Forward Focus

July 2023

FORWARD Investment Advisors

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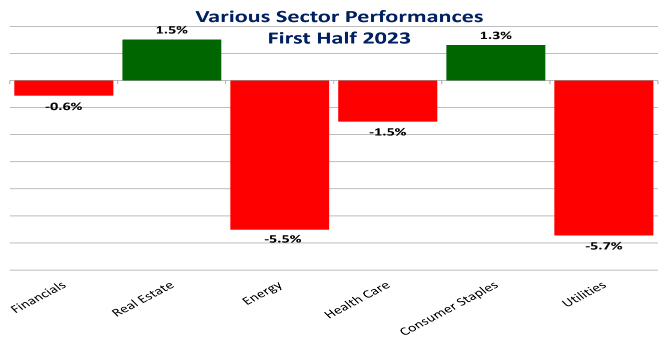
Quarterly Market Review

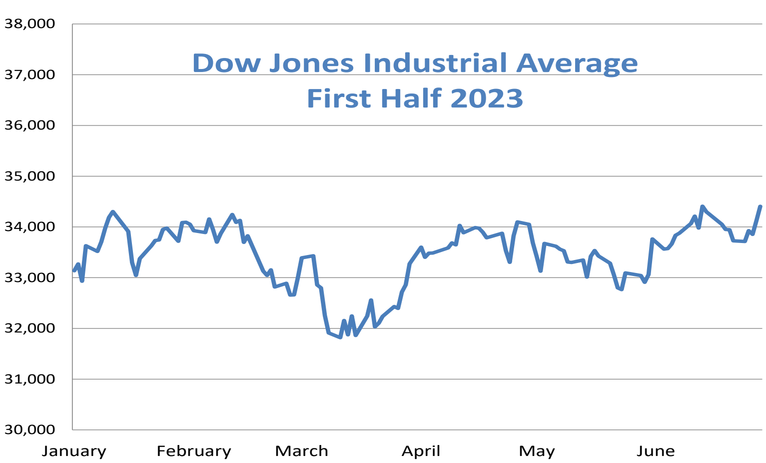
The first half of 2023 saw a very bifurcated market. After falling over 33% last year, the technology sector has soared, while the rest of the stock market has shown muted gains. Just 8 stocks in the S&P 500 account for over 3/4 of the overall stock market return this year. Just 8 stocks! In fact, 200 stocks in the S&P 500 have negative returns this year. The Dow Jones Industrial Average (Dow) tells a similar story, with 47% of the stocks in the index in negative territory year to date.



The chart on the right shows the first half performance of various sectors. As you can see, many sectors are negative. So, while the overall market performance paints a rosy picture, the true picture is much less rosy. The S&P 500 is now trading at 19.1 times forward P/E (Price/Earnings). For perspective, 9 months ago it was trading at 15.2. Thus, all of the stock markets' gains this year are due to multiple expansion - an increase in stock prices, not an increase in stock earnings. The 25-year average P/E is 16.8. Historically, the higher the P/E ratio, the lower the subsequent future returns.

In the first half, Large cap companies outperformed Small cap companies and Growth stocks outperformed Value stocks. WTI Crude Oil ended June at $70.64/bbl, down from $123.70/bbl in March 2022. The US Dollar is $102.90, down 8% over the last 9 months.

In the second quarter, the best performing sectors were Consumer Discretionary, Communication Services, and Technology, while the worst performing sectors were Utilities, Energy, and Consumer Staples. Bonds (As measured by the Barclays Aggregate Bond Index) declined 0.8% during the quarter. Emerging Market stocks were up a mere 0.96%, while Gold fell 2.43% in the second quarter.



For all of the bravado and celebration of market returns this year, the Dow Jones Industrial Average is only up 3.8% year to date. ALL of which occurred within just the past 3-4 weeks. (See chart on left)

Many well-known stocks have suffered large losses in 2023. Stocks such as Chevron, United Health, Amgen, 3M, CVS Health, MetLife, Pfizer, Dollar General, Campbell Soup, AllState, Tyson Foods, Bank of America, Kraft Heinz, Bristol Myers Squibb, Duke Energy, and Walgreens all have posted losses of double-digits or more, so far this year.

Second Quarter 2023

Dow Jones Industrial Average 3.9% ● S&P 500 8.7% ● MSCI EAFE (International) 3.2%

Russell 2000 (Small Cap) 5.2% ● MSCI EMI (Emerging) 1.0% ● Barclays Capital Aggregate Bond -0.8%

Revisiting I-Bonds (Inflation Adjusted Bonds)

A year ago inflation was rapidly rising to 9.6% and checking and savings accounts were yielding just 0.1%. Amidst a declining market, rising interest rates, high inflation and overall uncertainty, in July 2022 **Forward** recommended purchasing I-Bonds.

I-Bonds (Series I Savings Bonds or Inflation Bonds) are government-issued savings bonds that keep pace with inflation. They are purchased and sold directly through treasurydirect.gov. So now that a year has passed, I wanted to revisit I-Bonds.

Every May and November, the Federal Reserve announces new rates based upon inflation. The rate is announced every May and November, but your actual interest rates change 6 months from the month of purchase. Ex: Buy an I-Bond in August, your rate changes in February and August (not May and November).

The current rate is only 4.3%. Thus, the near double-digit 9.6% risk-free, government backed return, is now gone. While, 4.3% is attractive, you can also get that in many money market accounts, T-Bills, and even some bank CD rates. A 1-year T-Bill currently yields 5.4%. So, if you are considering selling, please note the following.

A few things to know when selling I-Bonds:
You must have held the I-Bond for at least a year.

If you sell within the first 5 years, you forgo the last 3 months of interest. (Therefore, I currently recommend holding it for at least 15 months from the original purchase date)

Sell at the beginning of the month, not the middle or end. The reason: interest is only earned for a full month of ownership. So you don't want to sell it late in the month.

Interest on I-Bonds are taxable when sold. It is free from State and Local taxes, but is subject to Federal Income Tax. If used to pay for higher education expenses (See IRS Form 8815), it can be 100% tax-free.

I wrote this article simply to provide an update and additional information for those wise-savers who took advantage of this great opportunity and are thinking of selling, now that inflation has declined, or were wondering what was involved. Series I-Bond have 30-year maturities, so you do not have to sell them now if you don't want to. They will continue to earn interest and be free from income tax (until you sell them).

Household Debt and the Consumer

According to stats from the Federal Reserve, Americans have depleted a breathtaking $1.76 trillion in savings in the past 3 years (From $2.3 trillion in excess savings during the pandemic to $533 billion today). While savings have declined, debt has not (sigh). Americans now owe nearly $1 trillion in credit card debt, $1.7 trillion in student loans, and $1.6 trillion in auto loans. Throw in mortgage and other consumer debt and the total American household debt stands at more than $17 trillion. That is almost $3 trillion higher than in 2019. This is after historic stimulus packages, historically low interest rates, and a 3-year moratorium on student loans, along with today's record low unemployment rates, high wage levels, and high yields on saving and money market accounts.

So, while the good times 'appear' to continue unabated, the combination of higher interest rates (which impacts rates on auto loans, credit cards and mortgages), the rapid depletion of excess savings, historic household debt levels, and student loan repayments starting in October, the data points to (at the very least) a cooling economy.