nVEST nSIGHTS

June 30, 2023

IN THIS ISSUE:

nvest WEALTH STRATEGIES

Delivering financial peace of mind.

10268 Sawmill Parkway
Powell, Ohio 43065
614.389.4646

WWW.NVESTWEALTH.COM
Email: info@nvestwealth.com

Lift-off! *Do We Have Lift-off?*

Bill Henderly, CFA, Nvest Wealth Strategies, Inc.

Stocks continued to advance in 2Q, even with many confusing negative news stories. Since October 12 (2022; just 9 months ago) the S&P500 advanced almost +26%. This year alone, the S&P500 advanced nearly +17% and the NASDAQ +39% thru the end of June. Many, including the financial media, are now labeling the move as a new bull market because a +20% advance from the bear market low occurred. Lift-off!!! Do we have "lift-off"?

It's challenging to be convinced that a new bull market is underway when market leadership is so narrow with just 5 mega-cap technology names (making up 24% of the S&P500 index weight) produced over 70% of the YTD advance (largest 10 weights produced 77% of YTD gains). Without their outsized performances and heavy weight in index composition, market gains would be very small. Or, looking at returns differently, non-dividend paying stocks (100) in the S&P500 advanced +18% YTD while dividend paying stocks (400 names) were up only +4%; their worst first half performance since 2009. [Review "Benchmarking" and "Fund Performance" pages to observe performance divergences.]

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10 as % of Total	S&P 500 % Perf.
2007	78.7%	3.5%
2023 YTD	**76.9%**	**15.9%**
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

When the market advances on very narrow leadership or when advances are not broad based, AND when there are a number of market headwinds (monetary policy to battle inflation, with slow money supply growth), it seems unlikely that this encouraging rally over the last 9 months is the start of a new bull market. It's unlikely we have "escape velocity" to continue a long-term new bull market. Nevertheless, remaining invested is paramount to long-term investment success. If not invested during the past 9 months, the "lift-off" does not occur in your investment portfolio.

QUANDRY IN THE QUARRY

Are you perplexed? Investors are in a quandary balancing weak economic data against stock market action of the S&P500 or NASDAQ which appears to be looking forward (through) nearly every negative event. While the Fed is raising interest rates to slow the economy and employment to curb consumer demand and inflation, it's seems difficult to be excited about near-term market prospects for narrow market action. Further, when general news appears so caustic and negative, it's challenging to get excited period. Let me assure you, this commentary is NOT written to be super-negative, or proclaim as Chicken Little, "The sky is falling."

The key question to consider – will economic expansion limp along in 2H2023 and into 2024 when there is another presidential election? Can the YTD stock market advance continue *and* broaden its participation beyond the very narrow?

Let's review two historical market perspectives, and keep them in mind in the short-term:

- A bear market low never occurred before a recession began. The current (recent) bear market low was 10/12/2022, with the stock market rallying since (see "Lift Off"). Is, or was 10/12/2022 the low without a recession?
- Is a recession likely? Odds suggest that with the significant decline in money supply (M2) growth (from +30% during 2020-21 to over -5% now; biggest decline since 1930s); plus an inverted yield curve (where short interest rates are higher than long) for over 12 months; plus a likely continuation of Fed tightening (raising interest rates to battle sticky inflation); with stricter bank lending standards on loans; while the Treasury is issuing large amounts of new debt (post raising the US Debt Ceiling), together are likely to slow the prospect for economic growth and result in at least a mild recession.

Nevertheless, it's challenging to argue against the "tape" (market). If an investor was paranoid, anxious, and/or desired to sit on the sidelines to determine when to get in (the in/out decision), investment performance experience is poor.

We suspect market action in the 2nd half of 2023 could be slow until/unless conditions (macro-economic backdrop) improve and broader market participation occurs. Simply, as our June commentary shared, the YTD market performance is encouraging, but may be an Optical Illusion. Keep in mind, bear markets remove excess market risk and usually reveal new market leaders for the next durable bull market

(Continued on pg 2)

advance.

When you are in a quandary about what to do, it's important to continue to mine for gems in the quarry. Managing investment portfolios should always involve an awareness of risk. Risk is first controlled by the asset mix – stock/bond allocation. That's called the "investment objective" wherein the long-term stock/bond mix is specified. Once determined, portfolio exposures are tactically adjusted for risk – what areas of the market are attractively valued vs. expensive. Currently, the higher interest rate backdrop that is expected to slow economic growth, promotes owning quality companies with current cash returns (dividends & interest). Our allocation to momentum (growth) strategies currently receive smaller exposures because they are expensive and deemed more risky; they are not excluded (even as they are former year and YTD winners). The portfolio risk management process is ongoing and always key to portfolio performance.

"the higher interest rate backdrop that is expected to slow economic growth, promotes owning quality companies with current cash returns. Our allocation to momentum strategies currently receives smaller exposures because they are expensive and deemed more risky…"

DRIVING HANDS-FREE

Do you ever drive hands-free? If so, you probably remove both hands from the steering wheel for only a moment or two, but not long. More auto manufacturers are adding hands-free or autopilot features – a suite of advanced driver assistance systems that can perform a variety of self-driving functions including lane keeping, "safe" car spacing, self-parking, and navigation on roads with minimal or no driver input. Generally, most self-driving vehicles require some operator interaction via steering wheel pressure to operate; they are not fully autonomous systems.

In recent months AI, or artificial intelligence stocks, are taking over as the new investment craze. It appears as the next-gen technology capable of automating "everything" by "computerizing" human decision making via use of mathematical algorithms and existing big data. AI and a few tech stocks are ground-zero of this YTD narrow market performance; the "soup de jour" sector to own. In general, this technology path could represent the ultimate "hands-free driving."

nvest WEALTH STRATEGIES

The idea of "self-driving" or "autopilot" could also be applied to investing. Auto-investing with no fundamental analysis of companies or investment discipline is possible via indexing. Indexing was also well rewarded over the last decade. With hindsight, it seems clear that easy and unlimited access to virtually free money lifted all boats (stocks). Both the well maintained (companies with strong balance sheets, low debt) and those of more questionable seaworthiness (high debt, no profits, etc) advanced. High inflation and rapidly rising interest rates added "weight" in 2022. Yet it seems a few high-flyer stocks of last year are back in vogue in 2023, even as high interest rate weights persist. We find ourselves perplexed by YTD narrow market leadership because the current macro environment backdrop seems unlikely to reverse anytime soon.

"Should investors continue to drive hands-free - blindly owning everything and overweight the most expensive companies via indexing? We don't recommend it!"

Many experienced investors understand a few factors drive markets – "Don't fight the Fed" and "Don't fight the trend/tape" (market) are two key drivers. These are not exclusive, but are interconnected and simultaneous in their influence. Presently, the Fed is pursuing a restrictive monetary policy for the foreseeable future which will slow economic growth and inflation…over time and meaning headwinds exist. Second, "don't fight the tape" even as valuations may be uninspiring and risk-reward ratios are uninspiring in general. Investor sentiment is one of the strongest current market assets. How is it possible for these two key thoughts - the Fed (restrictive) and the "tape" (encouraging) – to appear contradictory to each other? Which should an investor focus on?

Both apply. There are attractive areas, while others are expensive and risky. 5% yields on short money investments are attractive; highest yields in years. These rates will curb the macro economic environment and also reflect current investor apathy for the stock market via its narrowness. More restrictive monetary policy *will* cause the economy and job market to weaken; corporate profits are likely to contract (a profit recession). It's possible for profits to contract without an actual economic recession; but history shares there was never an economic recession without a profits recession. It seems probable that an economic recession will materialize, and by extension a profits recession. Some leading economic signals are beginning to show cracks.

We discourage trying to time the market. That's because highs & lows in stocks (bonds, or markets) are difficult to call. Great example: when interest rates peaked 42 years ago (1981), several years passed (1985) before investors understood the rules changed. Something as fundamental as interest rates changing in a big way is not immediately understood. As Byron Wien (Wall Street strategist) shared, "Hindsight will offer clarity, while real time speaks with haze." And, Chris Verone (Strategas technical strategist) added, "there is a casualness of daily changes" that can cloud or hide changing market direction. It can take years before market action fully reveals new leaders; there is a time lag before knowing. While technology and companies poised to be the first beneficiaries of AI are finding investor favor and currently boosting the stock market, we suspect that monetary conditions (high interest rates, low liquidity or slow money supply growth) will redefine the market focus. As this occurs, a shift of leadership toward "quality" is probable. Quality means emphasis on companies with strong balance sheets, proven business models, and a record of paying (and/or increasing) their dividends to shareholders.

Should investors continue to drive hands-free (without paying attention) - blindly owning everything and overweight the most expensive companies via indexing? We don't recommend it!

ANNOUNCEMENTS:

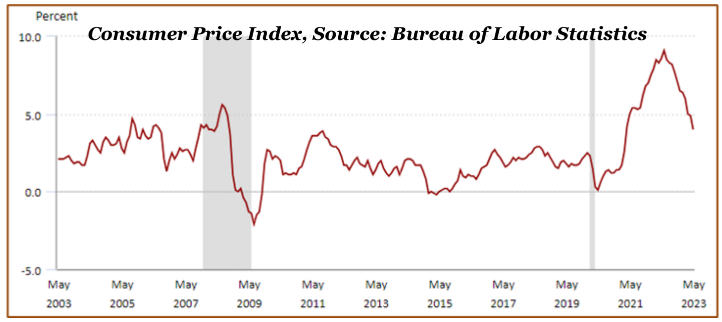
- Early July - 3Q 2023 fees collected and performance reports sent.
- July 4 - Independence Day! Markets, banks, and Schwab closed.
- September 4 - Labor Day! Markets, banks, and Schwab closed.
- September 30 - End of 3Q. Quarterly Reports sent early October.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

Inflation Begins to Ebb Lower - Impact to Savers

Jordan Ranly | Nvest Wealth Strategies, Inc.

In recent articles titled iPod, iPhone, iPad… now the I Bond and The Upside to Rate Hikes, we highlighted the positive impact of the Fed's ongoing battle with inflation. Mainly, savers are once again being rewarded with "reasonable" rates. I-Bonds were rewarding savers with rates approaching 10% just a few short months ago!

We continue to receive inquiries about where to "park cash", including Schwab's position traded money market funds, which currently yield rates near 5.0%. This rate, as well as other high-yield bank accounts are attractive for those with short-term liquidity needs. However, we caution investors to not become too comfortable with what may feel like the "safe bet". As the Fed moves towards neutral and rate hikes are paused, saving rates will also likely decline. I-Bond rates are dropping from a peak near 10% to current rates of 4% as the consumer price index (CPI = inflation) declines. Money market rates change daily and are not guaranteed.



Utilizing sound logic to set investment objectives (ie. buckets of time), we encourage clients to stay the course; stay invested. Risk and the corresponding reward go to investors who maintain a long-term view and avoid waiting for the "all clear" signal prior to deploying "dry-powder" pursuant to their long-term investment objectives. History clearly demonstrates that stocks beat bonds, often and by a lot. To stay ahead of every investor's two biggest enemies, inflation and taxes, one must appropriately allocate between stocks, bonds, and cash. We welcome your questions.

Uncle Sam's Unwanted Surprises

Many investors know the basics of how money is earned, invested, and taxed in personal and retirement accounts. Recall the benefits of utilizing a qualified retirement plan to defer taxes and build wealth (think 401K, 403B, 457, IRA). These plans are incentivized through tax deferrals, company matching contributions, auto payroll deductions, etc.

Our viewpoint: Tax efficient strategies are prudent for both climbing up the mountain (wealth accumulation phase) as well as descending down (wealth distribution phase).

While building your nest egg through pre-tax and after tax savings is important, there are key tax implications to understand when drawing upon these savings. Large, unplanned withdrawals from any savings or qualified retirement account are often accompanied by unwanted (and future) surprises from Uncle Sam!

Potential unwanted surprises of large, lumpy withdrawals:

- Be aware...Lumpy withdrawals from any invested account during market drawdowns are extra damaging - selling more shares at lower values reduces the ability of the portfolio to recover value when the markets rally.
- Tax on Withdrawals to Pay…more Taxes?!? It's a "circular" tax experience with consequences.
    - ◊ Imagine…you made a large withdrawal in 2022. Then in April 2023, additional $$$ are needed to pay taxes on the withdrawal. Then another surprise! You will owe *additional* income taxes on the withdrawal in 2023 that was for taxes. So frustrating!
    - ◊ This "circular" tax experience can cause you to remain in an elevated income bracket for several years after the initial large, lumpy withdrawal. Can also occur on large withdraws from after-tax accounts if significant capital gains are triggered.
- Federal & State Income Tax - marginal tax rates increase sharply at various income thresholds; income and taxes are elevated.
- Net Investment Income Tax (NII) - may be impacted by an additional 3.8% tax on investment income for high earners.
- Social Security Income Tax - as income increases, an increasing % of Social Security Income is taxable.
- IRMAA (Income-Related Monthly Adjusted Amount, relating to Medicare coverage)
    - ◊ Increase to Medicare Part B & Part D premiums
    - ◊ IRMAA is based on income 2 years prior (i.e. 2023 income will impact IRMAA bracket for 2025)

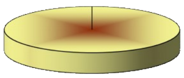
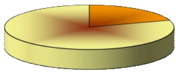
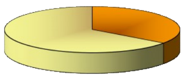
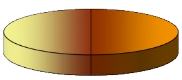
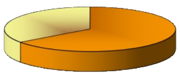
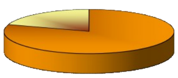
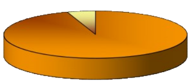
What to do?

- Build flexibility into your plan
    - ◊ Save in both pre-tax and after-tax accounts.
    - ◊ After-tax savings can be accumulate/held in cash at the bank, personal brokerage accounts, & Roth IRA's.
    - ◊ Clients with flexibility on where to source withdrawals are best positioned to avoid unwanted surprises.
- Spread out withdrawals across multiple tax years. Planning and spreading out withdrawals across multiple tax years can keep income lower and smoother.
- Financing options - While taking on debt may not be desirable, often working the tax numbers support utilizing certain tools to smooth income (Home Equity Loan, HELOC, Mortgage, etc.)
- Consult your CPA & the Nvest Team prior to making a commitment on funding a large new purchase, to explore the most tax efficient funding method.

As always, our team is here to help study and optimize your cash flow needs. Let us help you efficiently descend the mountain and avoid *Uncle Sam's Unwanted Surprises!*

Benchmarking as of June 30, 2023

Summary of index portfolio returns compiled by Nvest Wealth Strategies, Inc.

	Index Portfolio	Stock/Bond Allocation		Total Return Through 6/30/2023: 2nd Qtr	YTD	12 Mths	3 Years	5 Years
	Capital Preservation	0% / 100%	*Cumulative*	0.2%	1.8%	1.7%	-0.6%	6.7%
			Annualized			1.7%	-0.2%	1.3%
	Income	20% / 80%	*Cumulative*	1.2%	3.8%	4.2%	5.9%	13.0%
			Annualized			4.2%	1.9%	2.5%
	Balanced Conservative	35% / 65%	*Cumulative*	1.7%	4.8%	5.7%	9.6%	16.6%
			Annualized			5.7%	3.1%	3.1%
	Balanced	50% / 50%	*Cumulative*	2.6%	6.5%	7.9%	15.3%	22.5%
			Annualized			7.9%	4.9%	4.1%
	Balanced Growth	65% / 35%	*Cumulative*	3.4%	8.0%	10.0%	20.9%	27.6%
			Annualized			10.0%	6.5%	5.0%
	Growth	80% / 20%	*Cumulative*	4.2%	9.6%	12.2%	27.1%	33.9%
			Annualized			12.2%	8.3%	6.0%
	Aggressive Growth	95% / 5%	*Cumulative*	4.7%	10.5%	13.6%	31.2%	37.3%
			Annualized			13.6%	9.5%	6.6%

The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash. The level of diversification represented by these benchmark averages may be materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

It takes time...

Highs and lows are difficult to call. Yields peaked around 16% in September 1981. Then from mid-'83 to '84 the world returned to its prior configuration as yields rose sharply. During this time, investors seriously question a regime change before a 30+ year trend of falling rates unfolded.

Could a regime shift be starting today? Tech and speculative growth companies dominated much of the last 10+ years in an era of "free money." They were hit hard in 2022, but "re-booted" in early '23.

Hindsight will offer clarity as to whether yields will remain higher for longer, and a new leadership regime emerges away from expensive tech.

"WE DIDN'T KNOW IT WAS AUGUST OF '82 UNTIL AUGUST OF 1985"

SELECTED FUNDS - TOTAL RETURN PERFORMANCE SUMMARY

As of June 30, 2023

BOND FUNDS - TAXABLE	STYLE	2ND QTR	YTD	12 MTHS	3 YEARS	5 YEARS
Taxable Short-Term Bond Average		*0.1%*	*1.8%*	*1.4%*	*-0.4%*	*1.3%*
Taxable Intermediate Bond Average		*-0.8%*	*2.2%*	*-0.9%*	*-3.8%*	*0.6%*
Allspring (fka Wells Fargo) Ultra Short	AS	1.2%	2.6%	3.9%	1.1%	1.7%
Vanguard Short Federal	HS	-0.6%	0.7%	-0.9%	-1.5%	0.9%
American Century Short Duration	HS	-0.6%	1.0%	0.6%	-0.1%	1.3%
Pioneer Short-Term Income	HS	0.5%	2.3%	2.4%	1.5%	1.3%
DoubleLine Low Duration	HS	0.6%	2.5%	2.7%	0.7%	1.4%
Vanguard Short-Term Investment Grade	HS	-0.1%	1.7%	1.5%	-1.0%	1.4%
American Funds Bond Fund of America	HI	-1.5%	1.3%	-1.4%	-3.6%	1.2%
American Century GNMA Income	HI	-0.9%	1.8%	-2.0%	-3.9%	-0.2%
BrandywineGlobal Corporate Credit (fka Diamond-Hill Corp Cred)	LI	2.7%	5.0%	9.0%	3.4%	4.0%
Miller Convertible	LI	1.6%	2.4%	2.6%	3.2%	3.6%
BOND FUNDS - TAX EXEMPT						
Tax-Free Intermediate Bond Average		*-0.1%*	*2.3%*	*2.6%*	*-0.5%*	*1.4%*
Vanguard Muni Limited Term	HS	-0.1%	1.4%	1.8%	0.1%	1.4%
T. Rowe Price Tax Free S/I	HS	-0.3%	1.3%	1.4%	-0.3%	1.1%
Vanguard Muni Intermediate Term	HI	-0.1%	2.3%	3.2%	-0.3%	1.9%
Vanguard Ohio Long-Term	HL	0.0%	3.0%	3.2%	-1.0%	1.9%
STOCK FUNDS - DOMESTIC						
S&P 500 Index		*8.7%*	*16.9%*	*19.6%*	*14.6%*	*12.3%*
Equity Fund Average (Morningstar Mgr Agg US Core EW)		*5.8%*	*10.4%*	*14.8%*	*12.9%*	*7.7%*
Schwab Large Cap Growth	LG	15.1%	35.2%	29.9%	14.4%	15.5%
Parnassus Value Equity (f.k.a. Endeavor Fd)	LG	3.2%	4.7%	10.0%	17.8%	11.9%
T.Rowe Price Dividend Growth	LV	4.8%	6.8%	13.4%	13.5%	11.9%
WisdomTree US Quality Dividend Growth	LV	7.4%	11.5%	18.8%	15.9%	12.7%
American Century Equity Income	LV	2.4%	2.8%	8.0%	10.1%	7.2%
Hennessy Focus	MG	9.6%	14.5%	10.6%	9.6%	7.4%
John Hancock Multifactor Mid-Cap	MB	4.3%	7.3%	14.0%	13.4%	8.6%
John Hancock Disciplined Value Mid-Cap	MV	6.0%	7.4%	16.1%	17.4%	8.3%
SPDR S&P600 Small Cap Growth	SG	4.8%	7.0%	10.5%	11.7%	5.1%
Neuberger & Berman Genesis	SB	4.7%	12.1%	16.5%	10.6%	9.1%
American Centry Small Cap Value	SV	3.7%	6.4%	8.3%	19.5%	7.3%
Avantis US Small Cap Value	SV	5.2%	5.1%	15.9%	26.3%	N/A
SPDR S&P600 Small Cap Value	SV	1.9%	5.0%	8.7%	18.3%	4.9%
STOCK FUNDS - INTERNATIONAL						
Morgan Stanley EAFE Index (Foreign)		*3.0%*	*11.7%*	*18.8%*	*8.9%*	*4.4%*
Oakmark International	LV	3.1%	17.4%	22.9%	13.7%	3.1%
Schwab Fundamental International Index	LV	4.0%	11.8%	18.0%	14.2%	5.1%
John Hancock International Growth	LG	1.8%	9.1%	7.6%	3.0%	3.3%
Thornburg Developing World	LG	0.5%	5.1%	0.7%	0.5%	1.9%
Harding Loevner International Small Company	SG	3.2%	7.4%	13.8%	5.8%	3.1%
Hennessy Japan	LB	8.6%	16.4%	20.5%	-1.0%	1.2%
STOCK FUNDS - SPECIALTY						
Invesco S&P500 Eq Wt Energy	MV	0.7%	-4.4%	15.5%	39.1%	5.0%
Direxion Auspice Broad Commodity ETF	N/A	-2.2%	1.7%	-0.5%	18.7%	8.2%
Neuberger Berman Real Estate Securities	MV	0.6%	2.9%	-6.1%	4.4%	5.4%

Nvest Wealth Strategies, Inc. | *Delivering financial peace of mind.*

10268 Sawmill Parkway
Powell, Ohio 43065
Phone: 614.389.4646
Email: info@nvestwealth.com

CALL US WITH QUESTIONS
RE: Schwab Statements or Nvest Reports
RE: Portfolio Management & Strategy
RE: Request Current Disclosure Form ADV Part II

Visit us on the web for weekly updates: www.nvestwealth.com