The Weekly Market Update – 5/30/23: Technology Rally Lifts S&P 500 to New 2023 Highs

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,205.45	0.32%	2.34%	9.53%	1.78%	4,796.56	14.1%
Dow Jones Industrial Average	33,093.34	-1.00%	-0.54%	-0.16%	0.35%	36,799.65	11.2%
NASDAQ Composite	12,975.69	2.51%	6.17%	23.97%	5.20%	16,057.44	23.8%
Russell 2000	1,773.02	-0.04%	-1.63%	0.67%	-4.89%	2,442.74	37.8%
MSCI EAFE (USD)	2,080.91	-2.38%	-0.56%	7.05%	2.32%	2,398.71	15.3%
MSCI Emerging Markets (USD)	972.86	-0.45%	-1.76%	1.72%	-9.60%	1,444.93	48.5%
Bloomberg Commodity Index	100.08	-0.98%	-5.14%	-11.28%	-22.71%	237.95	137.8%
Barclays U.S. Aggregate Bond	89.20	-0.73%	-2.07%	0.36%	-4.97%	112.07	25.6%

Source: FactSet

Recent equity market gains were paced by a surge in technology-centric companies as data suggests that a new era of capital spending is driving opportunity. When semiconductor company Nvidia (NVDA) reported first quarter financial results last week, the company said that demand for its artificial intelligence (AI) semiconductors was surging, leading to a near-term revenue outlook significantly above prior expectations. AI is now a widely used term, sometimes also called machine learning, to describe advanced computing systems that utilize all available data to predict outcomes, create content, improve customer service or drive overall efficiency (partial list). “Generative” AI includes the ability, when prompted, to create text, images, other media, and even computer code in a matter of seconds. Companies using the technology hope to enhance productivity, perhaps by creating labor efficiency, and also see the potential to create new revenue opportunities and increase customer engagement. A couple of the early generative AI systems include ChapGPT and Bard. Generative AI models require significant computing power and use specialized semiconductors (chips) designed by Nvidia. Early adopters of this technology are the cloud-based service providers as they add AI capability to the cloud-based services sold to large corporate (enterprise) customers. Through 5/26/23, the Information Technology sector drove strong results in leading U.S. equity indices as the widely followed, large-company S&P 500 index gained 9.5% year-to-date (YTD). Within the S&P 500, its largest industry sector, Information Technology, gained 34.0% YTD (the largest 2023 YTD gain among the 11 Global Industry Classification Standard, GICS, sectors identified by Standard and Poor’s). In addition, the technology- and growth-centric Nasdaq Composite index increased 24.0% in 2023 YTD through 5/26/23. The technology-centric equity gains have far outpaced returns in other sectors YTD, driven by gains for chip companies (benefitting from the capital investment) and service providers (expecting to drive future revenue opportunities). We remain concerned that 2023 equity market returns are narrow (concentrated in fewer sectors) and continue to advocate for diversified sector exposure as we look ahead.

An agreement to raise the U.S. debt ceiling over the holiday weekend creates visibility for Congressional approval over the next several days. While the deal discussed between President Biden and House Speaker McCarthy must still receive both House and Senate approval, it appears that the U.S. can avoid a spending crunch and possible technical debt default as the agreement provides for an increase in the debt ceiling through the end of 2024. Since the U.S. economy continues to run at a considerable annual deficit (government spending exceeds tax revenue), there is no choice but to raise the debt ceiling. While the fear of a default has created obvious anxiety, the messiness of divided government (legislative control split between Democrats and Republicans) leads to difficult discussion, but in the long run, a healthy debate about spending and revenue priorities. Against a budget deadline of 6/5/23, we look for Congress to vote on the bill this week.

As May ends and June begins this week, we are watching data on consumer spending to gauge the trajectory of the U.S. economy. On Friday, the Bureau of Labor Statistics (BLS) will release its May jobs report. Nonfarm payrolls are expected to show an increase of 188 thousand (K) compared to 253K in April, continuing a modest slowdown, but still solidly positive. Recent jobs gains spanned industries, but service sectors have led jobs gains, mirroring a consumer spending shift toward services.

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