What's below the surface of the market rally seen so far in 2023?

A very happy July to each of you! We hope that you are enjoying a warm and safe summer after a long and cold winter that seemed like it might never end!

After a painful year for investors in 2022, 2023 has had a refreshingly nice start – but what has driven this rally?

The chart below was published by Goldman Sachs and illustrates the fascinating phenomenon we have observed over the last several months in the market. We see here that from December of 2022 through May of 2023, the S&P 500 was up 10%. What is interesting is when we take a closer look at where that performance came from. If we look at the light blue line in this chart which is comprised of seven mega cap tech stocks: Meta (Facebook), Amazon, Apple, Microsoft, Google, Tesla and Nvidia – we see that together they were up 44% in this six month period. However, if we remove those seven names and look at the remaining 493 companies in the S&P 500 index, we see that in aggregate those 493 stocks were only up 1% in that same time frame.
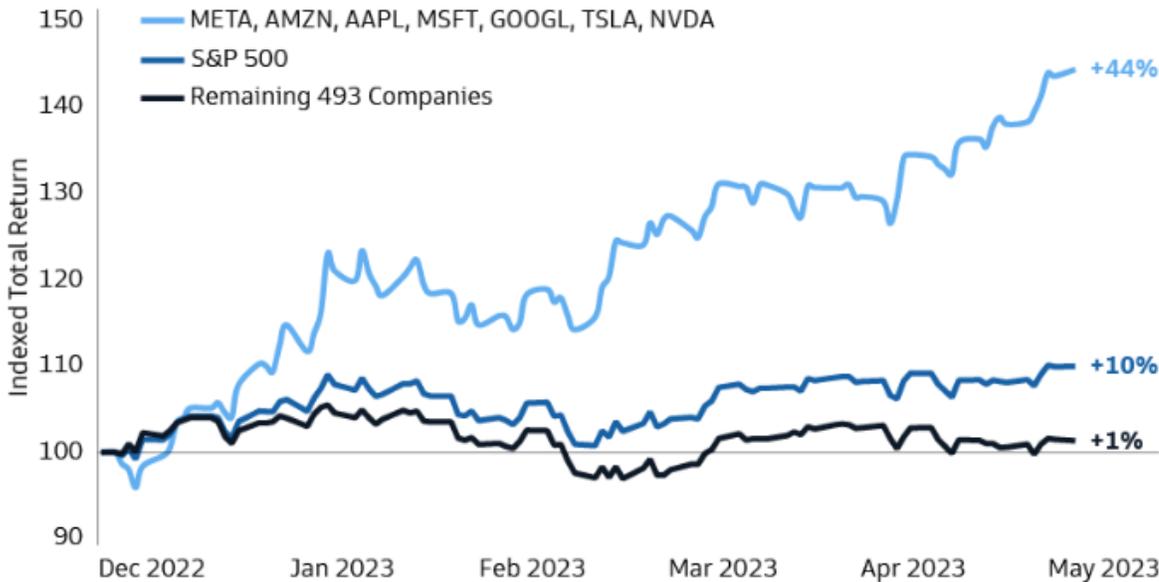
Source: GS Global Investment Research and GS Asset Management.

While questions remain with inflation and what the Federal Reserve's course of action will be for the remainder of the year, this chart serves as a sound reminder that opportunities remain long-term for much of the market.

Diverging Sector Performance

At just 6.8%, the S&P 500 Technology sector ended May closer to its prior all-time highs than any other sector. Real Estate and consumer discretionary ended May the farthest below all-time highs at -30.5% and -29.0%, respectively, and the S&P 500 was still 12.8% below all-time highs. (Source: MFS BTN 6/5/23)

Nasdaq vs. Dow Historically

The Nasdaq's 5.8% gain in May outperformed the Dow's 3.5% decline by 9.3 percentage points. In the Nasdaq's history starting in 1971, its monthly outperformance relative to the Dow was the ninth widest on record. All eight prior months where the tech-heavy Nasdaq outperformed by a wider margin were in a 35-month period from December 1998 through October 2001. (Source: MFS BTN 6/5/23)

What about the S&P?

During May, the S&P 500's 200-day moving average hit a low and then climbed more than 1% off that low. In the 20 prior periods since 1928 when the S&P 500's 200- DMA rallied 1% from a 52-week low, the index was higher a year later all 20 times with a median gain of 14.4%. (Source: MFS BTN 6/5/23)

Thank you for the trust you continue to place in us. We hope you have a safe and enjoyable rest of the summer!

Best Regards,   Mark, Brad T., Drew, Brad H., Renee & Erin

Mark Hansen, CRPC®, CWS®
Senior Vice President,
Financial Advisor,
Portfolio Manager

Brad Thurber, CFP®
Senior Vice President,
Financial Advisor,
Portfolio Manager,
Branch Manager

Drew Morin, CWS®
Financial Advisor

Bradley Hansen
Senior Vice President,
Portfolio Manager

Renee A. Chase
Senior Registered Associate

Erin Lui
Supervisory Branch
Operations Manager,
Registered Client Associate