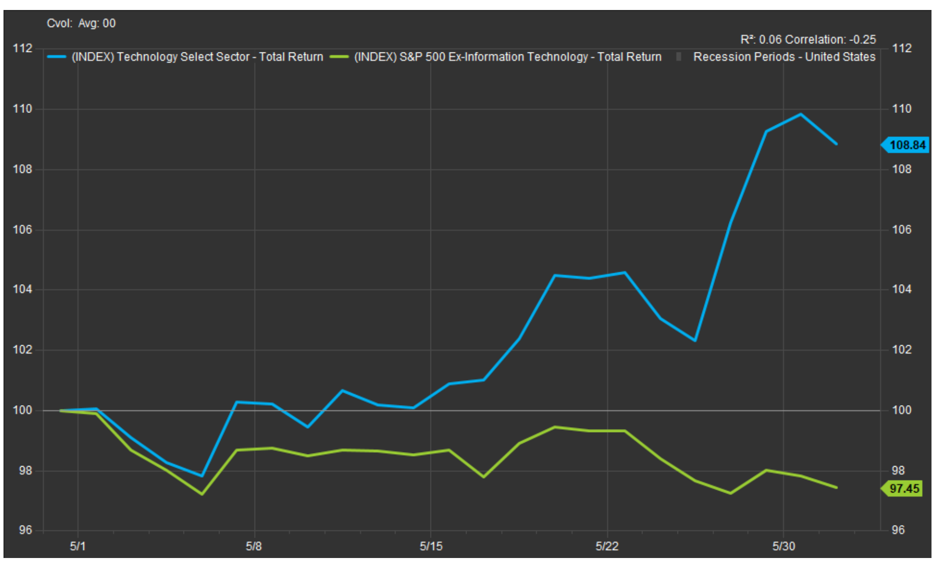
MARKET UPDATE

JUNE 8, 2023

"I am putting myself to the fullest possible use, which is all I think that any conscious entity can ever hope to do."

- ***HAL 9000, 2001: A Space Odyssey***

The month of May has been a story of artificial intelligence. Though A.I. has existed for some time, the debut of Microsoft-backed, *ChatGPT* in November of 2022 brought the technology into the public realm. The platform allows users to tap into the collective knowledge of the internet to do everything from writing poetry to solving complex math problems. By January of 2023, *ChatGPT* boasted over 100 million users and the race to harness A.I. was on with Google releasing its *Bard* chatbot in March. Artificial intelligence dominated Q1 corporate earnings calls with 190 mentions of the technology between Alphabet, Meta, Microsoft, Amazon, and Apple according to Statista. A.I. promises to shake up the status quo, creating enormous gains in productivity, changing the way society functions, and some have even speculated the technology could become sentient. Investors have sought exposure to A.I. at the expense of other industries, driving the Nasdaq up 5.9% in May and the Dow Jones Industrial Average down 3.5%. Within the S&P 500, the Information Technology sector stood out as the clear winner, returning 8.8% for the month, while the S&P 500 ex-Information Technology lost 2.6%.



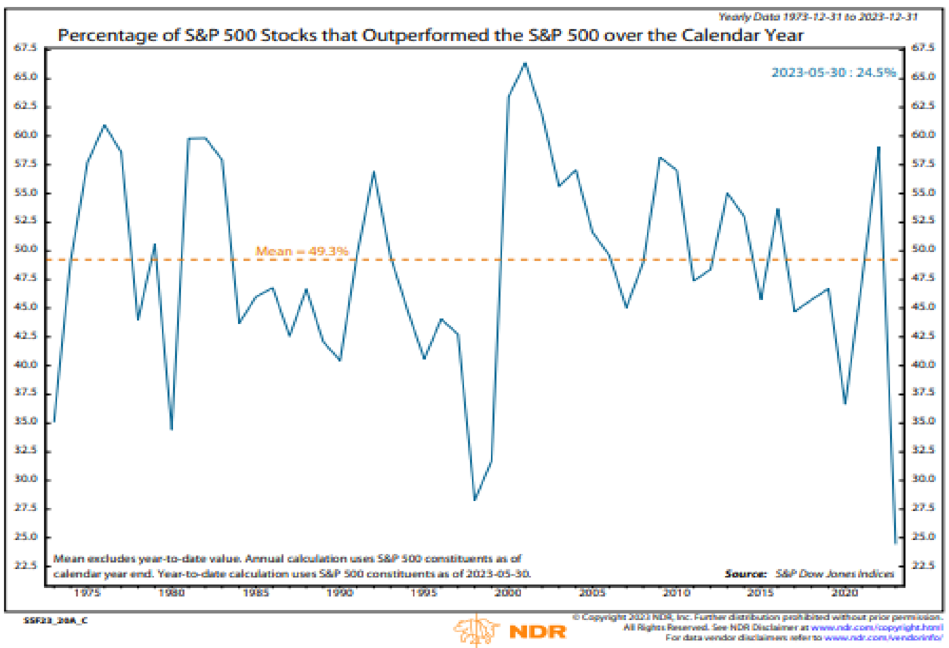
Source: FactSet

Many have likened artificial intelligence to the next industrial revolution or the dawn of the internet age, and investors have every right to be excited by the technology; however, the rapid growth in valuations is cause for concern. Such parallels bring to mind the *dot-com* era in which investors rightly saw the internet's potential but ascribed valuations that overshot underlying fundamentals. Can firms at the vanguard of A.I. grow into their elevated multiples or might this recent run-up be another example of what Alan Greenspan dubbed “irrational exuberance”?

The economic backdrop of A.I.’s market dominance seemingly comes in the face of numerous headwinds. Federal Reserve rate hikes have yet to slow inflationary pressures. Latest personal consumption expenditures (ex-food and energy) were up 4.7% year-over-year. U.S. employers added 339k jobs in May, the second-straight month-over-month increase. Credit rating agency Fitch placed U.S. AAA debt on *Rating Watch Negative* amidst political brinksmanship on Capitol Hill.

While headwinds seemed no match for A.I. tech stocks, most others failed to participate in such spectacular returns. The S&P 500 has been driven by a handful of technology stocks and such low market breadth calls into question the sustainability of returns.

SPX on pace for fewest stocks beating index on record



Source: Ned Davis Research

The mean reversion of mega-cap stocks that underperformed in 2022 has led to just 24.5% of companies in the S&P 500 outperforming the index as of May 30th, the lowest on record. Historically, in periods following narrow leadership, the S&P 500 has yielded below average returns while small-cap and value stocks have outperformed large-cap and growth stocks.

All of this points to the necessity of diversified portfolios. We aim to construct portfolios that include companies participating in A.I. while diversifying risk by maintaining exposure across asset classes, sub-asset classes, factors, and industries. We asked *ChatGPT* why diversification is so important – it listed risk reduction, potential for higher returns, and long-term stability, among others. We tend to agree.

We appreciate the opportunity to work with you and please do not hesitate to reach out to your Seacoast Wealth team with any questions.

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Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge: *Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.*