Market Update

Shrugging off mixed economic signals, disarray amongst regional banks, and rising interest rates, the S&P 500 grinded higher over the first five months of the year. A surprisingly small number of stocks has accounted for most of the gain in the S&P index, however. The table below shows the performance of the S&P 500 by economic sector, with 8 of the 11 sectors actually posting year-to-date losses through the end of May. The Technology, Communications Services, and Consumer Discretionary sectors were the largest contributors to the S&P 500 on a cap-weighted basis, which rose 9.3% over the last five months. Yet, the same index on an equal-weighted basis declined 1.2% over the period, revealing the substantial contribution that mega cap stocks made to the overall cap-weighted index return.

Changes in Price and Price-to-Earnings by Sector[1]

12/31/2022 Through 5/31/2023

Sector	Percent Change in Price	Price/Earnings[1] as of 12/31/2022	Price/Earnings[1] as of 5/31/2023	Percent Change in Price/Earnings[1]
Technology (XLK)[2]	32.0%	20.2x	25.4x	25.7%
Communication Services (XLC)[3]	29.7%	14.5x	17.1x	17.9%
Consumer Discretionary (XLY)[4]	17.4%	20.6x	23.5x	14.1%
Industrials (XLI)	-1.4%	18.0x	17.5x	-2.8%
Real Estate (XLRE)	-2.4%	16.4x	15.8x	-3.7%
Consumer Staples (XLP)	-2.5%	20.7x	19.2x	-7.2%
Materials (XLB)	-3.4%	15.8x	16.0x	1.3%
Health Care (XLV)	-5.9%	17.4x	16.5x	-5.2%
Financials (XLF)	-7.1%	12.1x	12.7x	5.0%
Utilities (XLU)	-7.9%	18.8x	16.7x	-11.2%
Energy (XLE)	-12.4%	9.8x	9.7x	-1.0%
S&P 500 (SPY)	9.3%	16.6x	18.1x	9.0%
S&P 500 Equally Weighted (RSP)	-1.2%	14.6x	14.6x	0.0%

Data ending 5/31/2023
[1] Price/Earnings based on Next-Twelve-Months Earnings.
[2] The weights of Microsoft, Apple and NVIDIA are over 50% of the XLK ETF.
[3] The weights of Alphabet and Meta are over 50% of the XLC ETF.
[4] The weights of Amazon and Tesla are over 40% of the XLY ETF.
Source: FactSet

In recent weeks, market momentum has been dominated by stocks with a perceived connection to the development of Artificial Intelligence (AI) applications. While the potential for AI-related products and services is significant, the recent frenzy for AI-related stocks is somewhat reminiscent of investor enthusiasm for digital currencies several years ago and, more distantly, the tech bubble of the late 1990s. (NVIDIA, a manufacturer of semiconductors that can be used in AI applications, now sells for 36x *revenues* and 123x trailing earnings.)

The fourth column of the table shows the change in the sector P/E ratio from the beginning of the year through the end of May. Contributing to their strong performance, the Technology, Communications Services, and Consumer Discretionary sectors have all seen significant increases in their P/E ratios, while most of the other sectors have seen smaller gains or even declines in their P/Es. Notably, the P/E of the cap-weighted S&P 500 has risen, while the P/E of the equal-weighted index is virtually unchanged from the beginning of the year. This suggests that good opportunities continue to exist among stocks below the mega caps in terms of size.

While Technology remains the largest sector weighting in our Large Cap Growth portfolio, we continue to find good opportunities in the Health Care, Industrials, and Financials sectors as well. We believe that diversification beyond the largest stocks in the index will likely prove to be rewarding going forward.

DISCLOSURES

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