/30/23. Please see appendix for a description of GICS sectors.

Market valuation. Our S&P 500 fair value estimate of 4,100 represents a price-to-earnings (P/E) ratio of 18.0x the next-twelve-months (3Q23 to 2Q24) S&P 500 FactSet consensus EPS estimate of $229. We continue to see considerable uncertainty in earnings growth estimates for both 2023 and 2024. As of early July, the 2023 consensus earnings estimate of $218 reflected year-over-year (Y/Y) growth of 1.1%. The estimate was down modestly from $219 at the end of March, about 5% from 12/31/22. The consensus 2024 estimate was $244 in early July (a 12% increase vs. 2023), down from $252 at the end of December. If we assume that 2024 S&P 500 earnings grow at 6% (half the current projected growth rate), our 4,100 fair value reflects 17.7x that estimate, which we view as reasonable given ongoing uncertainty. With elevated U.S. interest rates (the 10-year U.S. Treasury yield was 3.98% on 7/11/23, compared to an average yield since 2013 of 2.24%), we don't expect meaningful multiple expansion (the price-to-earnings ratio of the S&P 500, based upon current price divided by the forward consensus earnings estimate). The early-July forward earnings multiple of 19.2x was 17% above the average multiple of 16.4x since 2000. We believe that changes in the S&P 500 from current levels will be tied to reported and estimated earnings results. Our most likely S&P 500 trading range of 3,800 to 4,400 is based on a view that if the 2024 earnings growth of 12% is realized, 4,400 is 18.0x that estimate. The downside range of 3,800 reflects 2024 earnings growth of 2% and applies a 17.0x P/E multiple. Given the index's 4,450 close, above our estimated range, investors appear to expect: 1) continued above-trend economic growth, 2) potential upside to earnings estimates, and 3) lower interest rates moving forward. To a large extent, we believe that outlook is already reflected in many stock prices, limiting the upside from current levels.



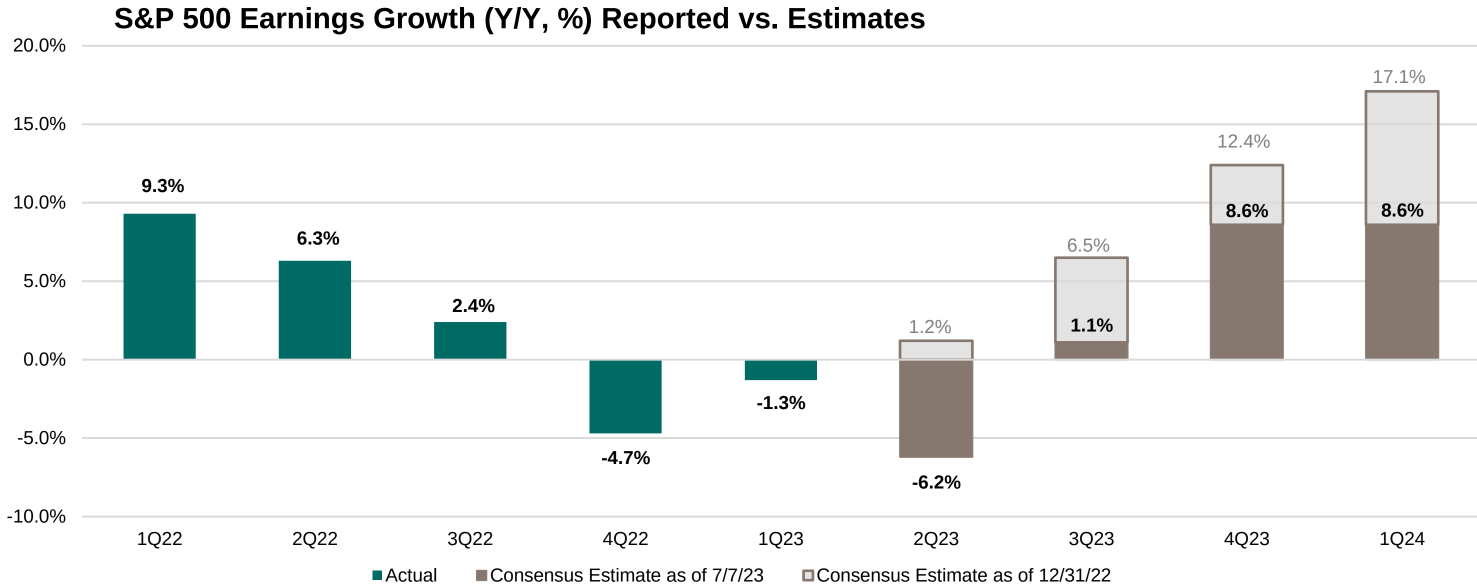
Data source: FactSet, using exchange data, as of 7/11/23 (see Other Disclosures on page 8 for further discussion of P/Es and Treasury yields)



Data source: FactSet, U.S. Treasury as of 7/7/23

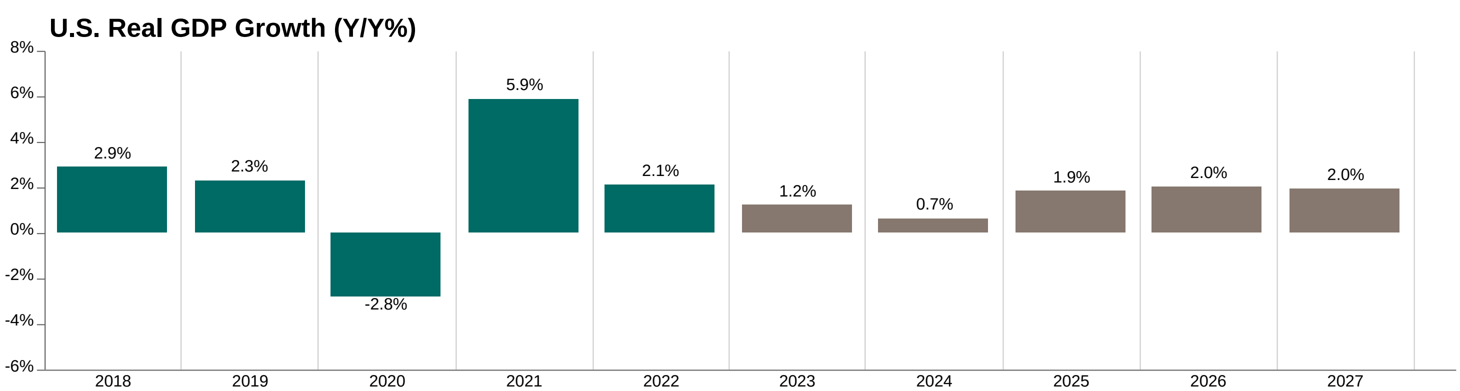
S&P 500 earnings declined Y/Y for the two most recently reported quarters. S&P 500 quarterly Y/Y earnings growth decelerated since early 2022 and turned negative in 4Q22 (a -4.7% Y/Y decline). The chart below shows the five most recently reported S&P 500 earnings quarters (in green 1Q22 through 1Q23) as a Y/Y percentage change, and the next four quarters of Y/Y consensus estimates (in gray 2Q23 through 1Q24). The dark gray shading reflects the current Y/Y percentage growth estimates as of 7/7/23, and the light gray shading represents those estimates six months ago, as of 12/31/22. Following the 4Q22 Y/Y earnings decline of -4.7%, estimates for 1Q23 reflected a -6% decline. The actual results of -1.1%, while still down Y/Y, were much better than expected, but did not lead to an increase in 2Q23 estimates. With many S&P 500 earnings reports set to begin in the second week of July, the consensus estimate looks for a -6.2% decline (vs. 1.2% growth estimated six months ago). Although growth estimates have been lowered for future quarters as well, Y/Y earnings growth is expected to resume in 3Q23. Challenges to meeting those 2H23 growth estimates include a potential slowdown in consumer spending, rising labor costs, and uncertain global demand due to economic weakness in Europe and China. On the other hand, Y/Y comparisons become easier as 2H23 earnings results compare against 2022's relatively weak results. While improved earnings growth in 3Q23 and 4Q23 remains possible as Y/Y comparisons become easier, estimates have trended lower due to economic uncertainty. While 2023 growth appears achievable, we believe that 2024 earnings estimates are likely to be revised lower.

We suspect that 2Q23 earnings will come in better than the -6.2% estimate, which could lead to improved 2H23 outlooks. However, we do not look for companies to offer detailed outlooks for 2024, and we expect considerable uncertainty regarding Y/Y earnings growth next year. Despite a tight labor market (low unemployment and high job openings), which is likely to place upward pressure on wages, the recent downward trend in Y/Y inflation data could help companies drive margin improvement. If past price increases remain in place and demand continues, then companies might benefit from falling input costs in other areas. Higher profit margins could lead to upside earnings surprises and higher estimates, which in turn is a potential driver of further equity market gains. We caution, however, that labor costs are not likely to fall in the near term, and the potential for better earnings than expected is (to some extent) one driver of recent equity market gains.



Data source: FactSet consensus estimates (from Wall Street analysts) as of 7/7/23. S&P 500 earnings are weighted by market capitalization for all constituents.

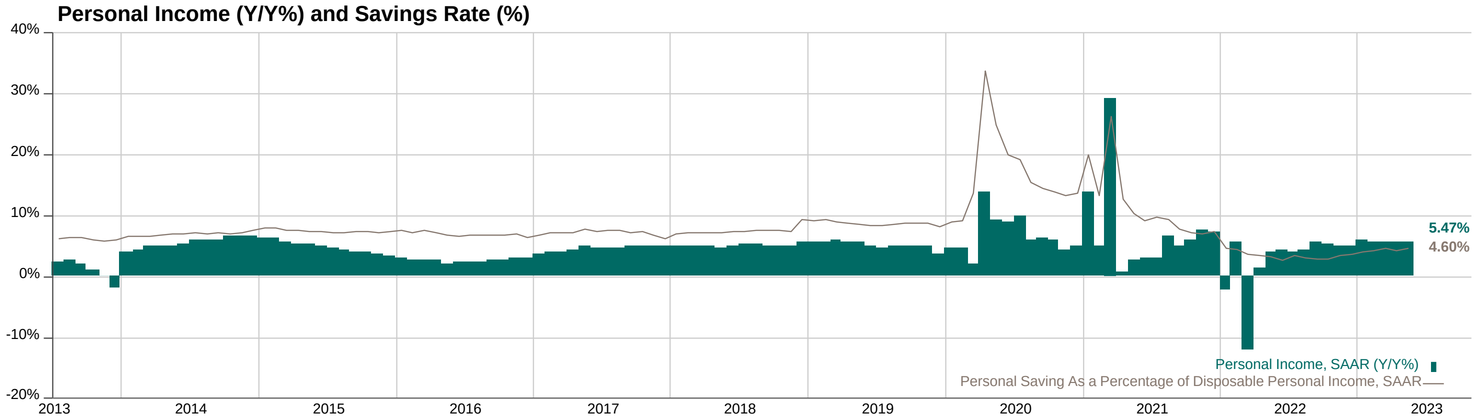
Three years past the pandemic shutdown, U.S. economic growth is expected to slow. When measuring U.S. economic activity, we use real gross domestic product (GDP), which is the inflation-adjusted value of goods and services produced, reported by the Bureau of Economic Analysis (BEA). Prior to the pandemic, U.S. GDP growth averaged 2.3% for the eight years through 2019. The government-imposed shutdown in 2020 and subsequent reopening and stimulus in 2021 led to negative and positive distortions, respectively, but largely stabilized in 2022, with 2.1% full-year reported GDP growth. The FactSet consensus GDP growth estimates for 2023, 2024, and 2025, respectively, all remain below 2.0%. In our view, this incorporates expectations for a soft landing (no recession), which reflects recent quarterly annualized GDP growth above full-year estimates. 1Q23 U.S. GDP growth was 2.0%, and followed 2.6% in 4Q22. This has led to an increase in the 2023 full-year GDP estimate to 1.2% from 0.3% six months ago, but the 2024 estimate is now 0.7% compared to 1.3% six months ago. Our takeaway is that the expectation for weaker economic growth has been pushed to 2024 from 2023, and that both years reflect expectations for below-trend growth, creating challenges for companies to produce upside earnings surprises.



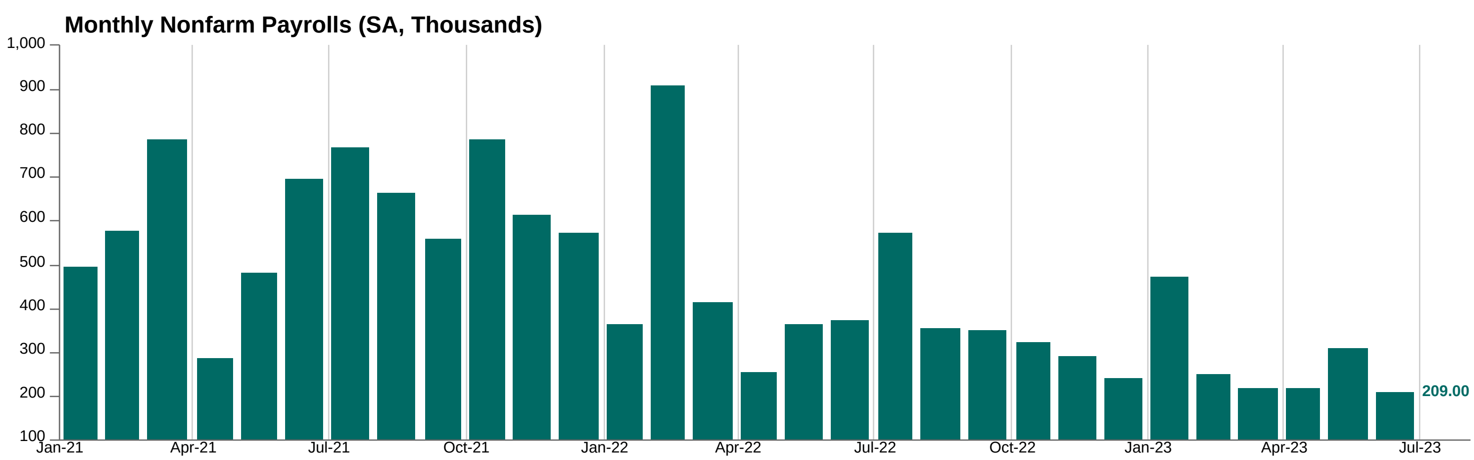
Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 7/7/23. Chart shows annual real GDP reported by the BEA 2018-2022 (green bars), and FactSet consensus estimates 2023-2027 (gray bars).

While consumer spending has evolved during the post-pandemic period (with spending on services stronger than on goods), overall consumer activity has exceeded expectations, driving upside to GDP growth estimates. According to the Bureau of Economic Analysis (BEA), consumer spending (as measured by personal consumption expenditures, or PCE) comprised 71% of annualized inflation-adjusted (real) GDP in 1Q23. Of that 71%, about 62% was spent on services (mostly travel, restaurants, bars, and entertainment) and 38% was spent on goods (includes vehicles, durable goods, home furnishings, apparel, gasoline, and groceries). In 2022, consumer spending grew Y/Y in all four quarters, with spending on services showing Y/Y growth each quarter and goods showing negative growth each quarter. But in 4Q22, the growth in overall consumer spending of 1.0% and growth in services spending of 1.6% were the lowest rates of the year, providing solid evidence that consumer spending growth was weaker entering 2023. That reversed, however, as consumer spending surged 4.2% Y/Y, and both services (+3.2%) and goods (+6.0%) rebounded. We attribute some of the early-2023 resiliency to pent-up holiday demand, a warm winter in many geographies, and cost of living increases in social security programs. But perhaps larger drivers were continued strength in personal income (mostly wages and salaries) and continued growth in new jobs.

Personal income is reported monthly by the BEA and is reflected below on a monthly Y/Y percentage change. In May 2023, personal income increased 5.5% compared to May 2022, and increased at 5.4% or higher in each of 2023's first five months. This contributed to consumer spending growth, even as the savings rate (monthly savings as a percentage of disposable income) ticked higher to 4.6% in May 2023 (from 3.7% in December 2022). We believe that Y/Y spending growth could slow but remain positive in 2H23, which feeds into the lower GDP estimates. In addition, the Bureau of Labor Statistics (BLS) reports monthly labor data, including net new nonfarm payrolls, wage data, hours worked, labor participation, and the unemployment rate. The last Y/Y monthly jobs decline was December 2020; through May 2023, the U.S. economy generated jobs gains for 30 consecutive months. Monthly jobs growth averaged 399 thousand (K) for all of 2022, and 278K over the first six months of 2023. Jobs strength also contributed to resilient consumer spending, and news headlines of job layoffs at individual companies did not lead to net job loss. With overall employment gains lower in 2Q23 vs. 1Q23, we believe the trend will continue to slow in 2H23. If monthly jobs gains remain positive, but at a lower rate, that could remove some excess wage pressures, a likely positive for markets. The Federal Reserve Bank, in its June 2023 Summary of Economic Projections, published a mean estimate for the 2023 year-end unemployment rate of 4.1%. Given an unemployment rate of 3.6% in June 2023, the economy would need to lose an average of nearly 150K jobs monthly in 2H23 to reach that level. That number appears overly negative given strength in recent data, but monthly jobs data will be a key data point over the second half of the year.



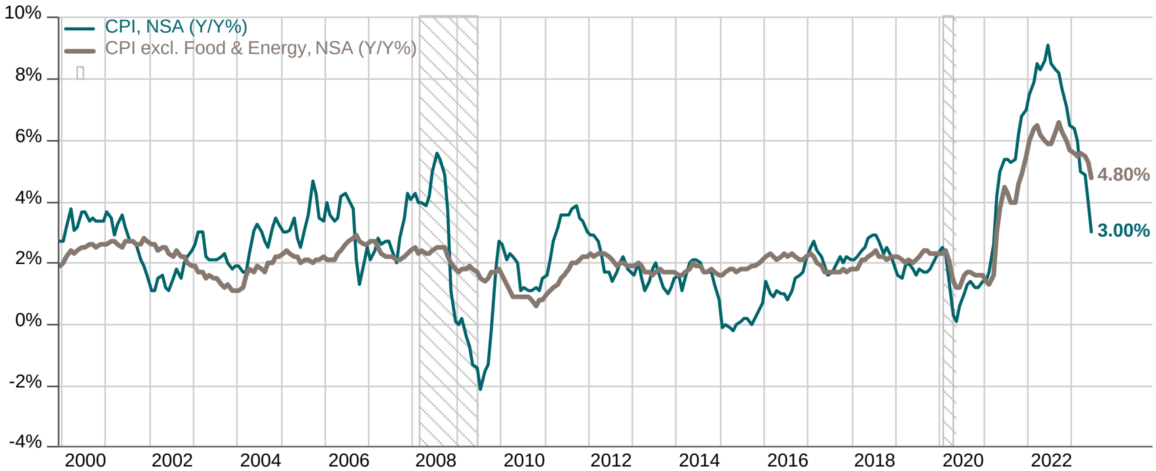
Data Source: FactSet and the U.S. Bureau of Economic Analysis (BEA), from 6/30/23 Personal Income and Outlays report



Data source: FactSet and Bureau of Labor Statistics, as of 6/30/23. BLS employment report published 7/7/23.

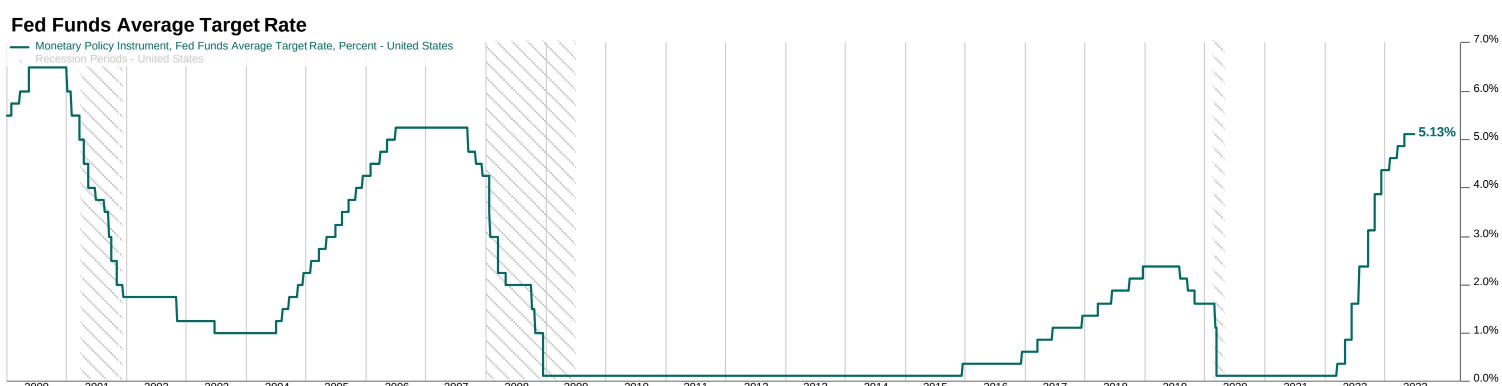
Inflation rates continue to fall but remain above the Fed's long-term targets. The consumer price index (CPI), reported monthly by the BLS, increased 3.0% Y/Y in June 2023, the lowest monthly Y/Y increase since March 2021. Since peaking at 9.1% in June 2022, the CPI increase has moderated for 12 consecutive months, and as recently as January this year, the CPI increase was 6.4%. Part of the Y/Y improvement is attributed to the high monthly base rates from last year (the June report of 3.0% compared against that June 9.1% increase, so the two-year June increase was still 12.1%). However, on a monthly sequential basis, the June 2023 CPI vs. May 2023 increased 0.2%, which, if sustained, points to further inflation improvement. The Fed also watches core CPI, which excludes food and energy, as it is less volatile over time and offers a better look at underlying sustainable trends. Core CPI was 4.8% in June, the second month of a lower Y/Y increase after stalling at 5.5% for three months (February through April). Core inflation improvement was driven by goods inflation, which increased just 1.3% Y/Y in June, while services inflation remained elevated, up 6.2% Y/Y. But services inflation is heavily indexed to shelter costs (rent and owners' equivalent rent), which is a lagging component because leases often reprice on an annual basis. The inflation progression is impressive, in our view (very few people thought that the CPI would fall to 3.0% by the middle of 2023), and validates the Fed's aggressive interest rate hiking policy since March 2022. So far, price increases have moderated while both economic and employment growth have remained positive. However, inflation, especially core CPI, remains well above the Fed's 2.0% target, suggesting the job is not done, especially given the inflation history of the 1970s, when the Fed cut its interest rate targets three times only to see inflation reaccelerate. Continued inflation improvement (lower) would likely lead to lower interest rates, which would be a scenario supporting higher equity valuations.

Consumer Price Index (Monthly)



Data Source: FactSet, Bureau of Labor Statistics as of 6/30/23. The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services (shaded areas are recession periods).

On 6/14/23, the Fed's Open Market Committee (FOMC) left its fed funds (overnight bank lending) interest rate target range unchanged at 5.00% to 5.25%. This followed increases in the fed funds target range at 10 consecutive meetings beginning in March 2022. The target rate "pause" (no hike) was largely expected due to improving inflation data, which has been the Fed's most consistent concern. As the Fed's dual mandate is to foster stable prices and maximum employment, the Fed appears concerned that the strong labor market could reverse some recent wage growth improvement, creating upward pressure on employment costs. Wages, as measured by the average hourly earnings (from the BLS), increased 4.4% in 2Q23, down from 5.7% in 2Q22 but still above 2Q19 (pre-pandemic wage growth of 3.3%). Increased wages, of course, are necessary to sustain consumer spending growth and also to keep pace with inflation, but excess labor demand (or lack of supply) could create higher corporate costs and price increases, driving inflation even higher. The June pause gives the FOMC time to "assess additional information," which could lead to a resumption of fed funds increases at future meetings. The Fed's Summary of Economic Projections (SEP), which comprises the range of economic and policy estimates from 18 Fed Board members and bank presidents, reflected a median year-end fed funds estimate of 5.6%. No SEP voter estimated the fed funds rate below 5.0% at year-end. If interest rates remain "higher for longer," investors may need to adjust expectations that assume lower rates ahead. We expect volatility, especially if expectations for moderating economic growth ring true.



Data source: FactSet and Board of Governors of the Federal Reserve System, as of 7/7/23. Prior to December 2008, the Fed provided a single point fed funds target (shown on the chart). Since December 2008, the fed funds target is given in a 25bp range (chart shows the average).

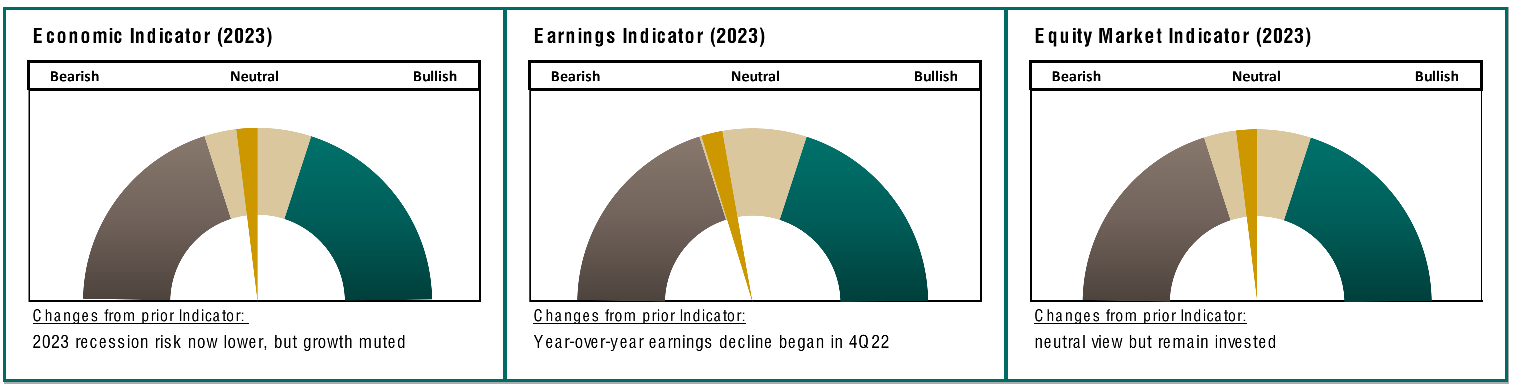
Recent economic data creates upcoming challenges for the Fed. The June jobs report reflected an increase of 209K new nonfarm payrolls. While the first-half monthly average of 278K is a strong pace that supports strong consumer spending and positive economic growth, the June increase of 209K was the lowest monthly increase since December 2020. This raises the possibility that jobs gains in future periods could moderate further, pointing to slowing economic growth. Federal Reserve Bank Chair Jerome Powell made comments on 6/28/23 reiterating the Fed's position that additional restrictive monetary policy might be necessary to combat elevated inflationary pressures. Even with the June CPI report coming in at just 3.0%, the fed funds futures market (allows us to measure bond investors' expectations priced into trading strategies) still assigned a better-than-90% probability that the FOMC would enact another 0.25% increase to its fed funds target when the committee next meets on 7/26/23. The Fed's primary tool to fight inflation is to set a range for short-term interest rates using its overnight bank lending fed funds target. With the fed funds target currently at a 5.00% to 5.25% range, up substantially from 0.00% to 0.25% in March 2022, Chair Powell admits that policy is "restrictive" (can be a brake on economic growth and inflation), but perhaps not restrictive enough. If the Fed raises rates at the July 2023 meeting, it runs the risk of slowing the economy more than expected (previous interest rate hikes have a lagged and variable effect on economic growth). To us, a more restrictive Fed is likely to keep interest rates higher for longer, which could eventually weigh on equity market valuations.

S&P 500 Sector Recommendations - July 2023

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2023 Outlook	Notes (reflect current expectations and are subject to change)	Change
Technology	28.0%	underweight	large cap leaders trade at rich valuations, but expect strong results	
Health Care	13.2%	overweight	still our favorite defensive sector	
Financials	12.6%	marketweight	we are cautious due to bank scare, diversify within the sector	
Consumer Discretionary	10.7%	marketweight	be wary of high valuations, but good value can be found for long-term investors	
Industrials	8.6%	marketweight	strong performance in 2Q23, construction and airlines leading the way	
Communications Services	8.4%	marketweight	advertising market remains soft, consumers more selective on subscriptions	
Consumer Staples	6.6%	marketweight	can be a safe haven in a recession, valuations elevated	
Energy	4.2%	marketweight	have maintained waiting for a pullback, which may be underway	
Utilities	2.6%	marketweight	beneficiary of infrastructure & energy transition, emerging value	
Real Estate (REITs)	2.5%	marketweight	sector has lagged due to higher rates and recession concerns	
Materials	2.5%	marketweight	some winners in this group for companies that have pricing power	

Data source: D.A. Davidson Wealth Management Research as of 7/12/23.

Wealth Management Research Investment Cycle Gauge



Source data: D.A. Davidson & Co. as of 7/12/23

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Other Disclosures:

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The S&P Banks Select index is compiled by S&P Dow Jones and includes 98 publicly traded companies that include diversified banks, regional banks, custody banks and mortgage lenders.

The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2023 returns are calculated as of 3/31/2023. Intra-year peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 3/31/23. Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis.

Personal income is the income received by, or on behalf of, all persons from all sources: from participation as laborers in production, from owning a home or business, from the ownership of financial assets, and from government and business in the form of transfers. It includes income from domestic sources as well as the rest of world. It does not include realized or unrealized capital gains or losses.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics; the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey are drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) measures job openings, hires and separations from a monthly survey of U.S. business establishments.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits and completions. It is a widely followed measure to track construction activity in the residential housing market. New Home sales measures sales of new single family homes and is a measure of the demand for housing. Home price data is monitored from the S&P CoreLogic Case-Shiller Home Price Index.

We define a Bear Market as a peak-to-trough decline (using closing prices) of 20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.

Daily prices for West Texas Intermediate (WTI) crude oil from Cushing, Oklahoma are quoted daily on a price per barrel basis and are available from the U.S. Energy International Administration. Data can also be found from the St. Louis Federal Reserve Bank at fred.stlouisfed.org.

Personal Savings is reported monthly by the Bureau of Economic Analysis for individuals and is defined as personal income less personal outlays and taxes. The personal savings rate is personal savings as a percentage of disposable personal income.

On 3/12/23, the U.S. Federal Reserve Board created a new bank Term Funding program (BTFP) to provide depository institutions an additional source of liquidity to service deposit requests if needed. More information can be found at federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm. Data detailing bank usage of Fed borrowing facilities is reported weekly through a "Federal Reserve statistical release." Data can be found at federalreserve.gov under "Factors Affecting Reserve Balances."

The Federal Deposit Insurance Corporation (FDIC), fdic.gov, is an independent agency created by Congress to maintain stability and public confidence in the U.S. financial system. The FDIC insures deposits and provides regulatory oversight of financial institutions.