Week Ending 5/12/2023

WEEK IN PERSPECTIVE

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Mega caps hold up broader market

Nasdaq Composite closed the week with a slim gain while the S&P 500 closed with a slim loss.

The 4,100 level was an important area of relative support for the S&P 500 this week. Index level price action was somewhat misleading, though, with more selling occurring under the surface. Mega cap stocks, benefitting from some flight to safety buying, held up the broader market.

The Invesco S&P 500 Equal Weight ETF fell 1.1% this week while the Vanguard Mega Cap Growth ETF rose 0.8%. Alphabet offered a lot of support, rising 11.0% this week following its Developers Conference on Wednesday.

Market participants were digesting the April Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) on Monday. In brief, the SLOOS confirmed what the market had already been expecting following the regional banking crisis that began in mid-March. Lending standards have tightened and banks expect to tighten standards across all loan categories over the remainder of 2023. There was knee-jerk volatility in the immediate aftermath, yet the major indices closed little changed from levels seen before the release of the SLOOS.

PacWest (PACW) was a losing standout from the bank stocks, falling another 21.0% this week after announcing that its deposits declined approximately 9.5% for the week ending May 5. PACW also cut its dividend to $0.01 per share from $0.25.

Angst about the debt ceiling weighed over the broader market after Treasury Secretary Yellen warned last weekend of “economic chaos” if the debt ceiling is not raised. President Biden met with congressional leaders on Tuesday to discuss the debt ceiling, yet that did not quell the market’s worries. Reports suggested that the meeting showed no signs that they had moved closer to a deal. President Biden was supposed to meet with congressional leaders again on Friday, but that meeting was postponed until early next week as staff members continue to negotiate.

Meanwhile, market participants were reacting to the latest inflation readings in the form of the April Consumer and Producer Price Indices. Those reports largely went the market's way, which is to say that the continued month-over-month moderation in inflation should at least spur the Fed to entertain keeping its policy rate on hold when it meets again in June.

Economic releases culminated Friday with the release of the preliminary University of Michigan Consumer Sentiment Survey for May, which featured a drop in sentiment and an increase in five-year ahead inflation expectations to 3.2% from 3.0%. That is the highest reading since 2011. Notably, the NY Fed's Survey of Consumer Expectations for April also reflected a slight increase in three-year and five-year ahead inflation expectations.

Separately, Disney was a drag on sentiment on Thursday after reporting fiscal Q2 results that featured a 2% year-over-year decline in Disney+ paid subscribers.

Growth concerns manifested themselves in S&P 500 sector performance. Energy (-2.2%), materials (-2.0%), and industrials (-1.2%) showing some of the steepest declines. Unsurprisingly, the financials sector was another top laggard, down 1.4%.

The communication services (+4.3%) and consumer discretionary (+0.6%) sectors were the lone outperformers to log a gain, boosted by their respective mega cap components.

The 2-yr Treasury note yield rose seven basis points to 3.98% this week and the 10-yr note yield rose one basis point to 3.46%. The U.S. Dollar Index rose 1.4% to 102.71.

- Nasdaq Composite: +0.4% for the week / +17.4% YTD
- S&P 500: -0.3% for the week / +7.4% YTD
- Dow Jones Industrial Average: -1.1% for the week / +0.5% YTD
- S&P Midcap 400: -1.2% for the week / +0.1% YTD
- Russell 2000: -1.1% for the week / -1.2% YTD

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