



## Q3 2023 Insights

© 2023 Pawleys Investment Advisors, LLC. All rights reserved.

[www.PawleysAdvisors.com](http://www.PawleysAdvisors.com)



Kathryn E. Schwartz  
Chief Executive Officer  
[kschwartz@PawleysAdvisors.com](mailto:kschwartz@PawleysAdvisors.com)  
October 11<sup>th</sup>, 2023



The quality of our research relies on the accuracy of data and information provided by companies and third parties. Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed.

# Q3 2023 Insights

- Resilient Stock Market
- Federal Reserve on Pause
- Stock versus Bond Volatility
- Avoid Risky Bond Funds
- Regional Bank Commercial Loans
- Portfolio Actions for the Remainder of 2023
- *invest right, live right™*



# Resilient Stock Market

- 2023 market high in July, still behind record of December, 2021
- Earnings remain solid despite higher interest rates
- Analyst project record 2024 earnings
- DJIA slightly up, S&P 500 up 10% even with Q3 slump
- Hype investments fallen into the background
- Technology and Communications continue to soar



# Federal Reserve on Pause

- Fast and steep, now slow and cautious
- Inflation cooling, 2023 recession unlikely
- Tight labor market, and slowing wage growth
- Need slower growth and job losses for economic weakening
- When hikes end, Fed likely to continue reducing balance sheet, (Quantitative Tightening, or selling bonds to keep rates higher)



# Stock Versus Bond Volatility

- Stock and bond performance is non-correlated – meaning bonds typically perform well when stock do not, and vice-versus
- During 2022 and this spring, bond prices fell when the stock market dropped
- Chicago Board of Options Volatility Index (VIX) measures stock market volatility
- Merrill Option Volatility Estimate (MOVE) measures bond market volatility



# Stock Market Volatility -VIX



The quality of our research relies on the accuracy of data and information provided by companies and third parties. Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed.

# Bond Market Volatility - MOVE



The quality of our research relies on the accuracy of data and information provided by companies and third parties. Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed.

# Plummeting Bond Funds

- Launched in 1973, VWESX (Vanguard Long-Term Investment Grade Fund) is the oldest bond fund
- VWESX lost -25.6% last year, and -4.67% ytd 2023
- This is not achieving the objective of bonds to stabilize portfolios and provide income
- We use PSHAX (PIMCO Short-Term) which was down a modest -0.35% last year, and is up +4.42% ytd 2023
- We also use FDIC insured Certificates of Deposit – rate and principal repayment locked in





# Regional Bank Commercial Loans

- Big banks solid, less scrutiny on Regionals - more aggressive with loans and balance sheets
- Eroding bond values weaken balance sheets
- Office and retail spaces strained (work-at-home and shift to online shopping)
- March back-stop by Treasury and Federal Reserve
- Spaces repurposed into manufacturing, warehousing and data centers in top-tier cities
- Potential for mini S&L-like crisis, but not like boom/bust of 2008



# Portfolio Actions

- Strategic allocation – stick to plan and rebalance
- High quality stocks, mutual funds and CD's – best risk adjusted returns with proper mix
- Corporate profit outlook difficult, avoid companies with excessive debt & inconsistent earnings
- Anticipate & plan for any cash needs to ensure portfolio is properly structured
- Extend CD maturities since rates may be peaking
- Biggest risk usually cannot be predicted



“Long-term consistency trumps short-term intensity.”

- Bruce Lee



# Pawleys Investment Advisors, LLC

- Website: [www.PawleysAdvisors.com](http://www.PawleysAdvisors.com)

knowledge

- Email: [kschwartz@PawleysAdvisors.com](mailto:kschwartz@PawleysAdvisors.com)

- Follow Us On:

– Facebook



– LinkedIn



– Twitter



*As featured by:*



**Bloomberg  
Businessweek**



The quality of our research relies on the accuracy of data and information provided by companies and third parties.  
Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed.

Pawleys



Investment Advisors

*invest right, live right™*



The quality of our research relies on the accuracy of data and information provided by companies and third parties. Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed.

Pawleys



Capital Management

*invest right, live right™*



The quality of our research relies on the accuracy of data and information provided by companies and third parties. Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed.