MARKET COMMENTARY

DERWOOD S. CHASE, JR.
FOUNDER & CHAIRMAN EMERITUS

CHASE INVESTMENT COUNSEL CORPORATION
PRESERVING & GROWING WEALTH
Since 1957

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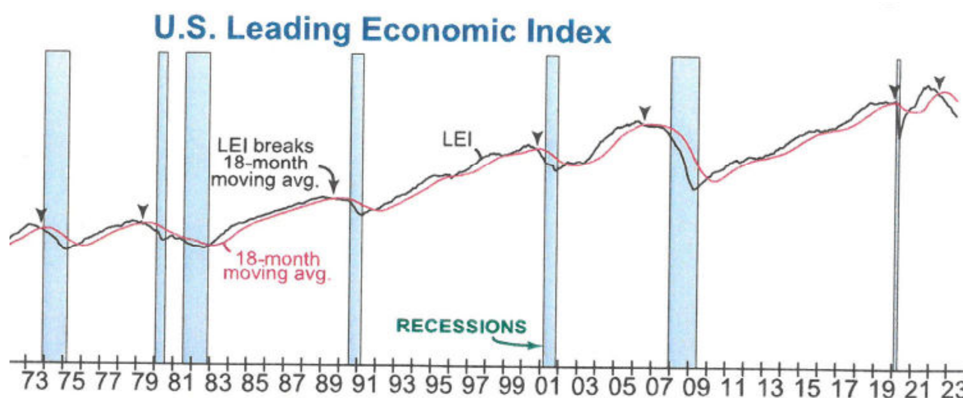
INTRODUCTION – Chase Investment Counsel Corporation uses a "bottom up" investment process combining fundamental analysis (the what) and technical indicators (the when) in making judgements about both market timing and stock selection. We focus on mitigating risk. In an effort to mitigate risk during a volatile stock market, we look at both the positive and negative factors influencing the stock market and attempt to help our investors continue to meet their long-term financial objectives without taking on too much risk.

In my March Market Commentary, I reminded readers that since WWII, the third year of the four-year presidential cycle has been the best for the stock market. The S&P 500 Index ("S&P 500") has gained approximately 16% on average and almost 21% when it was the third year of a first term president. Initially the current market recovery was primarily limited to large cap tech stocks with 90% of the S&P 500 gain attributable to the "Magnificent Seven." Finally, in the last six weeks mid and smaller cap stocks have also participated and last week the Dow Industrials and Transports as well as the NYSE Composite all recorded 15-month highs. Even the S&P 400 Mid-Cap Index participated as many of the market's negative divergences were finally eliminated. Short-term indicators are mostly overbought but any near-term correction should mostly involve the overly popular tech stocks and be an opportunity to add to equities on weakness.

Despite inflated prices consumer spending has been surprisingly resilient. The overall market now exhibits a healthier outlook but seems overbought short term. Investors Intelligence Advisors Sentiment just rose to 55.6% bulls, their initial caution level and the highest since Nov-21 when it reached a danger level of 57.2%. Too many investors seem to be motivated by the fear of missing out (FOMO) and seem to be assuming there is no risk of a serious recession. Then too, as InvesTech Research notes, over 23 million consumer loans are already delinquent close to the level reached during the serious 2008 recession. The Conference Boards Leading Economic Index (LEI) has now fallen for 15 months and when it falls below its 18 month moving average, a recession almost always follows (see black arrows). Then too, banks may not be willing to



renew loans to borrowers who are already delinquent. Many regional banks may already be stressed. If they need to liquidate their low yielding long-term investments their mark to market losses along with losses on delinquent loans in many cases will be greater than the bank's entire capital. Currently a record 50% of U.S. Corporate debt, about $2.5 trillion is rated BBB (Source: Schroders, Inc.), the lowest level considered Investment Grade. That compares with about $670 billion or 33% in 2008. Bloomberg estimates that 40% of the corporations included in the Russell 2000 Index are already unprofitable. Overall, it appears that a recession has just been postponed and ultimately could be quite severe. By June the Purchasing Managers Index (PMI) for Services had already declined to 46% from 56.5% last November, which is consistent with a recession.

We still have not seen a stock market low with complete capitulation where investors sell almost everything and force prices down to significantly depressed levels. Moreover, a negative yield curve with 2-Year Treasury Notes yielding 4.96% while 10-Year Treasury Notes yield 3.87% often precedes economic recessions and significant declines in the stock market. It certainly still seems appropriate to maintain a conservative investment posture. That means focusing on high quality equities and maintaining a substantial emphasis on cash equivalents such as treasury bills and short-term treasury notes for our client balanced accounts.

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Chase Investment Counsel Corporation is the oldest independent investment counsel firm domiciled in Virginia. We're not in the brokerage business, but act as portfolio managers and purchasing agents for our clients. As Barron's described us in 1972, we're located "Far from the Madding Crowd" in Charlottesville, Va. Besides Derwood Chase, we have an excellent "next generation" group of officers that average 58 years of age and over 26 years of experience. Three of our officers have MBAs, one is a CFA and one is a CMT. We recognize that markets are driven by company fundamentals as well as technical factors which reflect investor sentiment.

In addition to our own research, and that from several brokerage firms, we utilize over 40 independent research sources selected with the benefit of over 50 years experience. Our investment process was developed over more than 60 years and is rather distinct in combining fundamental and technical analysis to mitigate risk and build diversified, high quality, reasonably priced growth oriented portfolios. We manage large, mid-cap, and all-cap equity oriented portfolios as well as balanced accounts for individuals and trust clients (minimum normally $500,000) in 11 states. We also indirectly serve about 1,700 investors through our mutual fund product. As a smaller firm, we have a particular advantage in managing portfolios since we don't need huge marketability to acquire or eliminate stock positions promptly without significantly affecting the market. We are not in the brokerage or banking business and do not have the conflicts of interest and the other priorities those businesses involve.

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The opinions expressed herein reflect those of Chase Investment Counsel Corporation and are subject to change without notice. Past performance does not guarantee future results. For further information please contact us at (434) 293-9104, (800) 293-9104 or derwood@chaseinv.com.