



**GENERATION**

CAPITAL MANAGEMENT

Your Prosperity. Our Priority.

# QUARTERLY NEWSLETTER

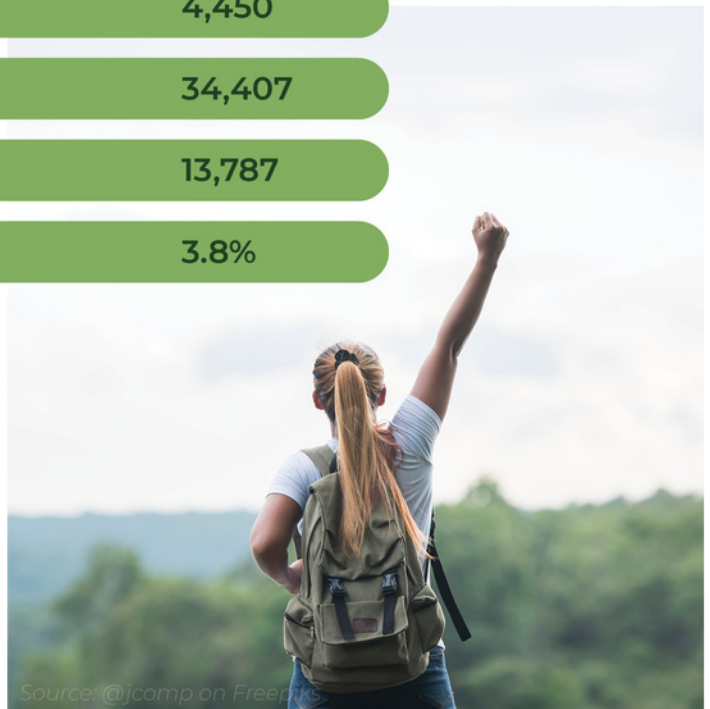
## Q2 2023

### Market Commentary



	DECEMBER 31, 2022 VALUATION	JUNE 30, 2023 VALUATION
S&P 500 Index	3,839	4,450
Dow Jones Industrial Average	33,147	34,407
NASDAQ	10,466	13,787
10 Year Treasury (Yield)	3.8%	3.8%

It is our sincere hope that this newsletter finds you well and enjoying your Summer. With the second quarter of 2023 in the rearview mirror, we wanted to provide you with some commentary on the markets, our economic outlook, and a quick reminder about the transition of accounts at TD Ameritrade to Charles Schwab.



Source: @jcomp on Freepress

# Economic Outlook

The United States economy faced a continued gradual slowdown during the past quarter, following a trend of sluggish economic growth within the last year. This slow growth has contributed to growing concerns for a mild recession toward the tail end of 2023. That being said, slow economic growth will not trigger a violent recession, but leaves the US economy much more vulnerable to asymmetric shocks that could send significant ripples throughout domestic and global economies.

The health of the US economy can be monitored by the formula for aggregate demand:  $(C+I+G+NX)$ ; **C**onsumption + **I**nterest + **G**overnment spending + **N**et **E**xports. When each of these components increases, there is a direct increase in aggregate demand, which boosts economic output. By looking at each component, the picture of our slowly growing economy is painted quite nicely.



Financial markets continued to surprise investors for the second quarter as momentum for risk-based assets followed their stronger showing from the first three months of 2023. Stocks moved higher throughout the quarter as the largest individual components of the indices carried the markets higher. As we saw in other higher growth market periods, large cap stocks outperformed smaller cap stocks; growth outperformed value and developed markets were stronger than emerging markets. There has been much talk about how a very small portion of stocks are carrying this market. The seven (Apple, Microsoft, NVIDIA, Meta, Alphabet, Amazon and Tesla) represent the highest weightings in the S&P 500 and account for the majority of the move higher this year. All these companies have products or services that participate in the artificial intelligence space and were big beneficiaries from the growing popularity within this market.

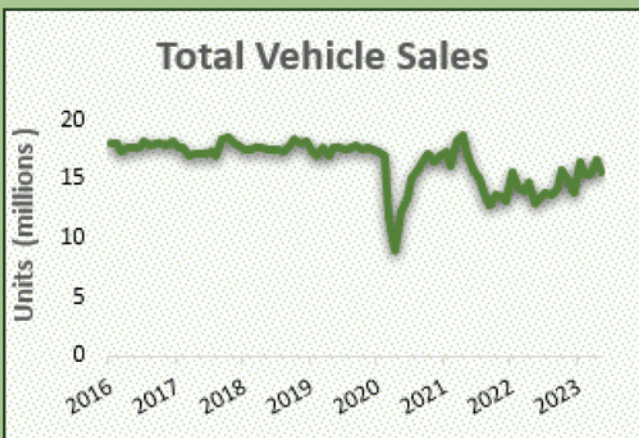
Fixed Income markets continue to provide higher income for investors as rates remain at elevated levels from the aggressive actions of the Federal Reserve over the past twelve months. The short end of the treasury curve (up through two years) yields greater than 5% right now and could continue to move higher if the FED moves rates higher later this year. The increase in rates also enables investors to allocate portfolios more conservatively while still achieving desired performance goals. The risk return profile has been skewed the past few years with rates near zero levels forcing market participants to expand their risk profile to meet their objectives. We welcome a more normalized fixed income market.

Of all the components incorporated, consumption (often referred to as consumer spending) is the largest sector, making up 70% of aggregate demand. The US economy experienced unsustainably high levels of consumer spending due to significantly large amounts government aid shelled out during the pandemic. Following the termination of excess government aid, consumption habits did not adjust quickly, causing a sharp decrease in aggregate savings as people continued to spend.



Source: FRED; Analysis: Generation Capital Management

However, more recently, savings have begun heading back to pre-pandemic levels signaling a decrease in consumer spending. This decrease could be partially offset by certain expenditures that were affected or delayed due to the volatile economic climate. For instance, vehicle sales were significantly reduced following the pandemic as the supply and demand of autos faced harsh consecutive quarters. However, this staple consumer expenditure has begun to rebound and will slightly aid the slowing sector of consumer spending.



Source: FRED; Analysis: Generation Capital Management

The investment component of aggregate demand refers to business expenditures mostly pertaining to capital, plant, and equipment. This sector has stalled in the last year or so with reasons mainly tied to the Federal Reserve's interest rate hikes. Investment expenditures flourished in the pre-pandemic economic landscape that allowed borrowing with little-to-no interest. The FED's recent rate hikes, coupled with the virtual work-world leaving numerous former-office buildings empty, has taken its toll on Investment spending, further slowing economic growth.

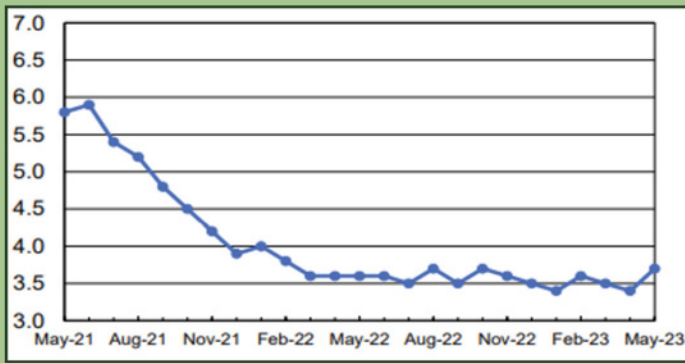
Despite a divided congress, government spending is expected to still be a positive contributor to aggregate demand on federal and state levels. Further, as employment is promoted, government spending will continue to support economic growth. Contrary to government spending, net exports should be a slight detractor to economic growth as the impact of a strong dollar should start to settle in.

Sustainable economic growth is quintessential for a healthy economy, and this is mainly reliant on two factors: maximum employment and price stability (inflation). These two measures are the most significant metrics examined by the FED, as keeping them in their target ranges is the upmost important responsibility of our nation's central bank. For unemployment, the FED's target rate is just under 4% while target inflation is 2%, over the longer run.



Source: Freepik

## Unemployment Rate

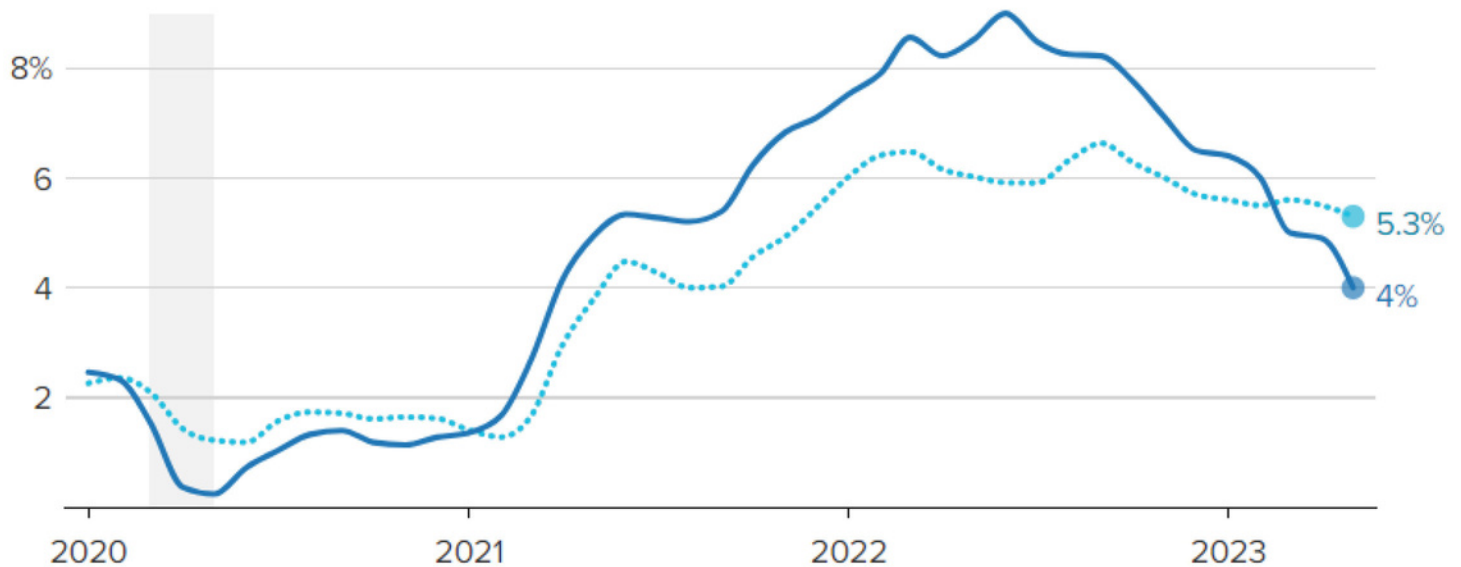


In the jobs report released last month, unemployment rose from 3.4% to 3.7%, which sends a signal of a slowing economy. However, non-farm payroll employment has increased by 300,000, on average, over the last few months. This signals strength in the current economic atmosphere, but with a slow growing economy, a significant uptick in unemployment is anticipated toward the year end.

Source: Bureau of Labor Statistics; Analysis: Generation Capital Management

## Consumer Price Index (CPI)

— All items    ··· Less food and energy



Source: CNBC; Analysis: Generation Capital Management

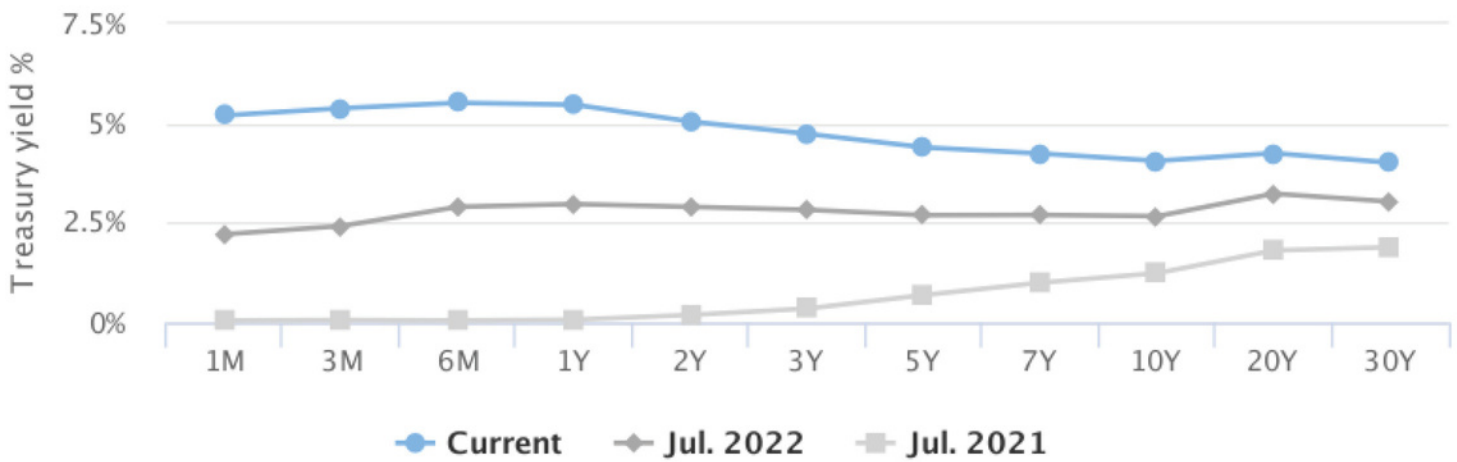
As far as inflation, the FED has been successful in decreasing economic activity in order to stabilize prices. Though the May CPI data shows the month-over-month (MoM) inflation rate increased by 0.1%, the year-over-year (YoY) CPI measure was 4%, which comes in lower than April and March YoY number of 4.9%. This reduction in inflation shows promising signs as this marks the smallest twelve-month increase since March 2021. Further, this number is considerably lower than the May 2022 YoY CPI rate which came in at 8.6%.

Considering the improved performance of decreasing inflation, as well as the unstable economic atmosphere concerning the US banking system, the FED paused interest rate hikes at their most recent meeting in June. The current interest rate range is 5.00-5.25 % due to ten consecutive rate hikes beginning in March 2022, but this number is expected to further increase. Following the June rate pause, the FED chair, Jerome Powell, signaled that there will be a moderate pace of interest rate hikes continuing throughout the remainder of 2023. This course of action, according to Powell, is due to a very tight labor market amidst inflation still remaining at twice the desired target rate. According to the FED's summary of economic projection, it is reasonable to assume that interest rates will be near 6% by the end of 2023.



Source: James Wheeler

## Current Treasury Yield Curve



Source: GuruFocus; Analysis: Generation Capital Management

Lastly, the recent volatile interest rate atmosphere has taken its toll on the yield curve. The yield curve is a coveted instrument for the market as it is used to track and project economic temperature. A healthy yield curve is upward sloping with longer-term securities holding higher yields compared to shorter-term securities. On the contrary, a downward sloping yield curve is a notorious indicator for a recession, and, unfortunately, this is the current state of our yield curve. A second recession indicator is the 2- and 10-year difference in yield to maturity. When this number is negative, there is a greater yield on a security with a duration of 2-years compared to a security with a duration of 10-years. During this past quarter, the 2- and 10-year spread dipped below -1%: the largest inversion since 1981. This current yield curve— especially when compared to the past two years— signals further economic uncertainty should prevail throughout the foreseeable future.

Economic conditions continue to provide mixed messages on the sustainability of growth. This has caused financial markets to experience greater volatility both higher and lower. Investment selection is paramount in this environment as markets are rewarding specific sectors and themes. However, the majority of equities remain challenged in this environment. We are looking to maintain healthy positions in those winning industries while avoiding many companies that struggle in this slowing economy. We favor growth over value especially in the technology and consumer discretionary space.

Fixed income remains very attractive to us, especially in the shorter end of the yield curve. We are fine having higher representation in these 5% and higher investments while the markets and economy find its longer-term footing. We would maintain greater exposure to higher credit quality instruments as high yield bonds are going to be under pressure as bankruptcies increase throughout this cycle. Precious metals remain a core holding and should provide some stability to the portfolios.



Source: Freepik

Views expressed are subject to change based on market conditions and other factors. These views should not be construed as investment advice or a recommendation for any specific security or sector. Investments are subject to risk and fluctuate in value. There is no guarantee that any investment will be successful. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.



Source: Louisa Birto

# GCM News

## Updates from the Team



Here's another reminder/follow up for those of you who are TD Ameritrade ("TD") clients regarding the upcoming merger of TD and Charles Schwab ("Schwab"):

As you know, Schwab is working with TD to move your account to the Schwab platform, on or about September 5, 2023. Again, no action is necessary on your part — your TD account will automatically and securely transition to Schwab. And this transition will have no impact on Generation Capital Management's ability to manage your assets.

By now you have received an Account Transition Notice from Schwab (also known as a Negative Consent Letter). This Notice provides further details regarding the transition to the Schwab platform.

Approximately a month prior to the transition, you will be prompted in AdvisorClient (where you view your account online) to create new Schwab Alliance login credentials. If your AdvisorClient User ID is available on the Schwab platform, you will be given the option to retain that existing User ID, or you will have to create a new one. Creating a User ID and password on Schwab Alliance will allow you to continue to view your account(s) online.

And lastly, as the transition draws near, you will receive a Key Information packet from Schwab in the mail which will include your new Schwab account number and other relevant details about the transition.

We anticipate a seamless transition with minimal disruption to online access to your account and will continue to provide updates as they become available.

Please feel welcome to contact our office if you have any questions or concerns regarding the above.



Source: Roberto Nickson



# GENERATION

CAPITAL MANAGEMENT

*Your Prosperity. Our Priority.*

📍 1163 Pittsford-Victor Road  
Suite 100,  
Pittsford, NY, 14534

📞 (585) 232-8560

✉️ [snasca@gencapmgt.com](mailto:snasca@gencapmgt.com)

🌐 [www.gencapmgt.com](http://www.gencapmgt.com)

We thank you for your support and the continued confidence you have placed in us. To best serve you, please contact us if there have been any changes to your financial situation, investment objectives, or if you wish to discuss any issues that might have an impact on your portfolio allocation.

Thank you,

Scott Nasca, CFA  
& the team at Generation Capital Management