CFO CAPITAL MANAGEMENT
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CFO Economic and Financial Market Outlook: July 2023 Update

In our 2023 Q1 report to our investors, we wrote that the global economy remained in a sustained slow-down resulting from restrictive monetary policies, waning fiscal support, persistent high inflation, and elevated geopolitical risks. During Q2, however, global growth has proved to be remarkably resilient with the primary exception of China. It is noteworthy that economic growth in the United States has been stable at a +2% annual rate during the first half of 2023 with the advance estimate for Q2 growth actually surprising to the upside at a +2.4% annual rate. The re-acceleration of growth is a testament to the underlying strength and resilience of the U.S. economy since growth has come on the heels of more than a year of Fed tightening which brought the Fed funds rate to its highest level since 2001 at 5.25%, including the +0.25% increase announced by the Fed yesterday. While a number of recent economic indicators show a diminishing risk of recession in the near term, there are "lagged" consequences of raising interest rates from "0" to 5.25% in just 15 months as clearly illustrated by the two charts found on page two of this report! The top chart shows how M2 money growth has fallen off a cliff, declining -4.6% YOY! The bottom chart illustrates the direction of the Conference Board's Leading Economic Index [LEI]. The chart suggests that the "coast is not at all clear" as the LEI fell again in June by -0.7%, **which was the 15th consecutive month the LEI has declined.** Risks to the growth outlook for the second half of 2023 still loom large: Further tightening in credit conditions; Increasing pressure on consumer spending from depleting excess savings; Slower global growth as well as those risks also mentioned in our opening sentence of this paragraph.

In the CFO team's estimation, the most important risk to growth remains the direction of the Fed's monetary policies. A key point that investors do not seem to understand which Chairman Powell again stressed in his press remarks yesterday: "*We are determined to bring inflation down to our target rate of 2%. We are resolutely committed to that target, and no one should doubt that*." The equity markets are overly complacent that yesterday's rate increase could be the last with a pivot to lowering interest rates, and even before the end of 2023. For market strategists [including both investors and analysts] who watch the Fed and try to anticipate its behavior, they often mistakenly merge [confuse] what they believe the Fed should do with what the Fed will do. The truth is that Powell and the Fed are data dependent, and they simply do <u>not</u> know how many more interest rate hikes will be required, but they have promised to "keep at it until the job is done" and their target of 2% is reached!

We summarize the conclusions for our CFO economic and financial market outlook as follows:

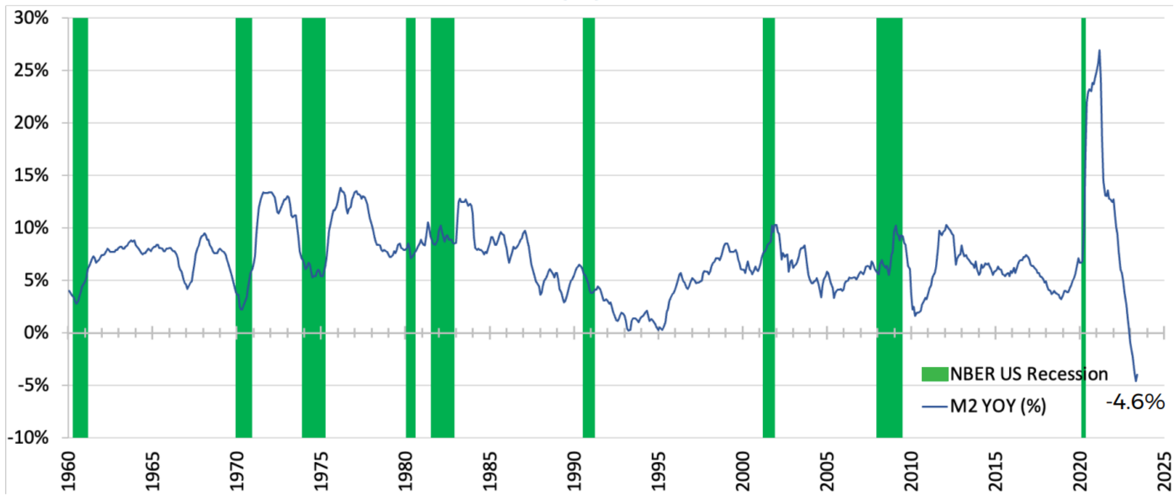
- We expect a mild recession to commence by the end of 2023 or early 2024.
- Inflation remains "sticky" and the Fed interest rate policy will respond by "higher for longer" rates.
- Corporate earnings estimates and stock valuations are too high. Stock risk/ reward is unfavorable.
- Investor Sentiment has moved from bearish to bullish which can be a negative for stock prices.

Given the complicated and uncertain economic and financial market backdrop, investors are facing a challenging and difficult period of time. We think the current macro-economic backdrop warrants investor caution towards the stock/ equity markets. For 2023 to date, our CFO conservative portfolio strategies have proven successful, and we will continue to stay the course of overweighting cash equivalents and certain fixed income investments. We will also continue to underweight our allocations to equities while being very selective with those equity allocations. Please do not hesitate to call us at any time to discuss your investment portfolio strategy.

The CFO Capital Management Team, July 27, 2023

Negative - Declining Money Growth

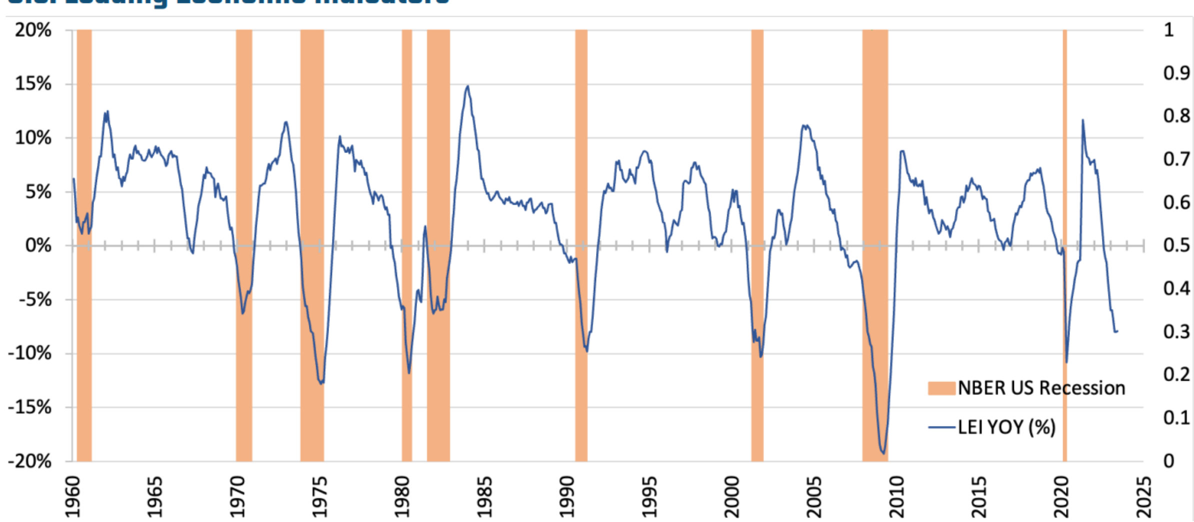
Year-Over-Year Percentage Change In M2 (%)



Source: Bloomberg.

Negative - Leading Economic Indicators

U.S. Leading Economic Indicators



Source: Bloomberg.