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Second Quarter 2023 Update and Commentary

Generating safe returns for our clients is the primary goal at Eliot Finkel Investment Counsel. Successful investing requires patience and a long investment horizon. Our patience and focus on safety combined with our attention to economics, detailed company evaluations and 49 years of experience and in-house research, continue to provide superior results. This, plus the personal service we provide, explains why our clients have been with us, on average, over 18 years.

Successful investing is best measured over the long-term. Since the dot com bubble broke in 2000, we have generated 7% annual returns for our clients, outperforming both the S&P 500 (5%) and tech heavy Nasdaq (5%). An investment with us in March 2000 would now be worth 68% more than an equal investment in the S&P 500.

Since January 2022, the S&P 500 has dropped 7% while the Nasdaq has dropped 12% due to the bear market last year. The portfolios we manage are unchanged during that time, further evidence of the safety we provide. The best investment managers minimize the impact of bear markets which punish long-term performance.

The Federal Reserve has two competing goals to address – 2% inflation and low unemployment. To combat inflation, the Fed has raised interest rates 5% since March 2022, the largest set of increases in over 40 years. Controlling inflationary expectations is essential for the long-term health of the economy.

Major factors driving inflation today are the low unemployment rate (3.7%) and large number of unfilled job openings (10.1 million). Preventing a wage-price spiral is necessary to controlling inflation and the damage it causes. Other factors driving inflation include the cost of minimizing climate change, securing supply chains and increasing defense spending to deal with Russia and China. The benefits of the added spending will be a healthier, safer, and more sustainable economic future.

Meanwhile, the stock market had a good, though narrow, first half focused on the potential of AI (Artificial Intelligence) and technology. The seven largest companies in the S&P 500 (Amazon, Apple, Facebook (Meta), Google (Alphabet), Microsoft, Nvidia and Tesla) accounted for 90% of the gains. The seven are richly priced with an average Price/Earnings Ratio over 100, valuations which will be difficult to sustain.

The remaining 493 companies averaged gains of less than 2%. The broader market is more concerned about the impact of inflation and higher interest rates, the banking system, the slowdown in manufacturing, and the less than expected growth from post-Covid China.

Meanwhile, the Fed's determination to control inflation is showing results. Supply chain issues, manufacturing output, real estate prices and job openings are all moderating. Economic cycles are inevitable, but we appear well prepared for a slowdown and the Fed is committed to minimizing the long-term damage.

Thank you for your interest. For more information please call 310-271-2521 or visit our website at efinvest.com.

* Past performance is no guarantee of future results and does not preclude the possibility of loss.