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SECOND QUARTER MARKET OVERVIEW

Stocks surged in Q2 2023, extending a rally that began nine months ago despite occasional turbulence. The U.S. market excelled: Large-cap US stocks as measured by the Dow Jones and S&P 500 gained 3.97% and 8.74%, respectively. The Russell 2000 small-cap index also grew by 5.21%.

Foreign stocks also experienced growth, albeit at a slightly more modest pace than their US counterparts. The MSCI EAFE large- and small-cap indices grew by 2.95% and 0.58%, respectively.

Alternative assets prospered too. The Russell Micro Cap index rose 5.29%. While the MSCI Emerging Markets index and the Dow Jones U.S. REIT index gained 0.90% and 2.92%, respectively.

Despite positive sentiment, bonds struggled due to high-interest rates, with the Bloomberg Aggregate Bond index falling 0.84%.

Recent gains have helped the market rebound from its Q3 2022 lows. The S&P 500, for example, has risen over 20% since that time and is less than 10% from its January 2022 all-time high.

The Russell 2000 small-cap index has gained 13% over the same period, recovering a substantial portion of its nearly 30% decline experienced in 2021-2022.

As always, predicting the short-term direction of the market remains a tough task to say the least.

TAG Stone CAPITAL INC

Second Quarter **2023**

Navigating the Market's Upward Climb

As we find ourselves at the midpoint of the year, it's an opportune moment to reflect on the long-term journey we've embarked upon together in the realm of investments. The financial landscape has unveiled its latest chapters, and I am pleased to share our insights and observations with you.

After declining sharply for most of 2022, the S&P 500 ended the year at 3,840.

As the new year began, the economic landscape appeared trapped in a precarious situation. There seemed to be two paths forward: one where the Federal Reserve would tighten credit conditions to combat inflation, potentially leading to a recession, and another where the Federal Reserve might choose to ease up, averting a recession but allowing inflation to persist. Both scenarios carried the common expectation of a decline in corporate earnings.

The most recent quarter followed this similar path. It began in the aftermath of the collapse of Silicon Valley Bank, triggering concerns about the stability of the broader banking system. These worries were quickly accompanied by political brinksmanship concerning U.S. government debt. Additionally, broader global worries surfaced, questioning the dollar's status as the world's reserve currency. Extensive media coverage fanned the flames of speculative concerns, igniting a series of "*what if?*" anxieties at every turn.

SELECTED 2023 EQUITY INDICES

	Jun. '23	2nd Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	6.61%	8.74%	16.89%
Russell 2000 Total Return (Small-Cap Stocks)	8.13%	5.21%	8.09%
MSCI EAFE (Developed International Stocks)	4.55%	2.95%	11.67%
MSCI Emerging Markets (International Emerging Stocks)	3.80%	0.90%	4.89%

SELECTED 2023 FIXED INCOME INDICES

	Jun. '23	2nd Qtr.	YTD
Bloomberg U.S. Aggregate (Broad Domestic Bonds)	-0.36%	-0.84%	2.09%
Bloomberg 1-5 Yr. Credit (Short-Term Domestic Bonds)	-0.31%	-0.08%	1.65%
Bloomberg 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	-0.18%	-0.54%	3.05%
Bloomberg U.S. TIPS (Treasury Inflation Protected Securities)	-0.34%	-1.42%	1.87%
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	-0.54%	-0.27%	1.53%

Yet after enduring the unrelenting barrage of both genuine and imagined crises, the S&P 500 closed out the first half of 2023 at 4,450, up 15.9%. As surprising as the first-half rally might have been, it presents an opportune moment to reiterate the timeless wisdom of Peter Lynch: "*The real key to making money in stocks is not to get scared out of them.*"

Against this "gravity-defying" "monster rally," most disciplined investors have been nicely rewarded for following Peter Lynch's advice and sticking with their appropriate investment allocations.

So, let's celebrate the current surge! As you do so, preserve some of this positive energy because it could be a source of grit during future market volatility. Despite the folly of forecasting, financial news media will try to plant fresh seeds of doubt in our fertile minds when the next downturn arrives.

Guided by Enduring Principles

Yet, even if quarterly and year-to-date numbers were not as favorable, we would have still recommended sticking to your carefully crafted, long-term investment strategy. While markets have historically yielded positive returns over time, their fluctuations from one quarter to another remain difficult to predict. This is why we continue to recommend the time-tested principle of staying the course.

At the core of our approach lies the firm conviction that successful investing is a long-term journey rooted in thoughtful planning and broad diversification across many high-quality companies. We remain grounded in following our clients' comprehensive plans rather than being swayed by the tides of current events or market conditions.

We believe that consistent forecasts of the economy and market timing are elusive pursuits. This understanding drives our commitment to weather the storms of periodic market declines, knowing that history shows these setbacks to be temporary. Our enduring principles guide us as we help you strive toward your long-term financial goals.

Remembering a Pioneer

Speaking of long-term investing, let's take a moment to acknowledge recent news that deserves our attention: On June 22, we mourned the passing of a true luminary, Nobel laureate and the Father of Modern Portfolio Theory, Harry Markowitz, who peacefully passed away at the age of 95.

When Markowitz published his seminal work "Portfolio Selection" in the March 1952 *Journal of Finance,* he was a mere 24 years old. He laid the groundwork for asset-class investing with this paper and future works. Some of the wisdom Markowitz imparted on the science of investing includes:

- Assembling a comprehensive portfolio that yields more predictable outcomes than focusing solely on individual securities.
- Constructing investment portfolios from diverse sources of expected returns rather than trying to predict the next big winners or evade future underperformers.
- The power of diversification as a means of risk management instead of futile market-timing strategies.

When Markowitz first started studying investments, these revolutionary insights had yet to materialize. At the time, investing meant handpicking individual stocks with little understanding of how each selection might interact within a broader portfolio. The prevailing approach to managing market risks was rooted in trying to outsmart the unpredictable nature of the market. The concept of gauging overall returns and comparing them against alternative strategies was virtually nonexistent because researchers like Markowitz had not yet analyzed the market data.

Markowitz's intellectual legacy has influenced how trillions of dollars of financial assets are managed today and expanded investors' abilities to handle investment risks. With Markowitz's passing, the journey continues to refine and advance our understanding of managing investment risk and returns.

Your Journey, Our Privilege

In summary, in the first half of 2023, we collectively navigated a microcosm of a successful investing career. That is, amidst universal doubts and pessimism, you did all that could be asked of you—*you didn't get scared out of the stock market*.

Instead, you remained resolute, unwavering in your objectives and long-term strategy, fortified by the belief that the management teams of the companies you invest in diligently safeguarded your capital while actively seeking fresh and potentially more attractive returns for your money.

We echo the sentiments of Fortunes & Frictions author Rubin Miller, CFA, who aptly noted in his article "How Returns Happen:"

> ***"[I]f we don't know which days will be good and which days will be bad, and the stock market goes up over time, the recipe for success is obvious."***

Our approach mirrors this recipe: construct globally diversified, institutional-quality portfolios, endure both prosperous and challenging quarters, and allow returns to manifest in their own time, much like building a "Field of Dreams."

The worrying financial headline events (or nonevents) of the last six months did not matter as much to the stock market as the news media expected. *What mattered was that together we chose not to react to the financial headlines.* Is it possible that a lifetime of patient, disciplined investment success is just that simple? We certainly believe it can be, and we sincerely hope you do too.

As we move forward, remember that our professional privilege lies in serving you, our valued clients. Your trust fuels our dedication, and we stay committed to guiding you toward your financial goals.