

Weekly Market Commentary

May 22, 2023

The Markets

Investors aren't happy, but stocks are up.

If you ever participated in a fantasy football league, you may have experienced a run on a position during your draft. One person picks a kicker or defense mid-round and, suddenly, almost everyone rushes to follow suit. A similar occurrence may be happening in the United States stock market.

While major U.S. stock indices are in positive territory year-to-date, market gains have been concentrated in just a few companies' stocks.¹ Al Root of *Barron's* explained:

"Today's five biggest stocks...have a combined market cap of about \$8.7 trillion, almost 25% of the S&P 500 [capitalization (cap)] and about 3.2 times the \$2.7 trillion Russell cap...What's more, those top five stocks have returned an average of 50% in 2023, accounting for roughly 80% of the S&P 500's 8% gain. The median stock in the index has gained less than 2%, and less than half are trading above their 200-day moving averages...The top five stocks are also expensive: They trade for an average of 31 times estimated 2024 earnings, while the index trades at 17.4 times earnings."¹

The fact that five stocks have been driving market performance may be hurting investor sentiment, according to sources cited by *Barron's*.¹ Sentiment also has been affected by concerns about inflation, tightening credit conditions, the possibility of recession, and the chance the U.S. may default on its debt.² Investor sentiment is the way investors feel about an asset or financial market. When investors are feeling pessimistic about stocks, stock markets tend to fall. Similarly, when investors are optimistic, stock markets tend to rise.³

Bank of America's latest survey found that sentiment among global asset managers is the most bearish it has been this year. Almost two-thirds of participants think economic growth will slow this year, although a similar number anticipate a soft landing for the global economy, reported Ksenia Galouchko of *Bloomberg*.²

Last week, the Federal Reserve signaled the end of rate hikes was near,⁴ which pushed major U.S. stock indices higher. The indices gave back some gains on Friday after debt-ceiling talks faltered but finished the week higher overall.⁵ The yields on most maturities of U.S. Treasuries moved the week higher.⁶

Data as of 5/19/23	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	1.7%	9.2%	7.5%	12.8%	8.9%	9.7%
Dow Jones Global ex-U.S. Index	0.2	6.9	3.5	7.0	-0.1	1.5
10-year Treasury Note (yield only)	3.7	N/A	2.9	0.7	3.1	2.0
Gold (per ounce)	-2.9	8.2	6.4	4.1	8.8	3.8
Bloomberg Commodity Index	-0.1	-10.4	-22.9	16.9	2.1	-2.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

EL NIÑO IS COMING SOON. The list of items that have the potential to slow economic growth in the U.S. and/or the world is longer than anyone would like it to be. Now, there's a new item on the list: El Niño.

El Niño is a change in the normal wind and wave patterns of the Pacific Ocean that occurs every few years. The change can significantly alter weather across the nation, according to the National Oceanic and Atmospheric Administration.⁷ It also can have a significant influence on economic growth, according to new research published in the journal *Science*.⁸

Dartmouth scientists Christopher Callahan and Justin Mankin wanted to investigate how climate variability affects economic growth. They decided to quantify the impact previous El Niños have had on the world's gross domestic product (GDP), which is the value of all goods and services produced.⁹ Eric Roston of *Bloomberg* reported:

"The new analysis uses a model that combines economic growth and climate variability from 1960 to 2019 and compares GDP growth around the world before and after El Niño events. The output suggests a 'persistent' impact on countries' economic growth, especially in Peru, where the dynamic was first discovered, and around the tropics. They found that a powerful episode in 1997 and 1998 set world GDP back \$5.7 trillion and a 1982/1983 El Niño reduced growth by \$4.1 trillion."⁹

Scientists at the U.S. Climate Prediction Center say there is a 90 percent chance that an El Niño weather pattern will occur later this year.⁹ It remains to be seen whether or how El Niño will alter economic growth.

As an investor, it can be difficult to think of economic slowdowns and recessions as normal parts of the economic cycle, especially when financial markets head lower. If you're concerned about the future, please let us know. One of our most important roles is helping clients maintain a long-term perspective.

Weekly Focus – Think About It

"You'll never find a rainbow if you're looking down."¹⁰

—*Charlie Chaplin, comic actor*

Best regards,



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- * All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
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Sources:

- ¹ <https://www.barrons.com/articles/the-5-stocks-that-rule-this-marketand-make-investors-nervous-be0668da> (or go to https://resources.carsongroup.com/hubfs/WMC-Source/2023/05-22-23_Barrons_The%20%20Stocks%20that%20Rule%20This%20Market%20and%20Make%20Investors%20Nervous_1.pdf)
- ² <https://www.bloomberg.com/news/articles/2023-05-16/bofa-survey-shows-investors-most-pessimistic-so-far-this-year> (or go to https://resources.carsongroup.com/hubfs/WMC-Source/2023/05-22-23_Bloomberg_Investors%20Most%20Pessimistic%20So%20Far%20This%20Year_2.pdf)
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- ¹⁰ <https://www.goodreads.com/quotes/tag/optimism?page=3>