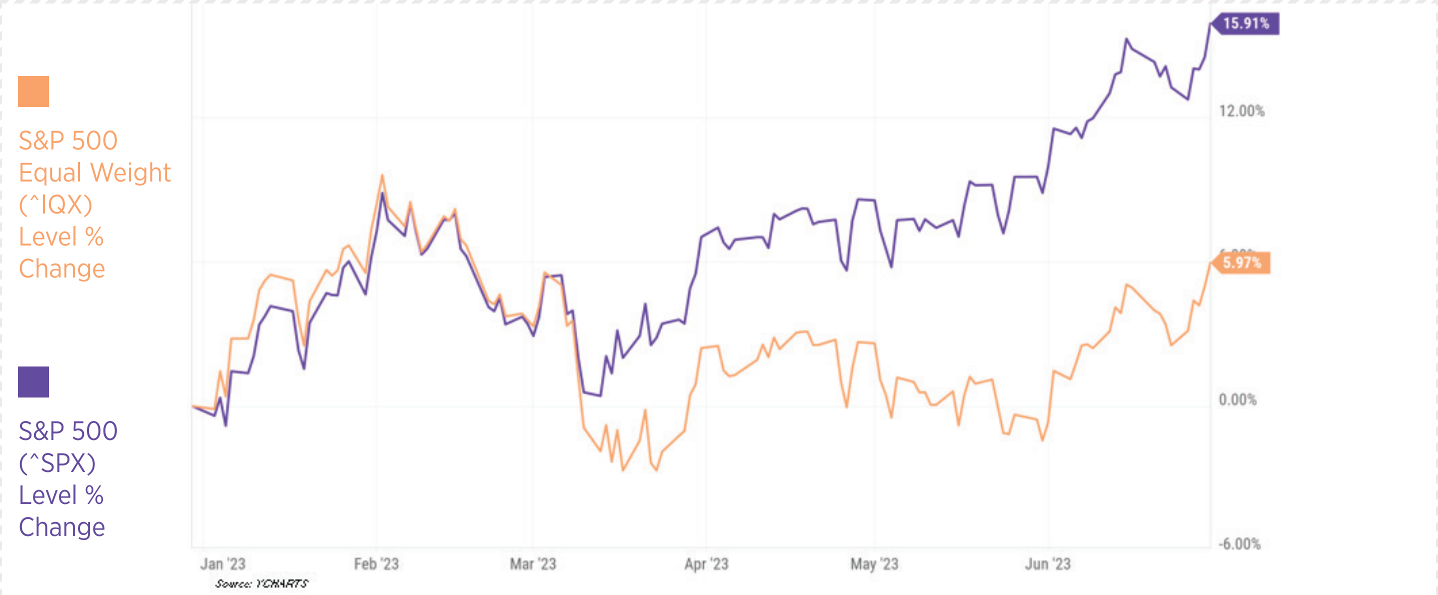
Camden NATIONAL WEALTH MANAGEMENT

Perspective and Market Disconnects

A recurring theme of ours during periods of market turbulence is perspective. Market turbulence—or disruption, volatility, choppiness...choose your preferred descriptor—can be caused by a broad range of factors. It seems counterintuitive that U.S. large-cap stocks, as measured by the S&P 500, would be up 16% year-to-date through June 30, 2023, (see chart below) in the context of: 1) aggressive interest rate hikes by the Federal Reserve in an effort to combat inflation; 2) a banking crisis; 3) a debt-ceiling debate threatening default or a government shutdown; and 4) a growing number of indicators showing mounting economic strain that can potentially lead to recession.

Looking underneath the hood of the S&P 500 to better understand its drivers can offer perspective and identify disconnects that equate to opportunity. The S&P 500 is a market-cap-weighted index, which means the largest companies (Apple, Microsoft, Amazon, Alphabet, and NVIDIA) have a disproportionately large influence on returns. The top 10 holdings account for 30% of the overall index as of June month end. While this dynamic is not new, the disproportionate impact has been exacerbated by recent events. The banking crisis that came to light in March triggered a U.S. Treasury response that injected liquidity into the system. Uncertainties within the banking sector and its potential impact on future growth cooled the trajectory of interest rate expectations across the yield curve, which bolstered large-cap growth stocks due to a lower discount rate on future earnings and the perceived safety of cash-rich companies. S&P 500 index returns were compounded by investor enthusiasm for Artifical Intelligence (AI) and its future potential, spurring momentum within certain areas of the market. As a result, some of the largest names in the market-cap-weighted index (Apple, Microsoft, and NVIDIA) became even larger.

S&P 500 Market Cap and Equal Weight
Year to Date through June 30, 2023



The question we need to ask is whether the S&P 500 market-cap-weighted index is representative of the broader market or a handful of companies. We contend it is the latter, which is why we look at how the market-cap-weighted index compares to the S&P 500 equal-weight index (see chart above). The S&P 500 equal-weight index places equal weight on each of its 500 companies. When taking this view, it becomes clear that all companies in the S&P 500 did not fully participate with the largest companies of the index year-to-date through June. The performance of the S&P 500 equal-weight index was up 6% through June. In fact, the performance difference between the two indices is the greatest we've seen looking back through decades of data. This tells us that market returns are more subdued than the S&P 500 market-cap-weighted index suggests. Does the disconnect mean we are witnessing a weak start to a new bull market? Are we seeing a bear-market rally? Is it a byproduct of investors' rapidly changing short-term expectations in the context of a highly uncertain macro-economic backdrop? There are many possible explanations.

Regardless of one's perspective, our strategy remains the same. We maintain our bias towards higher-quality companies with healthy cash flows and the ability to reward shareholders with a mix of capital appreciation and dividend growth. We expect markets to remain volatile over the course of the year as investors gain a better understanding of the impact of the Federal Reserve's rate-hiking cycle on the economy. We view market disconnects as buying opportunities to help build our clients' wealth—navigating the environment regardless of which way the pendulum of investor sentiment may swing.

PLANNING FOR THE FUTURE: WHAT TO CONSIDER AS YOU APPROACH RETIREMENT

If retirement is on your horizon, you likely have several questions about this significant life change. Spending some time thinking about a few key points now, while you still have years ahead, can help you focus your efforts and minimize the anxiety that often accompanies the shift.

- **Reassess your living expenses**
  A step you will probably take several times between now and retirement—and maybe several more times thereafter—is thinking about how your living expenses could or should change. Try to estimate what your monthly budget will look like in the first few years after you stop working. Then continue to reassess this budget as your vision of retirement becomes a reality.
- **Consider all your income sources**
  Calculate how much you stand to receive from Social Security. You can get an estimate of your retirement benefit at the Social Security Administration website: SSA.gov. You can also sign up for a "my Social Security account" to view your online Social Security statement. Then review the accounts you've earmarked for retirement income, including employer benefits and other sources of revenue like rental income or potential part-time work. If you decide to work in retirement while receiving Social Security, understand that income earned may result in taxable benefits.
- **Manage taxes**
  As you think about when to tap your various resources for retirement income, remember to consider the tax impact of your strategy. For example, you may want to withdraw money from your taxable accounts first to allow your employer-sponsored plans and IRAs more time to benefit from tax-deferred growth. Keep in mind that every dollar you take from a traditional IRA will be taxed at your ordinary income tax rates, so you will need to budget for that impact.
- **Account for healthcare**
  As you age, the portion of your budget consumed by health-related costs (including medical and dental) will likely increase. Review your options for supplemental Medicare coverage that will cover the cost of deductibles, copayments, and coinsurance not covered by Medicare Part A and B.
- **Ease the transition**
  These are just some of the factors to consider as you prepare to transition into retirement. Breaking the bigger picture into smaller categories and using the years ahead to plan accordingly will make the process a little easier.

Reach out to your Camden National Wealth Management team for advice on how to plan for your future goals.

About Camden National Wealth Management

Camden National Wealth Management provides investment management, goals-based financial planning, and trust and estate services to individual and institutional clients in Maine and throughout the United States. Our highly credentialed team averages 25 years in the business and includes Chartered Financial Analysts, estate planning attorneys, CTFA trust specialists, and financial planners. Together, we bring a customized investment and planning approach to meet each client's unique financial needs.