May 2023 Market Update

Special points of interest:

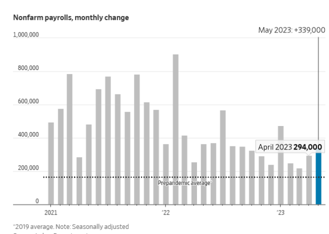
- **May market results were mixed—Nasdaq strength was coupled with DJIA weakness and higher rates.**
- **Bank sector turmoil and a decline in lending vied with tech industry profits and higher job growth.**
- **The debt ceiling crisis was resolved at the last minute, removing some uncertainty from stock markets.**
- **Resilient consumer spending and a new equity bull market may mean more Fed rate hikes—but also better prospects for stocks.**

Inside this issue:

The Markets in May 2023

May's market results were a decidedly mixed bag. For the month, the DJIA declined 3.5% while the S&P500 index eked out a 0.2% gain. Reflecting the asynchronous nature and narrow breadth of this market, however, the Nasdaq rocketed higher by 5.8% on the backs of a few large-cap tech company stocks. Crude oil prices traded on the NY Mercantile Exchange dropped by over 11%, and gold prices fell 1.3% in the month. The 10-year Treasury yield rose from 3.45% at April's end to 3.64% by the end of May.

Why the discrepancy? In May, the Federal Reserve raised their benchmark fed-funds interest rate for the 10th consecutive time to a range of 5-5.25%, which further pressured fixed income yields. At this point, though, all signs point to a pause in June to re-assess where our domestic economy stands—this pause benefits the tech industry particularly, which is still growing profits even in the shadow of a potential recession.



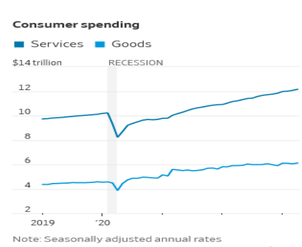
Not all industries are so fortunate. One reason for delaying rate increases at this point is the banking sector, which continues to experience intermittent turmoil and a decline in lending. On the other hand, the Fed sees continued higher-than-expected job growth as a mixed blessing. Payrolls grew by 339k in May, surpassing economists' forecasts. The Fed's crystal ball will be cloudy!

Pressure on the banking system increased in May, even as the Fed hiked rates for perhaps the last time this year.

The Look Ahead

As I expected, the debt ceiling crisis was resolved at virtually the last minute by the weekend of June 3 with the final signing of a bill that kicks the can two years down the road. What now?

The prospect of a Fed-induced recession continues to loom over bond markets, but consumers and the stock market seem to have tuned out the message now. As of



early June, stock markets have returned to a bull market off of last year's lows. Consumer spending has also remained resilient, with job growth numbers supporting spend levels above pre-pandemic trends. This will likely mean 'higher for longer' interest rates —and potentially a further rate hike or two later this summer. But it also lends credence to the idea of a 'soft landing' or a lower impact 'job-full' recession. Relatively high short-term rates are still attractive, but I think it's also time to start looking at some equity sectors again.

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