WISCO
Investment Management

# Second Quarter 2023

## DEAR CLIENTS & FRIENDS;

**The Wisco-managed ETF portfolios posted positive returns in the second quarter.** Our lower risk portfolios (Conservative & Balanced) were up around 2% while our higher risk portfolios (Growth & Aggressive) were up in the 3-4% range. Performance was positive in domestic equity and international equity.

**The U.S. and International stock markets performed well in the second quarter, up 8% and 3%, respectively.** Stock markets did well despite weak earnings and modest economic growth around the world. However, government spending on infrastructure could help 2nd half growth. Plus, the Federal Reserve didn't raise rates at its June meeting for the first time since its January 2022 meeting and while the Fed did leave the door open to more rate increases later in 2023, we believe investors feel this rate tightening cycle is near its end. Historically, stocks have performed well following the end of a tightening cycle.

**Fixed Income performance was negative in the second quarter with the aggregate bond index down 1%.** The 10-year treasury yield increased from 3.5% at the beginning of the quarter to 3.8% at quarter-end. The strong jobs market along with a surprisingly resilient economy likely led to this increase in rates. (Bond prices generally decrease as rates increase). One area of strength has been safe investments like short-term CDs and money markets which now earn yields in the 5% range, the highest levels we have seen in over a decade.

**Commodity markets were negative in the quarter with the Dow Jones Commodity Index falling 3%.** Grains, oil and precious metals were all negatively impacted by slowing global growth, and higher interest rates. Our only commodity exposure currently is a gold ETF, which decreased 3% in the second quarter.

**As a reminder, our policy is to rebalance client portfolios on a semi-annual basis.** This allows us to realign the positioning of your portfolio with our current market expectations and we will be working on rebalancing portfolios over the course of the next few weeks. To that end, feel free to contact us to review your current investment strategy, portfolio performance, targeted risk level, financial goals and/or any other life changes that may be relevant to your investment strategy. We can also help consolidate accounts to make sure your overall investment strategy is as simple and organized as possible. Finally, per our annual requirements, we have attached a copy of Wisco's privacy policy and will send you a copy of our Company Brochure upon request.

**At Wisco, we believe our approach of designing well-diversified, low-cost investment portfolios is the best way to produce favorable results over time.** We would like to thank you for providing us with the opportunity to work with you as your investment advisor. We appreciate your business!

*Sincerely,*

*The **Wisco** Team*

*Wall Street to Wisconsin*

*Investment Advisors:* **Stephen Share** sshare@wiscoinvest.com **Greg Schroeder** gschroeder@wiscoinvest.com

# *Wisco Investment Management*

Wisco-managed portfolios are constructed using five asset classes: Domestic Equity, International Equity, Domestic Fixed Income, Alternative Investments and Prime Money Funds. Our current asset class allocations are as follows:

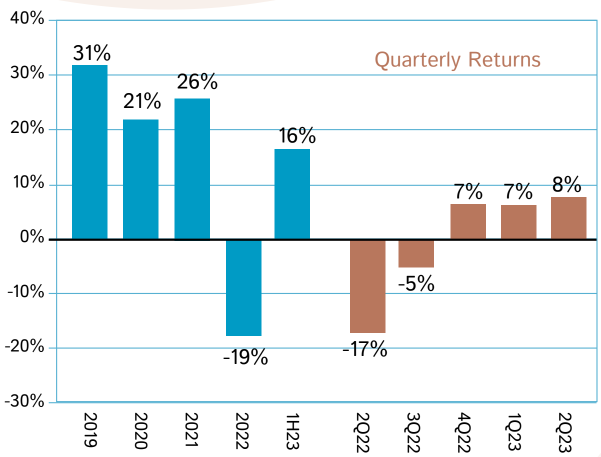
## WISCO MANAGED PORTFOLIOS

| | Conservative | Balanced | Balanced Growth | Growth | Aggressive |
|---|---|---|---|---|---|
| Domestic Equity | 27% | 36% | 45% | 54% | 64% |
| International Equity | 9% | 13% | 16% | 21% | 26% |
| Domestic Fixed Income | 49% | 38% | 28% | 16% | 4% |
| Alternative Investments | 3% | 3% | 3% | 3% | 3% |
| Prime Money Funds | 12% | 10% | 8% | 6% | 3% |
| Total | 100% | 100% | 100% | 100% | 100% |
| Target Volatility* | 6% | 8% | 10% | 12% | 15% |

**Target Volatility is our estimate for the annual standard deviation of portfolio returns.*
*Source: Wisco Investment Management LLC*

# *Second Quarter 2023 Market Review*

## DOMESTIC EQUITY

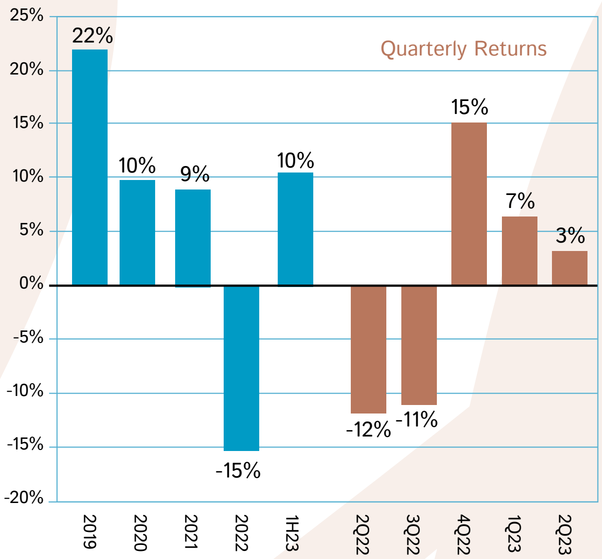



*Source: Dow Jones U.S. Broad Stock Market Index and Wisco.*

The stock market increased 8% in the second quarter. The S&P 500 ended the quarter at 4450, 8% below its Jan. 4, 2022, all-time high of 4819. The strong market returns were concentrated in mega-cap growth stocks. Large-cap stocks increased 9% in the quarter outperforming both small-cap stocks (up 5%) and high dividend stocks (flat). The United States 1Q23 GDP increased 2.0%, as the economy continues to defy those predicting a recession. S&P 500's earnings declined 2% in 1Q23, with weakness in Materials (-25%), Utilities (-22%) and Health Care (-16%) partially offset by strength in Consumer Discretionary (+54%) and Industrials (+22%). Wall Street analysts are projecting a soft landing for the domestic economy with S&P 500 earnings growth of 1% in 2023 and 11% in 2024. While a soft landing is possible, Federal Reserve tightening cycles often impact the economy with a 6-to-9-month lag, so the full impact of this tightening cycle is likely yet to be realized and we feel earnings growth estimates could be too high. On the positive side, for the first time in 15 months, the Fed didn't raise rates at its June meeting. Government spending on infrastructure will likely ramp up in late 23 and early 24. Plus, the 23 largest banks all passed their stress test suggesting the banking system may be in better shape than was feared after SVB's collapse.

The Fed's "pause" along with a resilient economy resulted in strong stock market performance in 2Q23. The S&P 500 is trading at 20x 2023 EPS estimates, which is relatively high and may suggest stocks are vulnerable to unexpected weakness. Therefore, we are reducing domestic equity exposure in all our managed portfolios and prefer large cap to small cap companies. Longer term, we feel all investors should hold domestic equities.

## INTERNATIONAL EQUITY

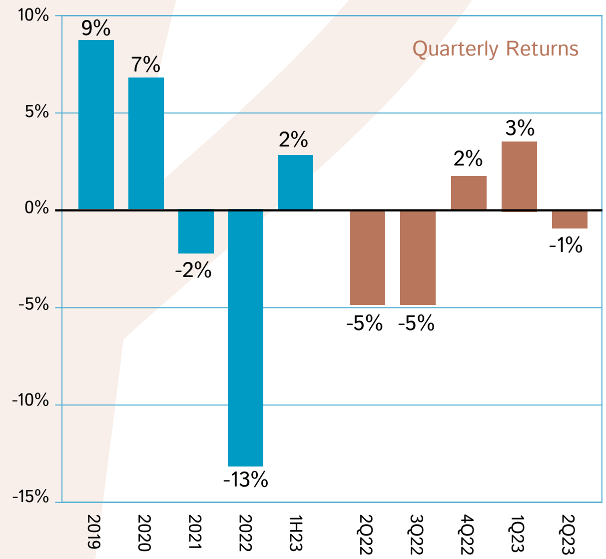



*Source: MSCI ACWI ex USA and Wisco.*

International markets increased 3% in the quarter, with FTSE Developed Large Cap Index up 4%, FTSE Small Cap Index up 1%, and FTSE Emerging Market Index up 1%. In Europe, most markets moved higher with Greece up 24%, Hungary up 22% and Switzerland up 5%. Czech Republic was down 6% this quarter. Asian markets were mixed in the quarter, with Hong Kong down 6%, South Korea up 2%, and Japan up 9%. Emerging markets were also mixed. Brazil increased 22%, Mexico was up 4% and Taiwan was up 3%, however, on the downside, Shanghai fell 7% and Malaysia was down 8%. Around the world, 1Q23 GDP generally improved from 4Q22. In Asia, China (+4.5), Japan (+1.9%), Australia (+2.3), and South Korea (+1.0%) all posted stronger growth. The Euro zone (+1.0%), Britain (+0.2%), Canada (+2.2%) and Mexico (+3.7%) also all posted improved growth.

While International stocks have not outperformed domestic stocks so far this year, they have still returned a respectable 10% year-to-date. International stocks trade at a 42% PE discount to domestic stocks, which we feel is a compelling valuation. We hold international equity in all our client portfolios, and we prefer developed markets to emerging markets.

## DOMESTIC FIXED INCOME




*Source: Barclays Capital U.S. Aggregate Bond Index and Wisco.*

The Barclays U.S. Aggregate Bond Index decreased 1% in 2Q23. Intermediate Treasuries were down 2%, Short-term Investment Grade was flat, Long-term Investment Grade was down slightly, and High Yield was up 1%. The 10-year treasury yield started the quarter at 3.5% and traded in a relatively narrow range most of the quarter before increasing to 3.8% at quarter end. Annual inflation (CPI) in May came in at 4.0%, down from June 2022's 9.1% peak and its lowest reading since March 2021. The Fed held its target rate range consistent at 5-5.25%, during its June meeting. The Fed's balance sheet now stands at $8.3T below its April 2022 peak of $9.0T as the Fed has stopped purchasing government securities. The money supply (M2) now stands at $20.8T down 4% YoY.

While the Fed has indicated that they may increase rates another 0.5% this year, it appears that this rate tightening cycle is near its end. Furthermore, the end of the tightening cycle along with some of the most attractive yields in a decade suggests it might be a good time to hold Fixed Income. We continue to hold Fixed Income in all our client portfolios and plan to increase duration and improve credit quality in our
July rebalancing.

## ALTERNATIVE INVESTMENTS

The Dow Jones-UBS Commodity Index declined 3% in the quarter and is down 9% year-to-date. In agriculture, grain prices were mixed. Wheat prices declined 8%[1] in the quarter and are down 20%[1] y-t-d, corn prices were down 16%[1] in the quarter and are down 18%[1] for the year, soybean prices have bucked the trend increasing 3%[1] for the quarter and year. Ample supplies with softening demand have hurt prices.

Precious metal prices were down in the quarter. Gold prices decreased 3%[2], but are still up 5%[2] for the year. Silver is down 5%[3] for both the quarter and year. Precious metals may have been hurt by higher yields and a rotation into riskier assets.

The Cushing, Oklahoma spot price for WTI crude oil declined 9% in the quarter and are down 14% for the year. Despite Saudi Arabia reducing supplies and sanctions against Russia, global demand for oil has been tepid as economies across the world grow at a slower pace.

Wisco sold out of a broad-based commodity fund in all our client accounts in January. While higher inflation helped most commodities in 2022, we feel lower inflation and less growth will be a headwind to both grain and oil prices in 2023. That said, we continue to hold a gold ETF in all our client accounts, as gold is not as economically sensitive as other commodities, protects against geopolitical risk and helps diversify portfolios.

## PRIME MONEY FUND

The prime money fund currently yields 4.9% and this yield will likely go higher as the Fed raises rates.  We are increasing our exposure to the prime money fund in all our client accounts, with more exposure in conservative accounts.

**Footnotes:**

1. *Return calculation based on the near future contract as quoted in the Wall Street Journal.*
2. *Return calculation uses Aberdeen Physical Gold Shares (SGOL) as a proxy for gold.*
3. *Return calculation uses Aberdeen Physical Silver Trust ETF (SIVR) as a proxy for silver.*
4. *Return calculation uses Cushing, OK WTI spot price FOB as a proxy for oil.*





402 Gammon Place, Suite 380 • Madison, WI 53719 • Office 608.442.5507 • Fax 608.237.2206