It's Always Something

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Many of you may remember *Saturday Night Live's* Roseanne Roseannadanna, the program's *Weekend Update* reporter that opined on current issues and questions, only for her monologue to morph into a comedic rant about another topic, typically a problem or inconvenience, that had little, if anything, to do with the original issue. When pressed by the anchor for the rationale behind her tangent, Roseannadanna would reply: "It's Always Something. If it's not one thing, it's another."

Several money managers likely find themselves uttering Roseannadanna's signature tagline quite often these days, given the magnitude of this year's stock market gain, which has likely surprised (and confused) even the savviest of prognosticators.

As of the time of this writing, the S&P 500 has advanced approximately 15% for the year-to-date (YTD) period, while the technology-heavy NASDAQ Composite has fared even better, up roughly 30%. The robust price gains are impressive considering the recent multiple bank failures, rising interest rates and threat of a U.S. government debt default. The market always seems to zig when it should be zagging. *It's always something.*

It is no secret most of the market's gain this year can be attributed to a handful of large growth and technology stocks. But, just as investors were growing concerned with the concentrated leadership, the good price performance began to broaden to some cyclical and economically sensitive sectors. This improvement in market breadth witnessed over the past few weeks is often viewed as a positive indicator of future price performance. *It's always something.*

What happened to Wall Street's well-telegraphed recession forecast? Indeed, negative corporate earnings revisions were common over the past 12-18 months, as many investors fretted the Federal Reserve's (the Fed) actions to tighten monetary policy would slow the economy and hurt corporate profitability. However, those negative revisions have moderated considerably due, in part, to ebbing inflationary pressures, the still-strong labor market,

which has supported areas of consumer spending, like leisure and travel services, and investors' discounting of perceived growth and productivity benefits from Artificial Intelligence. Moreover, the market is generally at the time in the year (summer to early fall) where investors increasingly "look ahead" to the following year and discount growth expectations for that period. We note investors have penciled in a meaningful acceleration in earnings growth for 2024: 12%, up nicely from the meager 1% growth rate forecasted for 2023. So, the market has pivoted from expectations for recession to robust growth? *It's always something.*

The S&P 500's valuation multiple has risen with year-to-date stock performance. The market's twelve-month P/E (price-to-earnings) multiple stands at 19.1x, which is somewhat expensive relative to the 17.5x long-term average, leading some investors to question its sustainability. And, the premium multiple could suggest investors' expectations for said improved earnings growth in 2024 is already, at least partially, priced into the market. However, when removing those large growth and technology stocks that, combined, represent 25-30% of the S&P 500, the valuation of the rest of the market (i.e., the approximate 490 remaining stocks) stands at a more reasonable 15.1x. *It's always something.*

The Fed has made meaningful progress slowing headline inflation. May's Consumer Price Index (CPI), which gauges what consumers pay for goods and services, stood at 4.0% year-over-year, down materially from June 2022's 9.1% rate that, at the time, marked an approximate 40-year high. But, still-elevated inflation readings in some stickier areas of the CPI, namely services and shelter, could push the Fed to continue raising interest rates, an action that could increasingly pressure the demand for money and, in turn, economic growth. In fact, the Fed forecasts a slowdown in GDP growth over the balance of the year to roughly 1.0% for 2023, versus the 1.3% rate recorded for the first quarter. Although the timing of a potential economic slowdown is always elusive, there is the possibility it could slip into 2024, owing to monetary policy's "lag effect," which could somewhat dent said investors' rosier earnings growth forecast for next year. *It's always something.*

If it's not one thing, it's another. There are many moving pieces out there right now, none of them clear and many arguing with one another. This is not an unusual circumstance, but this episode offers more opportunities to go down a rabbit hole on a single concern while losing the larger picture. We do believe that focus is important in uncertain times like these. We maintain our focus on durable assets, diversified portfolios and controlling what can be controlled. ▪