Market Perspectives
May 2023

TURTLE CREEK WEALTH ADVISORS

KEY HIGHLIGHTS

- Performance in May was mixed but the S&P 500 gained for a third straight month.
- Market breadth remains narrow with increasing concentration in the largest names.
- The Federal Reserve hiked by another 0.25% on May 3rd.
- The debt ceiling saga caused market uncertainty and a spike in yields.
- First Quarter earnings season draws to a close with better than expected results.

MAY PERFORMANCE

The technology heavy Nasdaq index led the charge in May with a gain of 5.93% while the S&P 500 managed to eke out a gain of 0.43%. This marked the third consecutive month of gains for the large cap index. The Dow, U.S. small caps, developed international and emerging markets all fell with the largest decline of 4.10% belonging to developed international. The gaining indices for the month can thank the Technology, Communication Services, and Consumer Discretionary sectors which were the only three of eleven S&P sectors that were positive for the month. Even more specifically, a mere handful of the largest capitalization stocks continued to drive performance for the U.S. equity market.

The pessimism and uncertainty surrounding the debt ceiling threatened the safe haven status of U.S. Treasuries which contributed to a spike in yields across the curve in May. In turn, the Bloomberg Aggregate Bond Index posted a negative for the month. On the positive side, yields have now become enticing for fixed income investors, setting the stage for attractive returns going forward.

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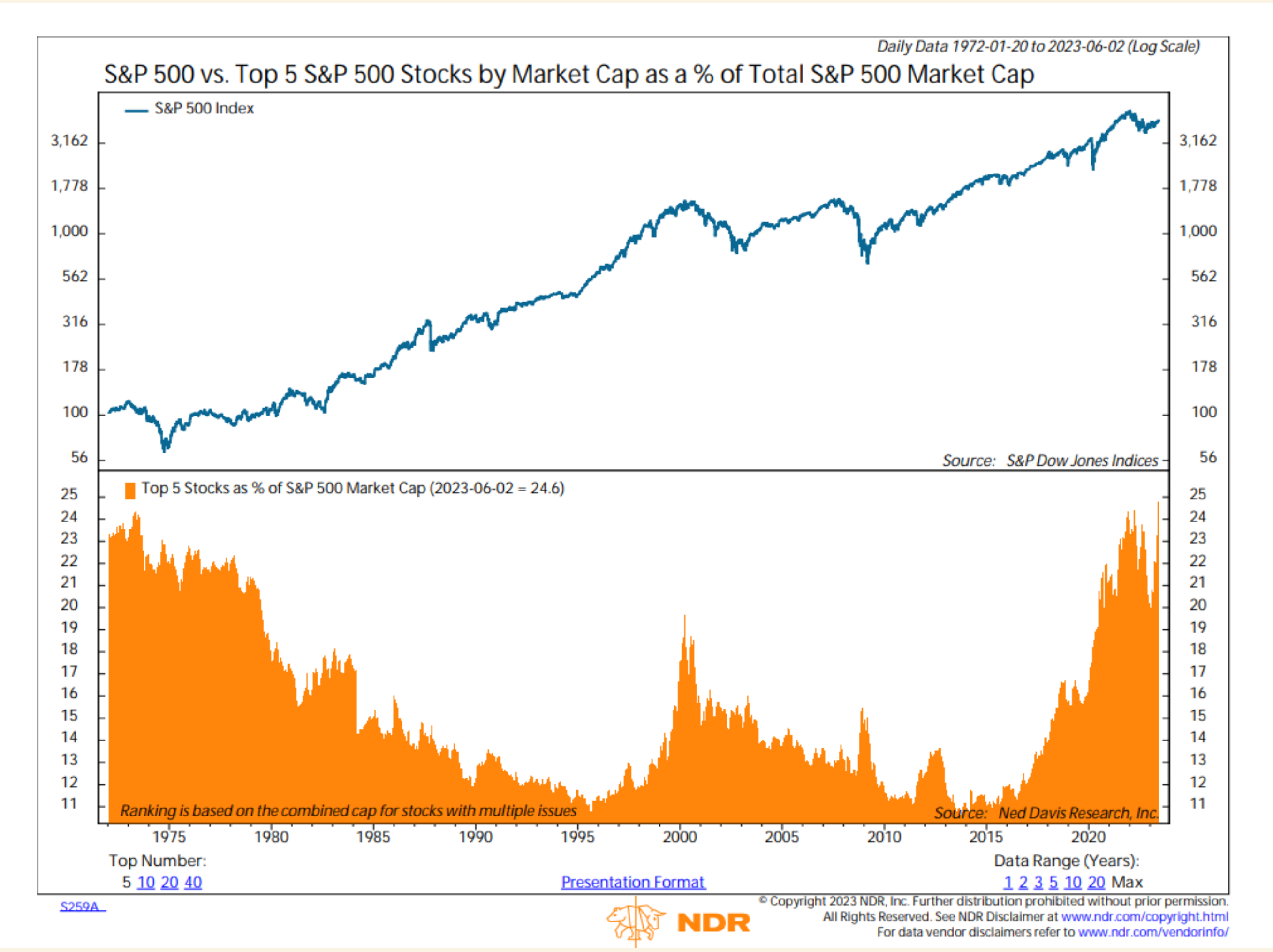
MARKET BREADTH AND CONCENTRATION

Last month we noted market breadth was narrow and only a few mega cap names were pulling the performance plow. In May, we witnessed a continuation of narrow breadth, strong performance by the mega-caps, and yet an even greater concentration in the S&P 500 given it is a market

Index	MTD	QTD	YTD	1 Year	2022
S&P 500	0.43	2.00	9.65	2.92	-18.11
Dow Jones Industrial Average	-3.17	-0.68	0.25	1.96	-6.86
Russell 2000	-0.92	-2.71	-0.04	-4.68	-20.44
NASDAQ Composite	5.93	6.00	24.06	8.04	-32.61
Europe, Australia, & Far East (EAFE)	-4.10	-1.30	7.22	3.61	-14.05
MSCI Emerging Markets	-1.65	-2.75	1.16	-8.07	-19.78
Bloomberg Barclays U.S. Aggregate Bond	-1.09	-0.49	2.46	-2.14	-13.04

As of 5.31.23; Returns in percent

capitalization-weighted index. The five largest stocks in the S&P 500 are Apple, Microsoft, Amazon, Alphabet and Nvidia which currently account for nearly 25% of the index. This is a record high that dates back to 1972. A key contributor to the strong performance is the optimism surrounding AI, which each company has invested in heavily. These five companies added a combined $975 billion in market cap in May alone. Even more astonishing, after Nvidia's recent earnings announcement the stock gained $184 billion in one day. There are 467 companies in the S&P 500 with lower market capitalizations than the one-day gain for Nvidia. For context, Netflix stands at $178 billion. Narrow leadership could persist for a while, however in the past when leadership has been this narrow, value and small caps (which have lagged this year) have often gained ground as valuations of the largest names reset over time. We will keep a keen eye on indications favoring a potential pivot to these areas of the market.



ANOTHER FED HIKE

In the ongoing battle to tame inflation, the Federal Reserve hiked rates by another 0.25% on May 3rd for the 10th consecutive time raising the fed funds rate to 5.00-5.25%. Inflation continues to moderate; however, the pace of decline is slowing, evidenced by the Consumer Price Index (CPI) reading of 4.93% for April which remains far above the Fed's 2% target. The next Fed announcement on rates is scheduled for June 14th and expectations for another hike, a pause or a skip have fluctuated wildly with conflicting economic data. Consumer spending is slowing but the labor market remains robust and even though unemployment inched up to 3.7%, it still hovers near 40-year lows. We believe the Fed should let the lag effect of tightening policy play out prior to additional hikes. Regardless of June's FOMC outcome, we are very likely in the last innings of policy tightening for this cycle.

DEBT CEILING SAGA

The debt limit or ceiling was created by Congress in 1917 and sets the maximum amount of debt the U.S. government can incur to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest, and other payments. Since 1960 the debt ceiling has been raised seventy-eight times, most recently in 2021 which has led many to question whether the debt ceiling should just be scrapped like a popcorn ceiling. However, failing to raise the debt limit would cause the government to default on its obligations which would threaten the benefit of issuing the world's safest assets, U.S. Treasuries. Fortunately, a deal was struck to avoid default. The Fiscal Responsibility Act of 2023 which suspends the debt limit until January 1, 2025, and caps discretionary spending during fiscal years 2024 and 2025 was passed by the House on May 30th and the Senate on June 1. President Biden signed it into law on June 3rd.

FIRST QUARTER EARNINGS

Approximately 99% of S&P 500 companies have reported results and 78% have reported a positive earnings per share (EPS) surprise and 75% have reported a positive revenue surprise. Earnings had to clear a lower bar in this reporting cycle and were expected to decline by 6.7%, however, the decline has only been 2.1%. This marks the second straight quarter of declining earnings but results have been better than feared. The forward P/E ratio for the S&P 500 is 18, which is below the five-year average of 18.6 but above the ten-year average of 17.3. Now that earnings season is in the rear-view mirror, expect the Fed and economic data to again drive market direction.