MACRO & MARKET
PERSPECTIVES

3RD QUARTER PREDICTIONS
A FIRST LOOK

SPECIAL REPORTS:
CURRENT ECONOMIC IMPACT ON HOUSEHOLDS & BUSINESS OWNERS

FACING HEADWINDS:
CREDIT CLOUDS, MONEY SUPPLY & MORE

FACING TAILWINDS:
HOW LONG WILL THIS EQUITY MARKET MOMENTUM CONTINUE?

OAKWORTH CAPITAL BANK

2Q

ECONOMIC OUTLOOK & OVERVIEW

TABLE OF CONTENTS

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A letter from our

CHIEF ECONOMIST

After a tumultuous start to the year, the 2nd quarter of 2023 occasionally felt like a collective sigh of relief. Unfortunately, it often felt like déjà vu all over again, too. In its entirety, this past quarter was arguably a little less bumpy than the 1st, but still a bouncy ride.

The news that caused the greatest angst, gnashing of teeth and wringing of hands was the theater surrounding the debt ceiling.

That Washington would eventually come to some sort of compromise was a foregone conclusion, or should have been. After all, the global economy would come to a screeching halt if the U.S. Treasury were to default on its debt.

Essentially, economic reality trumps political rhetoric, as it should.

Other than that, the bank woes from the start of the year faded to the back pages but are still an issue. The war in Ukraine is over a year old, and the Unites States hasn't been sucked into the quagmire like most initially feared. Headline inflation numbers have been heading in the right direction, but prices still remain high at the grocery. The Federal Reserve probably isn't completely done raising rates, but is much closer to the end than the beginning.

In essence, a lot of the bricks in our proverbial wall of worry didn't seem quite as worrisome this past quarter.

By the time the dust settled, the smoke cleared and the cows came home, investors mostly made money during the 2nd quarter. This even though not all that much fundamentally changed. Regardless, as we all know, making money is basically the name of the game.

So, as we start the 3rd quarter of 2023, let me recap:

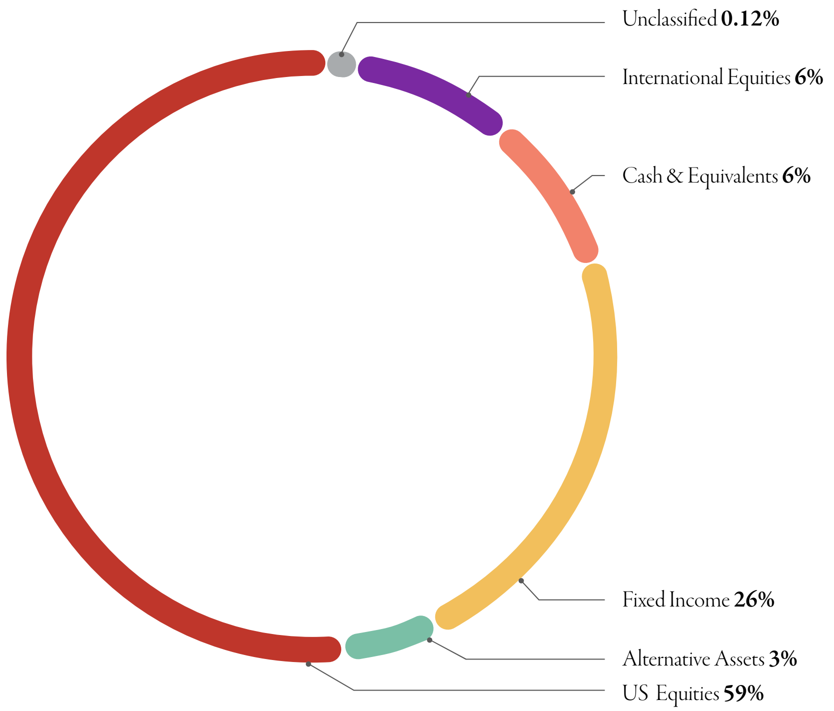
- The economy is doing better than it probably should be.
- The labor market remains strangely tight.
- On the other hand, the yield curve remains inverted.
- Banks are slowing down the extension of credit.

However, all told, it appears as though that worst-case scenario, a return to 2008, isn't going to happen. I suppose that alone is enough to make people feel a little bit better about things.

Thank you for your continued support,

John Norris
Chief Economist

Our Investment Committee distributes information on a regular basis to better inform our clients about pending investment decisions, the current state of the economy, and our forecasts for the economy and financial markets. Oakworth Capital currently advises on approximately $1.9 billion in client assets. The allocation breakdown is in the chart below:



SAM CLEMENT

Portfolio Manager

RYAN BERNAL

Analyst

2ND QUARTER

KEY TAKEAWAYS

INVESTOR OUTLOOK

Despite higher interest rates and tepid economic activity, investors began to realize the worst-case scenario likely wasn't going to happen. In fact, some sectors of the U.S. economy continued to demonstrate surprising resilience.

PRICE-TO-EARNINGS RATIO

By the end of the quarter, the price-to-earnings ratio had gotten close to, and even exceeded, 20x trailing earnings. As such, stocks were by no means cheap. However, there is an underlying sentiment the markets want to go higher, whether it makes sense or not.

FIXED INCOME

Despite higher rates, which should make bonds more attractive, investors have yet to jump back into fixed income securities. After all, is a U.S. 10-Year Treasury note trading for less than 4.0% really all that attractive when Washington is over $32 trillion in debt?

THE DEBT CEILING

The debt ceiling imbroglio provided plenty of drama – but little substance. Instead of the accumulated debt growing by an estimated $19.9 trillion over the next decade, maybe it will grow by $17-18 trillion instead. You see, Washington budgets much differently than the rest of us.

ARTIFICIAL INTELLIGENCE

Artificial Intelligence (AI) was all the rage during 2nd quarter. Many are concerned AI will eventually make human workers, and eventually our species, redundant. While it will change our lives and how we conduct business, those who don't learn to adapt to and learn from AI will be the most fungible.

GAS STOVES

Although Americans clearly want Washington out of their kitchens, politicians at the state and local levels continue to push for banning gas stoves (and ultimately other appliances). Although most studies suggest unvented space heaters as the proximate cause of most carbon monoxide poisonings in the home, that isn't stopping the charge against your stove.

BANK FAILURES

Despite continued turmoil in the bond markets, investors appear to have forgotten about the banking woes from the 1st quarter. It remains to be seen how long this will last.

MASS SHOOTING EPIDEMIC

Through June 18, according to Wikipedia, there had been 176 'mass shootings' in the United States during the 2nd quarter of 2023. These resulted in 194 known fatalities and another 792 injuries. Unfortunately, Americans have become almost desensitized to these horrible occurrences. This is obviously not a characteristic of a society in ascendency.

INFLATION

As advertised, the headline inflation indices all fell during the quarter. The most often-used 12-month Consumer Price Index (CPI) fell from 6.0% in February to 4.0% in May. While a big drop, the so-called core CPI, (food and energy for example) barely budged from 5.5% in February to 5.3% in May.

THE FEDERAL RESERVE

As a result, the Street ended the quarter believing the Federal Reserve will hike the overnight rate another 25 basis points (0.25%) before September 30. Further, investors no longer believe the Fed will be aggressively cutting rates by the end of the year. If current predictions hold true, the overnight rate will end the year where it ended the 2nd quarter, at 5.25%.

CHINA

That the People's Republic of China is the biggest threat to the United States' global hegemony is a foregone conclusion. What Washington intends to do about it is still anyone's best guess. Beijing views the world in decades and centuries. We tend to view by political election cycles.

LABOR MARKETS

Although the official unemployment rate ticked up slightly during the quarter to 3.7% in May, the labor markets remain very tight. Employers are still having a hard time finding qualified workers, and continue to add headcount despite tepid economic activity.

MONEY SUPPLY

As defined by M2, the money supply continues to fall. Further, loans & leases on the books of commercial banks in the United States appeared to hit a brick wall by the end of June. Combined, this suggests the economy should be somewhat choppy during the 3rd quarter. It won't be dreadful, just choppy. However, we have gotten used to that by now.

ECONOMIC OVERVIEW

John Norris

Predicting future economic activity involves little more than digesting a massive amount of economic data, playing the odds and coming to a conclusion. Ordinarily, this is pretty easy to do. As I have told countless people in my career, the U.S. economy is like a massive aircraft carrier in the middle of the Pacific Ocean.

It doesn't just start and stop on a dime.

As such, if the data is moving in one direction, it is safe to assume it will continue to do so, especially when the data is trending in a consistent and sustainable manner. Simply stated, if the economy is chugging along at 2%, and the data hasn't changed much, you can predict continued economic growth in the 2% range, plus or minus 0.25%.

However, the data has been confounding over the past several years. It has made crystal balls, tea leaves and the old way of doing things nearly obsolete.

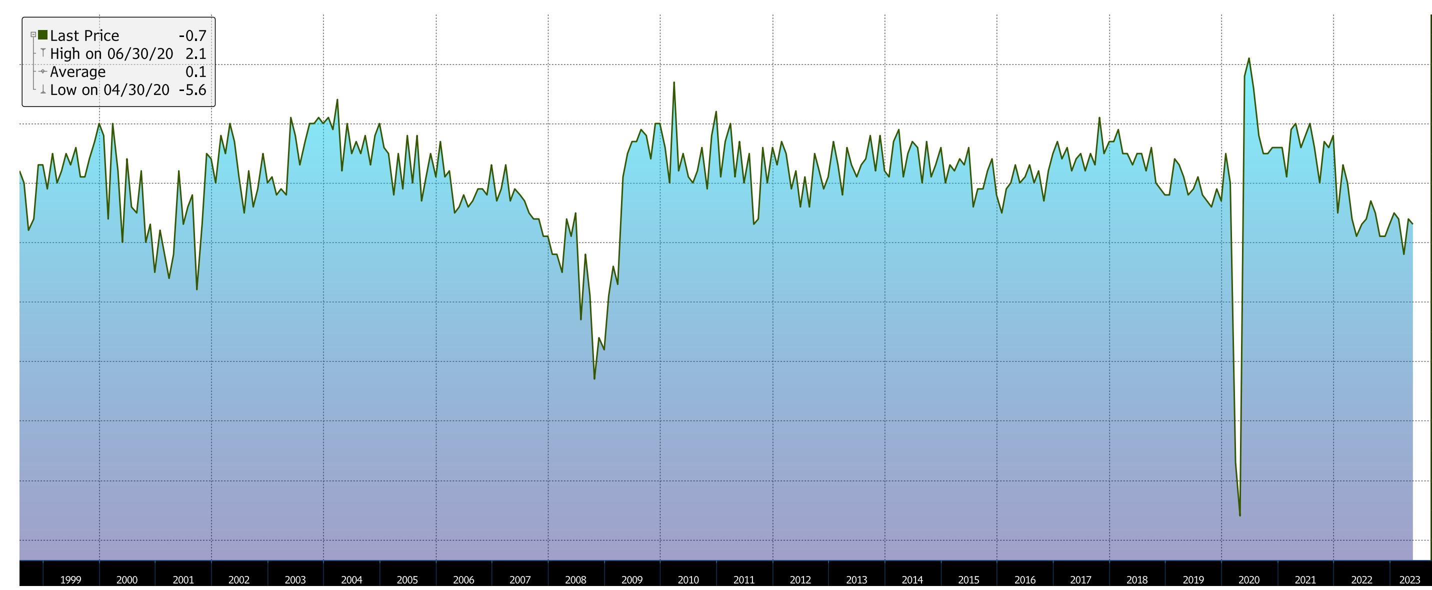
HOW CAN YOU PREDICT THE FUTURE WHEN THE PRESENT DOESN'T MAKE A LOT OF SENSE?

As I type here at the end of the 2nd quarter of 2023, I could probably make a more coherent argument for an economic downturn than I could continued growth. If you paid me enough, I could even make a pretty solid case for severe economic distress moving forward.

LEADING ECONOMIC INDEX

After all, the Conference Board's Leading Economic Index (LEI) has been negative for 14 consecutive months through May 2023. Admittedly, the LEI isn't a household term, but it tracks important data. Things like slope of the yield curve, stock prices, ISM Index of New Orders, building permits for private housing, Leading Credit Index and a number of others.

THE LEI DOESN'T LIE, DOES IT?



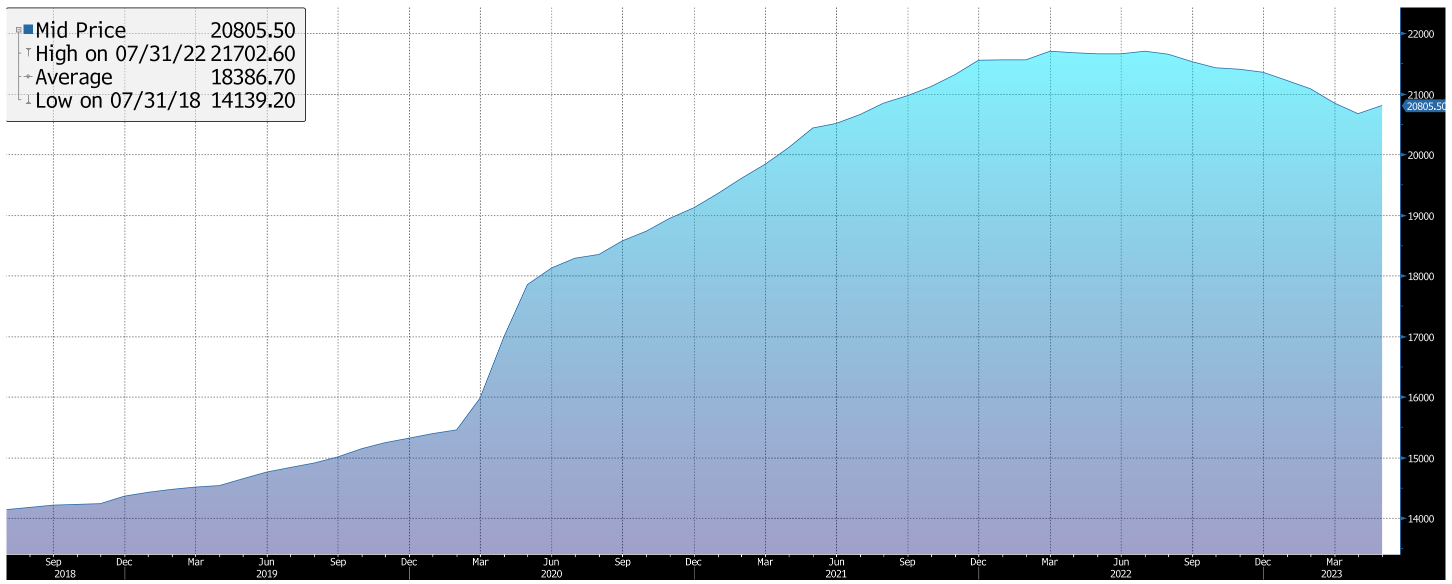
Source: Bloomberg Financial

So, when this series is in the red for over a year, folks who do what I do for a living tend to take notice. As you can see in the chart, the only other times when the LEI has been negative for an extended time frame (such as now) were official recessions. These were during the Financial Crisis of 2008-2009 and the relatively mild economic downturn we had at the start of the century (2001).

THE MONEY SUPPLY

Then, there is the question of the money supply. Simply put, it is shrinking (see chart next page).

THE SHRINKING MONEY SUPPLY (M2) IN THE UNITED STATES



Source: Bloomberg Financial

To be sure, the slope doesn't appear too alarming in the graph. **However, shrinkage in the money supply over a trailing 12-month time frame isn't normal.** In fact, it is very abnormal. So much so that it hasn't happened since 1959. Currently, through the end of May 2023, some $860 billion seems to have vanished from the U.S. economy over the last year.

So, what does this all mean?

LOAN ACTIVITY

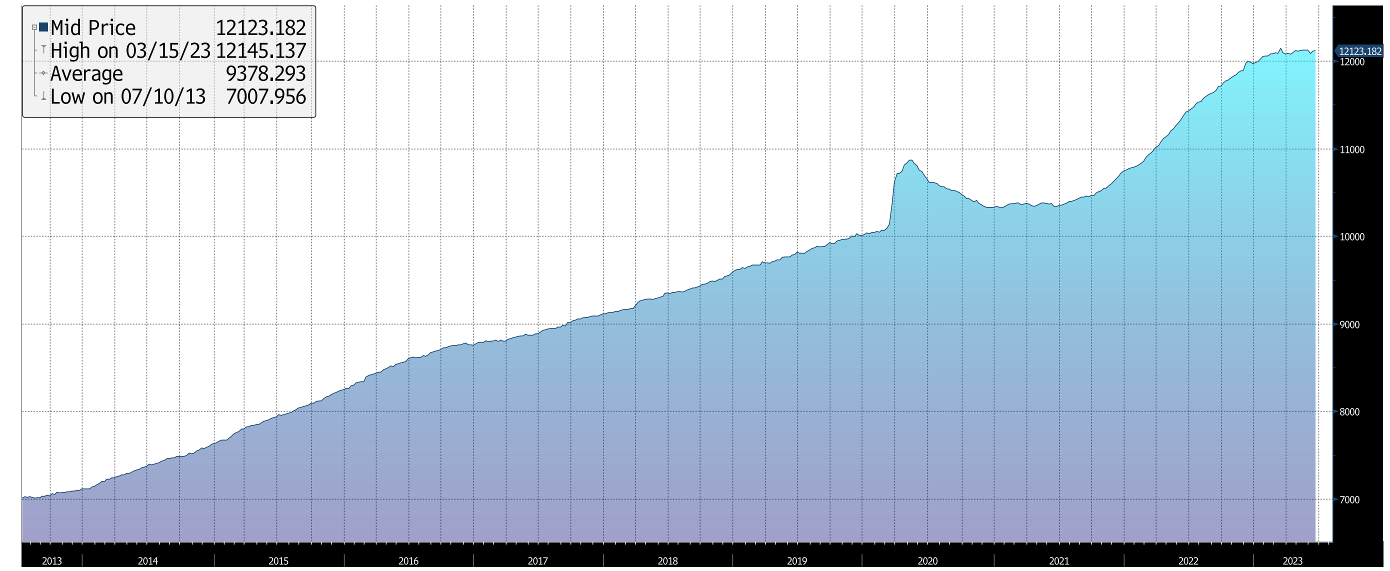
Well, it could mean investors have taken money out of their deposit accounts and purchased treasury bills. Frankly, that wouldn't be a bad thing.

> However, it could also mean banks simply aren't lending money the way they were. After all, and believe it or not, that is how the financial system creates money, by lending it out.

How? Well, banks take in deposits and make loans. We all know that, right? However, banks still give depositors access to their money. As such, both sides are, or can, use it, essentially doubling it (in a way).

So, what are banks doing? Are they still lending money?

STAGNANT LOAN GROWTH IN THE UNITED STATES



Source: Bloomberg Financial

This chart tracks all the loans and leases in bank credit on bank balance sheets across the United States.

→ *If you really want to track this at home, the Federal Reserve releases this data every Friday in its H.8 Report.*

While the graph above doesn't look too concerning to the naked eye, again, folks who do what I do for a living take notice. Reason being? It has been essentially flat since the beginning of the year.

Let's just say banks usually don't pull in the reins when things are going along smoothly. When they can make a decent spread on a credit, they will do so.

> It isn't terribly complicated. Borrow low, lend high, and repeat. If there isn't any repeat, it means banks aren't making the same spread OR are worried about the credit worthiness of their counterparties.

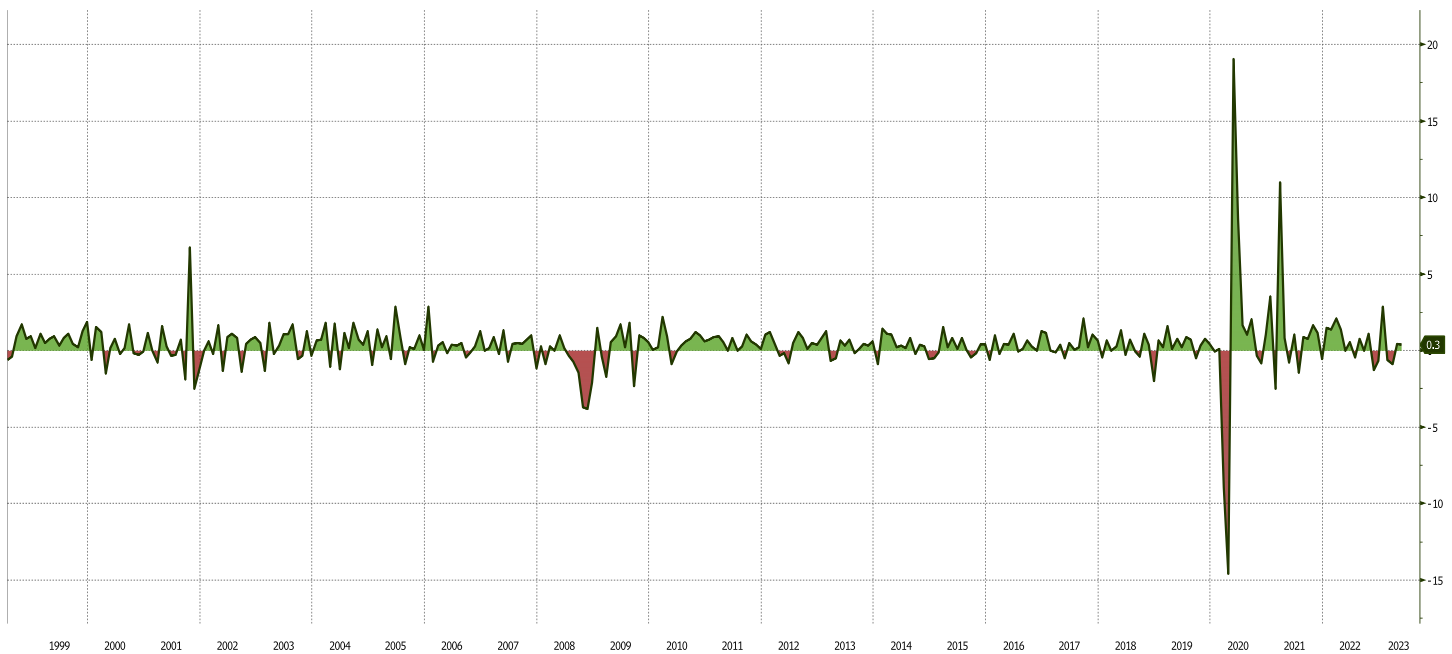
Either way, this points to slower economic activity moving forward. The key word there is *slower*. That doesn't necessarily mean non-existent. In fact, the path of least resistance is to predict the economy will continue to grow, albeit relatively slowly.

After all, you simply can't ignore everything I have covered until this point.

CONSMER SPENDING

Interestingly, despite higher prices (inflation) over the past 18 months and higher borrowing costs, the U.S. consumer has been defying the odds. By no means has it been going gangbusters, however, personal consumption expenditures (PCE) have been just enough to keep the economy from slumping worse than it is.

REAL ADVANCE RETAIL SALES



Source: Bloomberg Financial

Did you see anything unusual in this chart other than the sharp spikes during the pandemic and the other pronounced dip in 2008 and 2009? I have been doing this a long time, and I am having a hard time looking at it and coming up with anything better than: "Well, it looks as though the U.S. consumer is hanging in there decently enough. It looks almost normal, really." If I had to describe this chart as fish or fowl, I would say it was neither.

But how can this be? Again, inflation the way it has been and higher borrowing costs across the board should be anchors on PCE. Yet they don't seem to have been, at least not to any sort of Doomsday scenario.

LABOR MARKETS

This doesn't make a lot of sense until you look at what is happening in the labor markets. If you want unusual, that is a good place to start. Let's just say, despite all of the headwinds in the U.S economy and sluggish GDP reports, employers still can't find enough workers.

It seems no matter where you look, there simply aren't enough hourly workers. If not just hourly, there aren't enough people who want to stock shelves, root around crawlspaces, fix and/or install HVAC equipment, drive delivery trucks, unclog pipes, operate forklifts, flip burgers and a host of other jobs.

While technology and AI might eventually make yours truly redundant (if they haven't already) some jobs will need humans for a while longer. If you know where they are hiding, you could make a lot of money as a recruiter.

The underlying reason for this shortage is twofold. First, during the worst of the pandemic, a lot of workers over age 55 retired, dropped out of the workforce, hit the bricks or whatever you want to call it. Ordinarily, this wouldn't be a bad thing; it wasn't for a lot of people. After all, as older workers opt out, younger ones take their positions.

It is a virtuous cycle. That is until there aren't enough people coming into the workforce to take the entry level and hourly work left behind as workers advance up the ladder.

Consider the following:

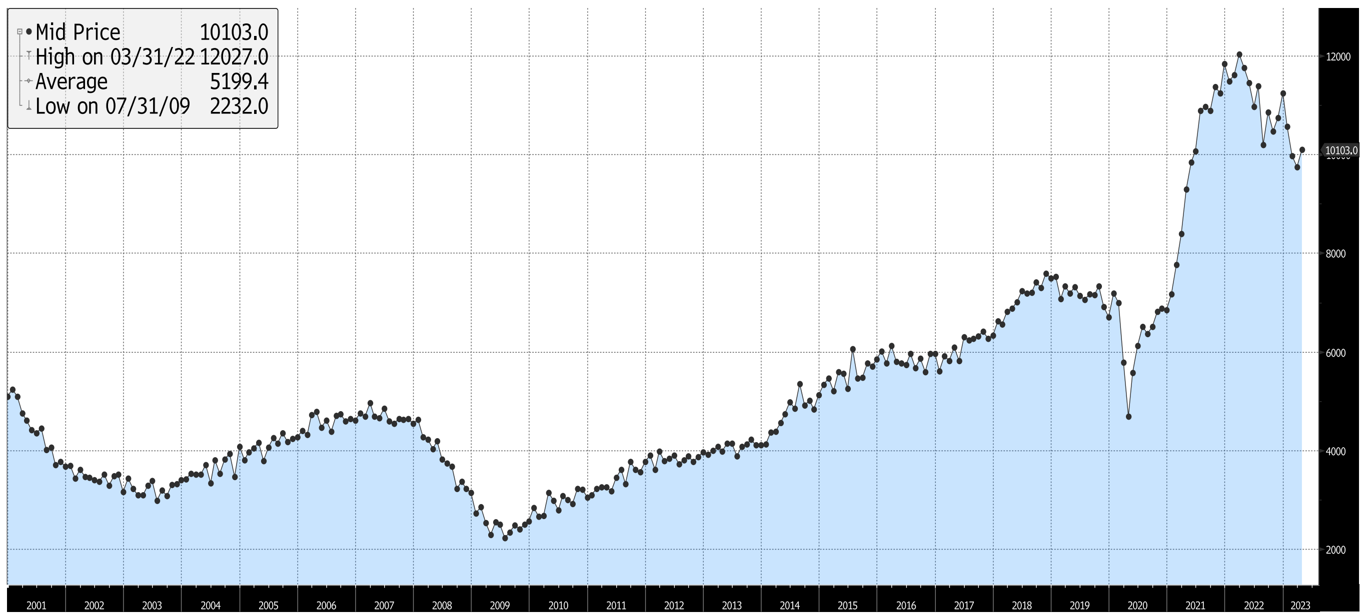
- In January 2020, right before COVID struck, the Labor Force Participation Rate for 16–24-year-olds was 56.7%.
- As of May 2023, it was 56.3%. Obviously, that is a little lower and would account for a shortage of around 144,000 jobs.
- For workers over 55, the Labor Force Participation Rate was 40.2% in January 2020.
- As of May 2023, that rate had fallen to 38.4%. A little back of the envelope math suggests this difference represents a decrease of about 1,748,000 jobs.
- When you combine the two, that works out to be a shortfall of 1,892,000 jobs.

But that isn't all.

According to a number of different resources, there are anywhere from 3-5 million American workers whose primary source of income is 'gig economy' work, i.e., part-time positions filled by independent contractors and freelancers. In other words: the Uber, Lyft, Instacart and DoorDash apps or services you consistently use on your phone. For an economy already looking for close to 2 million workers, that presents a problem.

As a result of the two, there is an enormous number of U.S. job openings, and workers can't fill them fast enough.

CAN THE ECONOMY REALLY COLLAPSE WHEN EMPLOYERS CAN'T FIND ENOUGH WORKERS?



Source: Bloomberg Financial

Admittedly, I have discussed this in previous editions of this magazine. But as much as inflation has been an issue recently, the lack of workers has been a prevailing theme. To be sure, the number of openings has dipped a little from its all-time high. However, prior to the pandemic, the most recent observation of 10.1 million would have been the highest monthly number by roughly 2.5 million.

To put that number into perspective, 10.1 million is slightly more than Michigan's estimated current population.

These openings exist even as the economy has added a little over 4 million net, new payroll jobs over the last 12 months. You read that correctly.

What happens when we create 4 million new jobs? That's right, we create 4 million new paychecks. And those new paychecks mean we are also creating new consumers. This is important, because PCE constitutes roughly 70% of the GDP equation.

AS SUCH, IT IS FAIR TO SAY HOW GOES THE STRENGTH OF THE U.S. LABOR MARKET IS HOW GOES THE STRENGTH OF THE U.S. CONSUMER.

Obviously, how goes the strength of the U.S. consumer is how goes the U.S. economy.

Basically, the sheer strength of the U.S. labor market should be enough to help mitigate any potential downturn. Another way of putting it is continued labor market strength should be able to offset rolling slowdowns in various economic sectors.

IN ESSENCE, EVERYTHING SHOULDN'T HIT THE FAN AT THE SAME TIMEAS IT DID IN 2008.

And isn't that worry what keeps folks up at night?

CONCLUSION

In conclusion, and taking it full circle, the U.S. economy doesn't just start and stop on a dime. There is no reason to think this time will be any different. Labor market strength, which is often a lagging indicator, will be enough to keep the economy from the worst-case scenario. However, all of those headwinds I discussed earlier should keep us from realizing a best-case scenario.

Therefore, the probable case scenario is continued very modest GDP numbers for the next couple of quarters. Close to 1,800 just to get to that.

It is what we do.

CONSUMER RESPONSE TO THE CURRENT ECONOMIC LANDSCAPE

IMPACT ON THE AVERAGE HOUSEHOLD IN AMERICA

Ryan Bernal

Economic doom and gloom has been a consistent theme in the media lately, both from economists as well as newsroom "experts". But if the economy is as bad as they say, why doesn't it look like 2008 all over again? Where is the 21st-century-version of Black Monday from the late 1980s?

As John Norris, our Chief Economist, might say: "These are confusing times."

Due to an unpresented global pandemic that shut down most of the world, legislators raced to cut interest rates (Quantitative Easing), created new lending programs (CARES Act), and pumped the monetary system full of cash in the forms of the Paycheck Protection Program and "stimulus" checks that were directly deposited into American's bank accounts. The lattermost action has likely been the most impactful of all.

In the short term, this "fix" prevented economic disaster while businesses were closed. In the long term, it caused a ballooning M2 money supply – something not even the most astute economists could pick up on at the time. It's like tossing gas onto smoldering coals in an attempt to create a small flame. Everything blows up all at once. Sure, it may not be fun to sit in the cold, but it's also not very fun to burn the whole tent down, especially if the replacement tent is on backorder for six months. By the time U.S. households began to feel the burn, it was already too late. Inflation was upon us.

To combat this new, rapidly growing inflation, the Federal Reserve took to Quantitative Tightening (QT). They hiked up the overnight lending rate at a historically fast pace, and discontinued some of the pandemic era lending programs to better align supply with demand. A Quantitative Tightening cycle typically takes some time to pass through the monetary system and take effect; however, some sectors were almost immediately impacted.

THE BANKS

In March 2023, about a year into the tightening cycle, the financial sector went into a panic as two regional banks went insolvent due to poor bond duration management. While this isn't inherently caused by credit tightening (just exacerbated by it), it caused a chain reaction of bank runs and many consumers lost confidence in the banking industry.

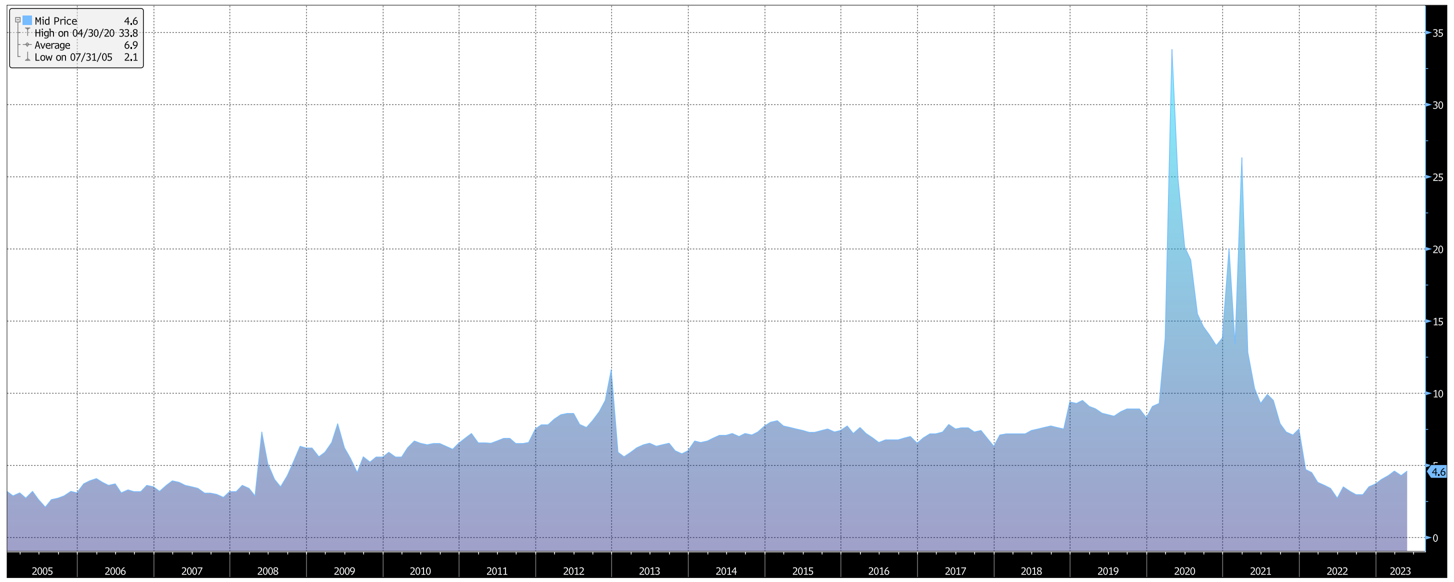
REAL ESTATE

As for real estate, both businesses and consumers are feeling the effects. The pandemic sent many employees to work from home, leaving countless empty offices. Consumers, on the other hand, are now facing ballooning mortgage rates (some have shot up over 4%), increasing credit card interest rates that have seen household saving rates dwindle, and a possible recession on the horizon that could see an abrupt change to the historic unemployment rate we have recently enjoyed.

U.S. SAVINGS RATE

During the pandemic, the U.S. personal savings rate (i.e. the rate at which consumers save their income) hit a peak of 33.8% - the highest rate we have ever seen in history, as global shutdown makes it hard to spend money. This was nearly double the United States' next highest rate of 17.3% in 1975. The result? Household were flush with cash, and only had one thing on the mind: SPEND!! And spend they did, as economic downturn fears turned to a red-hot economy that could not produce fast enough for ravenous consumers. American consumers were seeing shortages on a whole slew of items, from toilet paper to brand new (higher than sticker price) cars.

PERSONAL SAVINGS RATE



Source: Bloomberg

After three rounds of stimulus checks, the U.S. consumer got a little too familiar with free money spending. Consumers then turned to revolving credit (i.e. credit cards) in order to keep their habit going.

CONSUMER DEBT

During the pandemic, many Americans paid down existing debt with this extra spending money that came from the government.

- From March 2020 to April 2021, total U.S. credit card debt and other revolving loans fell from a high of $858 Billion to $736 Billion, representing a 14% decrease. This was a win for many Americans, but there's a saying about if something is too good to be true.

- Around this same time inflation began to rear its ugly head. Americans began spending more and more on every day goods and services at an alarmingly increasing pace. Revolving debt crept up again, ballooning from the $736 Billion number in April 2021 to $994 Billion in June 2023, with no sign of slowing down.

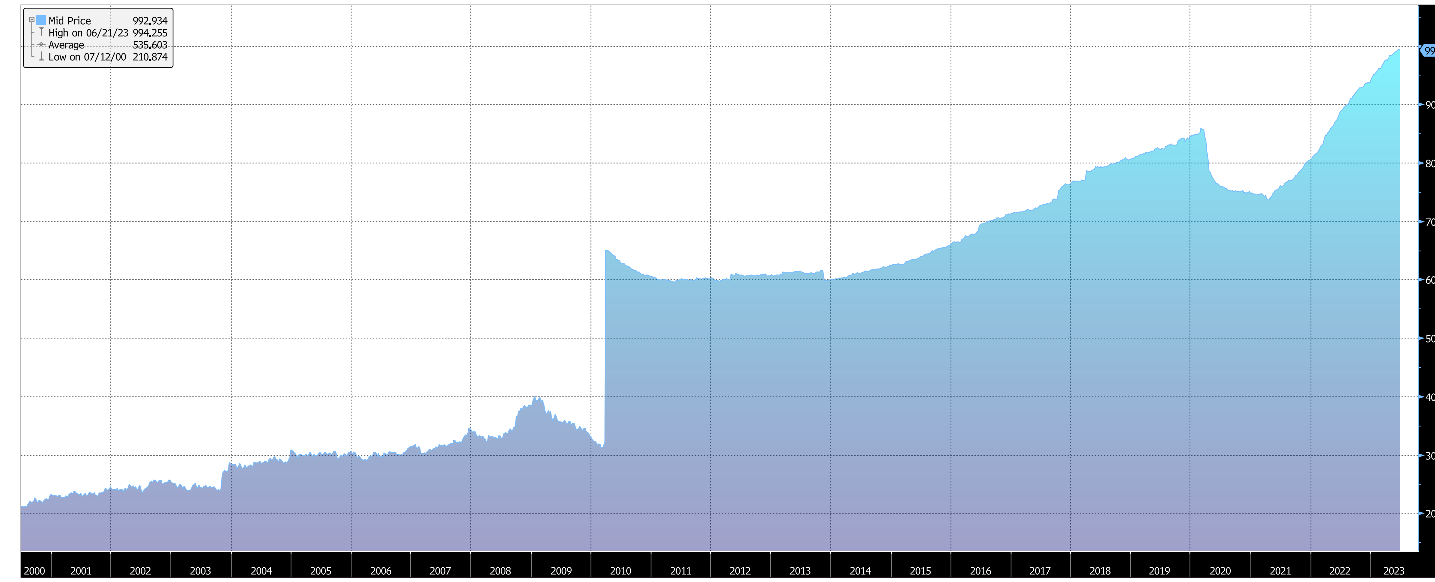
- The above-mentioned household savings rate decreased from 33.8% to a much reduced 4.6% in January 2023. In both of these instances, we look in worse shape post-pandemic than pre-pandemic.

- Adding to this: the average credit card interest rate is 24.06% as of July 2023. You can begin to understand the pain that American's wallets are feeling.

This presents the question, did the government go too far with its pandemic relief programs? Was this just short-sighted panic that we will suffer from later? Or were these programs necessary to keep things above water during an unprecedented time?

The pre-pandemic U.S. consumer had the benefit of a historically low cost to borrow money, leading to an already-competitive market for buyers.

CREDIT CARDS AND OTHER REVOLVING DEBT



Source: Bloomberg

The FHFA (Federal Housing Finance Agency) House Price Index measured around $280,000 for an average home. As of mid-2022, average prices were at $395,000.

Why the change? Likely interest rates, coupled with pandemic lending programs and other government funded initiatives designed to reduce the burden of COVID on America. Interest rates have more than doubled from a 3.25% prime rate in 2020 to 8.25% currently in 2023.

What does this meant to the consumer in this post-pandemic landscape? See the difference, below. It ultimately means that many Americans were priced out of their "dream home." Zillow might not be nearly as fun anymore!

$200,000 in 2020

Mortgage Rate: 3.25%

Amortized Cost: $313,451

Monthly Payment: $1,068

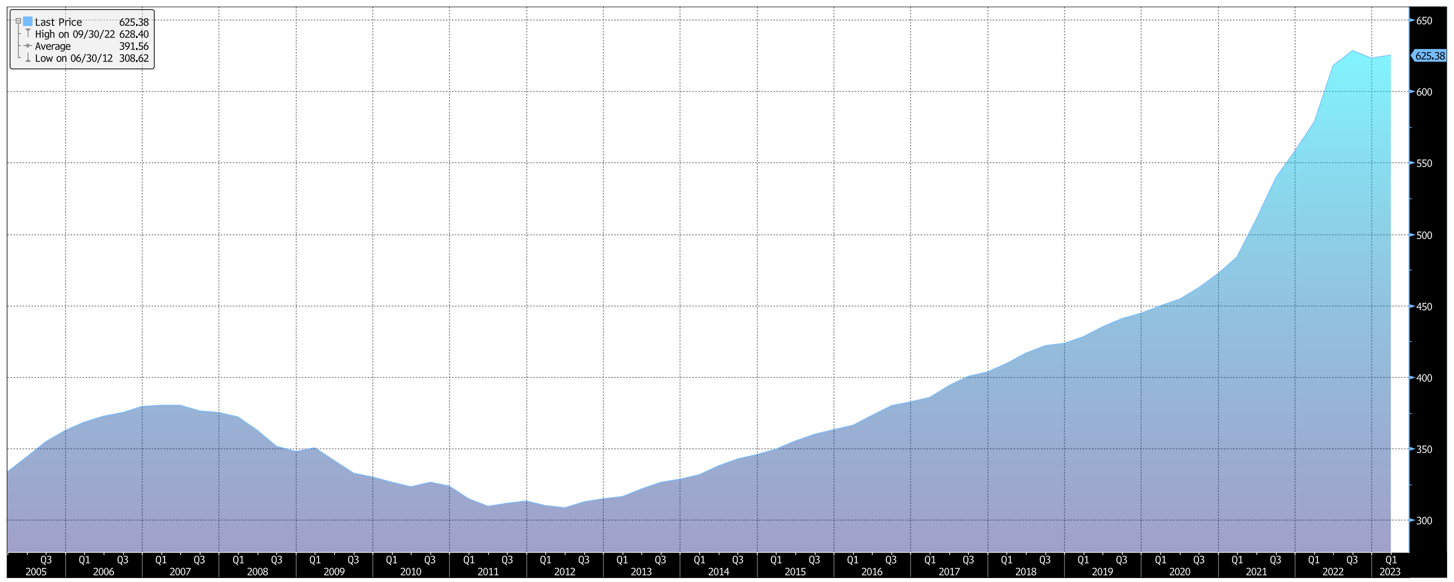
$200,000 in 2023

Mortgage Rate: 8.25%

Amortized Cost: $541,556

Monthly Payment: $1,700

FHFA HOUSING PRICE INDEX IN THE US



Source: Bloomberg

But wait! Not all things are full of doom and gloom.

While there are certainly some similarities to previous cycles, there are some pretty positive differences as well.

FIXED MORTGAGE RATES

The last time the Federal Reserve had to enact Quantitative Tightening was in 2006 and 2007 as the Great Recession was just getting started. The Fed was slowly reigning in demand, especially in real estate, as prices soared in a similar fashion to current day. Monthly payments as much as doubled over the tightening cycle, causing many Americans to default on their adjustable-rate mortgages. This is not similar to our current situation. Pre-pandemic, many Americans locked in fixed rates below 4%. Rather than move, they chose to hunker down and hang on to their extremely low rates. Moving would force a far more expensive payment. This, along with the increase in short term vacation rentals, has created a shortage of homes in the U.S., keeping prices higher even in the current economic environment. According to Fannie Mae, the U.S. is around 3.8 million housing units short when taking the formation of new households into account, with even larger numbers coming from other sources. Silver lining? It is unlikely that we see widespread home foreclosures like we did in the late 2000s.

THE LABOR FORCE

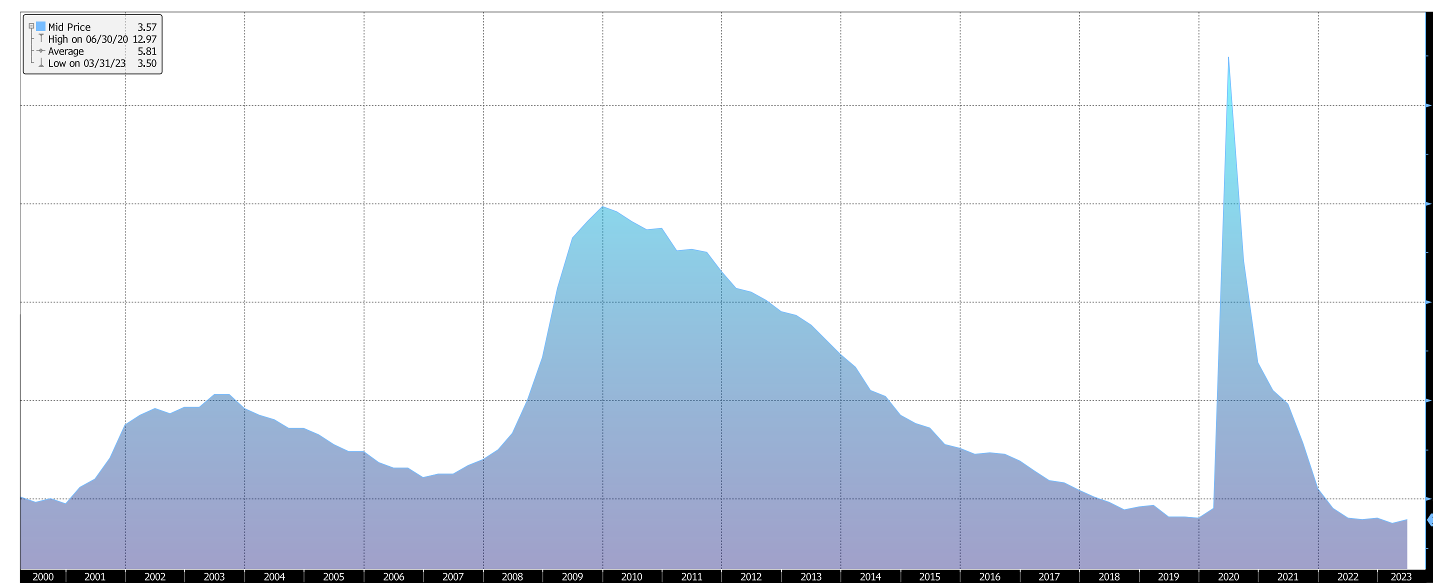
The labor force is another strong point in our current economy. During the Great Recession, it was extremely hard to find companies that were hiring, especially in the finance industry. Shortly after the Great Recession had begun, the unemployment rate shot up to a peak of 10% in October of 2009 from a low of 4.4% in early 2007. While we did see this initial surge in unemployment when businesses closed at the beginning of the pandemic, we quickly saw that rate shift downward. In April of 2020, when the pandemic was in full swing, unemployment briefly touched 14.7%, much higher than the peak of 2009. Despite this, just two years later in 2022, the unemployment rate was hovering around 3.6% - a rate unseen since 1969. This quick rebound in the labor force revealed a resilient market that eased the strain businesses were feeling. More consumers with more jobs mean more spending and more corporate earnings. Averting near economic disaster, this lends ammunition against doomsayers worried about another 2008.

Now the Fed has yet another dilemma; the unemployment rate might have swung too far in the wrong direction, as low unemployment has seemed to keep inflation entrenched in the economy.

After all... who said you can't have too much of a good thing?

Interested in the impact on our business owners? See page 20.

CURRENT UNEMPLOYMENT RATE



Source: Bloomberg

CORPORATE RESPONSE TO THE CURRENT ECONOMIC LANDSCAPE

THIS ECONOMIC COOLING, CAUSED IN LARGE PART BY SURGING INFLATION, HAS NOT PRODUCED THE NORMAL REACTIONS FROM BUSINESSES IN AMERICA.

David McGrath

It is hard to believe that it has been 40 months since the start of the COVID pandemic. which gripped the entire world. The virus threw us into unchartered territory in just about every aspect of life. (Take weddings, for example. Far fewer are being planned this year, as young people were not out and about meeting each other in 2020).

The normal business cycle was thrown out the window, and with it the predictability of what to expect next.

The current environment of very tight labor markets, high inflation and rising interest rates makes it a very difficult time to manage a corporation.

When we move towards the end of a business cycle and expect a slowing economy, it is very common for corporations to trim the workforce in an effort to protect the profit margin. When the end of the economic cycle occurs and the economy moves into a recession, unemployment rate moves up, wages fall and companies will only rehire employees when in becomes apparent the recession is coming to a close.

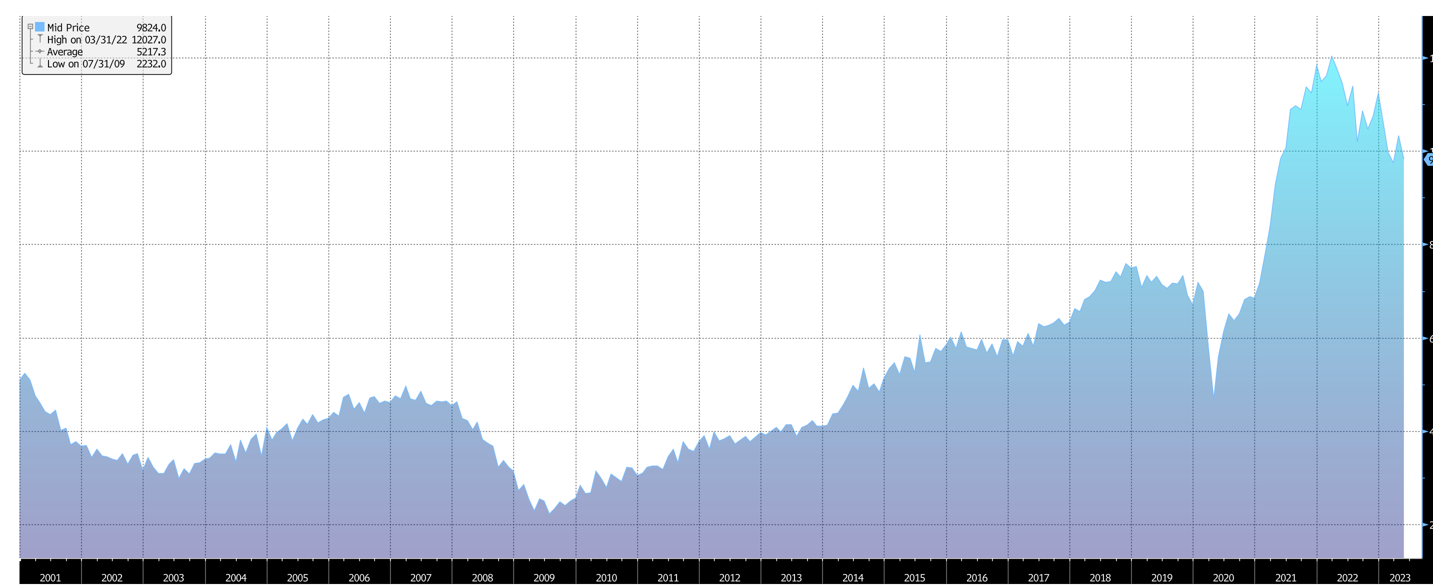
Interestingly, the economic cooling we have experienced, caused in large part by surging inflation, has not produced the normal reactions from Corporate America.

- The labor market remains hot, with unemployment still just barely above a 54-year low.
- What's more, many employers believe that if they lay off a good employee in the current economy, other companies will gobble them up.
- Not only are companies not firing people like they normally would, they are actually still adding to their staffs!

This is all very unusual at this point in both the economic and Fed tightening cycles.

You can think of watching the labor market in three areas: job openings, average hourly hours worked and unemployment rate.

JOB OPENINGS

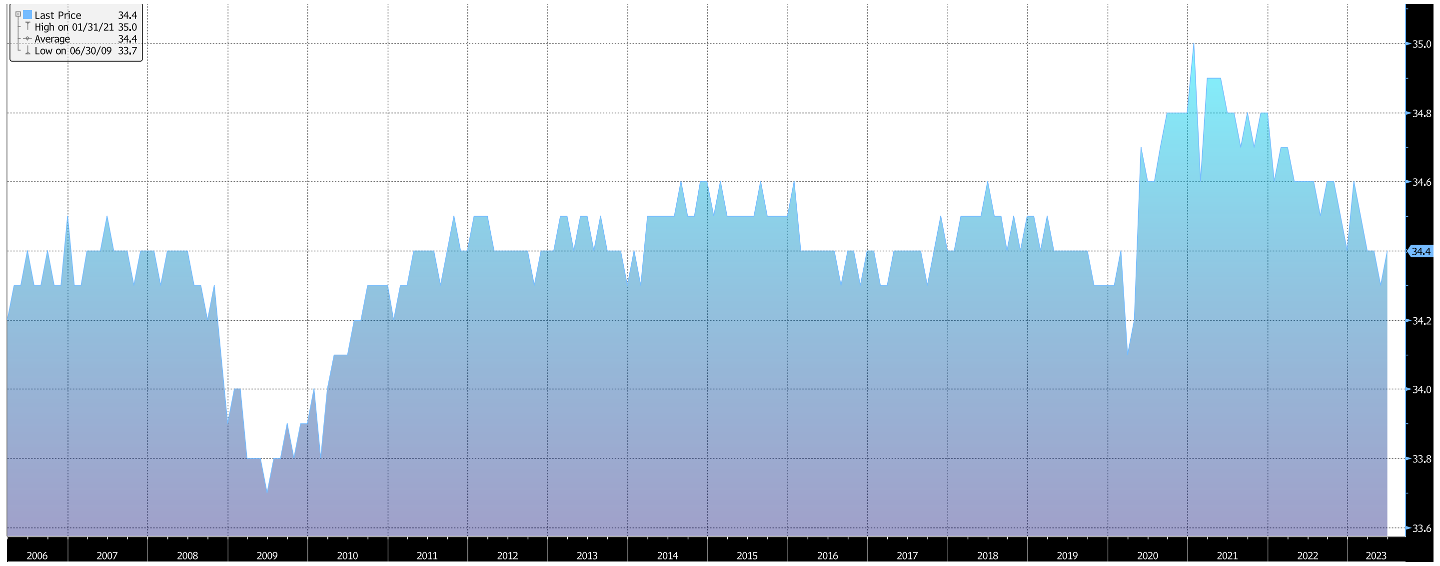


Source: Bloomberg Financial

The first step a company would take would be to take down the help wanted sign. There are currently 10.1 million job openings in the U.S., which is well above pre-COVID levels. There are roughly 2 job openings for every unemployed American.

AVERAGE WEEKLY HOURS

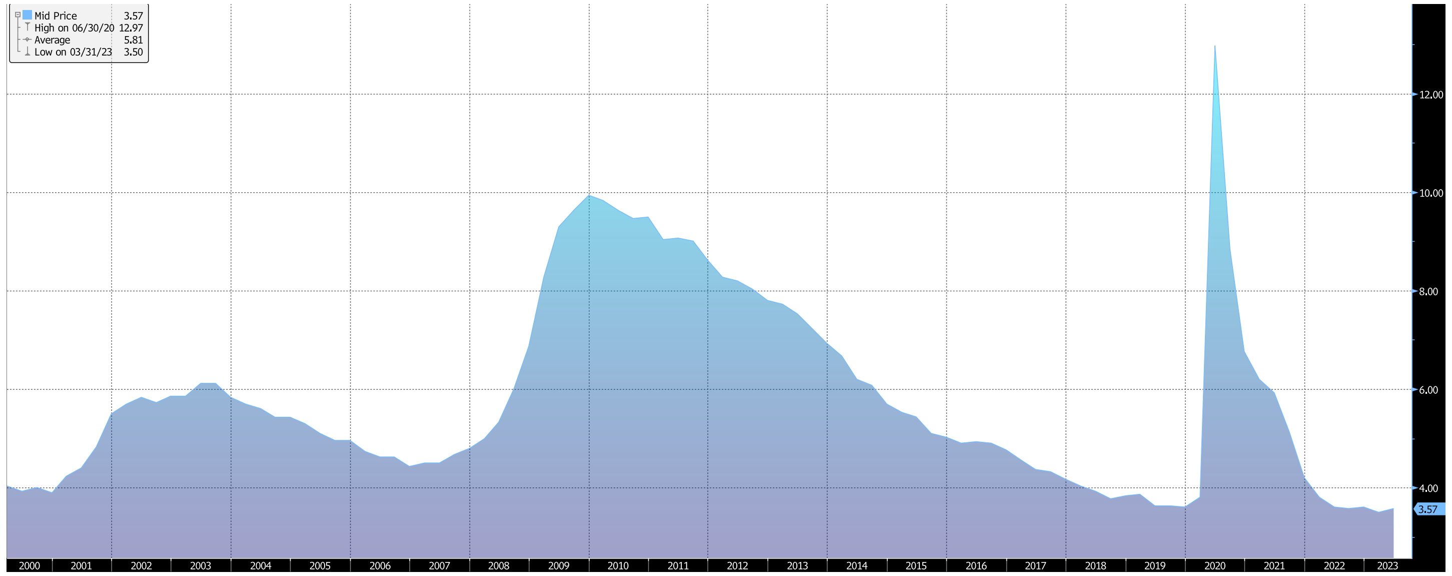
Next, management would start to reduce the number of hours worked from current employees. The current weekly hours worked in the U.S. has dropped down to 33.3 from a high of 34 back in 2021, but the current level is right at the pre COVID average. It would make sense that weekly hours worked would fall before we see any spike up in the unemployment rate.



Source: Bloomberg Financial

UNEMPLOYMENT RATE

Finally, you would see current employees start to lose their job. The latest unemployment reading of 3.7% is extremely low by any historical measure.



Source: Bloomberg Financial

With these illustrations, it is easy to understand why companies are not willing to let good employees get away. They run the risk of not being able to replace them when the economic data returns to some sense of normalcy.

THUS, WE HAVE THE HOT NEW CORPORATE TREND OF 2023: LABOR HOARDING.

Almost all major corporations that are currently announcing layoffs are large, household names who feel confident that they will have the ability to rehire whenever they want to. Further, many are in the highly competitive technology sector where employee turnover is arguably greater, and entrepreneurialism is greatest. Obviously, most companies in the so-called 'old economy' sectors don't feel they have that luxury.

As long as labor hoarding remains, one can expect a few hiccups to this business cycle and upcoming earnings seasons.

1. First, profit margins will be lower, and thus corporate earnings will not be quite as strong.

2. Second, with more people employed during the economic downturn, the recession (if we even get one) will not be as deep or long. Even consumers with good jobs can pull back on spending when confidence in the economy dips, but they don't pull back nearly as much as a family with someone who just lost a job.

3. Finally, when the economy starts to rebound, corporate profits should recover quicker than normal. Businesses will not have to go out and rehire employees and train them. All of that time saved will result in the ability to ramp up productivity when needed with no delay.

Higher interest rates and the tight labor market, coupled with a cloudy outlook for the economy over the next few years, should result in a slowdown in new corporate expansion plans. That is if history serves as a guide, which it normally does. However, as I've hopefully established, these aren't normal times. *Interested in the impact on the consumer household? See page TK.*

MEET JASON POKRZYWINSKI

Head of Wealth and Advisory Services

Mr. Pokrzywinski is responsible for establishing overall strategic direction for Oakworth's wealth management and advisory services. His keen understanding of our vision strategically positions him to enhance these services and to successfully recruit talent to all markets.

Mr. Pokrzywinski joined Oakworth in April of 2023. Working in San Francisco, Denver and most recently Charlotte, Mr. Pokrzywinski brings 30 years of leadership experience to the Oakworth team. Over the past 17 years he has served as Head of Product Management with ICON Advisors and most recently as Senior Vice President with Wells Fargo Private Bank, overseeing investment solutions for ultra-high-net-worth clients.

A native of California, he earned his Bachelor of Science in Finance from California Polytechnic State University, where he also played baseball. He and his wife, Jayne, have two children, Abby and Lukas.

Q: What makes you the most excited about working for Oakworth?

A: The people. I am excited to be part of a team of intelligent, seasoned and driven associates that have a passion for Oakworth's client-centered culture and success as a company.

Q: You are very experienced in the financial industry. What are three things you have learned thus far?

- Learn to face adversity with resilience – each setback is a stepping stone and learning experience that will make you better in your life and your career.
- Believe in yourself - realize what makes you unique and sets you apart from others.
- Focus on what you can control – spend your time in this area and you will increase your probability to succeed.

Q: Who would be at your perfect dinner table?

A: Jesus, Elvis, Pappy Van Winkle, George Washington and Ryan Reynolds.

Q: Speaking of the dinner table - now that you're officially a "southerner" what is your favorite food or fare?

A: This is a tough one. Growing up in Southern California I would have to say that In-N-Out Burger and Mexican food (especially tacos) are among my favorites. As for true Southern food I am a big fan of Carolina BBQ. I also love oysters and an heirloom tomato and salmon BLT.

Q: What do you like to do in your free time?

A: I love to play golf. We have some great golf courses in and around Charlotte. Pinehurst is only 90 minutes away. I also love to fish, and my wife and I are getting used to being empty nesters so we are looking forward to traveling more.

Q: Before working at Oakworth what was the most unusual or interesting job you've ever had?

A: Growing up on the Monterey Peninsula I had the opportunity to caddy at Pebble Beach. I also worked on the driving range and in player services during the annual Pebble Beach Pro-AM. I was able to meet Davis Love, Freddie Couples and many other players.

Q: What is it about Oakworth that stands out most to you in the financial industry?

A: Oakworth is uniquely positioned to independently (and without conflict of interest) guide our clients to financial success. This client experience is delivered by a team of highly experienced client advisors and specialists equipped to advise on all aspects of wealth management, advisory services and banking. Many firms that say this in theory, but Oakworth is one the truly delivers this kind of client experience.

Q: Tell us a little more about Charlotte and why it's a good fit for Oakworth.

A: Charlotte is consistently rated one of the best places to live and fastest growing cities in the U.S. The city is home to ten Fortune 500 companies, has a lower cost of living and a favorable business environment that is located directly in the metro area. This gives the city a high social economic profile. Charlotte is also the 2nd largest banking center (behind New York City) in the U.S.

On paper, that atmosphere may not sound ideal for another bank, but I think our unique business model – one based on our Core Values and Purpose and our personalized approach to helping clients across the entire banking and wealth management spectrum - will resonate very well within our thriving community. People in Charlotte are very relationship-oriented, which fits into our process well.

HERE TO SERVE YOU

Meet Our Wealth Advisors

Managing both the broad view and the complexities of our clients' wealth management and trust needs is our hallmark. Our holistic approach allows us to manage assets not just for today, but for generations.

Your client advisor works to understand deeply your values and goals, then coordinates an elite, multidisciplinary team of financial experts to preserve your invested dollars, provide a readily accessible stream of liquidity and generate a competitive rate of return – all based upon a statement of investment policy we have defined uniquely for you.

We advise clients on the appropriate asset allocation and execute this strategy through the use of an open-architecture investment platform. We then work closely to achieve their generational financial objectives.

Learn more about our wealth team at:
oakworth.com/our-team/wealth-team

Learn more about our wealth services at:
oakworth.com/our-approach/wealth-management

JANET BALL
Managing Director
Central Alabama

LEE BANKS
Client Advisor
South Alabama

LUKE FARGASON
Client Advisor
Central Alabama

SCOTT HEGGEMAN
Associate Managing Director
South Alabama

JOHN T. HENSLEY
Managing Director
South Alabama

JOHN P. KRUSAC III
Client Advisor
Middle Tennessee

RICHARD LITTRELL
Associate Managing Director
Central Alabama

CLIFF NAIL
Client Advisor
Central Alabama

GREER REDDEN
Managing Director
Middle Tennessee

OAKWORTH CAPITAL BANK

SAFETY & SOUNDNESS

After the largest capital raise in the state of Alabama, we opened our doors to the public on March 31, 2008. Over the years, we have developed a reputation as one of the safest banks in the United States. In 2016 we expanded our markets in Alabama, adding a South Alabama office in Mobile.

In 2020 we expanded to the state of Tennessee, opening a Middle Tennessee office in Brentwood. Now, in 2023, we are excited to open our doors in the Central Carolinas.

In November 2022, Oakworth began trading on the OTCQX Best Market under the trading symbol OAKC, enabling a more elevated trading experience for our shareholders. All managing directors and the majority of our associates directly own shares of the company. We believe this instills a strong business-owner mentality throughout the company.

In addition to your client team, our bank's leadership team consists of experienced and well-versed individuals, allowing us to offer a wide range of Commercial and Private Banking, Wealth Management and Advisory Services. Our core values and overall mission are building blocks for the long-term success of our clients, associates, shareholders and communities.

TRADING PERSPECTIVES

WITH JOHN NORRIS, SAM CLEMENT & COURTNEY TRUSS

OAKWORTH CAPITAL BANK

HAVE YOU LISTENED TO OUR PODCAST?

Three insightful personalities; three valuable viewpoints. Each week John Norris (Chief Economist), Sam Clement (Portfolio Manager) and Courtney Truss (Director of Wealth Business Services) come together and exchange perspectives on current events that are impacting our economy and influencing our investment strategies. Always relevant, always entertaining, and always available.

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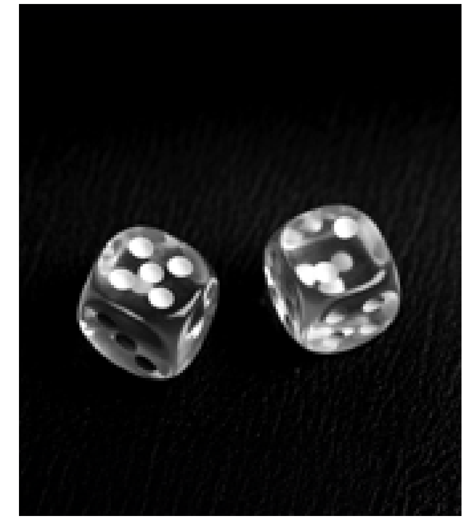
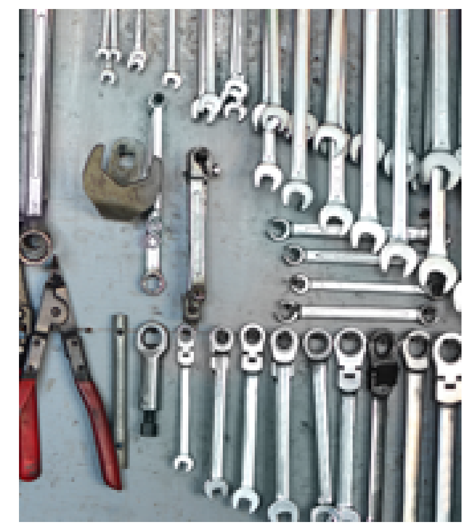


EQUITIES: The Magnificent Seven Push Equity Markets Upward

The "Magnificent Seven" are a handful of massive growth and technology stocks that have emerged as the strongest performing stocks of 2023. The top three performing sectors of the second quarter hold all seven. The interesting part? These were the worst performing sectors of 2022: Technology, consumer discretion, and communication services.

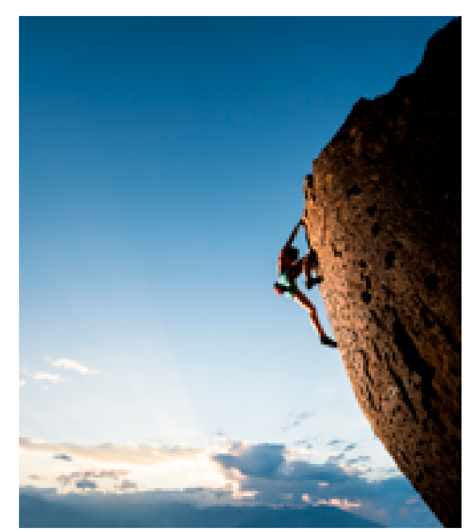
Read More



BONDS: There is No Such Thing as a Risk-Free Investment

So long as the Federal Reserve continues to increase their benchmark overnight lending target, investors will demand a higher coupon, thus making the existing bonds with their now-lower rates less attractive, on a relative basis. But remember: not all bonds react the same during a tightening cycle.

Read More



ASSET ALLOCATION: Defying Concerns and Demonstrating Resilience

The 2nd quarter of the year presented investors with a strong equity market performance, a measured increase in interest rates, and opportunity for savers in the form of cash. Our focus remains on areas where we think returns will be generated over the next 6 to 12 months; areas such as small cap and international.

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3RD QUARTER

PREDICTIONS

- After falling again with the June 2023 reading, **the headline trailing 12-month Consumer Price Index (CPI) will hit a brick wall. In fact, it could even start moving in the wrong direction.** The reason for this is simply math. The monthly readings for the CPI during the 3rd quarter of 2022 were 0.0%, 0.2% and 0.4%. We will likely be replacing them in the equation with observations at, near or even higher.

- Unless a bevy of black swans descends on the U.S., the **Federal Reserve will likely increase the overnight lending target another 0.25% during the 3rd quarter.** After that, any future moves will be completely dependent on the strength or weakness of the economic data. This means all the rate cuts people had predicted at the start of the year likely won't come to pass, at least not in the near term.

- With the end of the tightening cycle in sight, **U.S. banks will be wary to continue to raise deposit pricing despite their need for them.** As a result, expect banks to continue to rein in credit for the remainder of the year. If history serves as a guide (and we are supposed to say it doesn't), this could put a ceiling on U.S. economic growth.

- After a surprisingly strong start to the year, especially in June, **stocks will be poised for a breather during the quarter**, that is unless 2nd quarter corporate earnings dramatically exceed expectations.

- A slightly weaker dollar, coupled with a somewhat hamstrung domestic energy sector, means **crude oil, natural gas and gasoline prices likely won't fall as much as consumers would like, if at all.** In fact, if China's economic activity picks up, they could actually start heading higher.

- The reopening of China after COVID-19 hasn't been the economic boom many thought it would be. However, even China's 3% growth in 2022 (less than half the previous year's rate) is great news to smaller, less well-developed and natural resource heavy economies. **As a result, smaller emerging markets could thrive while providing limited opportunities for U.S. investors.**

- For a number of reasons, **multinational companies are looking to diversify away their dependency on China.** This is known as Plus One or China Plus One. While countries like Vietnam, Indonesia and the Philippines could benefit, India has the greatest potential for exponential growth. However, investors are worried New Delhi won't be able to get out of its own way.

- Unless the Europeans start slashing their overnight rates, international investing could look promising moving forward for one simple reason: **the dollar should weaken as the U.S. tightening cycle comes to a close**. After all, no one really expects the remainder of the G-7 to magically ramp up production at this point.

- During July, Gallup, Inc. should release a report that tracks 'confidence in U.S. institutions.' Not surprisingly, it will likely show further erosion in the public's faith. **Some of the biggest losers over the past 12-months could be the military, public schools and the police**. After all, Americans had lost their faith in the Congress, television news and big business well before 2023.

- **Discontent with political elites and the managerial class will continue to simmer,** leading to a growing exodus of people from higher-tax states to lower-tax states. Instead of changing their ways, politicians in the former will double down on policies that alienate much of their population.

- **Potential brushfires will continue to nip at the heels of geopolitical stability.** Obviously, the war in Ukraine and strife in the South China Sea will dominate global headlines. However, turmoil in places like Haiti, Kosovo, Ethiopia, Kurdistan, Myanmar and Central America could eventually escalate and require already stretched US resources.

- Believe it or not, **the Republicans will hold their first Presidential debate in late August.** It proves to be a 3-ring circus. So, grab some popcorn, your favorite beverage and enjoy the show. Or don't enjoy, as the case may be.

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Central Carolinas - Coming Soon