



MARKET MINUTE

MAY REVIEW 2023

This month's Market Minute reflects the views of Clearstead's Investment Office and was composed by [Thomas Seay, Senior Managing Director, Research, Clearstead](#)

OVERVIEW

The month of May was one of those months where it was wise to look beyond the headline. The headline – the NASDAQ was up +5.9%, but beyond the headline – the Dow Jones index was down -3.2%¹. The same can be said for the first five months of 2023, the headline – Year-to-date the NASDAQ is up +24.1%¹, but beyond the headline – The Dow Jones index year-to-date return is essentially zero/zilch/nothing. Technology leaders like Nvidia, Apple, and Microsoft are leading the artificial intelligence (AI) craze and grabbing the lion's share of investor dollars, while what is left to invest was sparsely sprinkled throughout the markets.

Those not focused solely on AI had to deal with the reality of politicians trying to score political points while the possibility of default looms (June 5th is now the "X" date for U.S. government default. As of this writing the House has passed a debt ceiling deal with the Senate likely to vote soon to avert a technical default). While the focus on monetary policy continues to capture investor attention as to whether the Fed will carry on with their tight policies in their effort to rein in inflation or whether they pause to see if their past actions are sufficient and, hopefully, avoid sending the economy into a recession. There were many other stories "below the fold" but AI captured the market's attention and investor's plowed into the "Magnificent Seven — Apple (AAPL), Alphabet (GOOGL, GOOG), Microsoft (MSFT), Amazon (AMZN), Meta (META), Tesla (TSLA), and Nvidia (NVDA)."² These seven stocks have accounted for 100% of the S&P 500 year-to-date returns.

U.S. EQUITY MARKETS As of May 31, 2023

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-3.2%	-0.7%	0.2%	2.0%
S&P 500	0.4%	2.0%	9.6%	2.9%
Russell 2000	-0.9%	-2.7%	-0.1%	-4.7%
Russell 1000 Growth	4.6%	5.6%	20.8%	9.5%
Russell 1000 Value	-3.9%	-2.4%	-1.4%	-4.6%

US equity performance was mixed in May with U.S. large cap growth stocks (Russell 1000 Growth Index) gaining +4.6% in May powered by the "Magnificent Seven", while large cap value stocks (Russell 1000 Value Index) lost -3.9% during the month. The S&P 500 was close to flat on the month gaining only +0.4%. US mid-cap stocks (Russell Midcap Index) fell -2.8% for the month weighed down by regional banks (KRE Regional Bank Index) which declined -8.7%. Small caps (Russell 2000 Index) also declined in May -0.9%. Across the cap-spectrum growth stocks outperformed value stocks, but the only way to really have recorded gains in May was to own the top-performing tech stocks.

By sector, Communication Services (Meta and Google) +6.2%, IT (Apple, Nvidia and Microsoft) +9.6%, and Consumer Discretionary (Amazon and Tesla) +3.2% all gained in May, but every other sector declined during the month.¹

INTERNATIONAL EQUITY As of May 31, 2023

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-3.6%	-2.0%	4.8%	-1.4%
MSCI EAFE	-4.2%	-1.5%	6.8%	3.1%
MSCI Emerging Markets	-1.7%	-2.8%	1.1%	-8.5%
MSCI EAFE Small Cap	-4.2%	-2.2%	2.6%	-4.7%

International equities traded lower during the month but were also weighed down by the dollar, which strengthened during the month against most developed and emerging market currencies. International developed market equities (MSCI EAFE Index) lost -4.2% in May, while emerging market equities (MSCI EM Index) lost -1.7%. Many emerging markets in Latin America and Europe eked out small gains in May, but Chinese equities (MSCI China Index) fell over -8.4% and dragged down the overall index. Like U.S. markets, growth stocks generally outperformed their value stock peers, but by less a margin than in the U.S.

FIXED INCOME As of May 31, 2023

FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-1.1%	-0.5%	2.5%	-2.1%
BarCap Global Aggregate	-2.0%	-1.5%	1.4%	-4.5%
BarCap US High Yield	-0.9%	0.1%	3.6%	0.0%
JPM Emerging Market Bond	-0.9%	-0.4%	1.8%	-1.0%
BarCap Muni	-0.9%	-1.1%	1.7%	0.5%

Fixed income investors witnessed a challenging May as interest rates marched higher throughout the month. At the short-end of the yield curve the Treasury 2-year note was up 40 bps, yielding 4.41%, while at the long-end the 10-year Treasury was up 22 bps, yielding 3.65%¹. In that spreads were essentially unchanged, performance generally reflected the duration characteristic of the asset class as the shorter duration Bloomberg High Yield index was down -0.9%, while the longer duration Bloomberg Investment Grade bond index was down -1.5%. Due to sticky price inflation and a robust labor market, the volatility in the bond market will continue as markets wrestle with “higher for longer” interest rates.

CONCLUSION & OUTLOOK

Even though the long-term possibilities of AI's influence on the economy and life in general are amazing, the market's prosperity cannot be built solely on the shoulders of the “Magnificent Seven.” While not finalized, it appears the drama playing out in Washington will be resolved and default on our national debt will once again be avoided. As such, behind the headline grabbing political shenanigans and the AI romance, lies the ongoing mystery as to the direction of the U.S. economy. With nearly 97% of the S&P 500 having reported, the Q1 earning season has turned out better than initial expectations. 78% of companies reporting thus far have had positive earnings surprises, which is better than historic averages.³ Many a Fed governor gave speeches last week emphasizing that inflation remains stubbornly high, and tight monetary policy would need to be maintained even if economic growth slowed. For now, we are likely to carry on with a higher for longer policy stance from the Fed and financial market volatility may continue to be a key risk factor as high interest rates work through the economy.

SOURCES

¹ Bloomberg LP

² CNBC Online

³ Factset Earnings Insight as of May 26, 2023

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