Second Quarter Report 2023

LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

"Smart Decisions About Serious Money"

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A Message From The President

Thomas G. Twombly

We are living, and investing, through a time of significant and accelerating change. It's impacting every single aspect of our lives. Everywhere around us we can see and feel the signs of fatigue and heightened emotion that go with it. Social upheaval, political turmoil, economic uncertainty, environmental volatility, geo-political conflict, extreme fiscal and monetary complexity, growing generational discord, and the mind-blowing pace of technological developments are combining in ways we've never experienced before to disrupt our desire for stability and security, and to contribute to a sense of on-going crisis – with both danger and opportunity in abundance.

It's emotionally exhausting. And it's regularly showing up in ways now that once would have been difficult to imagine. For example, I read a report published on June 20th of this year by Deloitte that found that 60% of employees they surveyed, 64% of managers, and *75% of C-suite executives* (my italics) are "seriously considering quitting their jobs in favor of something that would better support their sense of well-being." Clearly, even the most well-off people in our society are feeling worn down and on edge.

I laughed out loud at my own naivete recently as I looked back at the message I wrote four years ago for our Second Quarter Report in 2019. In it, as an analogy, I touched on the subject of "punctuated equilibrium" – the radical new theory posed in the early 1970s by the paleontologists Steven Jay Gould and Niles Eldredge that completely changed how scientists ever since have viewed evolution. Gould and Eldredge showed that contrary to all previous understanding, the fossil record demonstrated that long periods of relative stasis and the imagined slow, gradual evolution of species had actually been punctuated periodically by explosive bouts of disruptive change. I had naively thought four years ago that we as a firm had already endured an analogous experience. It's abundantly apparent now that I didn't have any idea what I was talking about at that point. Things were just getting started…

Just run down a quick list of all that every single one of us has been forced to navigate in the short four years since. A global pandemic, a forced economic shut-down, a wicked bear market, work from home, Zoom, supply shortages, Quantitative Easing, unequaled Government stimulus, a massive bull market, viciously contested elections, January 6th, Crypto and "meme stock" frenzies, the biggest land war in Europe since WWII, oil, gas, and food crises, mass migration, humanitarian crises, rapid inflation, Quantitative Tightening, another bear market, FTX fraud and collapse, Bank failures, and now the rapid and much-hyped explosion of AI… And I'm certain we're not done yet.

I think it's probably a safe bet to say that 100 years from now, this will be a period that is still studied and written about by countless scholars, sociologists, economists, historians, and political scientists as they look back with wonder (and a certain amount of disbelief) and try to untangle the lessons of history for their research projects and doctoral dissertations. We are a living case study. So, some of you who are of a certain age will get it, and hopefully chuckle, when I say "smile, you're on Candid Camera."

On a more serious note, I was reminded of the evolutionary change analogy I wrote about in 2019 by something that an investment analyst recently said about the incredible growth of artificial intelligence. He referred to the breadth of interest in this technology that they're witnessing right now from companies

of all sizes, and from a huge array of industries, as a virtual "Cambrian explosion." His colleague on the same webinar said, "AI is going to change the world, and life as we know it, full stop."

Now, as I said in our newsletter of last month, I am not an expert in Artificial Intelligence. But when smart, disciplined, highly educated, and very experienced professionals from one of the financial institutions to whom we have entrusted investment assets for decades say things like this, it's worth paying attention.

They, and most of the other firms to whom we entrust assets, are already putting money to work on behalf of our clients with great businesses that recognize opportunities to expand their reach, as well as their productivity and profitability with the wise application of machine learning. They are also highly alert to the fact that this rapidly advancing technology may well change the "moats" of other existing businesses that may have grown complacent from past success and are therefore vulnerable to disruption. And they're mindful of "a highly dynamic set of 2nd and 3rd order impacts" that could result in both unforeseen opportunities and threats to individual companies and to industries as a whole with the passage of time. This is truly a watershed period we are living through.

Like some of you, perhaps, I am in the early stages of my own exploration. I'm looking into some of the exciting possibilities AI may eventually present to Lucien, Stirling & Gray to enable us to serve you and our other clients more effectively. I am curious, and I have encouraged others at Lucien, Stirling & Gray to be curious as well. I think it's important that we maintain a growth mindset. As Darwin said, *"it's not the strongest of the species that survives, or the fittest, but the one that's most adaptable to change."*

At the same time, we remain constantly mindful that this technology is still unregulated, while we as a firm are highly regulated. We have a duty of strict confidentiality and privacy to every client we serve, and data security is paramount in our firm. We believe in patience, prudence, and discipline. We take our fiduciary responsibility to you seriously, and we will always make sure we act like it.

Thank you again for your continued confidence and trust.

Thomas G. Twombly
President

Investment & Economic Views

As we pass the midpoint of the year, it seems that more than a few outspoken market prognosticators have been caught by surprise that stock markets across the board have rallied substantially. The brutal recession that many had vociferously forecast as the inevitable result of rising interest rates has failed to materialize, and instead we've witnessed fairly resilient indications of continuing growth.

In fact, the U.S. Commerce Department released data in the first week of July that demonstrated that the U.S. economy expanded at a faster pace than had originally been estimated for the first quarter of 2023, and it's now on track for a 2% annual growth rate instead of the 1.3% previously reported.

Furthermore, consumer spending remains quite strong. The overall job market continues to expand at a healthy pace, despite pockets of weakness. And with inflation still on the rapid decline, and with burgeoning excitement about technological advancements and the use of "artificial intelligence" enabling productivity growth in all kinds of companies, equity markets have responded very positively.

In the grand scheme, especially when viewed against the profoundly negative consumer sentiment we first pointed out at in our Quarterly Report of this time last year, which can be found in the "Resources" section of our newly refurbished website www.lsggroup.com , even slightly better results than the worst-feared outcomes often lead to dramatic reversals in financial markets. This is why it is so important for long-term investors to remain patient and disciplined in their approach during trying times.

As you will note from the chart of General Market Results on page 4, the equanimity we counseled back then towards equity holdings has clearly paid off. Since this time last year, when the University of Michigan Consumer Sentiment Index hit its all-time low of 50.0 in its 52-year history, the S&P 500 has risen by +19.6%, the NASDAQ index has risen by +26.1%, and the MSCI EAFE (Europe, Asia, Far East) Index of International stocks has risen +18.8% in US dollar terms. Small and mid-sized US stocks have also rallied by +12.3% and +17.6% respectively since last June 30th, with especially strong results of +8.1% and +9.2% coming in the final month of the recent quarter as market strength has shown signs of broadening to include more than simply the largest technology companies.

Fixed income markets have continued to struggle overall, as rising short-term interest rates and worries about inflation have persisted, in spite of growing evidence that many of those pressures continue to decline. The Barclays US Aggregate Bond index has managed a +2.1% gain for 2023 so far, but still sports a negative total return of -.94% for the last twelve months.

As you can also see from the updated chart of the Consumer Sentiment Index on page 3, and as Dr. David Kelly, the Chief Global Strategist for J.P. Morgan pointed out in a recent webinar, despite the significant bounce from last year's lows, the mood of the general public as reflected in this particular survey is still gloomier than it has been 92% of the time since it originated in 1971, while the overall economic data being reported now is better than it has been 83% of the time.

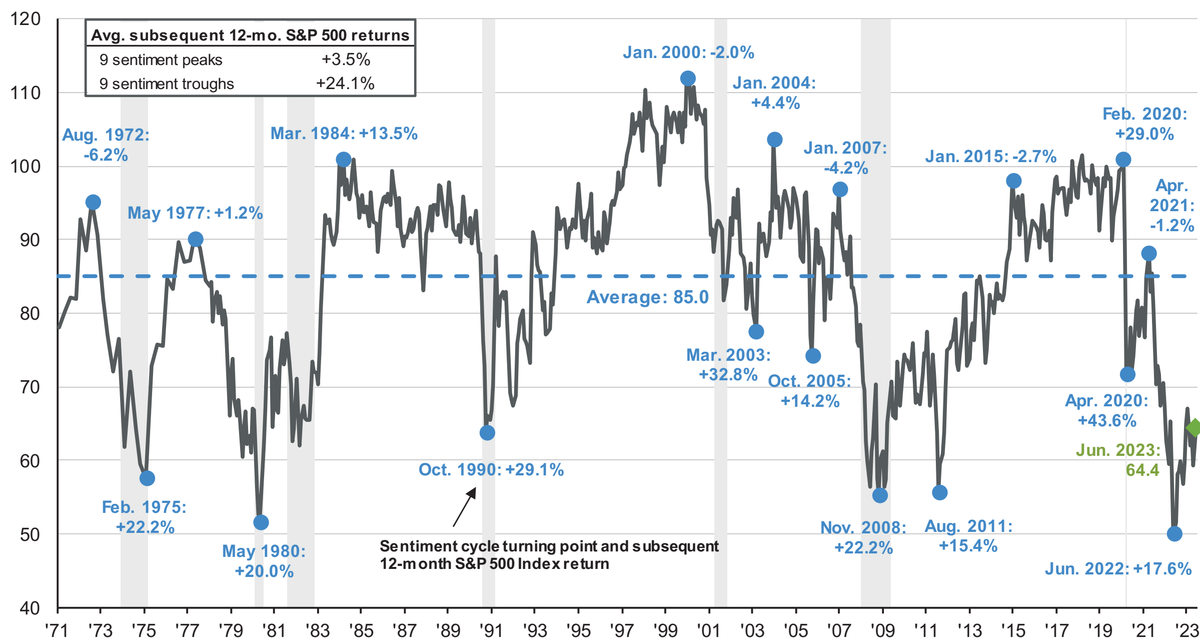
Exactly why this remains the case is not entirely clear, and precisely how the current economic situation eventually resolves itself still remains to be seen. It's certainly possible that a recession of some type could still be over the horizon – though to us a recession is beginning to look increasingly doubtful, or perhaps increasingly mild if it were to occur.

It's possible that the deep negativity we're still seeing reflected in this data is a completely understandable vestige of the incredible volatility, uncertainty, complexity, and ambiguity we have all been forced to endure over the last several years. Certainly, the media and the political world continue to beat a drum of profound anxiety and fear, and people are just worn out. We also suspect that the eventual results of what we termed "the extension cord effect" in our June 2022 newsletter haven't yet been recognized by the majority of our population. We'd encourage you to read that posting again and stay tuned, because the outcome we proposed back then is appearing more probable by the day.

https://www.lsggroup.com/articles/2022/2/26/presidents-message-rlktm-rhhrb

For additional perspective, see the chart on page 4 and recall that that article was posted a few weeks before the blue line at the far right reached its absolute tippy top. In other words, just as the Headline Consumer Price Index was approaching its apogee, before rolling over into the vertiginous plunge we have witnessed since – similar to what happens as a "wave" of energy passes down an extension cord.

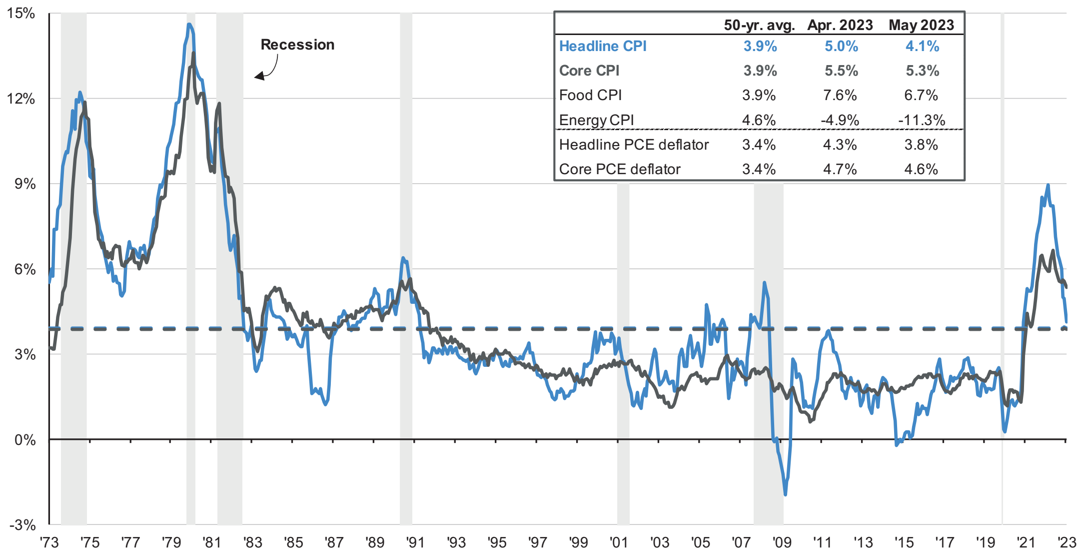
As always, we remain broadly diversified, focused on the far horizon, and convinced that patience, discipline, and a long-term faith in the future will again prove to be the keys to success. If you have questions about your personal situation, or if you would like to discuss our perspective in a one-to-one conversation, we welcome the opportunity. Please give us a call.



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs.
Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 30, 2023.

Inflation

GTM | U.S. | 31



Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of June 30, 2023.

J.P.Morgan
ASSET MANAGEMENT

General Market Results

	2nd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	-0.84	2.09	-0.94	-3.96	.77	1.52
S&P 500 TR USD	8.74	16.89	19.59	14.60	12.31	12.86
DJ Industrial Average TR USD	3.97	4.94	14.23	12.30	9.59	11.26
S&P MidCap 400 TR	4.85	8.84	17.61	15.44	7.79	10.21
Russell 2000 TR USD	5.21	8.09	12.31	10.82	4.21	8.26
NASDAQ Composite TR USD	13.05	32.32	26.14	11.94	13.93	16.21
MSCI EAFE NR USD	2.95	11.67	18.77	8.93	4.39	5.41
MSCI EM NR USD	0.90	4.89	1.75	2.32	0.93	2.95

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