CHASE INVESTMENT COUNSEL CORPORATION
PRESERVING & GROWING WEALTH
Since 1957

# May 2023
# REVIEW & COMMENTARY

## PETER W. TUZ, CFA, CFP®
## PRESIDENT & PORTFOLIO MANAGER

June 5, 2023

Peter W. Tuz, CFA, CFP®
President & Portfolio Manager

"Rampant pessimism is often a contrary indicator of a market that is ready to go up."

## May Market Update

Most academics and market professionals would agree stock markets are "efficient." In easy-to-understand terms, most companies, especially bigger ones, are so well-followed by analysts that virtually everything worth knowing about them is known.  So, the current stock price for any well-followed company is an accurate reflection of its prospects going forward. Surprises are rare. Until they aren't.

Anyone who agrees with this theory should spend a lot of time reflecting on the month just ended.

Take NVIDIA Corp. (NVDA) for example. Fifty analysts follow the company and make quarterly estimates on revenues and earnings. Despite the broad coverage, NVIDIA shocked the world on May 24 as it reported better-than expected quarterly earnings and revenues, but more importantly gave Q2 guidance on revenues that was $4.0 billion (57%) higher than expected ($11.0 billion versus $7.1 billion). The stock rose 25%, adding $184 billion to the company's market cap.

Advance Auto Parts (AAP) surprised in the other direction, falling 33.4% on May 31st after reporting disappointing revenues and earnings and reducing its dividend by 83%.  Again, this was missed by more than two dozen analysts following the company.   Shame on them.

Efficient markets or not, earnings season always brings surprises. May was no exception. Despite the many positive surprises and strong performance from large tech-related stocks, the S&P 500 Index ("S&P 500") ended the month up 0.43% and is up 2.00% quarter-to-date and 9.65% year-to-date (through May 31, 2003). After 2022's drubbing, this is more than respectable but it pales in comparison with growth indices.

NVIDIA's performance, and many similar stocks, helped the Russell 1000® Growth Index gain 5.59% quarter to date (May 31, 2023) versus a 2.42% loss for the Russell 1000® Value Index.  Sector performance confirms this. Only three of the S&P 500's 11 sectors are up for the quarter as the following table shows:

| Up Sectors: | | Down Sectors: | |
|---|---|---|---|
| Communications Services | 10.2% | Energy | -7.1% |
| Information Technology | 10.0% | Materials | -7.0% |
| Consumer Descrentionary | 2.29% | Industrials | -4.3% |
| | | Utilities | -4.1% |
| | | Real Estate | -3.6% |
| | | Cons Staples | -2.7% |
| | | Finanials | -1.3% |
| | | Healthcare | -1.4% |

Lastly, many of you have heard that the S&P 500 performance year-to-date is overwhelmingly due to the performance of six large stocks:  Apple, Alphabet, Microsoft, Amazon, NVIDIA and Meta began the quarter (over) with a combined market cap of $9.7 trillion and ended the quarter with a market cap of $11.2 trillion for a gain of $1.6 trillion or 16.4%. The S&P 500 meanwhile ended May with a market cap of $35.0 trillion, a gain of a mere $684 billion in the quarter (up 2.00%). The other 494 stocks, in total, detracted from the index's return by some $920 billion.

While first quarter financial results primarily drove quarter-to-date market performance, the on-going drama regarding the federal debt ceiling provided fodder for market swings as did the debate over whether Federal Reserve bankers are close to a pause in the current rate hike cycle. Inflation data remains mixed. Overall inflation met expectations, but "core" inflation is still higher than expected. The debt ceiling issue is now over, but the rate hike issue will stay with us longer.

Meanwhile, one month remains in the second quarter. Judging by first quarter results, it is not shaping up to be a great one for earnings. But it does look like it might end up somewhat better than expected earlier this year. With virtually all the S&P 500 companies reporting first quarter earnings by now, it looks as if the quarter's earnings will end up being about 2.1% below last year's levels.

According to Factset, analysts expect the S&P 500 to earn $221.31 in 2023. This compares to earnings of $221.28 in 2022. At May 31's closing price of $4,180.23, this puts the S&P 500's p/e ratio at 18.9x earnings, above both the five-year and ten-year averages of 18.5x and 17.3x.

If it hasn't already, investors' focus will shift to 2024 and whether earnings begin to grow again. S&P Capital/IQ's 2024 S&P 500 earnings estimate now stands at $246.66 putting the market at a more reasonable 17.0x earnings. But a lot can happen between now and 2024.

Meanwhile, as always, there are both negatives and positives to think about going forward.

**Negatives:**

- U.S. equity markets are expensive compared to historic norms.
- Short-term interest rates provide a reasonable investing alternative to stocks currently.
- Inflation remains high with the latest "core" figure at 4.5%, above the Federal Reserve's 2.0% long-term goal. This suggests rates won't be reduced soon and that further hikes are possible.
- The banking crisis that began in March appears to be easing but has left an important industry with reduced stock valuations and crimped lending ability. More negatives are possible.
- Narrow market leadership is something worth worrying about.

**Positives:**

- Earnings in Q1 were better than expected. This may continue in the second half of the year.
- Much of the market's overvaluation is concentrated in "mega-cap" tech and related stocks, there are scores of reasonably valued companies waiting to be found.
- There is a lot of cash available to go into stocks should market sentiment improve.
- Rampant pessimism is often a contrary indicator of a market that is ready to go up.

The term "stock pickers market" is overused but is worth over-using again. We are always looking for reasonably valued growing companies and we take seriously our charge to protect capital and see it grow. If we can help in any way, please feel free to contact us.

As always, we are here to help with whatever investment questions you might have.