BESPOKE Investment Group

The Bespoke Report

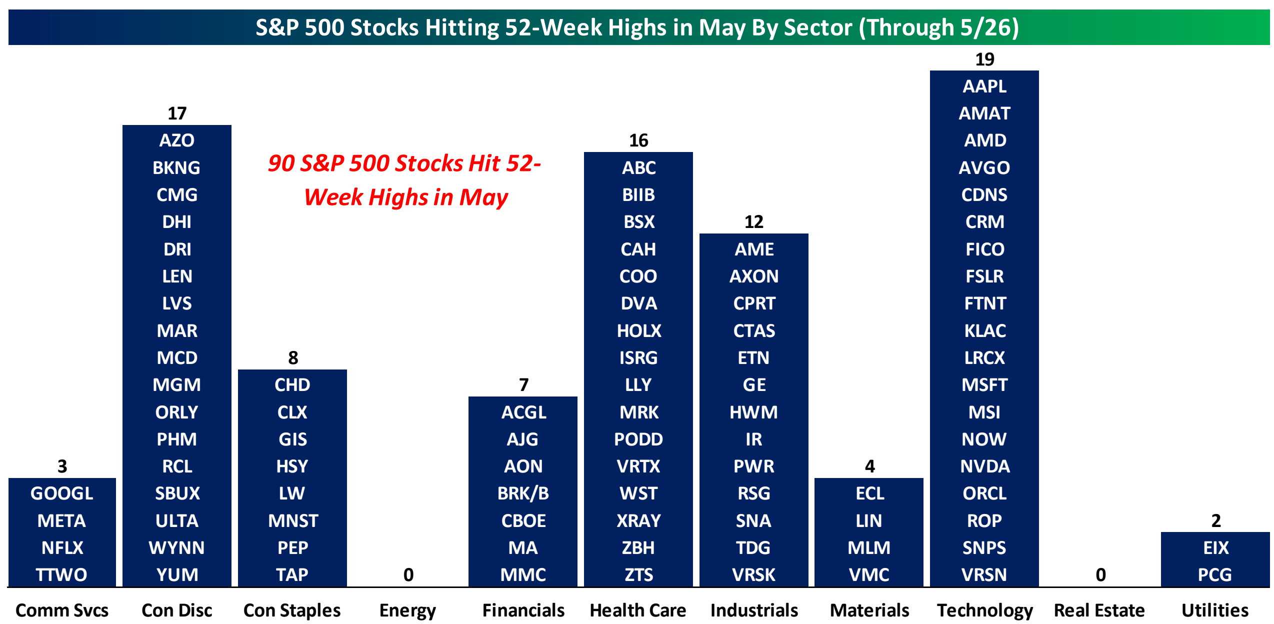
May 26, 2023

Not Just Mega Cap Tech

As you read through this week's report, you'll see very little mention of the ongoing debt ceiling negotiations that still have the potential to have a short-term impact on markets. That's for two reasons. First, we don't want to give politicians the satisfaction. The debt ceiling has been raised dozens of times over the last several decades and it will get raised again. Like the last few dramas surrounding prior increases, this charade will soon be behind us, and we can focus on other things. Let's just get it over with already. Second, there's really no way to game the entire process. If the US ended up defaulting (which we see as unlikely), it would be catastrophic for all involved. The short answer to what would happen in that event is that stocks and bonds would go down sharply, and we'd all have bigger things to worry about. So, that's enough of that.

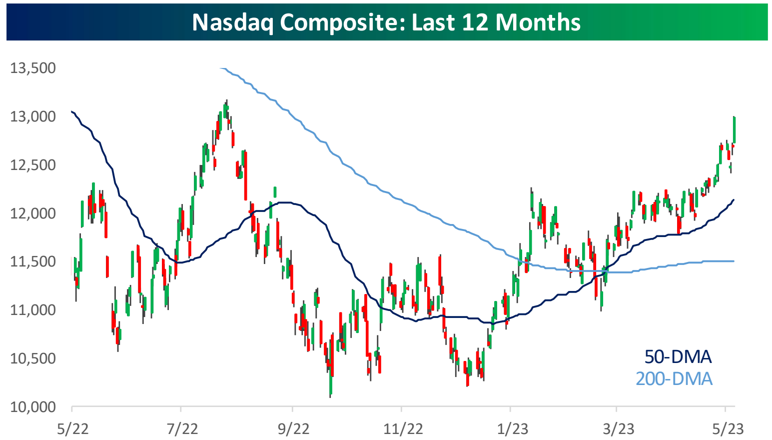
It's been a topic of conversation for several months now, but it only picked up in intensity this week with the 24% rally on Thursday in shares of NVIDIA (NVDA) which already had a market cap of $750 billion. Mega caps are outperforming all other stocks by a massive amount. Judging by the headlines, though, you would think that only a handful of stocks are higher on the year while everything else has been a dog. As the chart below shows, though, that hasn't been the case. This month alone, 90 stocks in the S&P 500 have traded at 52-week highs, and they have been spread across nine different sectors. Sure, Technology has been leading the way with 19 stocks making news highs, but it's also the largest sector by far, so that's to be expected. In addition to Technology, three other sectors have seen at least 12 components trade to new highs.

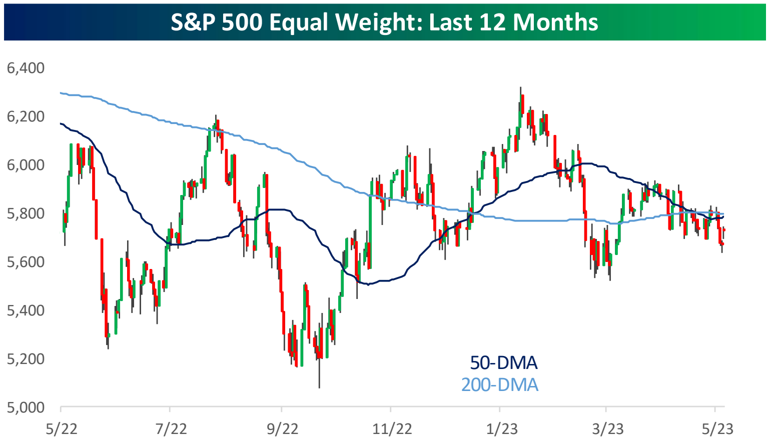
Read on in this week's report for more on the wide performance disparity between the biggest stocks and their smaller counterparts and how it could mean a broadening out of the rally. We also look into how time can be a bear's worst enemy, the bullish implications of the S&P 500's 200-DMA moving higher, and the renewed outperformance of semis. We also look at some encouraging signals regarding the still weak economy, how the market has been resilient in the face of a massive shift in market expectations for Fed policy, as well as seasonal trends for the summer and how stocks have performed following a strong first 100 trading days. So, grab a coffee or cocktail, get comfortable, and read on.

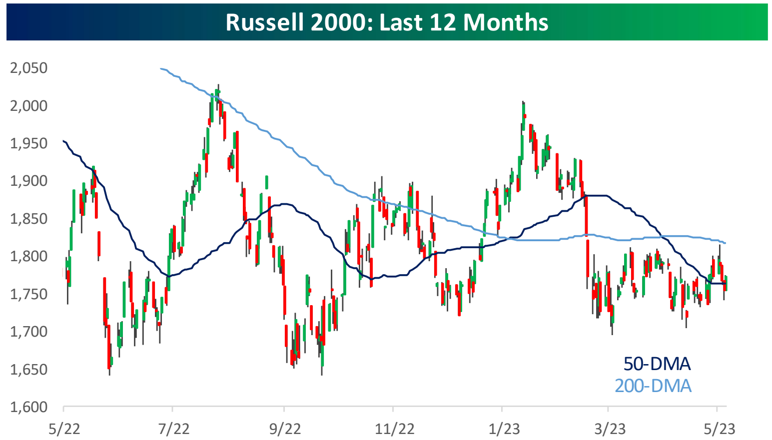


Before getting into the details of this week's report, first we'll look at where some of the major averages stand. Below are one-year charts of the S&P 500 (market cap weighted index), the S&P 500 equal-weight index, the Nasdaq Composite, and the small cap Russell 2000. The S&P 500 closed out the week right near its highs for the year, but despite all the talk about stocks going too far too fast, it's trading at the same levels it was trading at a year ago, nine months ago, and late January. The real action has been in the Nasdaq which isn't far from taking out its pre-Jackson Hole highs last August.

The S&P 500 and Nasdaq have been the stars of the show, but the equal weighted S&P 500 and the Russell 2000 have been real dogs, and the disparities are simply huge (we'll talk about them later). The equal-weighted S&P 500 has been trending lower since early January after outperforming the market cap weighted index for some time. In recent weeks, the downward sloping 50-day moving average has been steady resistance. Small caps have fared even worse as the Russell 2000 is much closer to 52-week lows than 52-week highs.







It was a mixed week for US equities as the S&P 500 and Nasdaq 100 were both higher while the Dow and Russell 2000 were both lower. It's rare to see, but one of the best performing ETFs in our matrix for both the week and on a YTD basis has been the Nasdaq 100. With gains of 3.50% and 31.00%, respectively, QQQ was the second-best performing ETF this week and it's the second-best YTD as well.

Growth continued to outperform value this week as sectors like Technology, Communication Services, and Consumer Discretionary were the only sectors higher while every other sector was down at least 1%.

It was generally a rough week for international stocks. India, Mexico, and Brazil were the only sectors to rally while every other country ETF was down at least 1% with most down at least 2%.

In the commodities space, natural gas continued its trend of underperformance and has been the worst performing ETF in the matrix across the board.

From a longer-term perspective, with the S&P 500 getting closer to its pre-Jackson Hole highs from last August, we'd note that many country ETFs are still way ahead of the US despite the shorter-term underperformance. At the sector level, while they've been moving in opposite directions this year, Technology and Energy are the two best performing sectors since August 16th.

Asset Class Performance This Week, YTD, and Since 8/16 - Total Return (%)

US Related

ETF	Description	This Week	YTD	Since 8/16
SPY	S&P 500	0.32	10.24	-1.03
DIA	Dow 30	-0.99	0.65	-1.48
QQQ	Nasdaq 100	3.50	31.00	5.42
IJH	S&P Midcap 400	-0.50	1.20	-6.05
IJR	S&P Smallcap 600	0.11	-0.28	-10.55
IWB	Russell 1000	0.30	9.79	-1.85
IWM	Russell 2000	-0.10	1.28	-11.28
IWV	Russell 3000	0.30	9.30	-2.39
IVW	S&P 500 Growth	1.07	14.55	-5.67
IJK	Midcap 400 Growth	-0.69	3.05	-6.52
IJT	Smallcap 600 Growth	0.64	1.01	-10.94
IVE	S&P 500 Value	-0.59	5.45	2.63
IJJ	Midcap 400 Value	-0.41	-0.84	-6.00
IJS	Smallcap 600 Value	-0.33	-1.61	-10.54
DVY	DJ Dividend	-1.53	-8.21	-11.52
RSP	S&P 500 Equalweight	-1.28	0.34	-6.18
FXB	British Pound	-0.73	3.28	3.53
FXE	Euro	-0.72	0.65	5.87
FXY	Yen	-1.97	-6.93	-5.02
GBTC	Bitcoin Trust	-3.89	66.83	-7.43
ETHE	Ethereum Trust	-2.17	70.59	-44.38
XLY	Cons Disc	0.16	17.88	-11.55
XLP	Cons Stap	-3.27	-1.02	-3.01
XLE	Energy	-1.10	-9.03	5.87
XLF	Financials	-1.61	-5.75	-8.96
XLV	Health Care	-2.77	-5.66	-3.53
XLI	Industrials	-1.42	0.56	-0.83
XLB	Materials	-3.08	-1.47	-4.97
XLK	Technology	4.62	32.69	9.83
XLC	Comm Services	1.06	29.67	4.38
XLU	Utilities	-2.39	-7.80	-14.96

Global

ETF	Description	This Week	YTD	Since 8/16
EWA	Australia	-2.61	0.76	-1.22
EWZ	Brazil	0.13	7.01	0.98
EWC	Canada	-2.85	3.24	-5.45
ASHR	China	-3.06	-2.64	-11.90
EWQ	France	-2.82	14.61	17.33
EWG	Germany	-2.59	15.49	18.89
EWH	Hong Kong	-2.14	-7.35	-6.67
PIN	India	2.98	3.05	-2.66
EWI	Italy	-2.43	13.10	23.56
EWJ	Japan	-1.30	10.53	5.81
EWW	Mexico	0.45	23.79	28.93
EWP	Spain	-1.34	13.83	17.32
EIS	Israel	-3.74	-4.84	-23.46
EWU	UK	-2.69	5.76	5.52
EFA	EAFE	-2.13	9.83	9.10
EEM	Emerging Mkts	0.06	2.92	-3.07
IOO	Global 100	-0.32	15.03	3.87
BKF	BRIC	-1.22	-2.73	-6.38
CWI	All World ex US	-1.38	7.19	5.09
DBC	Commodities	0.57	-7.34	-9.82
DBA	Agric. Commod.	-0.99	2.11	2.31
USO	Oil	1.60	-7.40	-8.86
UNG	Nat. Gas	-11.33	-53.09	-79.50
GLD	Gold	-1.57	6.56	9.27
SLV	Silver	-2.08	-2.79	15.27
SHY	1-3 Yr Treasuries	-0.46	1.13	0.30
IEF	7-10 Yr Treasuries	-0.82	1.96	-5.06
TLT	20+ Yr Treasuries	-0.22	2.36	-11.07
AGG	Aggregate Bond	-0.56	1.56	-3.40
BND	Total Bond Market	-0.52	1.60	-3.23
TIP	T.I.P.S.	-0.54	1.84	-4.44

Past performance is no guarantee of future results.

As in life, the worst enemy of a bear market is time. After making a low, the longer the index goes without making another one, the more likely it is that the bear market has ended, and a new bull market has started. Updating a study we did in April, in the post-WWII period, there have been 13 other periods in which the S&P 500 declined 20%+ from a 52-week high and then went at least seven months without breaching that low. In the table and chart below, we summarize each of those periods. The table shows the dates of each period along with how the index performed at various intervals over the next year, and the chart shows the performance over the following year for each period.

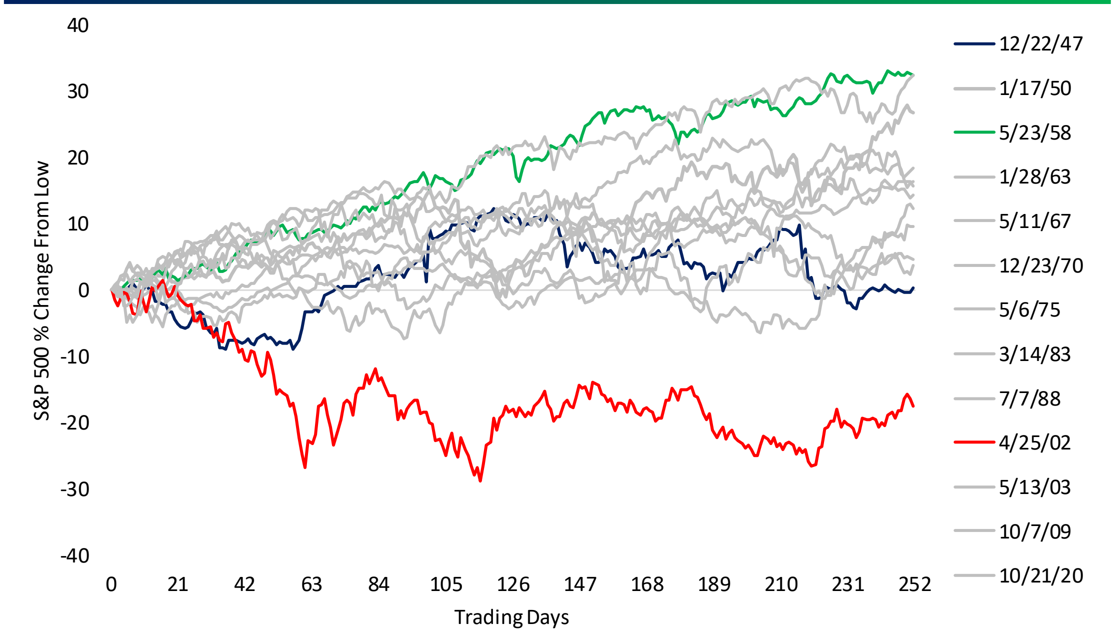
While performance over the following week has been weaker than average, performance over the following one, three, six, and twelve months has been better than the long-term average as well as more consistent to the upside. One year later, the only time the S&P 500 was lower was in 2001.

The current period has been somewhat unique in that it is one of only four times that the S&P 500 was not up 20%+ seven months after the low, and it is one of only three periods where the S&P 500 had still not reached the 20%+ threshold for a bull market. Unfortunately, when we look at those three other periods, market performance couldn't have been more divergent as the S&P 500 declined sharply once, rallied sharply once, and was flat the third time.

Six Months w/o a New Low After A 20%+ Decline From a 52-Week High

Date of Low	7 Months Later	7-Month Chg (%)	7-Month Max Gain (%)	Performance From 7 Month Point On (%) Week	Month	3 Month	6 Month	Year
5/19/47	12/22/47	10.38	17.07	0.13	-4.34	-5.79	10.26	0.33
6/13/49	1/17/50	24.43	26.13	0.00	1.19	6.52	1.19	26.69
10/22/57	5/23/58	12.54	12.90	0.75	2.23	7.64	21.27	32.62
6/26/62	1/28/63	26.61	26.61	-0.11	-1.16	5.25	3.47	15.69
10/7/66	5/11/67	28.07	29.21	-1.30	-2.34	1.95	-2.78	4.66
5/26/70	12/23/70	30.03	30.26	2.28	5.31	11.68	9.22	12.30
10/3/74	5/6/75	42.32	44.64	3.32	4.47	0.12	0.45	14.42
8/12/82	3/14/83	47.27	50.04	0.24	3.31	6.98	10.67	3.65
12/4/87	7/7/88	21.37	23.17	-0.56	0.06	0.05	2.81	18.31
9/21/01	4/25/02	13.01	21.40	-0.63	0.51	-24.89	-18.44	-17.65
10/9/02	5/13/03	21.31	21.67	-2.40	5.86	3.38	11.77	16.45
3/9/09	10/7/09	56.33	58.41	3.26	-1.05	7.13	12.18	9.50
3/23/20	10/21/20	53.55	60.04	-4.79	3.85	10.58	20.36	32.43
10/12/22	5/16/23	14.90	16.85	?	?	?	?	?
		Average		0.01	1.38	2.35	6.34	13.03
		Median		0.00	1.19	5.25	9.22	14.42
		% Positive		46.2	69.2	84.6	84.6	92.3
		All Periods Post WWII						
		Average		0.17	0.66	1.97	4.15	8.57
		Median		0.29	1.00	2.36	4.68	9.52
		% Positive		56.5	60.9	65.0	68.5	71.7

S&P 500 Performance After Going Seven Months Without a New Bear Market Low*



** Dates shown represent 7 months after the low point of 20%+ declines from 52-week highs that did not see a new low for at least seven months. Lines for each date show the % change in the 12 months following the seven month point from the low.*

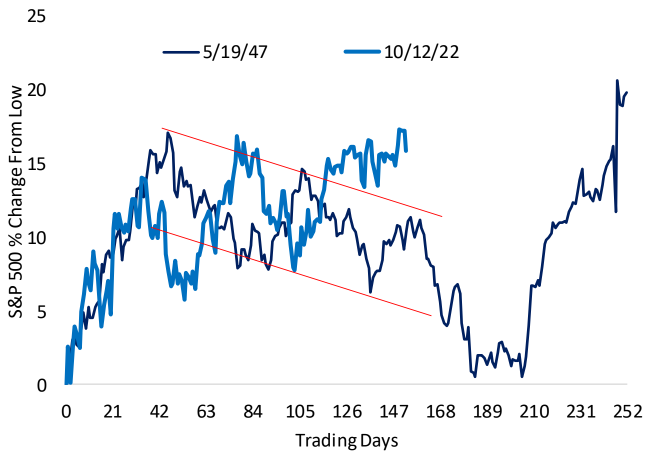
In the charts below we wanted to compare the S&P 500's performance during the last seven or so months since the October low to each of the three other periods that the S&P 500 *wasn't up 20%* seven months after the low.

Comparing the performance of the S&P 500 now to the period after the 1947 low, a key difference between the two periods is that at this point in 1947, the S&P 500 had already started trending lower and had given up nearly half of its early gains off the prior low. Conversely, in the current period, the S&P 500 has continued to trend higher, albeit gradually, from the lows.

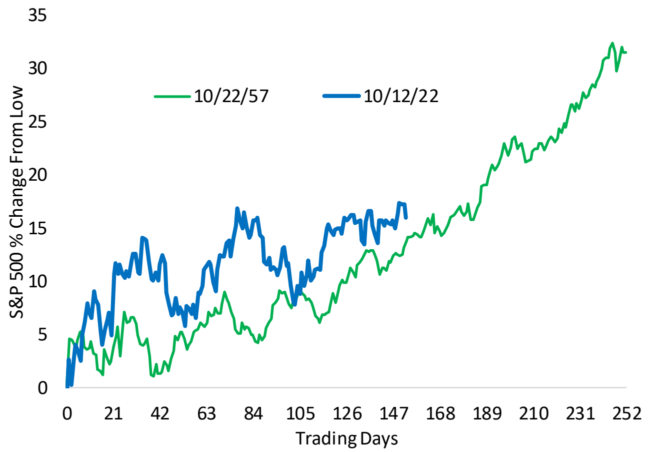
The 1957 lows were followed by the strongest returns of any prior period cited in the table on the prior page. If you're a bull, you have to like the fact that of the three periods, it's the one that so far at least has the closest resemblance to the current period.

Performance following the seven months that followed the September 2001 low was the weakest of the 13 periods shown, but like the 1947 period, a key difference between now and then was that the S&P 500 was already starting to trend lower after making a lower high in early 2002.

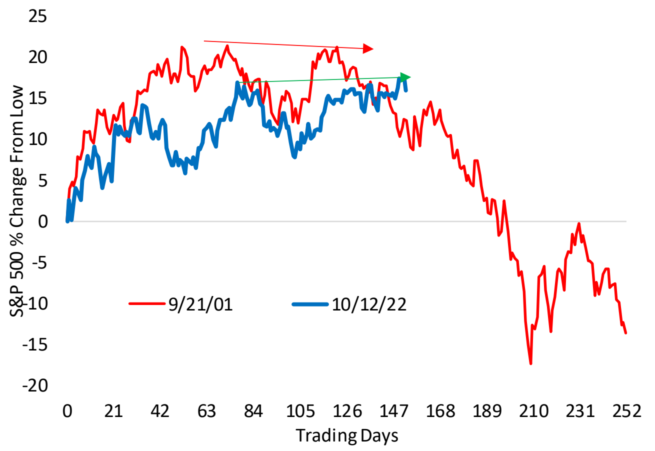
Current Period vs May 1947



Current Period vs October 1957

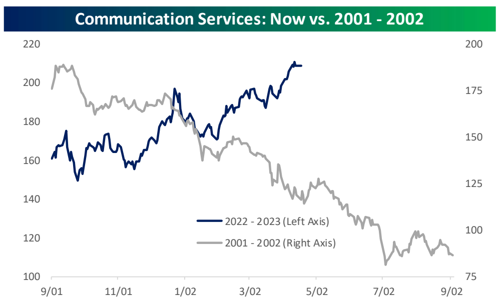


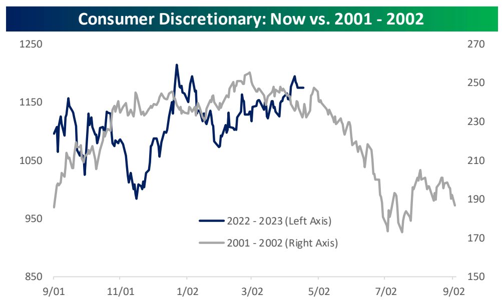
Current Period vs September 2001

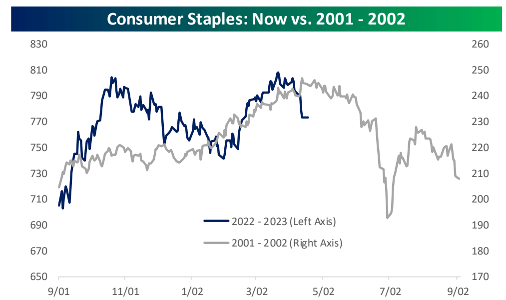


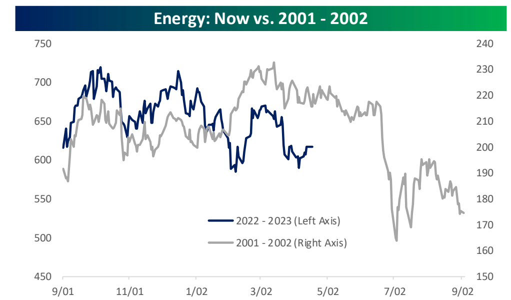
Continuing the comparison between the current period and the period coming off the 9/11 lows, in the charts below we overlay the performance of each S&P 500 sector (as well as the Nasdaq at bottom right) over the months since the October lows to the year following the lows in September 2001 after the 9/11 attacks.

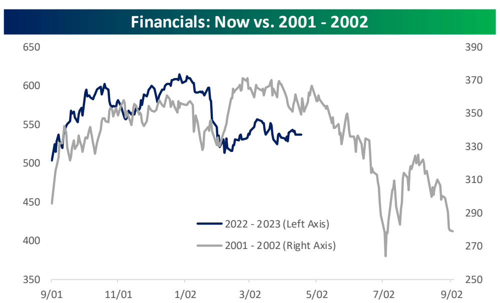
In looking at each individual sector, unlike the index as a whole, most have surprisingly similar patterns, although the patterns for Communications Services and Technology (and the Nasdaq) looking nothing alike. Considering that these two sectors account for 35% of the index's market cap, it's good to see those two sectors looking strong.

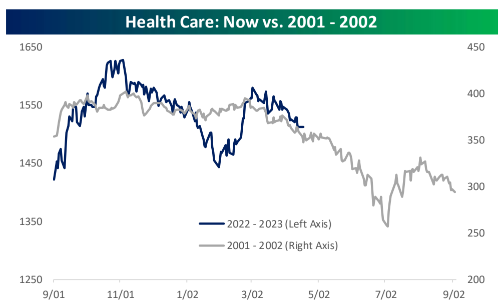


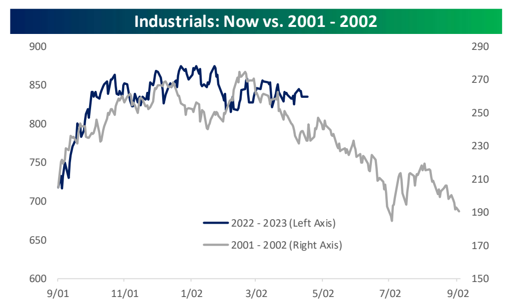


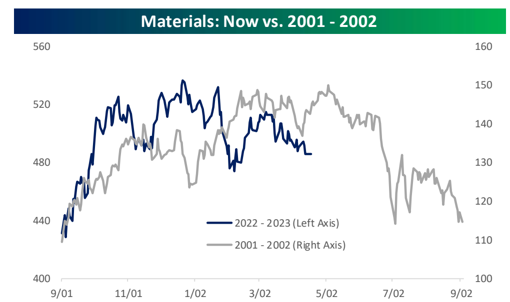


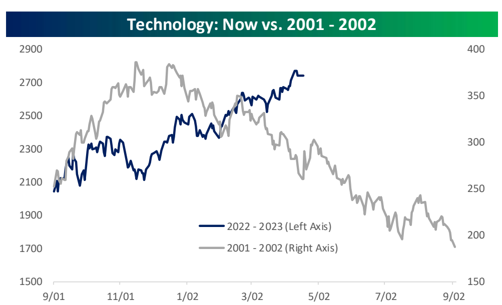


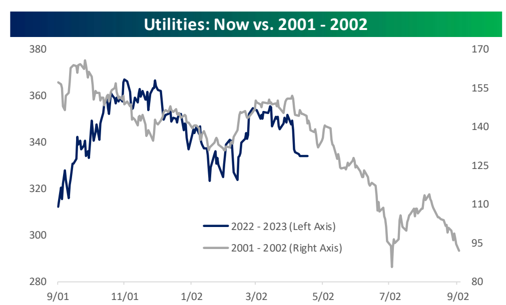


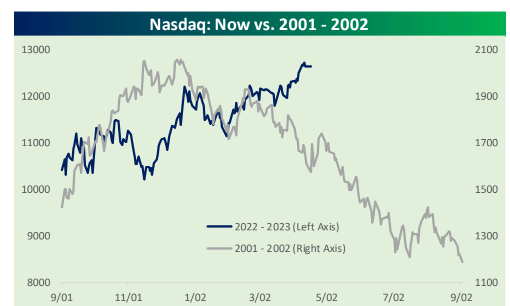










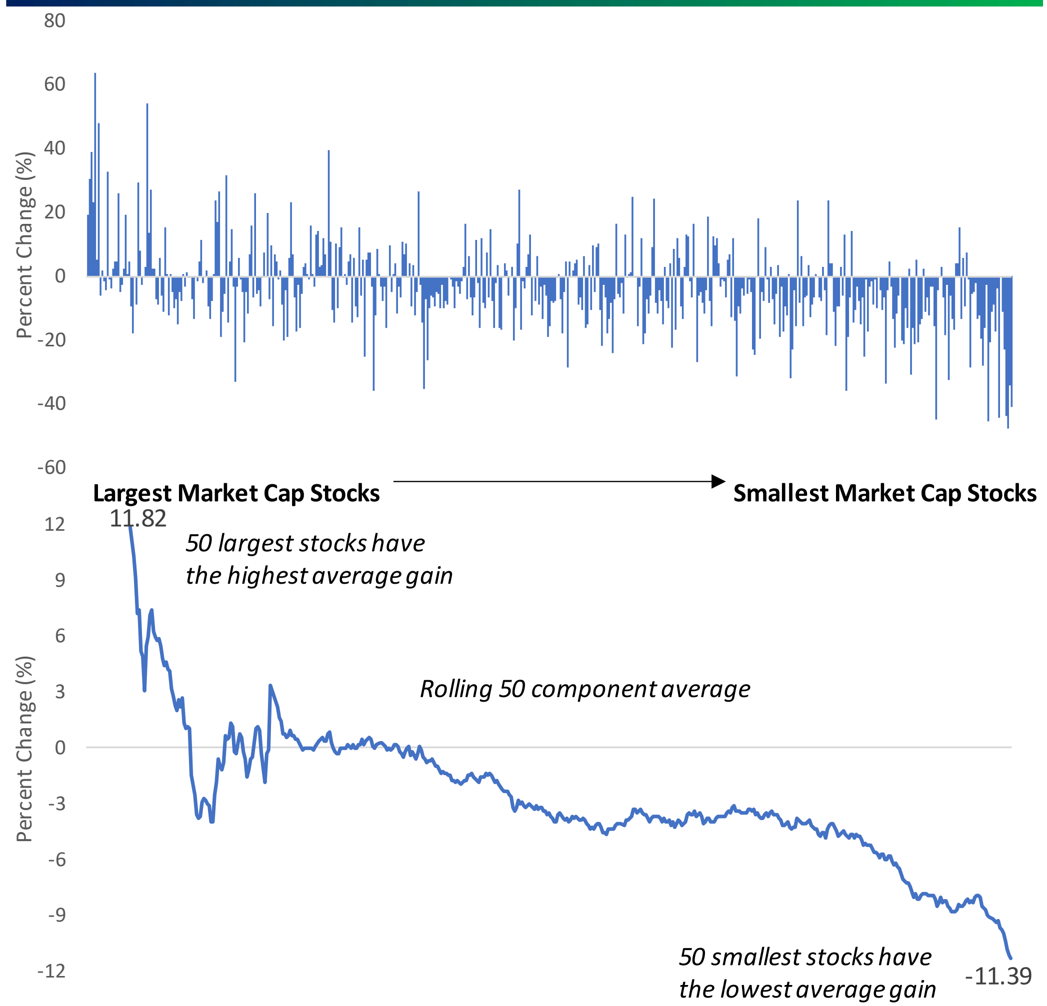


The performance disparity that we've seen this year between the mega caps and everyone else can't be overstated. Look at the charts to the right. The top one shows the 3-month performance of every stock in the S&P 500 arranged by market cap with the largest stocks on the left and the smallest on the right. In the chart, there is a clear trend in performance sloping down from the left to right.

For just two examples, the seven largest stocks in the S&P 500 are all up over the last three months with an average gain of 32.8%. At the other end of the chart, the seven smallest stocks in the S&P 500 are all lower and down by an average of 35.0%. It goes even further than that as the twenty smallest stocks in the S&P 500 are all down YTD with an average decline of 20.3%.

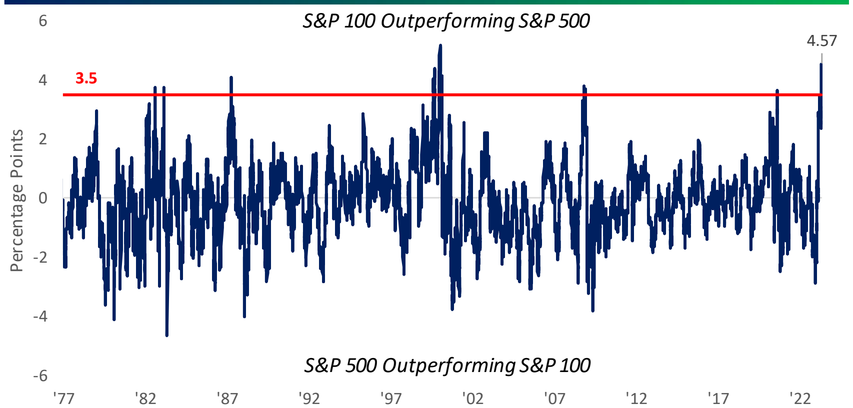
The lower chart shows the trailing three-month performance of S&P 500 components on a rolling 50-component basis starting with the 50 largest and moving all the way down to the smallest 50 stocks in the index. While the 50 companies with the largest market caps are up an average of 11.82%, the 50 companies with the smallest market caps are down an average of 11.39%.

Three Month Performance of S&P 500 Components By Market Cap



The chart at right is another way to illustrate the disparity in performance among large-cap stocks, which shows the rolling three-month performance spread between the S&P 100 and the S&P 500. For those unfamiliar with the S&P 100, the index is basically a subset of the S&P 500 consisting of the 100 largest companies in the index. Typically, the performance spread between these two indices tends to oscillate between 1.25 percentage points on either side of zero. As of Friday, though, the spread reached 4.57 percentage points, which ranks amongst the most extreme readings in favor of the S&P 100 on record. Since the late 1970s, there have only been five other periods since 1977 that the performance spread even exceeded 3.5 percentage points.

Three Month Performance Spread Between S&P 100 and S&P 500



With the largest of the large-cap stocks outperforming the rest of the S&P 500 by so much, it would make sense to assume that the mega-caps were due for some mean reversion, and that would be the correct assumption.

To illustrate, the table to the right summarizes the performance of both the S&P 100 and the S&P 500 in the one, three, six, and twelve months following the first day in prior periods where the three-month performance spread exceeded 3.5 percentage points. For both indices, forward returns over the following three, six, and twelve months were pretty consistent to the upside. What's most notable, however, is the fact that six and twelve months later, the S&P 500 outperformed the S&P 100 four out of five times, indicating broadening out-of-market participation. Everybody eventually gets a trophy!

Periods Where S&P 100 Significantly Outperforms S&P 500 in a Three Month Span

	3-Month Rate of Change (%)			S&P 100 Forward Return (%)				S&P 500 Forward Return (%)			
Date	S&P 100	S&P 500	Spread	1 Month	3 Months	6 Months	1 Year	1 Month	3 Months	6 Months	1 Year
8/18/82	-1.8	-5.5	3.8	9.7	24.3	33.8	46.4	12.9	27.5	36.4	50.7
4/13/87	13.7	9.9	3.9	3.9	8.2	10.0	-7.8	2.9	7.7	10.1	-4.9
8/23/99	7.8	4.1	3.7	-5.0	5.2	3.7	15.9	-5.9	3.3	0.0	10.7
10/27/08	-29.2	-32.8	3.5	4.0	-2.8	-2.9	20.0	4.6	-0.4	1.0	25.3
9/1/20	16.6	12.9	3.7	-5.1	1.6	7.2	25.7	-4.1	3.9	10.6	28.3
4/6/23	11.3	7.8	3.5								
Average				**1.5**	**7.3**	**10.4**	**20.0**	**2.1**	**8.4**	**11.6**	**22.0**
Median				**3.9**	**5.2**	**7.2**	**20.0**	**2.9**	**3.9**	**10.1**	**25.3**

* *S&P 100 outperforms S&P 500 by 3.5 percentage points or more in a three month span with no other occurrences in prior six months.*

S&P 100 vs S&P 500 Performance Spread (ppts)

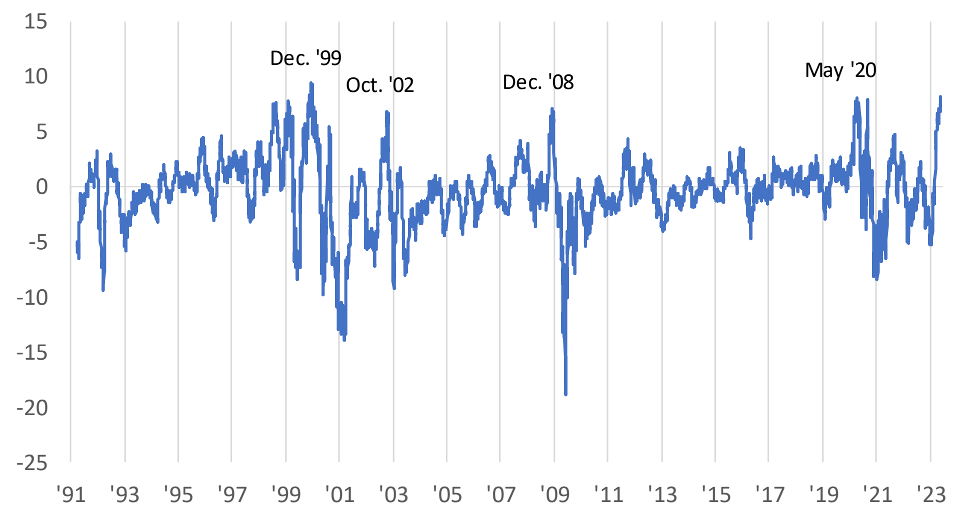
Date	1 Month	3 Months	6 Months	1 Year
8/18/82	-3.3	-3.2	-2.5	-4.3
4/13/87	1.0	0.5	-0.2	-2.9
8/23/99	0.8	1.9	3.7	5.2
10/27/08	-0.5	-2.5	-4.0	-5.3
9/1/20	-0.9	-2.3	-3.4	-2.5
4/6/23				
Average	**-0.6**	**-1.1**	**-1.3**	**-2.0**
Median	**-0.5**	**-2.3**	**-2.5**	**-2.9**

Not to beat a dead horse, but another way to show this performance disparity is by comparing the performance between the S&P 500 market cap weighted and equal-weighted index. We tweeted the chart at right earlier this week, and it shows just how extreme the performance disparity has been.

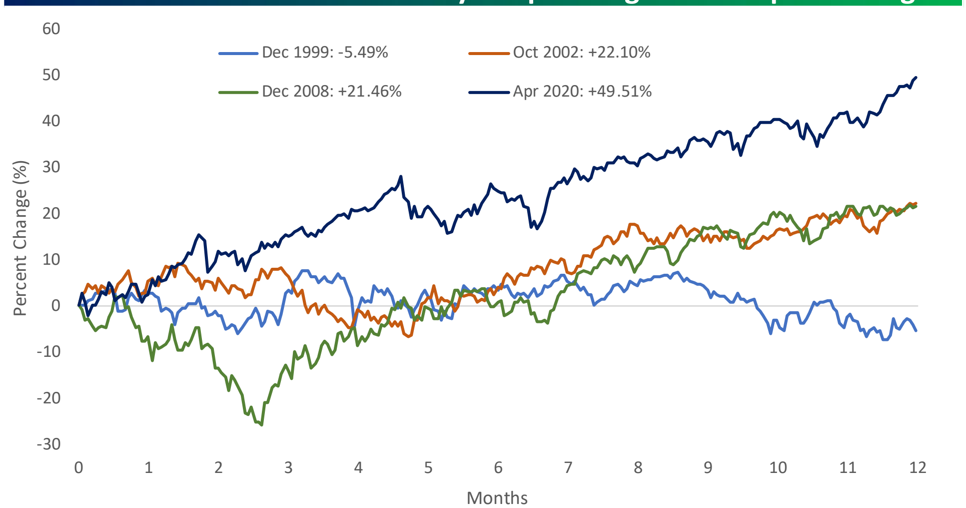
Through Thursday, the current performance gap between the two indices has only been as wide in four other periods – Dec 1999, Oct 2002, Dec 2008, and May 2020. In the charts below, we show the performance of the S&P 500 in the year following the peak performance gap of each period. For the market cap weighted S&P 500, it was positive three out of four times, while its equal-weighted counterpart was up all four times.

We'd note that for each index, the weakest performance followed the peak from December 1999. One difference between that period and all the others is that the performance gap then had been elevated for a much longer period of time.

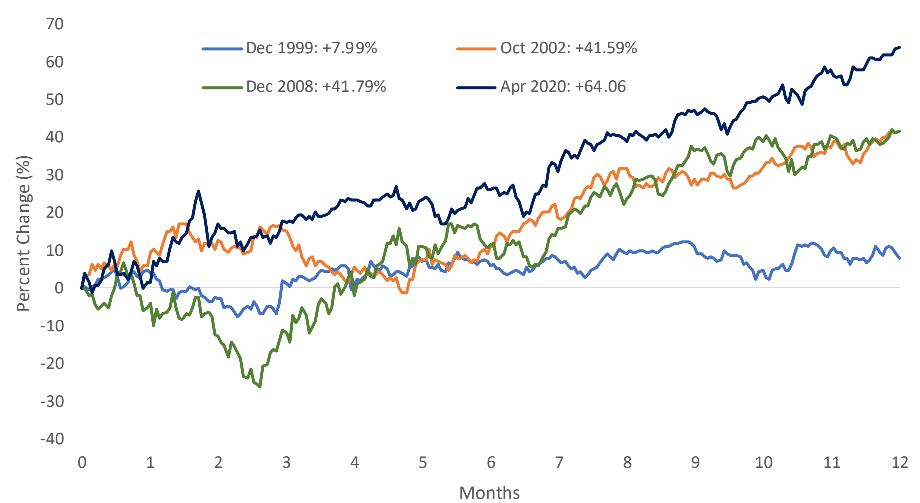
3-Mth Performance Spread (ppts): S&P 500 vs. S&P 500 Equalweight



S&P 500 Performance Generally Keeps Rising After Outperforming



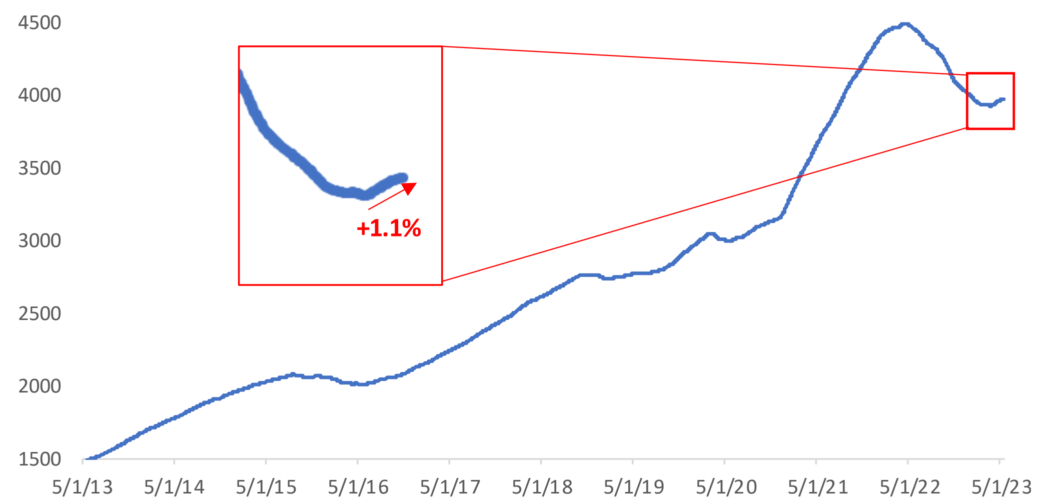
Equalweight S&P 500 Tends to Perform Even Better



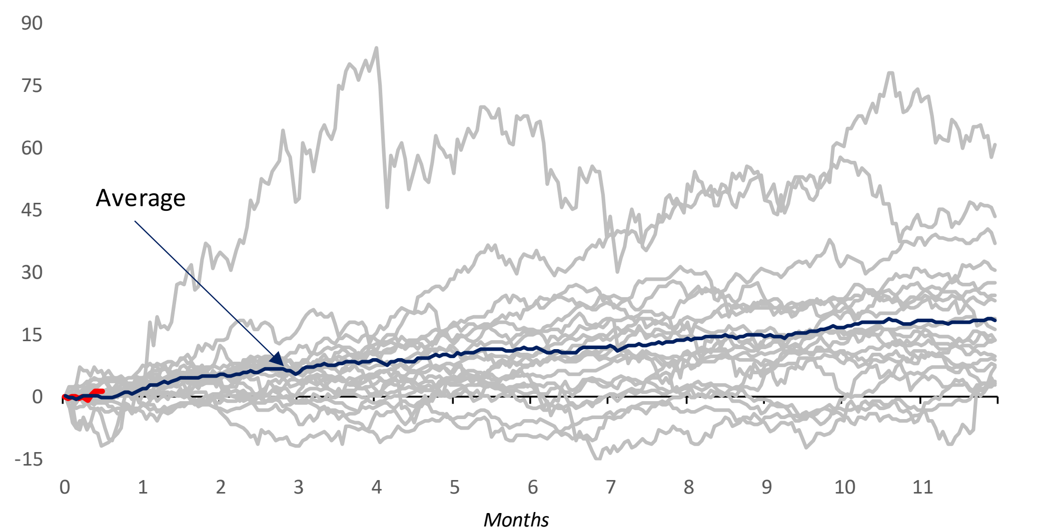
In last week's Bespoke Report, we highlighted that the S&P 500's 200-day moving average (DMA) had stopped declining and started to turn higher. Like a cruise ship, the 200-DMA doesn't just turn on a dime, so when it starts to shift directions, it's usually a reflection of the fact that the market's longer-term trend has shifted. Given that premise, this week we wanted to look at this reversal in the 200-DMA in a bit more detail. As shown in the chart at right, after hitting its lowest level in well over a year back in late March, the 200-DMA has started to turn higher and is currently just over 1% above that low.

Given the slow-moving nature of the 200-DMA, there aren't a lot of prior periods where it experienced a similar reversal off a 52-week low. Going all the way back to the late 1920s, in fact, there have only been 20 other periods where the S&P 500's 200-DMA made a 52-week low and then rallied more than 1% off that low within the next three months. In the second chart at right, we show the performance of the S&P 500 in the year following each of those prior periods after the 200-DMA first rallied 1% off a 52-week low. While performance varied widely between periods, the one common trait among all 20 of them is that one year later, the S&P 500 was higher every time.

S&P 500 200 Day Moving Average: Last 10 Years



S&P 500 During Year After 200-DMA Rallies 1% from 52-Week Low (%)



The table to the right lists the first date in each of the prior periods from the prior page along with the S&P 500's performance over the following one, three, six, and twelve months.

One and three months later, the S&P 500 was up three-quarters of the time with average gains of 1.5% and 5.9%, respectively (median: 1.1% and 4.8%). Six months later, the S&P 500 was up 17 out of 20 times for an average gain of 11.5% (median: 8.3%). Lastly, one year later, the S&P 500's average gain was 18.2% (median: 14.4%) with gains all 20 times. We'd also note that based on the chart from the prior page, there was only one period where the S&P 500 experienced a decline of more than 15% at any point in the following year, and there were only four where the maximum decline exceeded 10%. Overall, the average maximum decline was just 4.5%, and there were ten periods where the maximum decline from the start date was less than 2.5%.

History doesn't always repeat, but prior periods where the 200-DMA rallied 1% or more from a 52-week low usually indicated that the low for the broader market was in.

S&P 500 200-DMA Rallies 1% Off a 52-Week Low

Date	End of Prior Bear Market	End of Bear Market to 200-DMA Reversal (Days)	S&P 500 Performance (%) One Month	Three Months	Six Months	One Year
3/17/33	2/27/33	18	-1.5	48.0	63.2	63.2
6/6/35	3/14/35	84	6.4	18.4	33.6	43.5
9/8/38	3/31/38	161	4.6	0.8	6.3	3.3
11/12/42	4/28/42	198	-2.7	10.8	23.4	17.2
8/18/47	5/19/47	91	-1.9	-1.3	-9.4	2.8
11/18/49	6/13/49	158	3.2	6.3	15.0	23.0
3/11/54	-	-	3.3	7.1	15.5	34.2
8/1/58	10/22/57	283	0.5	8.1	16.7	27.4
1/30/61	-	-	2.4	5.4	7.6	10.0
3/28/63	6/26/62	275	4.7	4.2	8.3	18.9
4/28/67	10/7/66	203	-3.2	0.5	1.0	3.4
2/3/71	5/26/70	253	0.3	6.9	-2.2	8.3
5/21/75	10/3/74	230	4.0	-6.7	0.5	13.7
8/17/78	-	-	-0.9	-10.1	-6.1	3.1
10/28/82	8/12/82	77	1.0	8.2	22.0	22.3
9/9/88	12/4/87	280	4.2	3.8	10.2	30.7
3/26/91	-	-	0.7	-1.3	2.7	8.4
6/13/03	7/23/02	325	1.0	3.0	8.7	15.0
8/31/09	3/9/09	175	3.6	7.3	8.2	2.8
7/15/16	-	-	1.3	-1.3	5.2	13.8
5/8/23	10/12/22	208				
Average		**189**	**1.5**	**5.9**	**11.5**	**18.2**
Median		**201**	**1.1**	**4.8**	**8.3**	**14.4**
% Positive			**75**	**75**	**85**	**100**
All Periods Since 1928						
Average			**0.6**	**1.8**	**3.8**	**7.8**
% Positive			**60**	**63**	**66**	**69**

** S&P 500 200-DMA trades 1%+ above a 52-week low after hitting a 52-week low in prior three months with no other occurrences in prior year.*

This month, we saw a similar pattern play out for the Nasdaq's 200-DMA as we did for the S&P 500, and below we provide the same chart set. Here again, forward returns were very positive relative to average, especially over the following year.

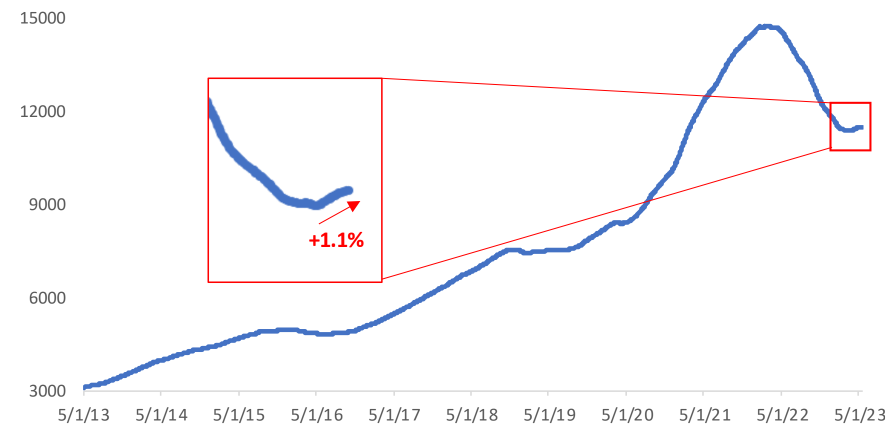
Of the eight individual periods, the Nasdaq only traded down more than 10% at some point in the next year once, and the average maximum decline was just 4.3%, and in five out of seven periods, the Nasdaq was up 22% or more.

Nasdaq 200-DMA Rallies 1% Off a 52-Week Low

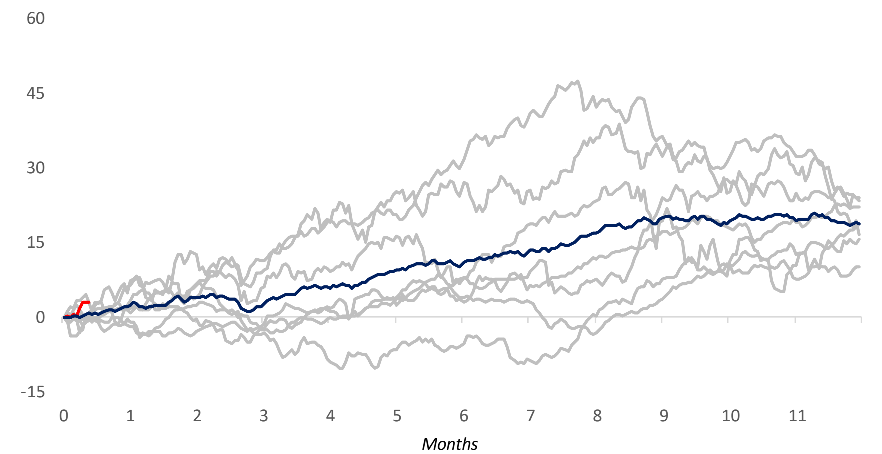
Date	End of Prior Bear Market	End of Bear Market to 200-DMA Reversal (Days)	S&P 500 Performance (%) One Month	Three Months	Six Months	One Year
5/13/75	10/3/74	222	1.3	-4.0	-3.8	9.6
11/3/82	8/13/82	82	6.5	12.0	30.0	23.4
2/7/85	7/25/84	197	-1.4	-2.2	3.8	19.2
8/19/88	10/28/87	296	1.6	-2.6	7.9	22.4
4/11/91	10/16/90	177	-1.2	-2.2	3.9	17.0
5/15/03	10/9/02	218	4.8	9.7	24.4	22.7
8/10/09	3/9/09	154	4.6	8.0	7.8	14.3
5/10/23	12/28/22	133	2.9	2.9	2.9	2.9
Average		**185**	**2.4**	**2.7**	**9.6**	**16.4**
Median		**187**	**2.2**	**0.3**	**5.9**	**18.1**
% Positive			**75**	**50**	**87.5**	**100**
All Periods Since 1971						
Average			**1.0**	**2.9**	**5.9**	**12.3**
% Positive			**61.0**	**64.8**	**68.8**	**75.0**

** Nasdaq 200-DMA trades 1%+ above a 52-week low after hitting a 52-week low in prior three months with no other occurrences in prior year.*

Nasdaq 200 Day Moving Average: Last 10 Years



Nasdaq During Year After 200-DMA Rallies 1% from 52-Week Low (%)



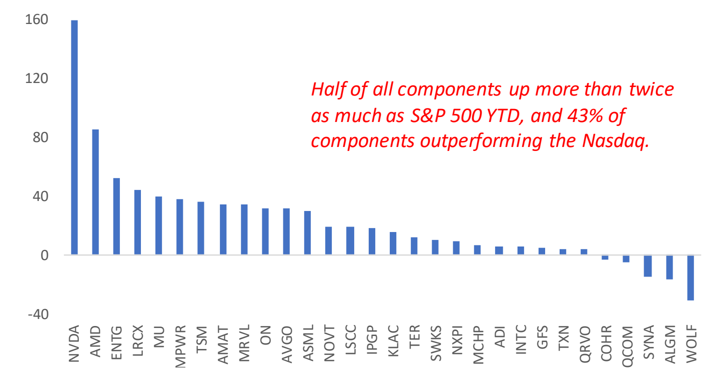
It took awhile, but after four prior attempts to break through 3,200, the Philadelphia Semiconductor Index (SOX) finally broke through that level Thursday after finding support at the 50-day moving average (DMA) the day before. With that gain, the SOX has also found itself back on the 52-week high list after a long absence.

It's easy to dismiss the rally in semis as being all from NVIDIA (NVDA), but that's not entirely the case. Yes, NVDA is up over 150% this year, but half of the SOX's components are up more than twice as much as the S&P 500, and 43% are outperforming the 21%+ gain in the Nasdaq as well (top right chart).

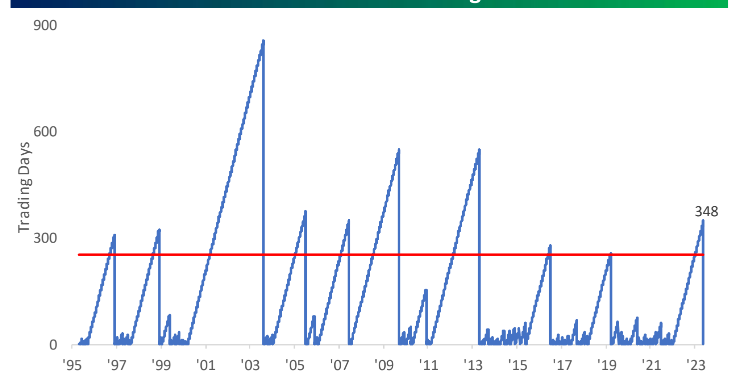
The last 52-week high before Thursday was 348 trading days earlier back in December 2021, meaning the drought of new highs was the longest since April 2013 and is one of just ten periods where the SOX went a year or longer without a 52-week high (second chart).

We always refer to the semis as the "transports of the 21st century", and as shown in the bottom right chart, the sector's relative strength versus the S&P 500 has gone parabolic and is back near new highs.

SOX Components: YTD Change (Thru 5/25)



SOX Streaks Without a 52-Week High: 1995 - 2023



Philadelphia Semiconductor Index (SOX): Last 12 Months

Ratio of SOX versus S&P 500

The table below lists each prior date that the SOX hit a new high for the first time in at least a year. For each date, we also summarize the performance of the SOX and the S&P 500 following each new high.

Starting with the semis, these new highs tended to be followed by additional new highs in the short term. Over the following month, the SOX averaged a gain of 5.8% (median: 6.77%) with positive returns eight out of nine times. Three months later, average and median returns were also better than the long-term average with gains two-thirds of the time. Six months later, the SOX's average and median gain was over 15% with only one period of decline, but one year later, returns were much more disparate with an average gain of 16.8% but a median gain of less than 1%. Not only that, but the index was only higher slightly more than half of the time.

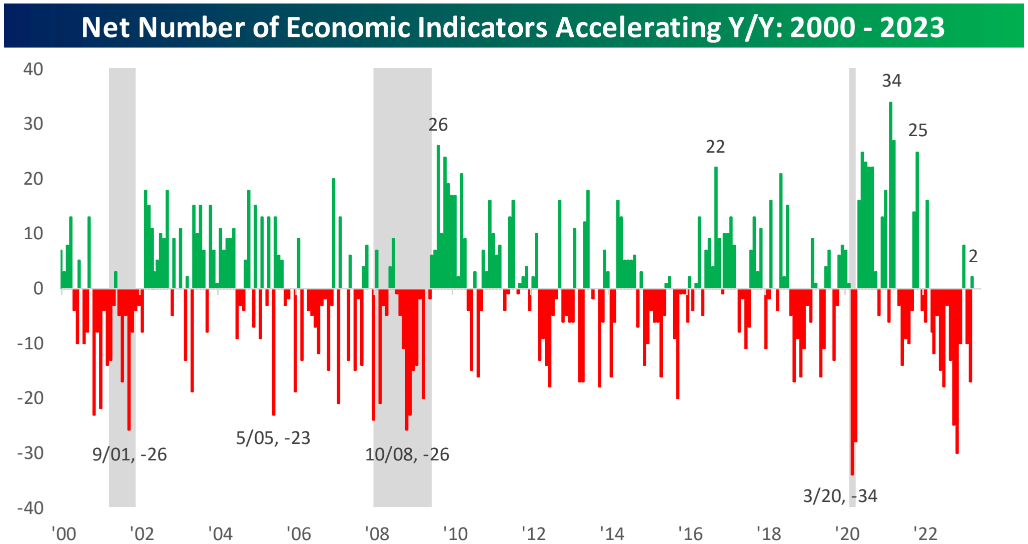
Turning to the broader market, over the following one, three, six, and twelve months, the S&P 500's average and median performance was better than the long-term average and more consistent to the upside for all periods since 1995. One year later, the S&P 500 was down just twice, and in one of those periods (March 2019), what were solid gains after eleven months were wiped out by COVID in the twelfth month.

SOX Performance After a Year or More Without a 52-Week High: 1995 - 2023

	Trading Days w/o	SOX Performance (%)				S&P 500 Performance (%)			
Date	a 52-wk High	One Month	Three Months	Six Months	One Year	One Month	Three Months	Six Months	One Year
11/27/96	307	1.76	14.56	30.64	21.62	-0.15	4.74	12.35	26.05
12/3/98	323	13.16	16.53	24.18	97.63	8.23	11.53	16.03	24.62
8/18/03	859	10.53	22.93	25.94	-6.37	2.62	5.06	15.21	9.55
7/12/05	376	2.12	-2.18	15.71	-8.57	0.57	-2.85	5.52	2.98
6/21/07	350	4.18	-2.60	-20.19	-25.25	1.27	-0.23	-4.55	-13.42
9/22/09	550	-2.02	7.08	10.94	0.34	0.91	3.96	8.96	5.84
4/30/13	549	6.77	7.03	12.41	29.62	3.56	5.53	10.30	17.93
7/12/16	280	7.58	15.95	28.50	52.13	1.08	0.54	5.43	13.53
3/21/19	256	8.08	-1.44	10.42	-9.94	1.86	3.48	5.32	-19.26
5/25/23	348								
Average		**5.80**	**8.65**	**15.39**	**16.80**	**2.22**	**3.53**	**8.29**	**7.53**
Median		**6.77**	**7.08**	**15.71**	**0.34**	**1.27**	**3.96**	**8.96**	**9.55**
% Positive		**88.9**	**66.7**	**88.9**	**55.6**	**88.9**	**77.8**	**88.9**	**77.8**
All Periods Since 1995									
Average		**1.42**	**4.38**	**9.04**	**18.73**	**0.75**	**2.23**	**4.53**	**9.41**
% Positive		**58.2**	**63.6**	**63.6**	**63.6**	**64.0**	**68.4**	**72.4**	**77.0**

With the release of Friday's economic data, we got the last of the April updates for our *Matrix of Economic Indicators*. The updated matrix is shown on the following page, but the chart to the right summarizes the net bottom line number of indicators showing positive momentum in their y/y readings. 2022 started what has been a painful period for US economic data. As shown in the chart at right, the depth of the negative readings seen during this period of weakness has only really been seen during recessionary periods. On a brighter note, though, April was the second time in four months that the net bottom line reading was positive.

Below we provide a brief summary of the trends in indicators within each individual sector we track:



- Within the *manufacturing* sector, there was a notable shift in momentum in April as six out of seven indicators in the category showed positive momentum. The last time breadth in this sector was as strong was in November 2021 just before the Fed started taking a more hawkish tone. While momentum has shifted positive, though, we would note that most of the readings are either still negative or barely in positive territory.
- Momentum in the *employment* sector remains negative with four out of seven sectors showing negative momentum. Over the last year, the only month that showed positive breadth was in January. While the Fed keeps talking about having to rein in the overheating jobs market, it appears to have already started to come off the boil.
- *Housing* was the first sector of the economy to roll over, and it's hard to look at the sector now and not say that it has bottomed out. April marks the fifth month in a row that the sector showed positive momentum, and while most y/y readings are still negative, they're much less so than they were six months ago.
- Just as momentum in housing has turned more positive, the *inflation* sector has reversed in the other direction. April was the seventh month in a row that more indicators showed negative momentum than positive momentum. However, just as housing has more work to do before getting back to positive territory, inflation readings still have further to fall before getting back to acceptable levels.
- Measures of the *consumer* were biased to the downside in April which has been the case for seven of last eight months. Personal Income and Spending rates are up over 5% y/y which is now above prevailing levels of inflation.

BESPOKE Investment Group

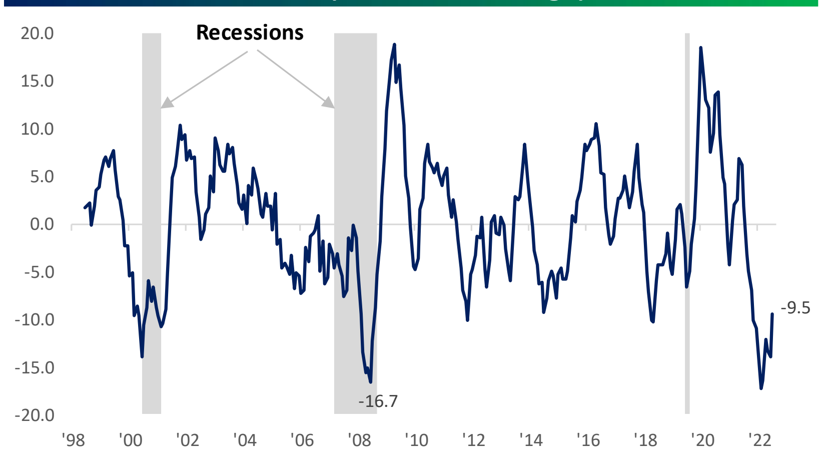
The Bespoke Report

May 26, 2023

The *Matrix of Economic Indicators* to the right summarizes the y/y change by month (unless otherwise noted) in economic indicators over the last year by category. The numbers in the left-most column show the most recent y/y readings as of the end of April. We also highlight each release to show if it got better (green) or worse (red) versus its prior reading.

The chart below shows the rolling six-month average of the net bottom line reading, and after bottoming out at a record low reading of -17.3 in November, there's been a sharp bounce to the current level of -9.5. It's important to note here that other periods with similarly low readings all occurred during recessions. Last year the US economy did experience two consecutive quarters of declining GDP, and while that doesn't technically meet the criteria for an official recession, historically, that has been the unofficial definition, and media reports this week have been all too quick to say Germany was in a recession after Q1 GDP was negative for the second straight quarter.

Overall Bottom Line (Six Month Average): 2000 - 2023



Matrix of Economic Indicators: 4/30/23

Category / Indicator	Year/Year Change (Unless Otherwise Noted)											
Manufacturing/Output	4/30/23	3/31/23	2/28/23	1/31/23	12/31/22	11/30/22	10/31/22	9/30/22	8/31/22	7/31/22	6/30/22	5/31/22
Chicago PMI (actual)	48.60	43.80	43.60	44.30	45.10	37.90	45.90	46.40	51.90	51.40	54.70	58.50
ISM Manufacturing (actual)	47.10	46.30	47.70	47.40	48.40	49.00	50.00	51.00	52.90	52.70	53.10	56.10
ISM Services (actual)	51.90	51.20	55.10	55.20	49.20	55.50	54.50	55.90	56.10	56.40	56.00	56.40
Industrial Production	0.24	0.07	0.81	1.46	0.58	1.85	3.10	4.51	3.11	3.01	3.19	3.66
Capacity Utilization	-1.25	-1.35	-0.54	0.21	-0.52	0.90	2.32	3.95	2.79	2.97	3.44	4.21
Durable Goods	4.23	4.11	0.61	1.91	5.31	3.11	8.03	8.28	6.31	8.89	9.51	9.33
Durable Goods ex Tran	-0.18	0.15	0.84	1.21	-0.74	1.53	3.21	3.60	4.19	5.90	7.23	8.25
Employment												
Jobless Claims (4 Wk Avg)	239.3	237.8	218.5	199.5	209.3	212.5	202.3	190.8	210.3	215.8	216.8	212.3
ADP Employment	2.49	2.42	2.54	2.78	2.98	3.47	3.88	4.33	4.90	5.21	5.66	5.85
Non Farm Payrolls	2.63	2.64	2.81	3.27	3.20	3.43	3.67	4.00	4.15	4.38	4.54	4.79
Average Hourly Earnings	4.95	5.13	5.30	5.25	5.42	5.72	5.75	5.93	6.24	6.55	6.66	6.70
Average Workweek (actual)	33.80	33.90	33.90	34.10	33.80	33.90	34.00	34.00	34.00	34.00	34.10	34.10
Unemployment Rate (actual)	-0.20	-0.10	-0.20	-0.60	-0.40	-0.60	-0.80	-1.30	-1.50	-1.90	-2.30	-2.20
Challenger Job Cuts	175.86	319.43	410.13	439.99	129.12	416.54	48.29	67.58	30.29	36.26	58.81	-15.76
Housing												
Building Permits	-21.06	-23.44	-18.44	-28.66	-27.67	-21.01	-9.96	-2.93	-13.66	2.47	3.47	1.67
Housing Starts	-22.30	-19.96	-18.92	-19.71	-24.06	-16.65	-8.91	-6.22	-4.51	-13.94	-6.02	-3.56
New Home Sales	11.78	-7.21	-18.37	-19.88	-23.37	-24.61	-15.15	-23.58	-7.54	-28.55	-21.37	-11.05
Existing Home Sales	-23.16	-22.14	-23.14	-36.91	-34.04	-35.22	-28.16	-24.03	-20.23	-19.87	-14.78	-8.94
Pending Home Sales	-20.30	-23.25	-21.14	-24.10	-33.88	-36.82	-36.84	-29.78	-24.08	-19.68	-19.96	-14.22
Monthly Supply	-10.59	12.86	33.87	39.66	51.79	56.67	42.65	61.67	33.85	77.19	63.79	48.21
NAHB Homebuilder Index	-41.56	-44.30	-48.15	-57.83	-63.10	-60.24	-52.50	-39.47	-34.67	-31.25	-17.28	-16.87
Inflation												
CPI	4.96	4.99	5.99	6.35	6.44	7.14	7.76	8.21	8.23	8.41	8.93	8.50
Core CPI	5.54	5.60	5.53	5.55	5.70	5.97	6.30	6.64	6.30	5.89	5.88	6.02
PPI	2.58	3.09	6.27	8.82	8.80	10.54	11.20	11.63	12.77	15.03	17.82	16.38
Core PPI	5.40	6.37	6.78	7.42	7.67	8.04	8.17	8.44	8.84	8.79	8.91	8.91
PCE	4.36	4.19	5.07	5.37	5.30	5.66	6.13	6.29	6.26	6.39	6.98	6.52
Core PCE	4.70	4.63	4.69	4.70	4.62	4.80	5.10	5.20	4.93	4.70	5.04	4.88
Import Prices	-4.81	-4.77	-1.19	0.86	3.20	2.68	4.24	6.08	7.67	8.77	10.66	11.60
Import Prices ex Petrol.	-2.13	-1.58	0.16	1.37	2.54	2.06	2.98	3.84	4.34	4.59	5.35	6.65
Consumer												
Consumer Confidence	-6.72	-3.35	-2.18	-4.59	-5.38	-9.38	-8.42	-1.82	-10.07	-23.82	-23.66	-14.00
Michigan Confidence	-2.61	4.38	6.69	-3.42	-15.44	-15.73	-16.46	-19.51	-17.21	-36.58	-41.52	-29.55
Personal Income	5.43	5.25	5.52	5.74	4.92	5.02	5.36	5.60	4.24	3.94	4.27	3.87
Personal Spending	6.73	6.23	7.46	8.09	7.35	7.11	7.92	8.54	8.70	8.69	9.26	9.28
Retail Sales	1.60	2.42	5.26	7.41	5.98	6.14	8.77	9.37	10.17	10.34	9.26	9.74
Retail Sales ex Autos	2.10	2.87	6.41	8.43	7.18	7.38	9.61	10.34	10.98	12.58	11.75	13.31
Auto Sales	11.34	11.18	5.83	4.65	6.99	9.95	14.70	10.76	0.92	-9.49	-15.36	-25.37
Total	2	-17	-10	8	-10	-30	-25	-13	-3	-18	-15	-5

Stronger than prior month. Weaker than prior month.

The *Matrix of Economic Indicators* shows where momentum of economic data has been through April, but over the last couple of weeks we've gotten updates for the month of May from four of the five Fed districts that report manufacturing and business conditions. Unfortunately, the results weren't particularly positive.

Overall, these reports suggest a continuation of the trend of weak manufacturing activity, and while there were some modest improvements versus April in some components, indices that track company outlooks are broadly weaker than the indices tracking current conditions.

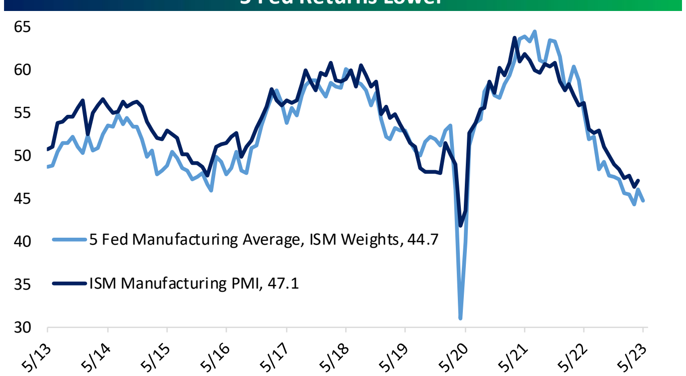
As shown in the charts below, along with the composite index, New Orders and Shipments are at their lowest levels since the Financial Crisis save for the brief period during the early COVID days.

Five Fed Manufacturing Composite: Summary Table

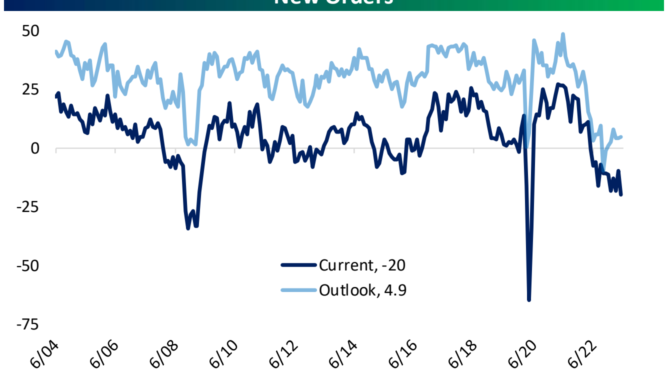
Current	May-23	%ile	Apr-23	Change	Feb-23	Change	May-22	Change
Composite	-10.7	6.6	-8.0	-2.7	-9.2	-1.5	10.2	-20.8
Shipments	-8.8	16.8	-0.9	-7.9	-4.8	-4.0	4.4	-13.2
New Orders	-20.0	8.8	-9.7	-10.3	-12.9	-7.1	-0.5	-19.5
Unfilled Orders	-17.4	5.3	-17.0	-0.3	-19.3	2.0	5.2	-22.5
Inventory	1.5	18.5	-0.9	2.5	5.9	-4.4	-0.3	1.8
Employment	0.0	16.8	-2.3	2.3	0.6	-0.6	20.0	-19.9
Workweek	-5.1	16.8	-4.6	-0.5	-9.4	4.4	8.9	-13.9
Delivery Time	-7.3	3.0	-10.3	3.0	-9.5	2.2	21.9	-29.1
Prices Paid	16.7	45.5	20.2	-3.5	26.4	-9.7	56.8	-40.1
Prices Received	9.5	64.1	11.8	-2.3	16.5	-7.0	36.7	-27.2
Outlook								
Composite	0.1	4.4	-0.6	0.6	-0.8	0.9	12.2	-12.1
Shipments	9.8	5.7	9.7	0.1	6.6	3.2	24.5	-14.7
New Orders	4.9	4.4	4.4	0.6	7.8	-2.9	12.4	-7.5
Unfilled Orders	-11.6	1.3	-14.8	3.2	-11.2	-0.4	-6.2	-5.4
Inventory	-5.4	20.7	-3.7	-1.6	-5.7	0.3	-0.2	-5.2
Employment	11.0	17.6	10.3	0.7	9.4	1.6	25.4	-14.4
Workweek	-0.1	9.2	1.4	-1.5	2.7	-2.8	6.7	-6.8
Delivery Time	-13.9	2.2	-12.3	-1.6	-16.8	2.9	4.9	-18.8
Prices Paid	21.4	16.8	25.1	-3.6	28.5	-7.0	48.3	-26.9
Prices Received	17.3	50.4	20.2	-2.9	25.1	-7.8	42.9	-25.7
Capex	5.1	5.7	4.5	0.6	6.7	-1.6	21.0	-15.9

Note: Empire, Philly, Richmond, & Kansas City

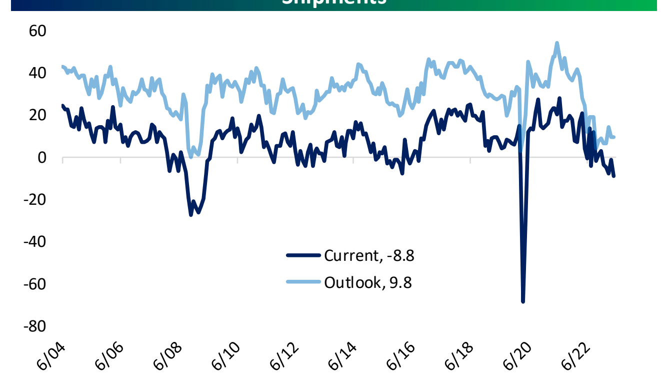
5 Fed Returns Lower



New Orders



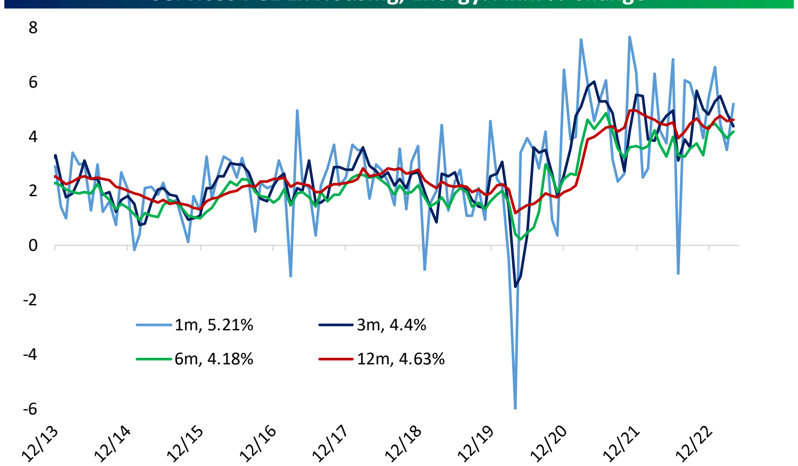
Shipments



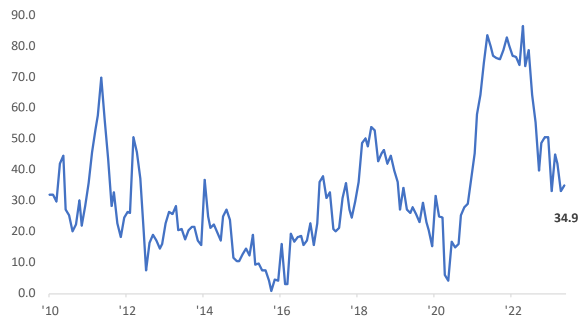
Given the continued focus on inflation by investors, we wanted to look at the Prices Paid components of the regional Fed reports in more detail. The charts to the right show the trends of each Prices Paid index going back to 2010, and despite concerns that inflation remains sticky, these reports have shown that sentiment regarding prices has reversed sharply. In all five regional Fed reports, the Prices Paid components are back to levels they were at prior to COVID. In fact, as shown in the composite chart (in gray) showing the average of all five readings on a normalized basis, the current level of Prices Paid is actually below its average reading since 2010.

Where investors have been concerned over inflation is in the services sector. As shown in the chart below, rather than peak and reverse lower, PCE Services inflation appears to have peaked but has been very slow to rollover.

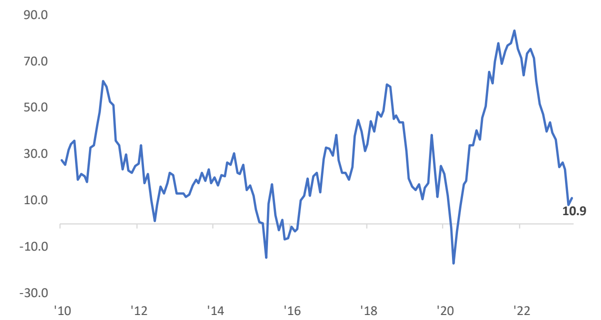
Services PCE Ex Housing, Energy: Ann. % Change



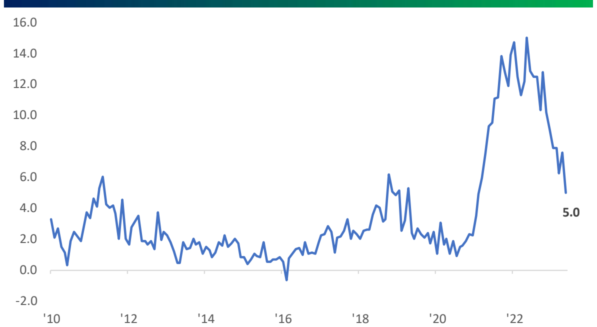
Empire Manufacturing - Prices Paid



Philadelphia Fed - Prices Paid



Richmond Fed - Prices Paid



KC Fed - Prices Paid

Dallas Fed - Prices Paid

Five Fed Average - Prices Paid

Average of z-scores for each of the five fed regional indices.

One big driver of inflation is gas prices, and at no time of year are investors as focused on gas prices as they are now ahead of the Summer driving season. Heading into this weekend, the national average price of a gallon of gas, according to AAA, stands at $3.57 per gallon which is up 11.3% YTD but down 1.1% this month.

While prices are higher on a YTD basis, relative to history, the increase is more modest than normal. Since 2005, the average YTD change at this point in May has been close to 19%, and the only year in the last five where they were up less at this point was in 2020 during COVID.

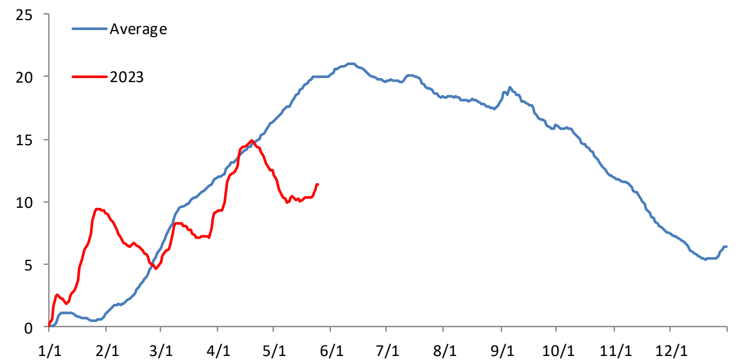
If history is any indication, prices should continue to trend lower throughout the summer and into year end. As shown in the upper right chart, prices tend to peak in early June.

With the national average price at $3.57 heading into this Summer, we're down 23% on a Y/Y basis which is a rate of decline that has only been seen at three other points since 2006 – the Financial Crisis, late 2014 and into early 2016, and during the COVID lockdowns. On the one hand, lower gas prices should keep a lid on inflation, but if consumers have more money to spend on other items, that could spur demand and prices pressures in other areas.

AAA Avg Price of Gasoline on 5/25

Year	Price on 5/25	May Chg (%)	YTD Chg (%)
2005	2.11	-5.5	17.0
2006	2.86	-2.3	29.5
2007	3.22	8.5	37.9
2008	3.94	8.6	29.3
2009	2.43	18.1	50.0
2010	2.77	-4.0	4.5
2011	3.81	-3.3	24.1
2012	3.65	-4.1	11.4
2013	3.63	3.2	10.4
2014	3.66	-0.8	10.1
2015	2.74	5.4	22.2
2016	2.31	4.5	15.9
2017	2.37	-0.5	1.6
2018	2.97	5.7	19.5
2019	2.83	-1.7	25.5
2020	1.96	10.4	-24.1
2021	3.04	4.7	34.6
2022	4.60	9.9	40.0
2023	3.57	-1.1	11.3
Average	**2.96**	**2.8**	**18.8**
Median	**2.86**	**3.2**	**19.5**

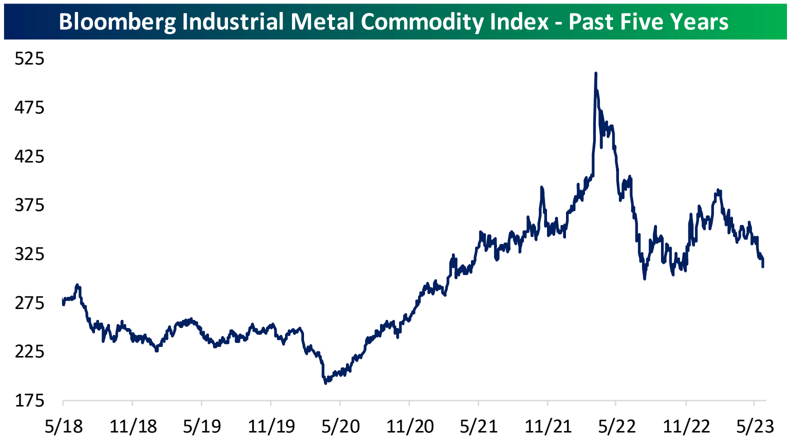
Average YTD Change in AAA Average Gas Price Since 2005 (%)

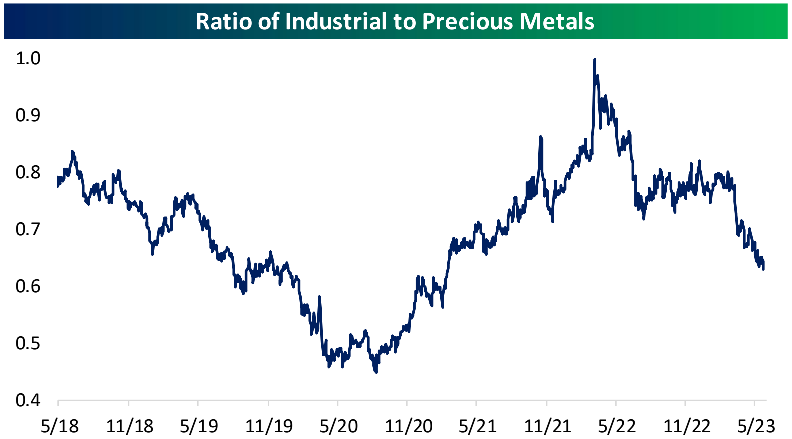


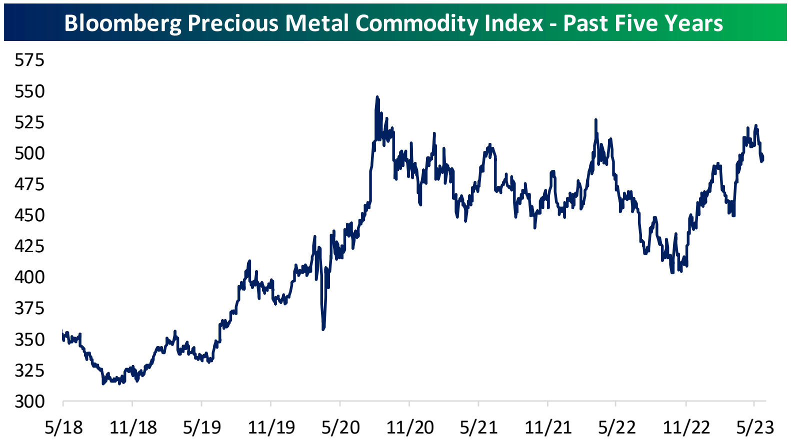
Year/Year Change in Gasoline Prices: 2005 - 2023

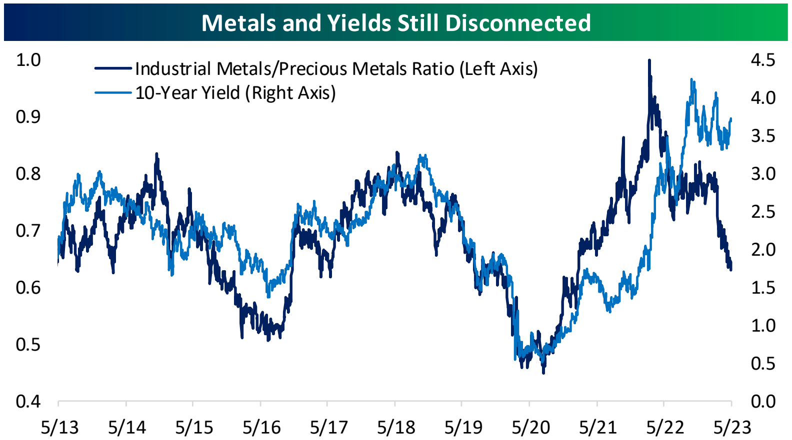
US economic data remains on the weak side even as second-derivative indicators have been showing some signs of improvement, but the performance of industrial metals still suggests weakness in the global economy. On a total return basis, the Bloomberg Industrial Metals traded down to its lowest levels since October this week even as precious metals have remained relatively firm. As a result, the ratio of industrial to precious metals has been falling sharply reaching the lowest level since February 2021.

Historically, strength in this ratio tends to indicate a stronger global economy while weakness suggests the economy is slowing down. The ratio also tends to track well with yields. More recently, though, the two have become increasingly disconnected. That would imply that either yields are due to pull back or a combination of precious metals being over their skis while industrial metals have been oversold.





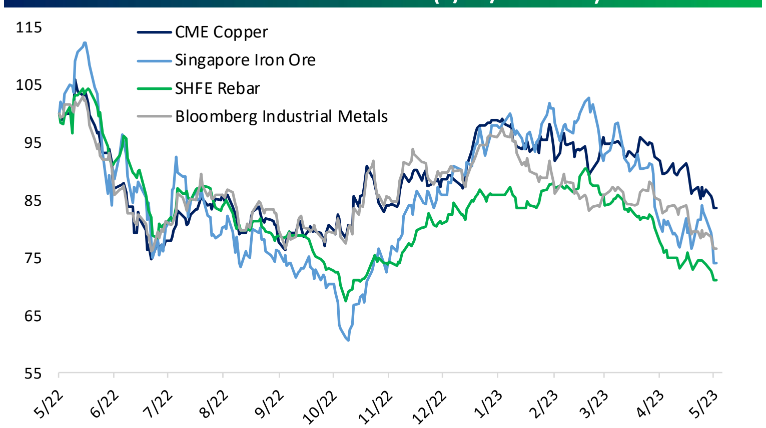




Of course, much of the weakness in industrial metals can be chalked up to China where the long-awaited reopening was supposed to unleash massive demand into the global economy. Like a lot of highly anticipated events in the market, though, the reality doesn't appear to be living up to the hype. As shown in the top left chart, weakness in industrial metals have been perfectly correlated to rebar futures prices in China which are a near perfect readthrough into the state of the Chinese property market. The Citi Economic Surprise index for China (lower left) shows similar disappointment after a brief spurt higher. While the pace of positive economic surprises hit a record high in April, it has already come crashing back down to neutral levels.

Chinese stocks don't appear optimistic about the future either. China's CSI 300 closed out the week at news lows for the year on Friday (upper right chart). From a longer-term perspective, Chinese stocks are also at an interesting juncture. After failing to trade above 6,000 for the third time in the last twenty years, the CSI 300 is on the verge of testing a very long-term uptrend line (lower right chart).

Industrial Metals Futures (5/24/22 = 100)



Shanghai Shenzhen CSI 300: Last 12 Months

Citi Economic Surprise Index - China: November 2019 - May 2023

Shanghai Shenzhen CSI 300: Last 20 Years

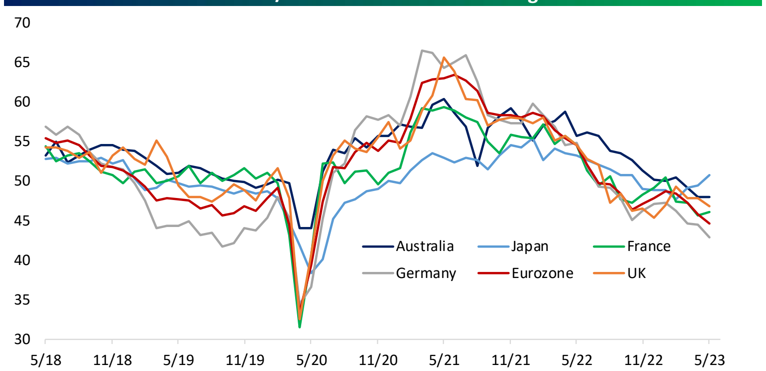
The Bespoke Report

May 26, 2023

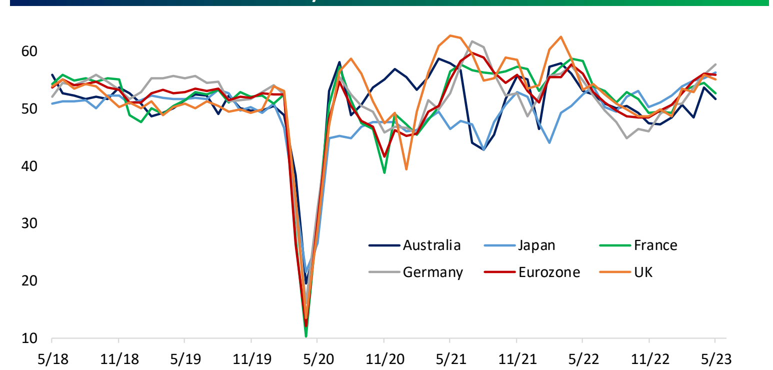
To say that weakness in industrial commodities is a reflection of a weaker economy isn't entirely accurate. More specifically, weakness in that sector tends to reflect weakness in the manufacturing sector of the economy, which is increasingly a smaller part of the global economic pie, although China's stock market and economy has more leverage to that sector than other large global economies.

This week S&P released flash PMI manufacturing and service sector PMI readings for the month of May. The top two charts show trends for global economies while the lower two show the US PMI readings. On a global basis and to a lesser degree the US, manufacturing service sector PMIs are moving in the opposite directions. Outside of Japan (order backlogs up at the second-fastest pace in series history), flash manufacturing PMIs continued to decelerate during May; Germany's was especially weak, hitting the lowest levels since May of 2020 (with order cancellations due to high inventories reported). On the other hand, services PMIs look genuinely strong, uniformly accelerating across the world economy over the past few months.

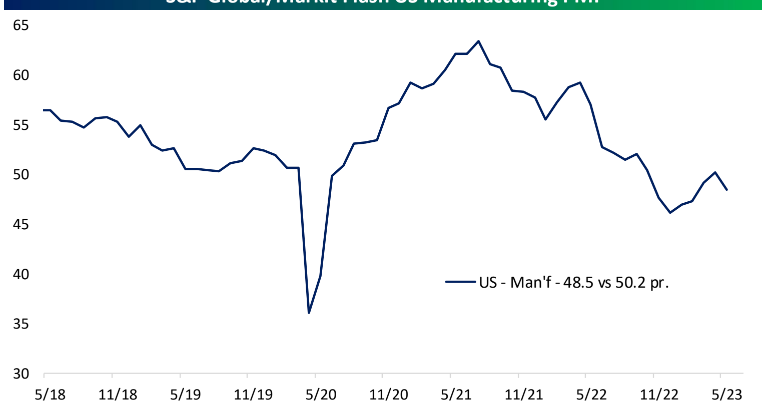
S&P Global/Markit Flash Manufacturing PMIs



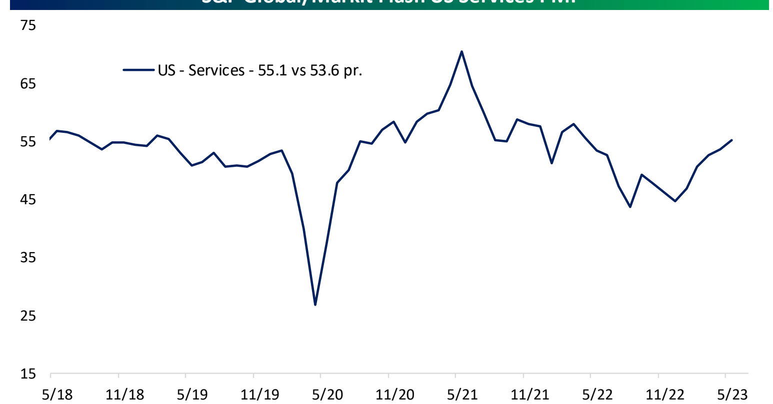
S&P Global/Markit Flash Services PMIs



S&P Global/Markit Flash US Manufacturing PMI



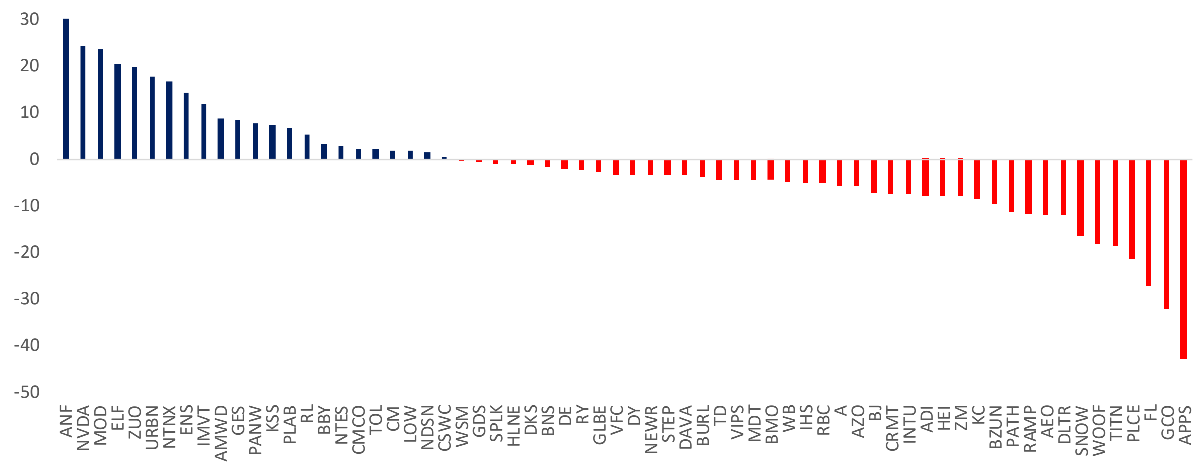
S&P Global/Markit Flash US Services PMI



Earnings season unofficially ended a little over a week ago, but there have been some notable reports during that span. The chart at right shows the one-day performance of companies reporting earnings since 5/19 (the day after Walmart's report) through Thursday morning (5/25). Of the 66 companies that have reported, the average one-day move has been +/- 9.2%. To put that in perspective, the average one day move for the entire earnings season was 6.04%. In other words, stocks reporting since the end of earnings season have been 50% more volatile than the overall earnings season average.

NVIDIA's (NVDA) 24% rally on Thursday has gotten the most attention as it should given its market cap and the fact that it had the second largest ever one-day increase in market cap for a US company on record. NVDA is not the only one, though, as there have been many other stocks posting large post-earnings moves. As shown in the table at right, nine stocks have rallied at least 10% while 11 have declined 10% or more. It just goes to show how volatile earnings season can be as landmines can ruin your quarter, but a couple of winners can really make it.

Earnings Reaction Day Performance of Companies Reporting Earnings (%): 5/19 - 5/25



10%+ Movers in Reaction to Earnings Since 5/19

			Act vs Est			1-Day
Ticker	Date	TOD	EPS	Sales	Guidance	Chg (%)
ANF	5/24	AM	Beat	Beat	Raised	31.1
NVDA	5/24	PM	Beat	Beat	Raised	24.4
MOD	5/24	PM	Beat	Beat	Inline	23.8
ELF	5/24	PM	Beat	Beat	Raised	20.5
ZUO	5/24	PM	Beat	Beat	Inline	19.9
URBN	5/23	PM	Beat	Beat	None	17.6
NTNX	5/24	PM	Beat	Beat	Raised	16.8
ENS	5/24	PM	Beat	Beat	Inline	14.4
IMVT	5/22	AM	Miss	In	None	12.0

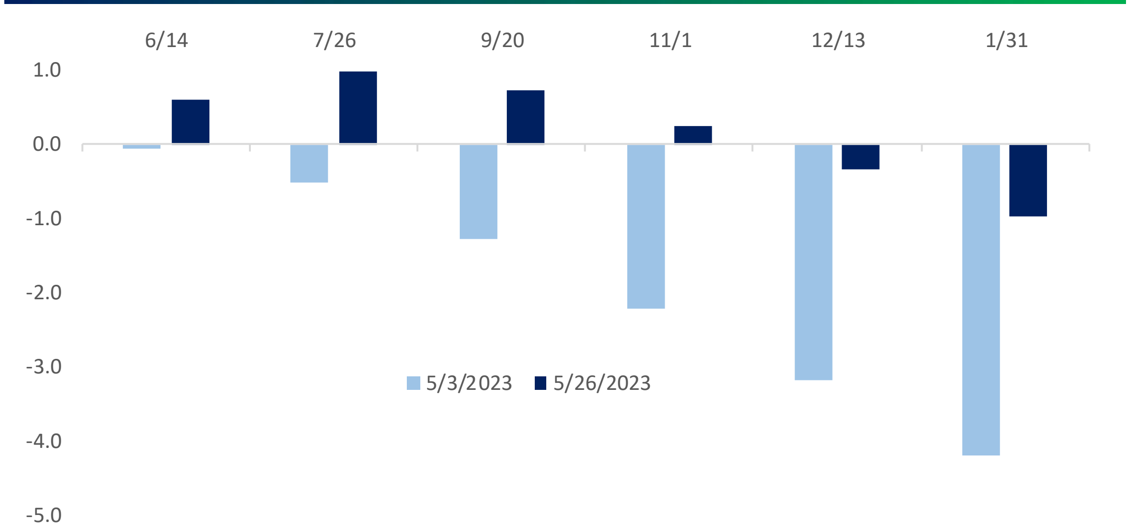
			Act vs Est			1-Day
Ticker	Date	TOD	EPS	Sales	Guidance	Chg (%)
APPS	5/24	PM	Miss	Miss	Lowered	-43.0
GCO	5/25	AM	Miss	Beat	Lowered	-32.2
FL	5/19	AM	Miss	Miss	Lowered	-27.2
PLCE	5/24	AM	Miss	Miss	Lowered	-21.4
TITN	5/25	AM	Beat	Miss	None	-18.6
WOOF	5/24	AM	Beat	Beat	None	-18.2
SNOW	5/24	PM	Beat	Beat	None	-16.5
DLTR	5/25	AM	Miss	Beat	Inline	-12.0
AEO	5/24	PM	In	Beat	None	-11.9
RAMP	5/24	PM	Beat	Miss	Inline	-11.7
PATH	5/24	PM	Beat	Beat	Inline	-11.2

It's been a pretty amazing month in the US rates market as yields have reversed much of the regional bank rally that bonds experienced late in Q1 and into Q2. Two weeks ago, the two-year yield was below 4%, and this week it's over 4.5%. We've seen similar moves at the long end of the treasury curve although not to the same degree as the 10-year yield finished the week at around 3.8% which is up over 30 bps in the last two weeks.

Along with higher yields, we've seen a massive repricing of expectations for FOMC policy for the remainder of the year. After the May Fed meeting on 5/3, the market was pricing in a full 25 bps rate cut by September, but it's now pricing in greater than a two-thirds chance of a rate hike by then. Looking further out to January, whereas there were more than four cuts priced into the market between now and January, there's now less than one cut priced in.

In any other period during this tightening cycle, such a drastic shift in market pricing would have crushed equities, but this time around, that hasn't been the case (lower right chart). Even as yields have surged and market pricing for rates cuts have plunged since 5/3, the S&P 500 has rallied 2.5%.

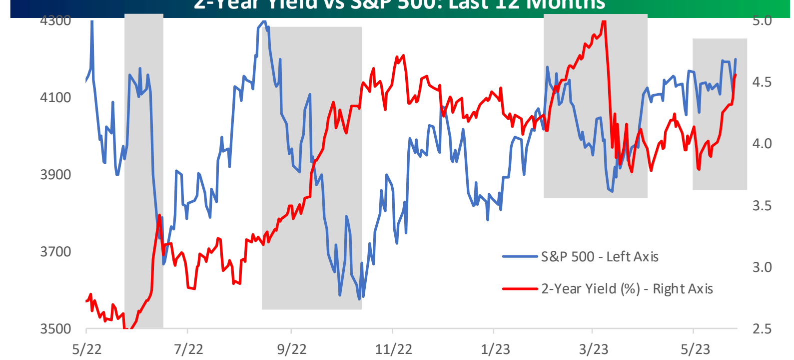
Market Pricing for Number of 25 bps Rate Hikes or Cuts



2-Year US Treasury Yield (%): Last 12 Months

10-Year US Treasury Yield (%): Last 12 Months

2-Year Yield vs S&P 500: Last 12 Months



As mentioned earlier, heading into the long weekend, it was looking as though a deal on the debt ceiling was close to being reached, and that should be a sigh of relief to all investors and anybody with any exposure to the US economy. However, while a debt ceiling resolution is a welcome development, it shouldn't necessarily be taken as a buy signal.

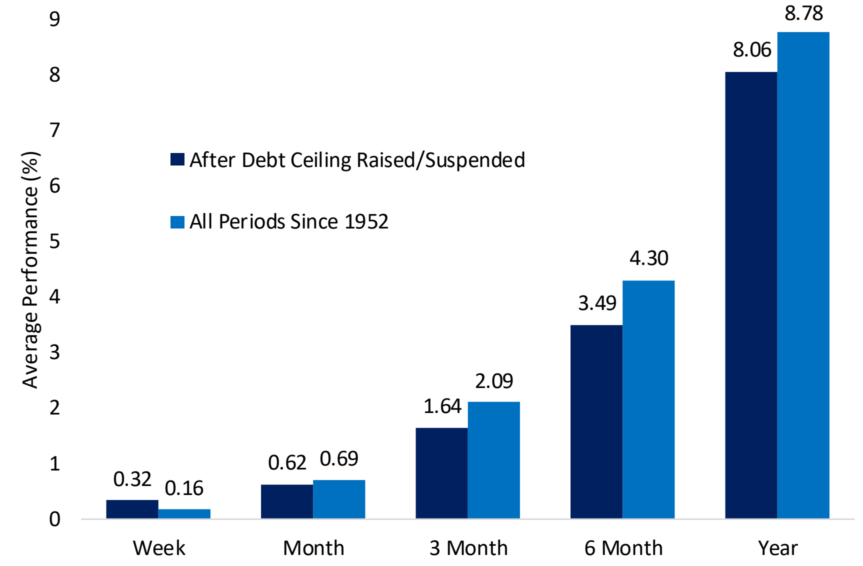
Looking back historically, since 1952 (when the five-day trading week began) the debt ceiling has been raised or suspended 86 separate times. As for what the S&P 500 has done in the wake of those actions, typically stocks have moved higher, but returns are not particularly impressive relative to the norm.

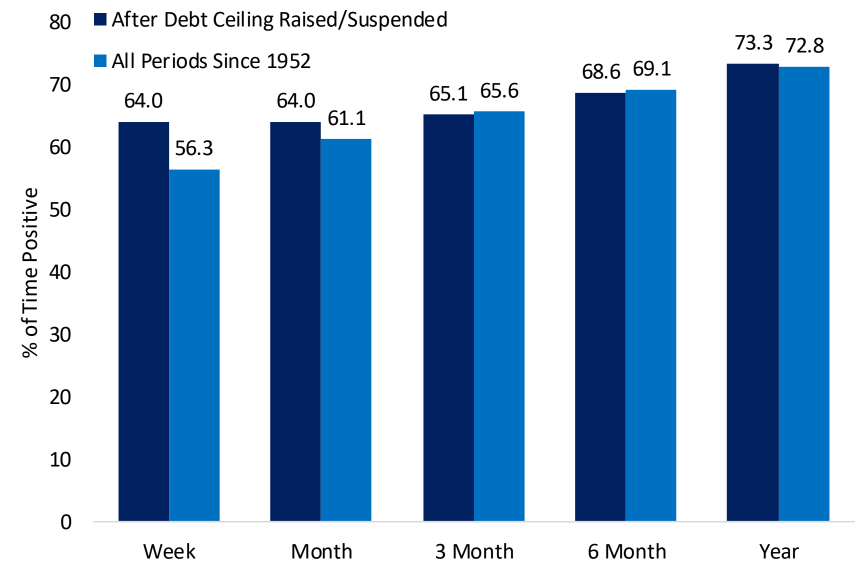
As shown at right, one week after a deal, the S&P 500 has averaged a 32 bps gain with positive returns 64% of the time. That is twice as strong as the typical one week move since 1952, but performance further out becomes less noteworthy.

Returns one month later are also consistently positive, even more so than the norm, but the 62 bps gain is marginally lower than the norm.

Three, six, and twelve months later have also averaged a move higher, but those average gains are less impressive than the norm with positivity rates that are essentially undistinguishable.

S&P 500 Peformance After Debt Ceiling is Raised/Suspended

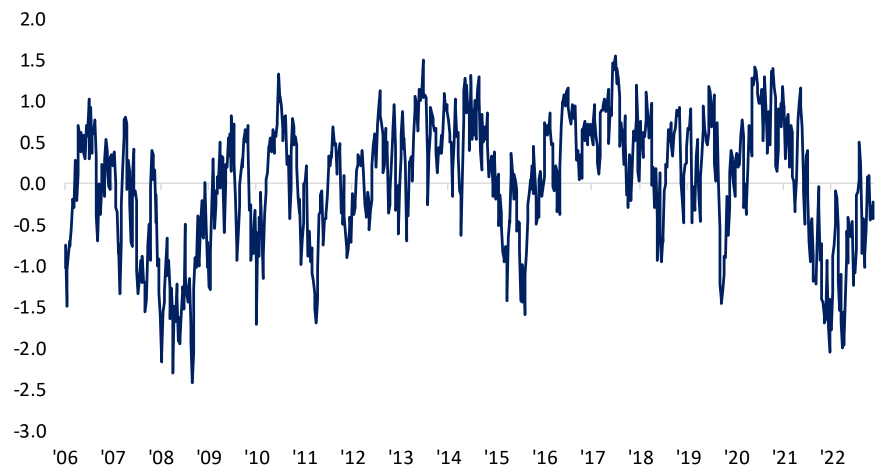




Sentiment has been somewhat choppy in recent weeks despite the S&P 500 approaching a 52-week high. Looking across multiple sentiment surveys, our Sentiment Composite at right shows that overall sentiment continues to hold a bearish bias. This composite averages the *AAII, Investors Intelligence*, and *NAAIM Exposure Index* surveys, where a negative reading would imply sentiment is more bearish than the historic norm and a positive reading would mean sentiment is more bullish than normal.

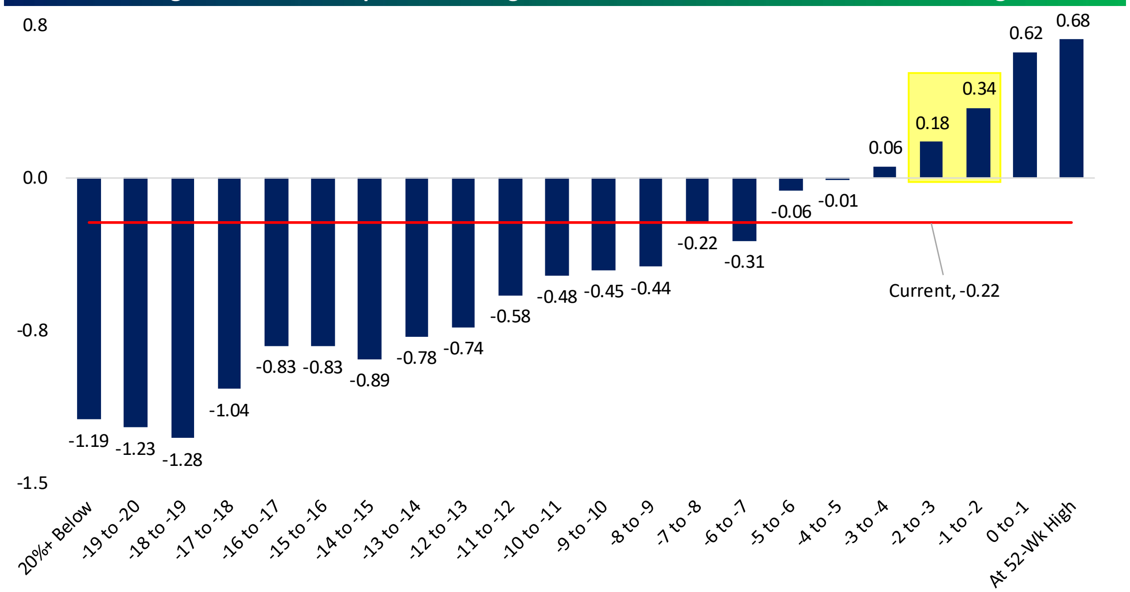
Again, the negative reading is unusual given the proximity of the S&P 500 to 52-week highs. The S&P 500 is within 1% to 3% of a 52-week high (depending on where the market closes Friday) while the sentiment composite is registering a reading of -0.22. As shown in the charts below, historically when the S&P 500 has been this close to a high, the sentiment composite on average has been much higher, in a range of +0.18 to +0.34. Furthermore, the sentiment composite has registered negative readings only 13% of the time when the S&P was within 3% of a 52-week high.

Sentiment Composite Since 2006

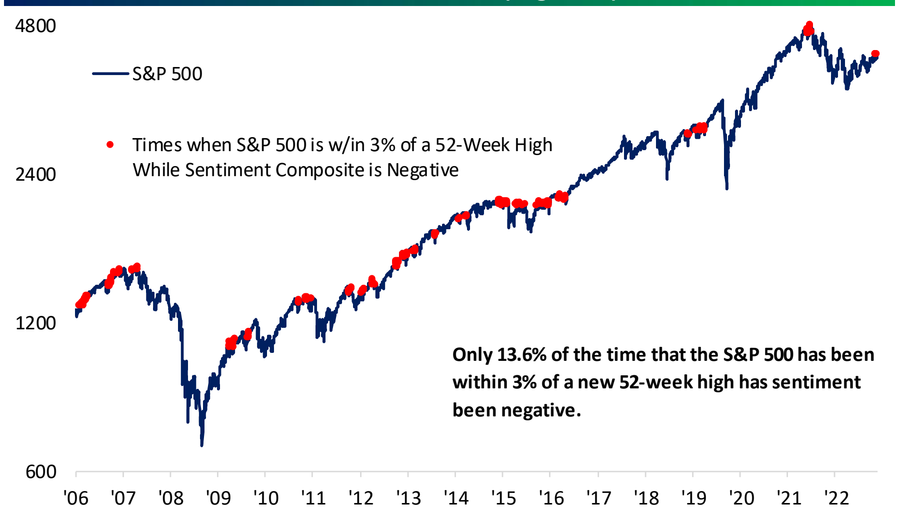


** Average across z-scores of AAII & Investors Intelligence Bull-Bear Spreads and NAAIM Exposure index.*

Average Sentiment Composite Reading Based on S&P 500 Distance from 52-Week High



S&P 500 Since 2006 (Log Scale)



The Bespoke Report

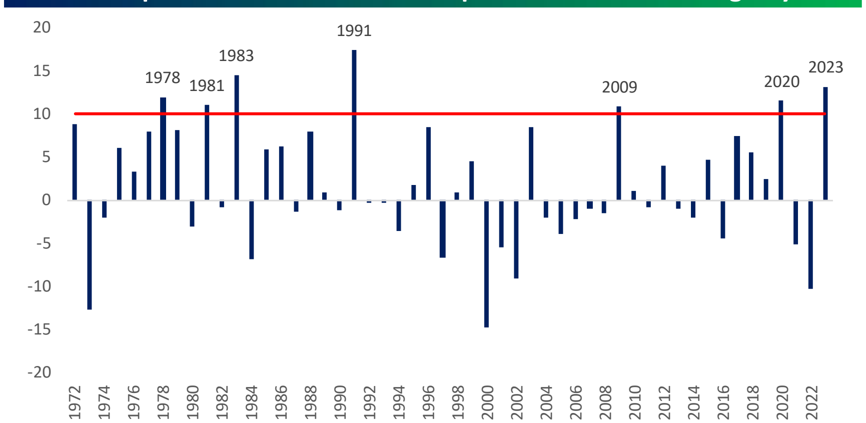
May 26, 2023

This past Thursday was the 100th trading day of 2023, and for both the S&P 500 and the Nasdaq, it has been a very good year…to different degrees. The S&P 500 was up 8.12% on the year while the Nasdaq was up nearly three times that at 21.32%. As shown in the chart below, this year is the seventh year since 1972 that the Nasdaq outperformed the S&P 500 by at least ten percentage points in the first 100 days of trading.

For the S&P 500, its first 100 trading day performance ranks as the 22nd best start to a year since 1953 (the first full year of a five-trading day week). In the 25 prior years where the S&P 500 was up 7.5% or more in the first 100 trading days, its average rest of year gain was 9.40% (median: 10.71%) with gains all but three times. For all other years since 1953, the S&P 500's average rest of year gain was 2.52% (median: 3.26%) with gains 58% of the time. Interestingly, the only years where the S&P 500 was up over 7.5%+ in the first 100 trading days but declined for the remainder of the year were after the three strongest starts.

Despite only starting in 1971 (first full year 1972), the Nasdaq has been up at least 7.5% in its first 100 trading days one more time than the S&P 500. Like the S&P 500, though, forward returns following a strong start have been better than what has been typical of all other years.

Nasdaq vs S&P 500 Performance Spread After 100 Trading Days



S&P 500 and Nasdaq Performance 100 Trading Days into Year

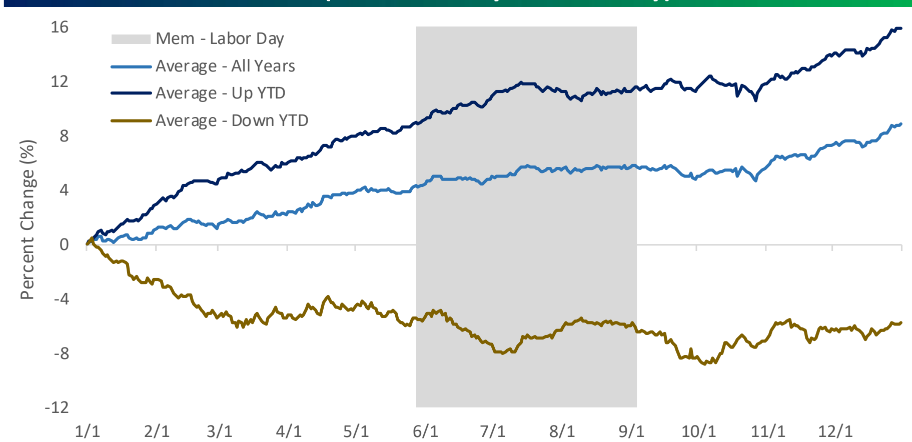
S&P 500 Performance (%)			Nasdaq Performance (%)		
Year	**YTD**	**Rest of Year**	**Year**	**YTD**	**Rest of Year**
1975	32.12	-0.43	1975	38.11	-6.05
1987	19.38	-14.54	1983	32.25	-9.36
1983	17.70	-0.37	1991	30.97	19.76
1954	16.61	24.37	2023	21.32	
2013	15.66	12.05	1986	20.51	-10.99
1995	15.10	16.52	1996	18.56	3.50
1989	14.91	10.74	1985	18.11	11.32
1961	14.75	7.30	1987	17.95	-19.68
1997	14.35	14.57	1995	16.76	19.84
1986	14.23	0.34	2003	16.56	28.69
1991	13.55	11.24	1972	16.30	0.76
2019	12.73	14.32	1989	15.76	3.02
1998	12.55	12.54	2017	15.27	11.25
1967	12.26	6.97	2019	15.10	17.49
1985	12.17	12.62	2013	14.56	20.74
2021	11.71	13.59	1978	14.04	-1.52
1963	11.09	7.02	1976	13.57	11.04
1976	10.26	8.07	1998	13.42	23.11
1996	10.15	9.19	1979	11.99	14.40
1958	9.48	26.11	1999	10.69	67.66
2003	8.14	16.86	1988	10.50	4.44
2023	8.12		2009	9.77	31.08
1971	7.94	2.63	2012	8.99	6.34
2017	7.87	10.71	1981	8.85	-11.08
1964	7.61	4.98	2015	7.82	-1.94
1972	7.53	7.53	1997	7.64	13.00
			2018	7.55	-10.63
Average		**9.40**	**Average**		**9.08**
Median		**10.71**	**Median**		**8.69**
% Positive		**88**	**% Positive**		**69**
All Other Years Since 1953			**All Other Years Since 1972**		
Average		**2.52**	**Average**		**2.83**
Median		**3.26**	**Median**		**7.57**
% Positive		**58**	**% Positive**		**64**

The old mantra says to sell in May, and after a relatively rough week heading into the first unofficial weekend of Summer, bulls may be thinking about just taking off and not coming back until Labor Day. History would suggest they could miss out on gains by doing so. The table to the right summarizes the performance of the S&P 500 from Memorial Day through Labor Day as well as Labor Day through year end since Memorial Day was officially designated as a holiday on the last Monday of May in 1971. Then, in the chart below, we show a composite of the S&P 500's performance for all years since 1971 as well as in years when it was up YTD on Memorial Day and years when it was down.

For all years since 1971, the S&P 500's average performance from Memorial Day through Labor Day has been a gain of 1.55% with positive returns 69% of the time. In years when the S&P 500 was up YTD, the average gain was 80 bps higher at 2.35% with gains 74% of the time, while in years when it was down YTD, the average change was a decline of 0.07% with gains 59% of the time. Years when the S&P 500 was up over 5% were also strong with an average gain of 1.93% (median: 3.03%) and positive returns 73% of the time.

Don't book that extended vacation just yet!

S&P Performance (Memorial Day to Labor Day): 1971 - 2022



S&P 500 Performance From Memorial Day to Labor Day: 1971 - 2023

	# of Years	S&P 500 Average Performance (%) YTD thru Mem Day	Mem Day thru Labor Day	Labor Day to YE
All Years	52	4.05	1.55	2.79
Up Years	35	8.83	2.35	4.33
Down Years	17	-5.81	-0.07	-0.40
Years Where S&P 500 Up 5%+				
	1971	8.12	1.06	1.39
	1972	8.39	0.77	5.86
	1975	32.12	-4.08	3.81
	1976	11.08	4.11	3.03
	1983	16.94	0.33	-0.04
	1985	12.59	0.18	12.01
	1986	14.23	4.80	-4.25
	1987	16.51	12.24	-21.98
	1989	15.80	9.99	-0.09
	1991	14.31	4.75	5.48
	1995	14.02	7.67	9.24
	1996	10.16	-3.91	13.61
	1997	14.35	6.19	7.89
	1998	14.43	-12.30	26.22
	1999	5.91	4.26	8.25
	2003	6.07	8.01	10.31
	2007	6.87	-2.75	-0.38
	2011	5.84	-11.80	7.12
	2013	15.66	-1.01	13.19
	2017	7.91	2.51	7.96
	2019	12.73	3.55	10.40
	2021	11.93	7.88	5.09
	2023			
		Average	**1.93**	**5.64**
		Median	**3.03**	**6.49**
		% Positive	**73**	**77**

On a final note, given NVDA's monster gain this week, it is unbelievable to think that the stock has been a "100-bagger" over the last ten years, meaning that it has rallied over 10,000%! There was a time when "10-baggers" were considered the holy grail of investing, but NVDA has now upped the ante. While NVDA has been the biggest Russell 1,000 winner of the last ten years, there have been other enormous winners as well. Horizon Therapeutics (HZNP) has rallied over 4,000%, while another five stocks have been "20-baggers."

Looking through the list of names, most weren't household names a decade ago, but you've likely heard of many – but not all - of them now. Given its market cap, we wouldn't bet on NVDA repeating the performance of the last ten years in the next ten, but some of the other names listed are smaller in market cap, so who knows. The key as an investor is to look for some of the smaller emerging companies in the market that have unique and differentiating products that haven't yet been discovered by the mainstream. Easy as pie, right?

Really, though, no one said investing is easy, but over time we've found a fair share of winners (and some losers) by using our Bespoke 50 and Earnings Triple Plays as a starting point, and this weekend you have an extra day of research to get started.

Have a great weekend, and please take some time to remember all the men and women who have died for the American way of freedom for all. As much as it's easy to look around and complain about certain aspects of our country (sometimes even easier than others), it's still the best around. Without the sacrifice of those who have fought for the cause, none of it would be possible.

10-Year "10-Baggers" in the Russell 1,000

Stock	Company	Sector	Price	10-Yr Total Return (%)
NVDA	NVIDIA	Technology	382.21	11,228.2
HZNP	Horizon Therapeutics	Health Care	99.90	4,050.4
TSLA	Tesla	Cons. Discret.	182.84	2,726.0
AMD	Advanced Micro Devices	Technology	118.88	2,573.3
AVGO	Broadcom	Technology	725.64	2,485.8
PLUG	Plug Power	Industrials	8.32	2,353.6
DXCM	Dexcom	Health Care	114.03	2,131.9
AXON	Axon Enterprise	Industrials	192.15	1,919.0
ENPH	Enphase Energy	Technology	162.28	1,901.2
RGEN	Repligen	Health Care	166.88	1,854.4
MPWR	Monolithic Power Systems	Technology	485.60	1,783.0
TPL	Texas Pacific Land	Energy	1330.00	1,760.6
FTNT	Fortinet	Technology	67.31	1,731.8
BLDR	Builders FirstSource	Industrials	117.45	1,572.1
FICO	Fair Isaac	Technology	772.45	1,479.7
LSCC	Lattice Semiconductor	Technology	76.90	1,433.3
MSCI	MSCI	Financials	467.43	1,359.8
NOW	ServiceNow	Technology	531.70	1,321.7
LRCX	Lam Research	Technology	600.10	1,287.7
CDNS	Cadence Design Systems	Technology	224.02	1,286.5
WWE	World Wrestling Entert.	Comm. Svcs	101.02	1,224.4
AAPL	Apple	Technology	172.85	1,154.0
MRTX	Mirati Therapeutics	Health Care	38.58	1,134.9
SNPS	Synopsys	Technology	434.81	1,130.0
PANW	Palo Alto Networks	Technology	207.62	1,085.6
CTAS	Cintas	Industrials	462.99	1,075.3
KLAC	KLA Corp	Technology	431.41	1,072.5
NFLX	Netflix	Comm. Svcs	360.83	1,018.5
ODFL	Old Dominion Freight	Industrials	310.16	1,012.7
EPAM	EPAM Systems	Technology	255.24	1,006.8

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