Market Update June 2023

After a strong April, major U.S. equity indexes experienced a mixed May, with technology and artificial intelligence stocks leading the way and capturing the market's attention.
Here is the tale of the tape for the month of May: The S&P 500 ($SPX) rose by 0.25%, the Nasdaq 100 ($NDX) surged by 7.61%, and the Dow Jones Industrial Average ($DJI) declined by 3.49%. Capital flowing into technology and shifting away from industrials has been eye-popping.

Technology + AI Surged in May

With AI on the minds of many, technology stocks continued to surge in May. The Nasdaq and its mega-cap counterpart, the Nasdaq 100, have outperformed other U.S. indexes thus far in 2023.
Recent earnings from chipmaker giant NVIDIA were massive, showing a 19% increase in revenue in the first quarter that ended on April 30th, 2023. That's big, and it's because of AI.
Over the past several years, NVIDIA's business has expanded due to the increasing demand for its graphics processing units (GPUs). These specialized processors (also known as video cards) power multi-monitor setups at the office, enable graphics-intensive games, and have powered cryptocurrency mining technology over the last decade. NVIDIA's recent valuation surge has been attributed to the AI chips they produce, and the company briefly reached a $1 trillion valuation, joining the ranks of Apple, Microsoft, Alphabet, and Amazon. Sell in May and go away? Not in tech and not in AI.

What's in the Debt Limit Deal?

The Fiscal Responsibility Act of 2023 (here is the 99-page bill) suspends the debt ceiling until Jan 1, 2025. Spending caps are also included for the next two years, limiting military spending and nonmilitary discretionary spending. The bill also includes some changes to IRS funding, return of unspent COVID-19 funds, and some adjustments to welfare (but not an overhaul).

Fed Minutes Show Division, Market Interpretation

Meeting minutes from the May Fed meeting showed division on rate hikes moving forward, with a split vote among voting members. Given the uncertainty over the debt ceiling in May, the Federal Open Market Committee (FOMC) voting member division on the topic makes sense.

"It remains to be seen whether the Fed is prepared to pause or skip a rate hike at a forthcoming meeting," said Mark Hamrick, senior economic analyst at Bankrate. "For officials to decide, there's still this jobs report and the Consumer Price Index due before the June 14th Fed meeting and announcement." On the final day of May, the most recent read on the jobs market showed surprise strength, courtesy of the May 31st JOLTS jobs data. Job openings rose to 10.1 million in April versus 9.5 million expected. This was an increase from 9.7 million vacancies in March. Typically, one would expect surprise job market strength to increase the chance of a Fed rate hike. However, suddenly, on May 31st, rate hike probabilities drastically shifted to a 62.2% chance of no rate hike at the June meeting, per the CME FedWatch tool, versus a 33.4% chance of such occurrence the day before. The JOLTS jobs data release coincided with the day after the debt ceiling bill passed the House Rules Committee and the day of the full House vote.

Mixed Inflation Signals

Consumer Price Index (CPI)

Released in May, the April CPI data indicated moderating inflation. April data showed inflation falling to an increase of 4.9% year-over-year, just one tick lower than market expectations. This is good news amid the current inflation battle. The 4.9% rise was the lowest annual rise since April 2021 and was the tenth straight month of declines. On a monthly basis, consumer prices advanced 0.4% in line with the Dow Jones estimate. Used vehicle prices and gasoline prices contributed to keeping average prices firm.

Personal Consumption Expenditures (PCE)

Later in May, however, the Fed's preferred inflation gauge, Core PCE, showed inflation running hotter than expected. What gives? For one, CPI tends to be more volatile than Core PCE.

Slowing inflation will not be a straight line down, so zig-zags and conflicting data within identical time periods can be expected. How the Fed will interpret this data at the June meeting could be potentially exemplified by the mixed vote we saw in the minutes from the last meeting.

Have you noticed slightly lower prices on groceries? There seem to be more sales with quantity discounts and an overall easing in some food pricing. We'll take it!

With that overview noted, if you would like to talk about the current market outlook or explore investment strategies based on your objectives, please don't hesitate to reach out by phone or email. I am always here as a resource.

JASON R. JONES
MBA, CPA, CFP®

CACHE FINANCIAL
Innovative Financial Solutions

435-787-0500

www.cache-financial.com