



## MARKET UPDATE

MAY 9, 2023

Markets ended in April generally higher than last month. Investors weighed positive news on corporate earnings against uncertainty about the Federal Reserve's next move as it continues to battle inflation. The S&P 500 Index was up 1.56% and up 9.17% year-to-date. While we welcome returns in the green, we are cautious in consideration of the drivers of return. We find it valuable to deconstruct both the index and its constituents to determine these drivers and, ultimately, our portfolio composition.

The S&P 500 Index is often considered to be the standard benchmark for the U.S. equity market. It consists of the 500 largest companies in the country and is weighted by market capitalization. This means that the value of a company's outstanding shares as compared to the aggregate value of shares for all 500 companies determines the percentage allocation in the index. It follows that large, household names like Apple, Microsoft, and Amazon, among others, have higher percentage allocations in the index. In fact, the top 10 holdings in the S&P 500 make up a combined 27.77% of the index. Unsurprisingly, these companies tend to fall into the growth category, with an average Price-to-Earnings (P/E) ratio of 26.1x compared with 15.9x for the rest of the index constituents. Higher P/E stocks show heightened sensitivity to interest rate changes. Small movements in rates can impact earnings estimates that ultimately dictate pricing. This concentration of growth stocks means that S&P 500 Index returns are often driven by just a handful of companies and the year-to-date figures substantiate this:



Source: FactSet

While the S&P 500 Index returned 9.17%, an equal-weighted index of the S&P 500's constituents returned 3.28%. Here, we see a decoupling of mega-cap growth stocks from other index constituents as interest rate expectations have shifted. Federal funds futures probabilities show investors anticipate a Federal Reserve terminal rate range of 5.00% to 5.25% with cuts expected in November. This is in contrast to expectations in early March that pointed to a terminal rate range of 5.50% to 5.75% with cuts not expected until January of 2024. As forecasts changed and corporate earnings came in higher than previously feared, growth companies that led the S&P 500 down 18.11% in 2022 have come back in favor and produced a welcomed tailwind in 2023.

At Seacoast, we believe in building diversified portfolios through fundamental analysis. The S&P 500's concentration in just a few stocks carries too much risk for a portfolio to be properly diversified. While such concentrations may produce outsized gains, the potential for outsized losses is ever present. With sensitivity to interest rates, fears of recession looming, and pending Fed policy actions, we feel it is more important than ever to employ active management in portfolio construction. We seek not to chase short-term trends of market indices, choosing instead to build portfolios made for long-term returns and resiliency in the face of uncertainty.

As always, please do not hesitate to reach out to your Seacoast Wealth Management 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](http://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.*