Kenneth A. Gilpin CFP

Sound Investments Inc.

2nd Quarter 2023

DJIA 34,407 S&P 500 4,450 Nasdaq 13,791

Summary

This year, despite a banking crisis, the threat of a US default, the war in the Ukraine, and more interest rate increases, stocks rallied back. For the first 6 months, the S&P 500 gained 16.8% and the Dow Jones average gained 4.4% while the NasDaq soared up 38%. These numbers might fool one into thinking that the actual market is doing quite well, yet the gains have been exceptionally narrow.

The hope of a soft landing for the US economy remains plausible. The still tight labor market and resilient consumer give credibility to this theory . However the Fed must guard against over-tightening the monetary reins (ie raising interest rates too high) and further hurting business and consumer loan growth which are essential to expansion.

We see inflation easing gradually and economic growth slowing in the U.S. and Europe but not skidding into a recession.. The Fed might resume rate hikes, but we are much closer to the end of the cycle than not. The deficit is down, and jobs and wages are up. The last two are especially important because what typically extends an economic cycle in the U.S. is a healthy consumer. At some point we'll have a recession, but I don't expect one in 2023 and most likely 2024, either.

This investment letter is mailed quarterly to our clients and friends.

What a Difference a Year Makes

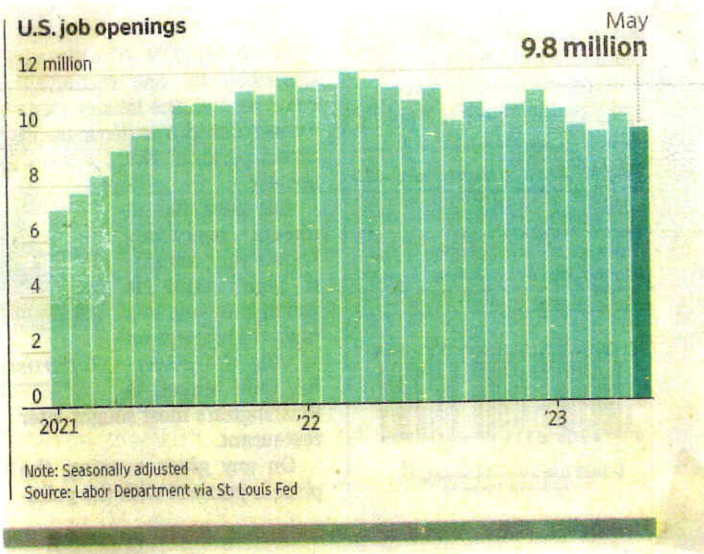
Reports of easing inflation and optimism over the economy have boosted stocks in June to cap off a first half rally. Inflation is down more than half since it's peak last year. (see chart). Forecasters, who were confidently predicting a recession in 2023, are now hedging their bets.

This year has been extraordinarily different than last year. This time last year stocks were in a bear market. The S&P 500 was down 20% and the NasDaq 100 was down 29.3%. As interest rates increased sharply higher many tech and growth stocks headed significantly lower.

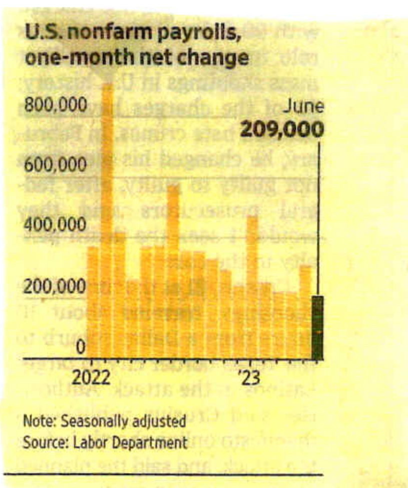
This year, despite a banking crisis, the threat of a US default, the war in the Ukraine, and more interest rate increases, stocks rallied back. For the first 6 months, the S&P 500 gained 16.8% and the Dow Jones average gained 4.4% while the NasDaq soared up 38%. These numbers might fool one into thinking that the actual market is doing quite well, yet the gains have been exceptionally narrow. Let me explain. Eight large tech companies (ie, Apple, Alphabet, Amazon, Netflix, Nvidia, Tesla etc) account for 30% of the index market capitalization. Concentration is high with these 8 stocks contributing most of this years gains. Without these outsized gains of those stocks, returns would be greatly diminished.

Inflation Cooling

"After a punishing stretch of high inflation that eroded consumers purchasing power, the fever is breaking." noted a well known economist, Bill Adams. The chart on the back of this page shows inflation dropping from 9.1% in June 2022 to 3.0% this past June 2023. This is great news for investors as it indicates the Federal Reserve Bank policy, of reducing inflation by raising interest rates is working The FED doesn't want to



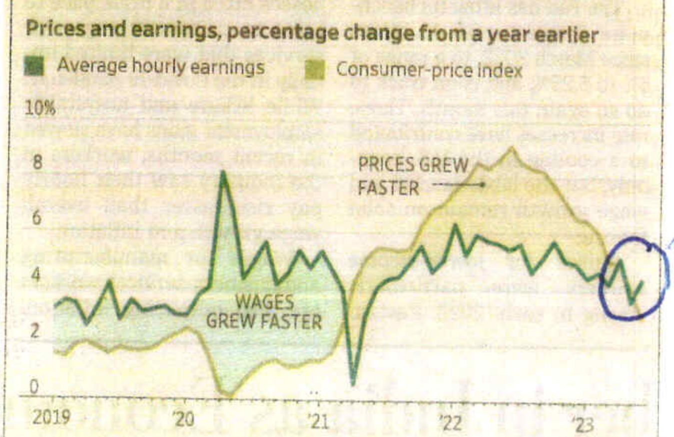
Higher interest rates have slowed the economy down but there is still lots of jobs



◆ **Hiring slowed** in June but wages rose and unemployment fell, likely keeping the Fed on track to raise interest rates later this month to combat inflation. U.S. employers added 209,000 workers, a solid monthly gain but down from May's revised 306,000. **A1, A6**

Pay Raises Outpace Inflation

This was first time in two years that Americans' paychecks surpassed price gains. It provides financial relief to workers, while complicating the Fed's efforts to tame inflation. A2



Note: Data are not seasonally adjusted. Consumer-price index is for urban consumers. Earnings are for employees in the private sector. Figures for May and June 2023 are preliminary.
Source: Labor Department via St. Louis Fed

Wages are up 4% in June from a year earlier and are starting to out pace inflation.

overreact to one positive monthly inflation reading and will want to make sure a meaningful trend is beginning. Federal officials have said they are committed to bringing inflation down to 2% and are expected to raise rates again during their July 25th meeting. It is expected the Federal Funds rate will raise from 5.25 to 5.5%. News articles attached report a slower economy. Worker shortage is also an issue.

One bright spot has been the labor market. Americans are not having a hard time finding new jobs. Surprisingly, wages were increasing faster than inflation in June. Average hourly earnings were up .4% in June and were up overall 4.4% over the last 12 months. The chart on page 2 shows wide variations in inflation between cities indicating a strong business climate and that inflation remains sticky in some sectors.

The hope of a soft landing for the US economy remains plausible. The still tight labor market and resilient consumer give credibility to this theory . However the Fed must guard against over-tightening the monetary reins (ie raising interest rates too high) and further hurting business and consumer loan growth which are essential to expansion.

Asset Allocation

Certificates of deposit currently yield 5.4% per year for a 9 month term. This is the first time in 10 years we have been able to get a decent return on interest income so we are looking to get back to a more traditional 60/40 Portfolio. (ie 60% equities / 40% bonds). This portfolio is less volatile so investors are more likely to stay the course.

Conclusion

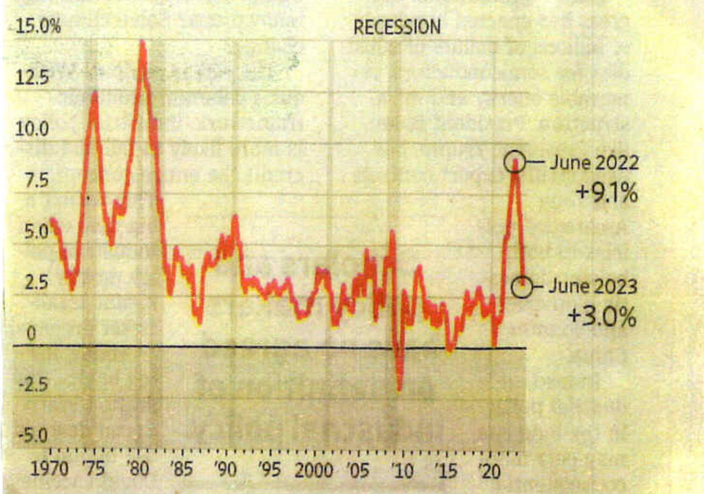
We see inflation easing gradually and economic growth slowing in the U.S. and Europe but not skidding into a recession.. The Fed might resume rate hikes, but we are much closer to the end of the cycle than not. The deficit is down, and jobs and wages are up. The last two are especially important because what typically extends an economic cycle in the U.S. is a healthy consumer. Consumers say they are worried, but they wouldn't be spending so much money on travel and restaurants and Taylor Swift tickets if they were really scared. At some point we'll have a recession, but I don't expect one in 2023 and most likely not in 2024, either.

Charles Schwab merged with TD Ameritrade last year and we will be operating under the Schwab banner starting Sept 5th. The merger has been Meticulously Planned for the past one and half years and no action is required on your part. We expect things to go smoothly and will be in touch.

Once a year I am required by the Security Exchange Commission to offer a copy of my ADV part 2 to our clients. This outlines our company's policies and procedures. I would be happy to mail it out, or even better, come by and explain it to you. In addition, please find attached, the company's privacy policy. **We welcome your calls.**

Kenneth A Gilpin CFP, Sound Investments Inc. 913-908-4366

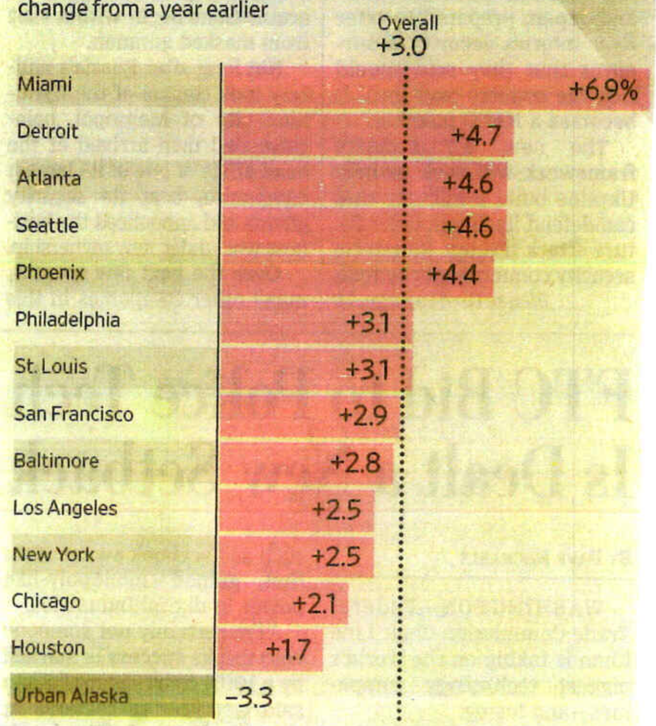
Consumer-price index, change from a year earlier



Source: Labor Department WSJ.

Nationally, Inflation has come down from 9.1% To 3.0 over the Last year.

Consumer-price index in June for select U.S. metro areas, change from a year earlier



Consumer-price index for select items, change from a year earlier

There is a wide variation in inflation across the country. We feel it could Take some more time to tame.

A Red-Hot Market for Warehouse Workers Has Cooled

By Liz Young

Josh Marshall says he could use two more workers on his team in the warehouse operations of a **Bayer** seed-production facility in central Illinois, but the company isn't rushing to raise wages or take other steps to speed along the hiring.

"We're just at the point where we're willing to wait it out," said Marshall, who operates a forklift at the facility. "We've got enough people to kind of get by."

That is a big change from the past three years, when fierce competition for warehouse workers triggered higher starting salaries, hiring bonuses and extra rewards for attendance, with some sites even draping banners across their distribution centers to lure new recruits.

A warehouse hiring spree that made logistics one of the fastest-growing job sectors during the pandemic, as businesses added nearly 700,000 workers in just over two years and increased average hourly pay about 8%, is over. A looser U.S. labor market, a pullback in

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Warehouses have lost more than 41,000 jobs since last June.

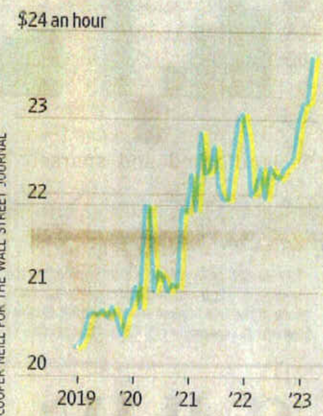
the growth of online sales and economic uncertainty have left many companies choosing to stand pat on hiring as demand for warehousing and logistics services retreats from historic high levels.

"It got bananas," said Dawn Nixon, senior vice president of human resources for the Americas and Asia Pacific at contract-logistics provider **GXO Logistics**. "I think every employer dealt with people that would leave our warehouse and go to the warehouse down the street for 25 cents more an hour."

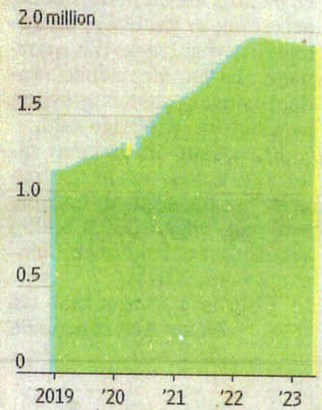
U.S. warehousing employment hit a peak of 1.96 million jobs in June 2022, according to the Bureau of Labor Statistics. Since then, the sector has shed more than 41,000 jobs, according to the BLS seasonally adjusted figures.

Although the number of workers handling goods at

Average hourly earnings for warehouse employees, monthly



Monthly employment in the U.S. warehousing and storage sector



Source: Bureau of Labor Statistics

warehouses and picking and packing online orders at fulfillment centers is still nearly 275,000 jobs ahead of the level of two years ago by the BLS measures, companies say the urgency to hire and to replace workers who leave their jobs has diminished.

"The leverage really felt like it was in the hands of the warehouse employee over the last two and a half or three years, until really the beginning of this year," said John Merris, chief executive of Grapevine, Texas-based **Solo Brands**, which owns portable stove maker Solo Stove and men's apparel seller Chubbies.

Merris said his company offered attendance bonuses in 2021 and 2022 to help retain workers during the critical end-of-year peak season. Merris said he would decide later this year if he will repeat that but says the market is very different now. "This year it started turning to where it felt like there was enough availability that we weren't feeling a pinch around being able to find good workers, quality workers, in the warehouse at the wages that we offer," he said.

Figures suggest the broader U.S. jobs market has remained strong even in the face of rising interest rates and relatively modest economic growth. Workers gained more than 1.5 million jobs in the first five months of the year, boosted in part by resilient consumer spending.

But growth in household spending in May came largely because Americans spent more on services and less on goods, which drive business through distribution and warehousing networks. E-commerce sales, which peaked at 16.5% of overall U.S. retail sales in the middle of 2020, retreated to 15.1% of the market by this year's first quarter.

Retailers and logistics operators have pulled back on supply-chain investments in response in recent months, including closing some warehouses and cutting jobs.

We continue to see a healthy U.S. economy that is growing at a slower pace Brian Moynihan President of Bank of America. July 18 / 2023

Pay Raises Outpace Inflation for First Time in Two Years

BY AMARA OMEOKWE AND MEGAN TAGAMI

WALL STREET JOURNAL
July 10/23.

Americans' growing paychecks surpassed inflation for the first time in two years, providing some financial relief to workers, while complicating the Federal Reserve's efforts to tame price increases.

Inflation-adjusted average hourly wages rose 1.2% in June from a year earlier, according to the Labor Department. That marked the second straight month of seasonally adjusted gains after two years when workers' historically elevated raises were erased by price increases.

If the trend persists, it gives Americans leeway to propel the economy through increased spending, which could help the U.S. skirt a recession. Since estimates this year, economists surveyed by The Wall Street Journal have lowered the probability a recession will start in the next 12 months.

Not adjusting for inflation, private-sector workers' hourly wages were up more than 4% in June from a year earlier. Those gains have eased over the past year but remain enough to outpace inflation this summer. Overall consumer prices in June rose 3% from a year earlier, down sharply from a four-decade high a year prior.

In addition to enjoying solid wage growth, Americans are taking comfort in slower price increases for everyday items— such as gasoline and groceries— that have the biggest influence on their perception of inflation.

Consumer confidence in June reached its highest level since January 2022, the Conference Board said. Americans' assessment of current economic conditions and their outlook for the future improved. Americans are nonetheless anticipating a recession within the next year, the survey found. That is likely because they are aware of the Fed's continuing effort to fight inflation and how that might trigger a broad economic slowdown, Conference Board Chief Economist Dana Peterson said.

The Fed has lifted its benchmark interest rate 10 times since March 2022, to a range of 5% to 5.25%, and is on track to do so again this month. Those rate increases have contributed to a cooling in the U.S. economy, but the labor market and wage growth remain on solid footing.

Raises for lower-income workers were particularly strong in early 2023. Restaurants, hotels and similar businesses hired at a brisk pace to cater to customers eager for services that were limited initially in the Covid-19 pandemic. While leisure and hospitality employment gains have slowed in recent months, workers in the industry saw their hourly pay rise faster than overall wage growth and inflation.

A tight labor market, in which job openings exceed the number of unemployed people looking for work, is a factor propelling sustained wage growth, said Bob Schwartz, a senior economist at Oxford Economics. Workers in recent years had more power to demand raises, but there are signs that trend is cooling.

"As inflation comes down, and that's already happening, wage demands will also abate," Schwartz said. "You'll see the two going together."

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While improved for the past two years, inflation-adjusted wage growth remains below the trend in the five years before the pandemic, said Julia Pollak, chief economist at jobs site ZipRecruiter. There are some other underlying signs of weakness. Weekly wages are rising more slowly because the average number of hours Americans work decreased from last year. Meanwhile, hiring eased this spring.

Sound Investments, Inc.

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We do not disclose any confidential personal information about our customers to anyone except as Required by Law.

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