Good morning. The month of May has been dominated by fears of the federal government defaulting on its debt payments, Artificial Intelligence getting real, interest rates testing highs for the year and an economy that continues to chug along despite calls for a recession.

Debt Ceiling - I did not spend any time writing in these missives about a Debt Ceiling because quite frankly I just didn't think it was something worth talking about. Yes, our government does crazy things but one thing we can count on is selfish politicians and a default was in absolutely no one's best interests so the base case is a deal would get done. While details are still emerging, it appears all side got something and lost something so compromise is not totally dead in DC. From a market & economic standpoint the Debt Ceiling isn't a positive or a negative. What was a surprise is that this deal is a positive for Energy Infrastructure as the Mountain Valley Pipeline in Pennsylvania was approved. There will also be a restart of student loan payments in September which will benefit some smaller student loan servicing companies which will have a mild effect on helping smaller financial companies.

Artificial Intelligence – This has been all the rage in the last month or so due to some key earnings from leaders in the space. While the entire tech space has enjoyed a huge rebound this year, after getting beat up last year, it is masking some underlying problems in the broader market. For example, as Tom Essaye pointed out in The 7's Report yesterday, the S&P 500 was up .30% last week primarily due to TWO STOCKS!

Interest Rates – The 2-year Treasury rate hit its highest level since March 10, 2023 last week as strong economic data (if the economy remains too strong so too will inflation which makes The Federal Reserve more likely to keep raising rates) which decreased the odds of rate cuts by the end of the year from 3-4 cuts as of a month ago to now pricing in 1 cut by the end of the year. In short, rates stay higher for longer. It's easy to forget but it was just 3-6 months ago that the stock market was freaking out about higher rates hurting margin expansion and throwing the economy in to a recession as seen by a negative yield curve where short rates are higher than longer rates which typically is seen just before a recession. Those conditions are still right in front of us.

Narrow Market Leadership – In the past 3 months, the S&P 500 is up over 5% and three stocks are responsible for 80% of that return. Narrow market leadership like that is typically not indicative of a strong underlying market and that is cause for concern.

Our asset allocation has not changed, and we are continuing to keep a close eye on that. We have been very successful in this market, especially in the areas of Large Cap Growth that, as mentioned above, is where almost all the returns are coming from this year[1]. While other areas of the market that held up well last year like Large Cap Value have not participated in the rally, future investment opportunities may be more attractive. This is dependent on your risk tolerance and personal financial profile.

If you would like to discuss any of these points further, please feel free to reach out to me to schedule some time together. Thank you to all that served as we commend you on this Memorial Day weekend 2023.

Regards,

Tim

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Sources: The Sevens Report[1]

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