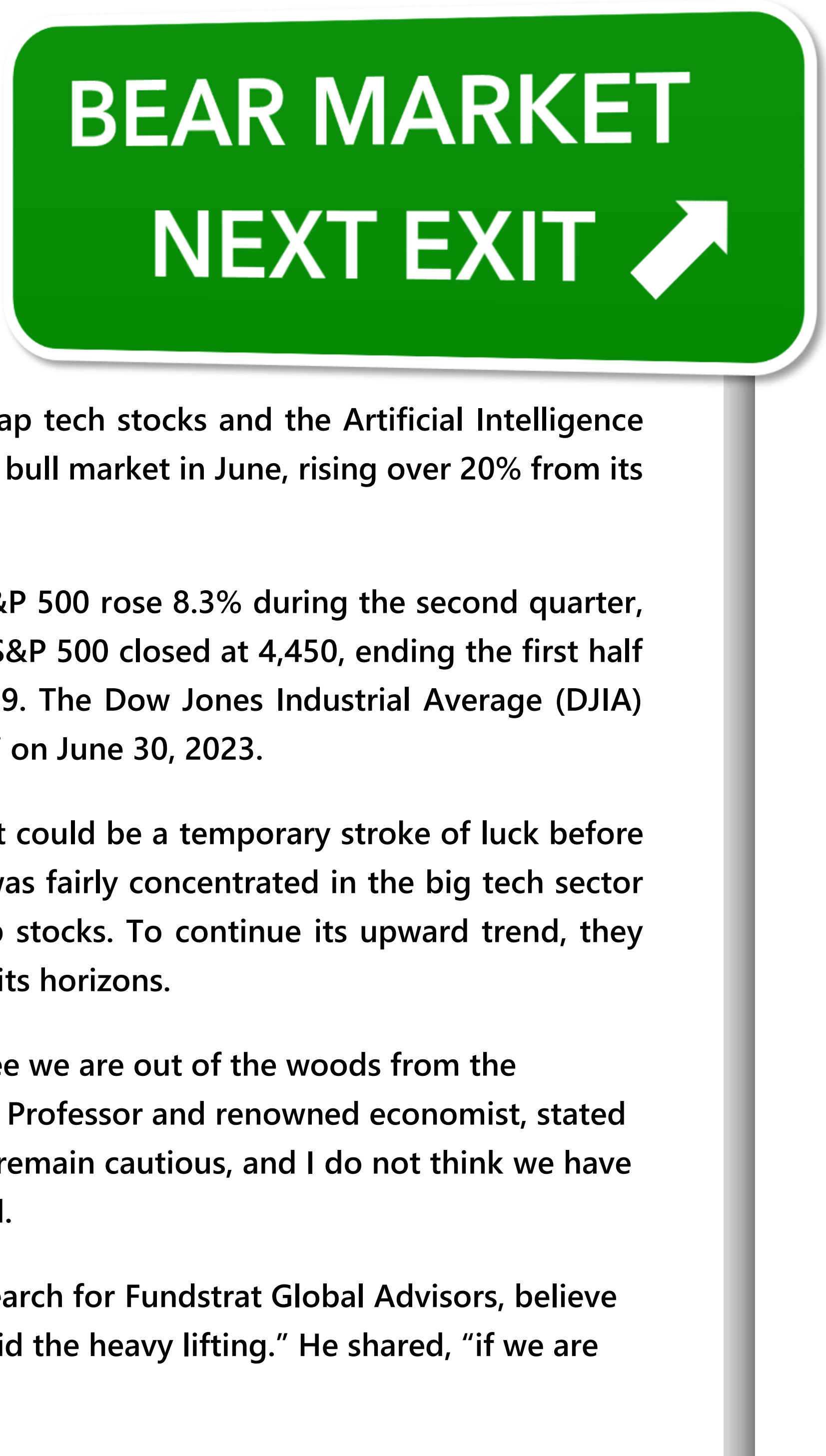
HUGHES FINANCIAL SERVICES, LLC

Q2'23 Economic *update*



The second quarter of 2023 tested even the most seasoned of investors as the U.S. reached a debt ceiling agreement, the Federal Reserve paused their aggressive interest rate hikes, and bank failure fears started to subside. Equity markets continued to defy odds by staying strong, and the major indexes ended the second quarter higher. With the support of mega-cap tech stocks and the Artificial Intelligence (AI) buzz, the S&P 500 officially began a new bull market in June, rising over 20% from its low in October 2022.

Led by a handful of large tech stocks, the S&P 500 rose 8.3% during the second quarter, logging its third straight quarter gains. The S&P 500 closed at 4,450, ending the first half of 2023 up 15.9%, for its best half since 2019. The Dow Jones Industrial Average (DJIA) ended the quarter up 3.4%, closing at 34,407 on June 30, 2023.

Some experts argue the S&P 500 bull market could be a temporary stroke of luck before an impending recession as the recent rally was fairly concentrated in the big tech sector and didn't include most mid- and small-cap stocks. To continue its upward trend, they suggest this rally will likely need to broaden its horizons.

"This recent bull market move is no guarantee we are out of the woods from the downturn," Jeremy Siegel, a Wharton School Professor and renowned economist, stated in his commentary piece for WisdomTree. "I remain cautious, and I do not think we have the start of a major up move here," he added.

However, experts like Tom Lee, Head of Research for Fundstrat Global Advisors, believe stocks are not extended and that big tech "did the heavy lifting." He shared, "if we are

Q2 HIGHLIGHTS

- The Fed raised interest rates in May, but halted rate increases in June, keeping the 5.0 – 5.25% target rate range
- A debt ceiling agreement was made in June, ending a lot of anxiety and a potential economic crisis
- Inflation is continuing to slow down, reaching 5% in May
- Treasury yields are still providing favorable returns
- The S&P 500 officially entered a bull market
- Cash levels are at all-time highs, with money market assets the highest seen in decades
- Volatility in the economic environment remains
- Staying the course and maintaining a well-devised, long-term focused plan has historically served investors well
- We are always here for you to discuss any concerns you may have

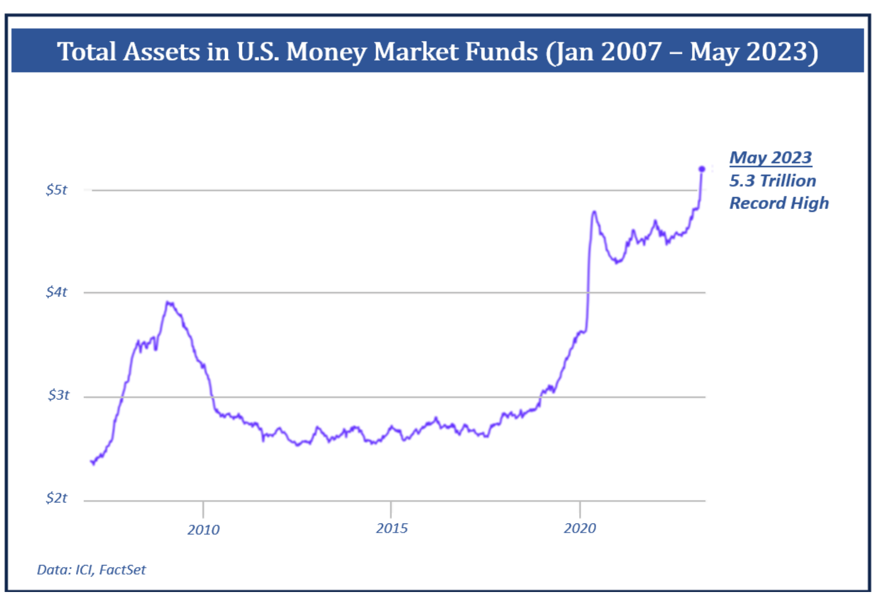
slipping into an expansion, a lot of other groups are going to participate."

While we can speculate and deliberate on what the economy will do, no one has predictive powers and, as the last few years have shown, anything can happen. What we do know is that uncertainty remains a key theme. Just over a year ago, you could borrow at historically low, near zero percent rates. In January 2021, the inflation rate was at 1.4%. Since then, the cost of necessities and living expenses has increased significantly. For example, the average price of a loaf of white bread has increased 23.19% since 2020.

During the quarter, investors faced the possibility of a major U.S. default. A huge sigh of relief across the nation was felt when an agreement was reached, staving off a potentially catastrophic crisis for the U.S. economy. In addition to the June measure suspending the nation's debt ceiling and putting caps on federal spending until January 2025, some other key changes that come from the deal are:

- A reduction in direct spending on domestic programs (not including Social Security and Medicare).
- A reduction in IRS funding. As part of the 2022 Inflation Reduction Action, Congress approved $80 billion for the expansion of the IRS. The agreement pared that number back to reallocate the funds for other areas.
- A small increase in spending (maximum of 1% in 2025) for military and veteran affairs.
- Claw backs of unused COVID-19 funding.
- Expedition of large energy and infrastructure projects.

After the debt ceiling deal, equity markets remained positive. On average, U.S. stock markets have historically risen in the months following an agreement to raise the debt ceiling.



Although the second quarter was kind to investors, this is not the time to become complacent. With political pressures and continuing changes in monetary and fiscal policy, equity market volatility could remain prevalent.

Global issues, including the continuation of the war in Ukraine and the strained China/U.S. relationships could also generate additional uncertainties for investors.

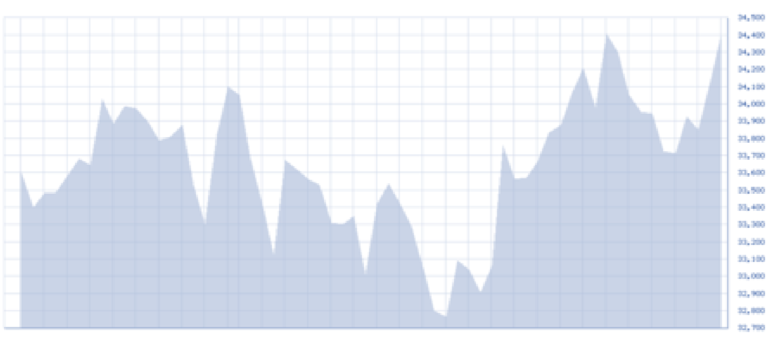
Right now, the saying “cash is king” is resonating with many Americans. Market volatility has spooked many investors into a cash-dominant position. As of May, money market assets are the highest they’ve been in decades. This makes guessing about market moves even more difficult as the high amount of cash currently on the sidelines could change and affect equity pricing. With this, investors should not try to out-guess what the markets will do.

This is a time to concentrate on your personal financial plan. Having a long-term-focused plan that is well diversified can help position you to manage volatility in the markets. We are available to review your investments and make sure they are still congruent with your time horizon, risk tolerance, and goals.

S&P 500 and DJIA Quarter 2 2023

S&P 500 4,450.38 +8.3%

DJIA 34,407.60 +3.4%



MONEY RATES *(as posted in Barron’s 6/26/2023)*

	LATEST WEEK	YR AGO
Fed Funds Rate*	**5.09%**	1.59%
Bank Money Market[z]	**0.32%**	0.09%
12-month Certif[z]	**1.70%**	0.37%

*Z – Bankrate.com; * - Average effective offer*
(Source: Barron’s; bankrate.com)

We continue to abide by our belief that investing is a long-term commitment and can provide a better safety net than short-term trading and investing.

As your financial advisor, we are committed to keeping you apprised of any changes and activity that could directly affect you and your unique situation.

Financial Literacy

We believe an educated client is the BEST client!

In today’s fast-paced and ever-evolving financial environment, it’s important to stay aware of changes that could impact your financial goals. That’s why we frequently send out reports and articles to you because at HFS, clients always come first!

Do you know someone who could benefit from our reports and articles?

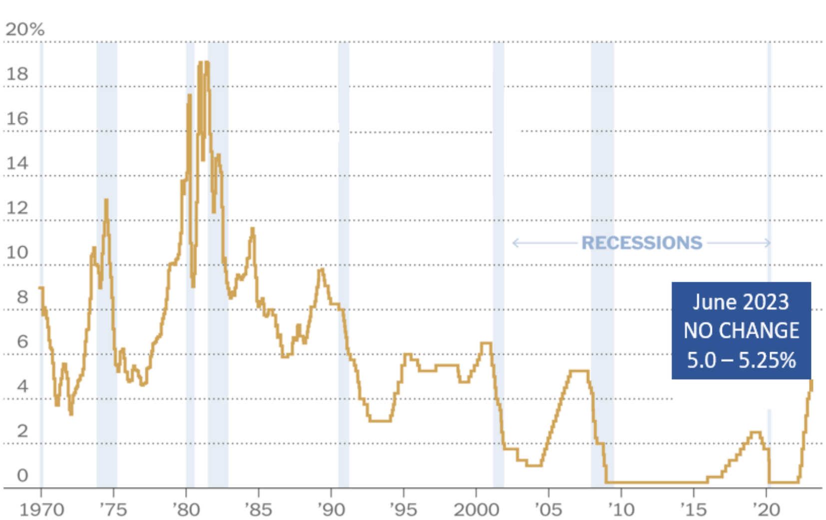
Let us know and we can add them to our mailing list.

INFLATION
INTEREST RATES

In the second quarter, we saw some easing of inflation numbers. In May 2023, prices increased by 4% compared to 8.6% in May 2022, according to the 12-month percentage change in the Consumer Price Index (CPI).

After 10 consecutive interest rate hikes, the Fed took a much-anticipated pause in June in response to slowing inflation. As of June, the Federal Funds target rate range is 5.0 – 5.25%.

Federal Funds Target Rate Range (1970 – June 2023)



The bad news is that the Fed has made it very clear that future hikes are still a high probability. While inflation is more moderate than it was 12 months ago, it remains relentless with inflation pressures continuing to put a strain on the economy. Speaking to the Senate Committee in mid-June, Chairperson Jerome Powell repeated that interest rate hikes are likely to continue at least one more time, if not two, in 2023, indicating we could see another half percentage point of increases through the end of this year.

"If you look at the data over the last quarter, what you see is stronger than expected growth, a tighter than expected labor market, and higher than expected inflation," said Powell. He continued, "So that tells us that although policy is restrictive, it may not be restrictive enough and it has not been restricted for long enough. He stated, "We believe there's more restriction coming" due to a "very strong labor market."

The Fed will continue to work toward its' 2% inflation rate goal during the four more FOMC meetings in July, September, October/November, and December of 2023. "It's going to take some time. Inflation has proven to be more persistent than we expected and not less," Powell said. "Of course, if that day comes when that turns around, that'll be great. But we don't expect that."

Investors seeking returns from Certificate of Deposits (CDs) and saving accounts are currently benefiting from this interest rate environment. For almost a decade there was very little return on these types of investments, but it's now not unusual to see some banks offering CDs with yields over 4%.

Like all aspects of financial planning that may affect you, we are keeping a vigilant eye on interest rates and inflation. If you'd like to know how these may impact your portfolio, contact us to discuss any strategies that may help combat the effect on your personal situation. While we cannot predict what the Fed's next move will be, we are keeping a watchful eye on key economic indicators.

As your financial advisor, we are committed to keeping a vigilant eye on all aspects of financial planning that may affect you, including interest rates and inflation. If you'd like to know how these may affect your portfolio, please contact us to discuss any strategies that may help combat the effect on your personal situation.

The Bond Market & Treasury Yields

In early 2022, most treasuries yielded at near record lows. In contrast, today's investor can now earn some interest from bond yields. In response to a few bank failures in early 2023, investors leaned into treasuries in very large numbers.

All in all, the second quarter of 2023 was mixed for bonds. While treasuries yield favorable returns in this high interest rate environment, a potential easing up of or reversal in interest rates would narrow the opportunities to quickly get lower risk, higher yielding bonds. For now, the Fed has signaled more potential interest rate hikes, meaning higher short-term rates could remain at or above current levels.

As of June 30th, 5-year Treasury notes yielded 4.13%, 10-year notes yielded 3.81%, 20-year notes yielded 4.06%, and 30-year notes reached 3.85%.

TREASURY YIELDS COMPARISON

	5-Year	10-Year	20-Year	30-Year
Jan 3, 2023	3.94	3.89	4.06	3.88
June 30, 2023	4.13	3.81	4.06	3.85

Traditionally, longer-term bonds have higher yields than shorter-term bonds, but this is not always the case. Since April 2022, we have experienced an inverted yield curve in which longer maturities offer a lower yield than some shorter maturities. Some analysts have said this historically is a strong indicator of a pending recession in the next several months. However, before determining if a recession is imminent or even coming, keep in mind that there are other factors to be considered, including job reports, wage growth, and inflation.

Would you like to explore how bonds may fit into your retirement income strategy? Contact us so we can help you make the best decision for your portfolio. Portfolio diversification can help you pursue your goals but doesn't ensure a profit or guarantee against loss.

We will continue to monitor how the Fed's movements and rising interest rates are affecting bond yields.

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In May, HFS team members traveled to Las Vegas for the Academy of Preferred Financial Advisors (APFA) conference. APFA provides timely education and training in topics that can impact our clients. We also enjoyed team bonding during some delicious dinners and at the Beatles LOVE Cirque du Soleil show.

WEDDING BELLS! We're so happy to announce **BERKELEY MEREDITH** wed his lovely bride, **KAITLYN MCCURDY**, in May during a beautiful ceremony and reception in Rocky Mount, Virginia. We are so happy for the couple and wish them the very best!

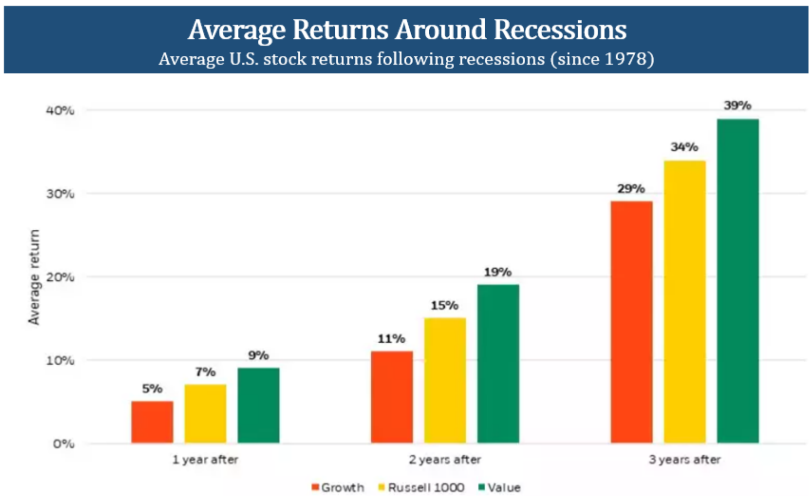
NEXT STEP … COLLEGE! In June, **SCOTT** and **MELISSA HUGHES'** daughter, Emily, and **JO ANN** and **RANDY WEINHARDT'S** son, Thomas, celebrated their high school graduations. In the fall, Emily will be attending the College of Charleston and Thomas will be attending the Stevens Institute of Technology. We wish them both the best in their academic endeavors.

INVESTOR OUTLOOK

There's talk in financial circles about the possibility that the U.S. will experience a recession in 2023. According to the New York Fed, the U.S. has a 70% chance of falling into a recession by May of 2024. Obviously, no one can completely tell for sure if this will happen, and if so, at what level of severity.

When asked about the possibility of a recession during the monetary policy session in June, Chair Powell stated, "There's a significant possibility that there will be a downturn," adding that it's not "the most likely case, but it's certainly possible."

Just like downturns, recessions are not a new concept. The S&P 500 has weathered 17 recessions in the last century and never failed to recoup its losses. Please keep in mind that the S&P 500 historically starts to rebound BEFORE the end of a recession, which makes market timing a very poor investment strategy.



The National Data of Economic Research (NBER) recorded the average S&P 500 recovery is almost +40% in the 18 months following the market bottom during a recession. For example, the December 2007 – June 2009 recession in which the GDP went down 5.10%, the S&P 500 rebounded 14.4% after 12 months, 57.70% in the rebound's third year, and 137% in the fifth year following.

Instead of trying to predict whether a recession may happen, we suggest you proactively plan to have your financial plan set up to best weather anything the economy may throw at you. The past few years have taught investors that it's better practice to expect the unexpected.

Should the U.S. experience a recession, it would be wise to remain financially liquid to ensure your ability to meet your financial obligations. You should also try to anticipate any large cash commitments including funding a wedding, purchasing a home, or buying a recreational vehicle.

There's a strong possibility the Fed will increase rates by a half percent by the end of 2023. Many analysts are suggesting it will be done with two quarter point increases in 2023's second half. While this will clearly depend on the data the Fed receives, current reports show that we are past the inflation peak and closer to the end of the Fed hiking cycle. However, do not be surprised by a few more rate hikes.

Heading into the third quarter, we will continue to keep an eye on inflation rates, economic growth data, and monetary policy moves. Since the conclusion of the debt crisis, we're hopeful this upcoming quarter will bring less surprises and cliffhangers.

Our goal as your financial advisor is to not predict the future but provide you with a solid financial plan that is designed to best weather any market environment. While past performance is not a guarantee of current or future results, history shows us that returns from equities after a recession have been fruitful.

We stand by our belief that investing in equities is a long-term commitment. Investors can expect to continue to face a challenging market environment and the need to look at long-term stability and quality, practice patience, and proceed with caution – all key to your financial success.

We know that loss aversion can be a powerful motivator for investors to back out of equities during uncertain times. However, we have found, historically, investors with a long-term plan who stayed the course and remained diversified and invested were rewarded. We believe this still holds true for today's investors.

Savvy investors have a long-term mindset and well-devised and diversified financial plans.

The coming months could be filled with uncertainty and more market volatility. A few tips to help you through uncertain times are:

- Keep your head down and do not make decisions based solely on what you hear from the media. It seems like much of the "news" no longer informs the viewer, but rather incites fear. Media magnification can cause anxiety and push investors to make emotionally charged decisions, which typically are not the wisest.

- It is always sound judgement to live within your means and not incur any more debt than necessary. During uncertain economic times and a higher interest rate environment, it is even smarter to pay down your debt and try not to incur any more.

- If possible, continue to add to your savings. Staying consistent with contributions will help you achieve your savings goals. There are currently reasonable returns on many Certificates of Deposits (CDs) and savings accounts. If you'd like to discuss if these are good options for your situation, please call us.

- If you need to, review your financial plan with us.

Our goal as the steward of your wealth is to help you through uncertain times like these. We always attempt to help you create a well-crafted plan customized for your unique situation and goals that takes into consideration how you will react to equity market ups and downs, your time horizon, tax implications, liquidity needs, risk tolerance, and your overall personal objectives.

We take pride on offering our clients first class service that includes:

- A proactive, individually tailored approach to each client's financial goals and needs.

- Consistent and meaningful communications throughout the year.

- A schedule of regular client meetings.

- Continuing education for all our team members on issues that may affect our clients.

- Proactive planning to navigate the changing economic and tax environment.

We always recommend discussing with us any changes, concerns, or ideas that you may have prior to making any financial decisions so we can help you determine your best strategy. There are often other factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.

Please remember that as a valued client, we are accessible to you! Feel free to contact us with any concerns or questions you may have.

We are honored and appreciate the trust and confidence you place in our firm.

Your ultimate success or failure will depend on your ability to ignore the worries of the world long enough to allow your investments to succeed.

PETER LYNCH
Investor, Fund Manager & Author

HUGHES FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families in or near retirement to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- tax planning
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services proudly hold a variety of professional designations and certifications including the prestigious Certified Financial Planner™ (CFP®) certification and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the United States.

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