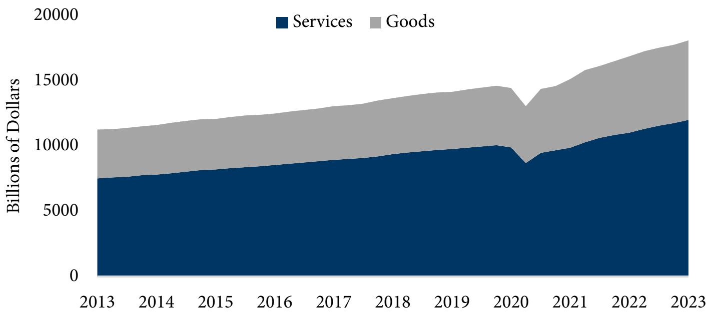
Congress Asset
Management Company, LLP

MAY 2023 ECONOMIC UPDATE

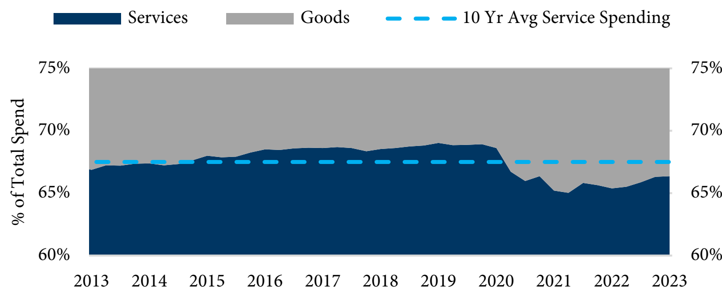
The US economy remains in an expansionary phase, bolstered by consumer spending and strong employment trends. Consumer spending, the main driving force of the economy, continues to be strong. While there is a clear slowdown in demand for goods, which surged during the pandemic, service spending has increased. As long-denied consumers transition to a post-pandemic world, they are finally able to satisfy pent-up demands for services, such as travel and dining, leading to a shift back to more traditional spending patterns.

Consumer Spending is Strong 2013 - 2023



Source: Bureau of Economic Analysis May 2023

Spending Mix Normalizing 2013 - 2023

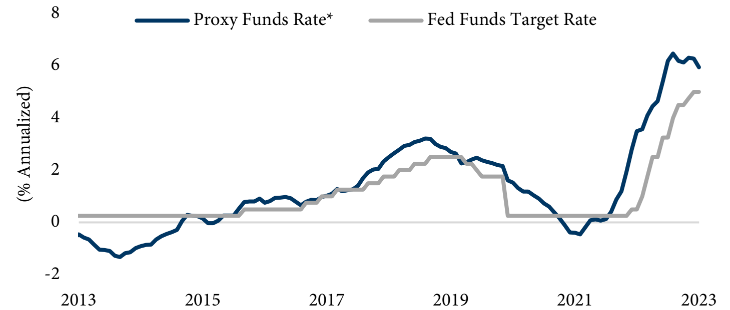


Source: Bureau of Economic Analysis May 2023

A strong labor market is also contributing. Unemployment rates are at their lowest since the 1970s and job creation, though slowing, continues to trend at higher levels than historically observed.

Despite these positive forces, the rate of expansion is slowing. This is in part by design, as the Federal Reserve (Fed) has aggressively raised rates to cool the economy and combat inflation. This also is in part by circumstance - the current bank crisis, partially a result of the Fed's rate campaign, may result in a lending-induced slowdown this year or next. While the quality of bank assets is sound and we do not expect a replay of 2008, the sustained interest rate upswing is forcing banks to look inward and adjust their holdings. Many are realizing investment losses, which may weigh on both their ability and willingness to offer new loans.

Monetary Policy May Be Tighter Than it Appears 2013 - 2023



Source: Federal Reserve Bank of San Francisco, Bloomberg

With the Fed's most recent hike bringing rates to 5.25%, we believe the Fed is likely to pause and assess the impact of its actions. Monetary policy acts with a 6–12-month lag, and we have yet to see the full impact of previous Fed's actions. This pause may be longer than expected as the Fed waits for convincing evidence that inflation has been tamed.

While the prospects for recession are prominent, we believe that investing in high-quality stocks offers the best long-term growth prospects and inflation hedge. Our focus on revenue growth and margin trends, the quality of company balance sheets, and cash flow generation best positions our client's portfolios for enduring success.

For fixed income and balanced portfolios, bonds offer far better income than a year ago. Unlike 2022, bonds should offer better stability in the face of anticipated stock volatility.

Investment Oversight Committee
Daniel A. Lagan, CFA Chief Investment Officer

**Proxy Funds Rate measure uses public and private borrowing rates and spreads to infer the broader stance of monetary policy. When the Federal Open Market Committee uses additional tools, such as forward guidance or changes in the balance sheet, these policy actions affect financial conditions, which the proxy rate translates into an analogous level of the federal funds rate. The proxy rate can be interpreted as indicating what federal funds rate would typically be associated with prevailing financial market conditions if these conditions were driven solely by the funds rate.*

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Congress Asset
Management Company, LLP
2 Seaport Lane Boston MA 02210 800.243.4516 www.congressasset.com