



FINANCIAL MARKET

INSIGHT

VANN EQUITY MANAGEMENT

## What is Really Taking Place in the Market?

Our Investment Committee thought we would offer up our thoughts on the ongoing comparison of the equal weighted vs market cap weighted saga of the S&P 500; and what is really taking place in the market.

- Year to date, we have seen the major indices (S&P 500, Nasdaq, and Dow) move higher on the back of mega cap technology stocks like Apple, Microsoft, Meta and Amazon.
  - We know this because the aforementioned indices are market cap weighted, meaning that the larger the company in the index, the more its performance impacts the index performance.
- A simple comparison of these to **the equal weight version tells “the story”**.
  - When you take out the effects of these gigantic tech companies, you see that instead of being up 7-10% since the beginning of the year, the broader market is flat or even negative.
  - This is a really important thing to understand in our opinion, and why we have spent so much time analyzing what is going on under the hood versus what you see on TV or on the internet.
  - The fact of the matter is a whole lot of companies are struggling to meet lower and lower earnings estimates.
- We have seen a nice run up into earnings season, which began two weeks ago and saw most of those big tech companies report just last week.
  - They all beat estimates (albeit lower estimates) and most beat on the top and bottom line.
  - So how did the market respond in the face of all this good news from the flag bearers of the 2023 stock market?
    - Well, it ended about where it began (S&P 500).
      - The S&P 500 started last week at the top of its recent trading range (3900-4100), and it ended there after all the good news came out on the mega cap tech companies.
      - In between, it had a 3% selloff (from Monday – Wednesday) and a 3% snapback (Thursday - Friday).
      - All in all, it appears that the market had already priced in these earnings and now we are going to have to look elsewhere for some help.
- A simple comparison of these to **the equal weight version tells “the story”**. (As Stated Above)
  - It is one thing to see a bounce in Amazon, Microsoft and Apple and the like, after declines of 30-50% last year in the face of skyrocketing interest rates.



- It is a whole other proposition to get that same response from the other 490 companies that make up the S&P 500.
- Traders love to take advantage of the relationship between interest rates and tech companies.
  - **When interest rates rise** like they did last year **tech stocks get pounded**.
  - The reverse occurs as well. **When rates begin to pull back** (even due to slowing forecasted growth or recession fears), traders jump on board and **buy tech for a quick profit**.
  - In our view, this two-way trade phenomenon has been a major catalyst for the positive returns we have seen this year in the market cap weighted indices.
  - In our opinion, the difficulty in sustaining this upward move in price is that it is occurring for all the wrong reasons.
    - These stocks are bouncing from a bear market beating because interest rates are actually falling.
    - Interest rates are falling because the economy is weakening, and the bond market knows it. See our point?
    - Our view is that these stocks (and the market cap weighted indices) are not moving up because things are getting better - **they are moving up because things are getting worse**.
- Of course, **markets are forward looking and maybe the market is looking around the corner to when things will get better**. Maybe.
  - Keep in mind, we are likely to see another 25-basis point rate hike by the Federal Reserve tomorrow Wednesday, May 3, 2023, which puts more pressure on an already weakening economy.
  - It seems to us that we could have a long way to go before prices move up because our economy is getting stronger.
  - We will be much happier to see the transports, financials, real estate, and other cyclicals take the baton from big tech; and so far, that hasn't happened.

We will stay disciplined and take it day by day. We will continue to invest objectively based on our analysis and are prepared to add equity exposure should conditions in the broad market improve.

We are currently bearish; your portfolios are allocated accordingly.

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