Midwest Methodist Foundation

155 North Wacker Drive
Suite 4250
Chicago, IL 60606

312.803.4801 OFFICE
cwalters@midwestmethodist.org
MidwestMethodist.org | MethodistGift.org

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Greetings,

As of the end of the 2nd quarter of 2023, net of fees, the returns of the fund models are:

As of 6/30/2023	2nd Qtr 2023	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**5.56%**	**13.44%**	**17.33%**	**10.79%**	**9.01%**	**8.44%**
Agg. Climate	6.18%	15.50%	16.69%	n/a	n/a	n/a
benchmark*	5.70%	12.83%	15.87%	10.42%	8.30%	8.49%
Moderate Fund	**3.89%**	**9.76%**	**11.84%**	**6.88%**	**6.68%**	**6.42%**
Mod. Climate	4.10%	10.85%	11.46%	6.00%	n/a	n/a
benchmark*	3.87%	9.46%	11.17%	6.74%	6.39%	6.67%
Conservative Fund	**2.03%**	**6.16%**	**6.83%**	**2.80%**	**4.01%**	**4.04%**
Con. Climate	2.02%	6.52%	6.24%	2.33%	n/a	n/a
benchmark*	1.93%	6.05%	6.39%	2.74%	4.11%	4.61%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://midwestmethodist.org/investment-performance-reports/

Market Commentary from Envestnet | PMC

Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: Second Quarter 2023" report with the following observations and commentary:

> "The global economy is having difficulty finding its footing. Having survived the tumult caused by the pandemic, the economy is now being buffeted by the headwinds of tighter monetary policy resulting from central bank efforts to bring down still-elevated inflation. Economists anticipate that global GDP will slow to an estimated 2.2% in 2023, below the 3% rate of 2022. At this point, the consensus among economists is that the economy will avert a recession, but circumstances could change very quickly. Inflation continues to be stubbornly high, and though the rate has eased from its peak the FOMC is expected to resume interest rate increases again in July. FOMC policymakers estimate the target fed funds rate will end 2023 at 5.63% before declining in 2024. The situation in areas outside of the US is also murky. Europe seems to have also averted a recession, and sentiment in the euro zone and the UK is beginning to trend higher. China's growth has also accelerated after it abandoned its zero-COVID policy, but its economy has a heavy reliance on the property market. In terms of equities, the rise in stock prices this quarter was not entirely expected, and indicates that investors may be anticipating a better earnings environment going forward."[1]

"consensus among economists is that the economy will avert a recession"

It does appear there is a growing consensus among economists that the U.S. will avert a near-term recession. In my decades observing the markets and commentary on the markets, I do not recall such a time as this that the consensus was clear: a recession is coming. The recession that has not (yet) arrived is the most-predicted recession I can recall. The inverted yield curve has been an excellent leading indicator of recessions, but, it appears, this time the indicator of the inverted yield curve is not (yet?) correlating with a near-term recession.

The media and business commentary class still chatters about recession. Survey after survey of consumers reveal people think the economy is on the wrong track but they themselves are doing better than they were, and they see better times in the future for themselves.

So what's going on?

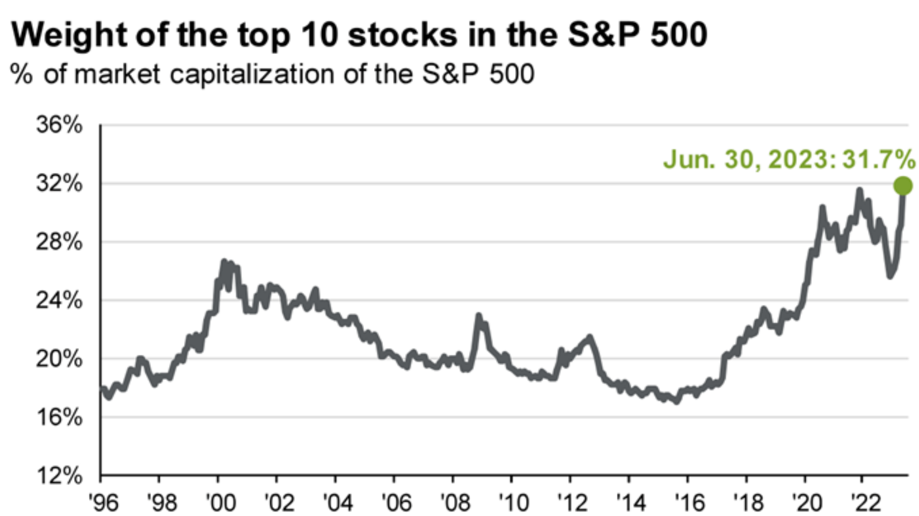
Well, for one thing, we're entering the next election cycle, which always has political actors who want to spin "the economy" for their own political purposes.

Another thing is the chatter of talking heads tends to be a lagging indicator of the status of the economy. Just now that the year-over-year rate of inflation has dropped to 3% have the talking heads started backing off the incessant coverage of inflation. As I have highlighted in previous letters, the month-to-month change in the rate of inflation was clear: inflation was and is easing.

A third thing is simply the numbers. According to many macro measures, economic growth, though easing a bit, is consistently positive, for example: low unemployment, lower inflation, advancing retail sales,[2] and, while not a data point but anecdotal evidence of a "soft landing," Fed Chair Jerome Powell talked about the "balance of risks" in his most recent remarks this month with the 0.25% rate increase.[3]

There are two narratives competing with each other currently. Drivers of one narrative look too much in the rearview mirror and continue to talk about high inflation and the effects of the pandemic. Other drivers, like economists at the Fed, are telling a different narrative about current conditions while trying to assess where the economy is going. Nothing is ever certain, but the economy does not appear to be heading for a near-term recession.

"rise in stock prices this quarter was not entirely expected"



Source: JP Morgan – July 1, 2023

The above chart from JP Morgan tells the story of how mega capitalization stocks have bounced back big from the 2022 declines. As of the writing of this letter, the following stocks have rebounded substantially in 2023, well beyond the S&P 500 index as a whole at 19% year-to-date:

- NVIDIA: 220%
- Meta (Facebook): 170%
- Tesla: 117%
- Amazon: 57%
- Apple: 51%
- Alphabet (Google): 50%
- Microsoft: 41%

The seven companies above are the largest companies by market capitalization in the S&P 500 and make up 27% of the index. The last time the mega cap stocks got this out of balance was before the dotcom bubble burst in 2001, so we may ask ourselves, “Are we staring at another bubble?” I do not think so.

The S&P 500’s P/E ratio in the fall of 2000 (peak stock prices) was about 27, about the same today.[5] Today is quite different. Stocks may look a wee bit pricey, but according to one of my favorite measures, Morningstar’s “Market Fair Value,” stocks are trading at 97% of their fair value.[4] Today, Apple and Microsoft have a forward P/E of about 30. In March 2000, the tech-heavy Nasdaq’s P/E was 175! Today the Nasdaq 100’s P/E is less than 32.[6]

“investors may be anticipating a better earnings environment going forward”

The mega cap stocks receive lots of love from the analyst community. Maybe their price appreciation is an indicator of where the economy is headed? It’s always easiest for managers of large pension funds and other institutions to invest in the seven stocks above. Now is the time when we may see a bit of churn in the overall stock market as managers look for value beyond the largest capitalized companies.

Diversification, staying the course, and regular rebalancing, these are the main things we do at the Foundation and that are proven methods for investment success. These methods apply now just as much as when times are uncertain or exuberant. We’re currently somewhere in between uncertainty and exuberance. We are climbing the “wall of worry” with the uncertainties of the pandemic behind us.

Respectfully,

Chris Walters

Rev. Chris Walters, President & CEO ● 312.803.4801 ● cwalters@midwestmethodist.org

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf
[2] https://www.census.gov/retail/sales.html
[3] https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230726.pdf
[4] https://www.morningstar.com/market-fair-value
[5] https://www.multpl.com/s-p-500-pe-ratio
[6] https://finance.yahoo.com/quote/QQQ?p=QQQ