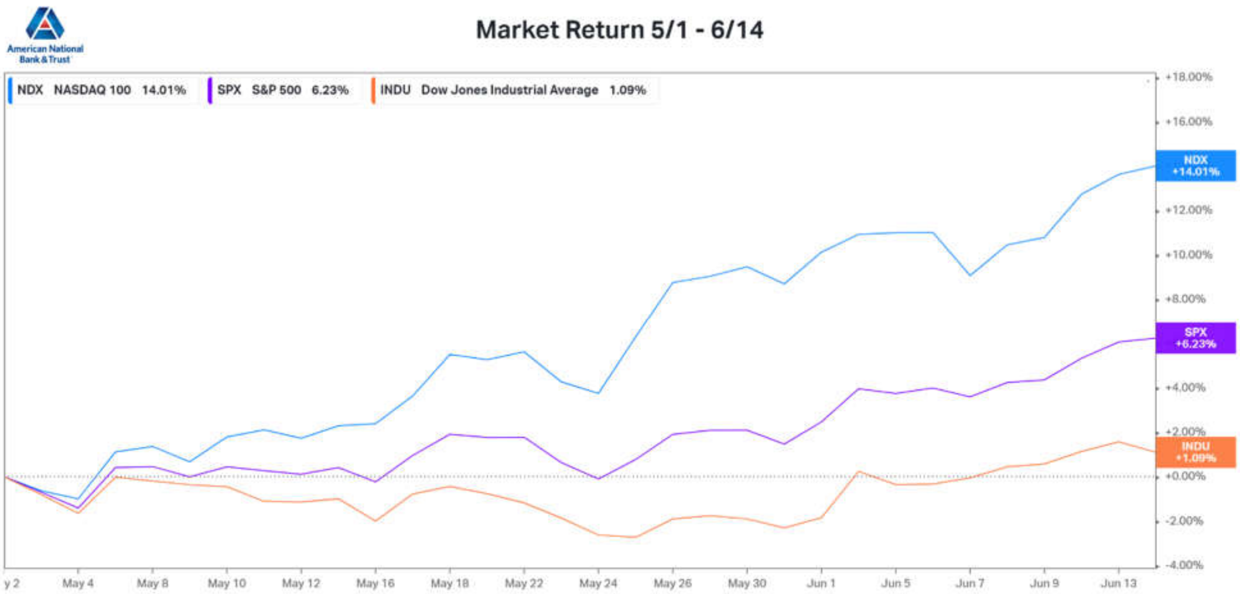
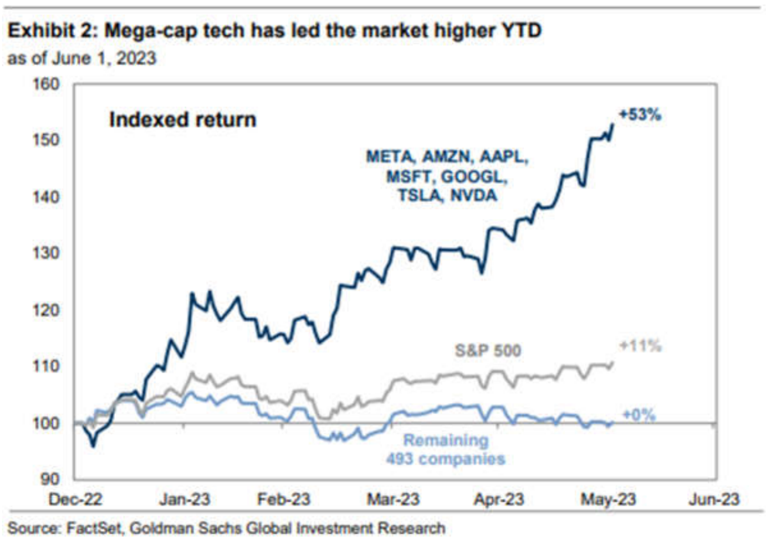
Market Update

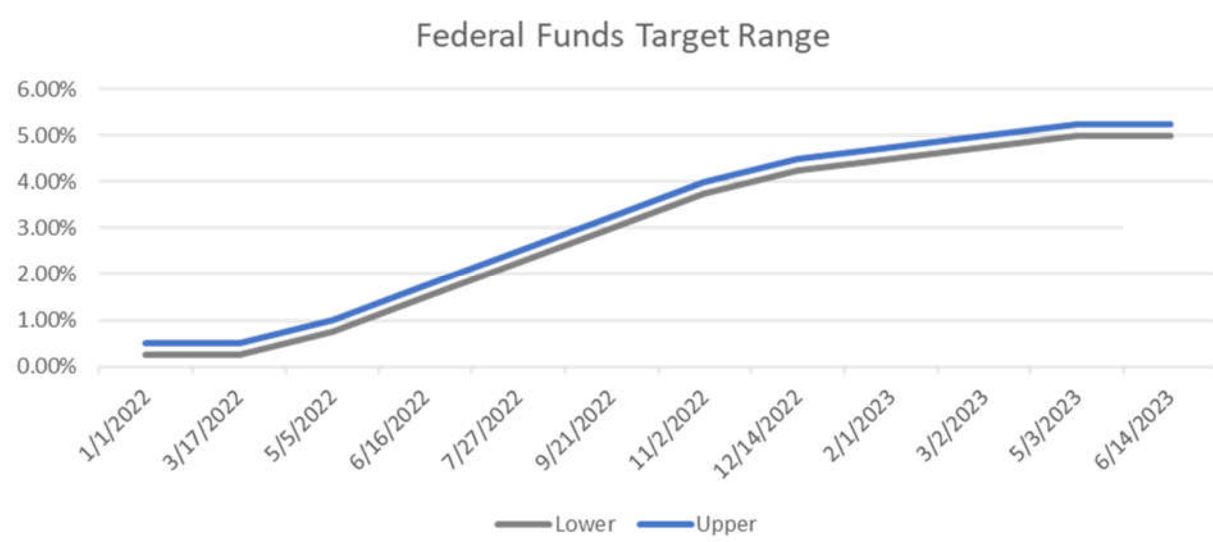
Since May 1st all three major indexes have positive returns. The Dow Jones Industrial is up 1.09%, the S&P 500 is up 6.23%, and the NASDAQ is up 14.01%. The tech sector remains strong as shown in the NASDAQ's enormous gain. The biggest drivers were Microsoft (MSFT) and Nvidia (NDVA), both of which are connected with the booming artificial intelligence industry.



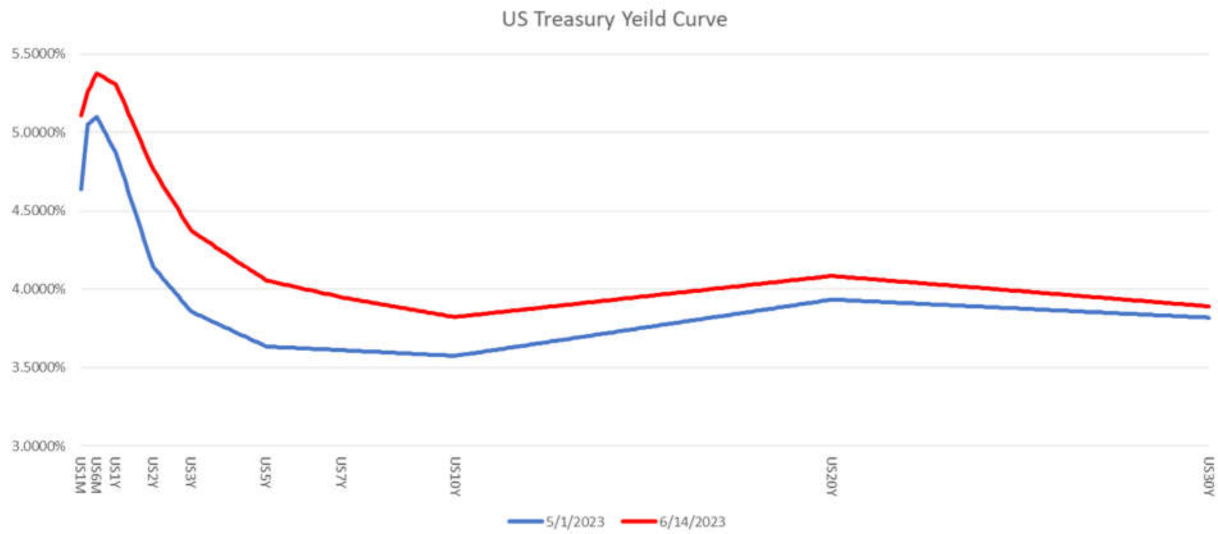
We've observed that the market trending higher is due to the percentage of the indexes being allocated to 7 stocks that have soared this year. Looking through May 2023, if you remove those stocks from the index and see the index return less the AI-associated companies, the remaining 493 companies of the S&P 500 are sitting at a flat 0% return for the year. Those same 7 stocks returned 53% on the year. All of these stocks have a very high market cap and have exposure to the artificial intelligence industry in some manner. The graph on the next page conveys that the breadth of the market is narrow.



The Federal Open Market Committee (FOMC) raised its target interest rates by another 0.25% in May. This came days after another regional bank failure in First Republic Bank. JPMorgan Chase ultimately purchased the failed bank, leading some to believe this “banking crisis” has come to an end. Since then key economic indicators have been released showing signs of the economy slowing. Inflation fell to 4% and unemployment rose to 3.7%. The FOMC had another meeting June 14th where they paused their interest rate hikes. The key word is “paused” as they are leaving the window open to more interest rate rises in the future.



While the “banking crisis” and the FOMC’s aggressive rate hikes seem to be cooling, May was met with another “crisis.” The US was approaching its debt ceiling at an alarming rate. The Treasury Secretary, Janet Yellen, stated if the debt ceiling was not raised by June 1st the US would default on its debts. As we approached that date it appeared that negotiations between President Biden and House Speaker Kevin McCarthy were going nowhere. As seen on the graph below, this caused US treasury yields to rise across the board. Late in the month it appeared that negotiations were making progress and a deal was agreed upon on May 28th. We expect yields to return to previous levels or lower.



With the “banking crisis” appearing to have ended, the FOMC pausing interest rate increases, and an agreement made to raise the debt ceiling, it looks like May and June came with an abundance of resolution. However, these are not yet set in stone. There is still uncertainty that may feed into volatility in the market. As always, we continue to search for value where it presents itself and adjust portfolios as market conditions change.

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