



Market in a Minute

May 23, 2023

Index Performance: As of May 19, 2023

Index	Price	Last Week	YTD
S&P 500	4,191.98	1.65%	9.18%
Dow Jones	33,426.63	0.38%	0.84%
NASDAQ	12,657.90	3.04%	20.94%
Russell 2000	9,364.96	1.93%	1.27%
Russell 2000 Growth	8,379.55	1.88%	6.15%
Russell 2000 Value	13,658.17	2.00%	-3.70%
Russell 1000 Growth Total Return	2,611.59	2.52%	19.18%
SPDR Gold Shares	183.64	-1.70%	8.25%
Powershares US \$ Index	28.27	0.60%	1.65%
iShares EAFE Index	73.66	0.71%	12.22%
Barclays Aggregate Bond Index	98.08	-1.32%	1.12%
iShares Barclays 20+ Yr Treasury Bond	101.10	-3.04%	1.55%
Utilities Select Sector ETF	66.11	-4.23%	-6.23%

A Word on the Market

By: Patrick Adams, CFA



S&P 500 Technicals: Last week, the number of NYSE listed stocks advanced by roughly 1800 versus 1300 declining, a big improvement versus the recent trend of nearly 2x the declining stocks versus advancing. Even with a little better internals, the market continued to remain narrow with the same 6 stocks continuing to drive most of the performance. The equal weight S&P 500 is now up 1% for 2023, the DJIA is up less than 1% and about the same for the small cap stocks, the Russell 2000 index. We would note that the AAIL Index lost some of the bullish sentiment, and back to very negative sentiment of 2/1 bears to bulls (this would generally be considered bullish).

The chart of the S&P 500 below shows the market has been in a sideways pattern for the last year with the volatility remaining mostly in the 3800-4200 range. It is positive that the market is above the 20, 50, 100, and 200-day moving averages.

In the short term, is the market topping out or breaking out? Our bias is the market is close to running out of momentum unless the market broadens out. The narrowness of the market is consistent with other periods of the end of a market cycle.

Vanguard REIT ETF	80.40	-1.99%	-3.33%
iShares Mortgage Real Estate	21.40	2.74%	-5.69%
Alerian MLP ETF	39.69	5.98%	4.26%
iShares Global Telecom	66.92	2.29%	22.88%
ETFMG Alternative Harvest ETF	3.26	1.87%	-23.47%
Grayscale Bitcoin Trust	14.39	0.91%	73.58%
Shanghai SE Index	3,283.54	0.34%	6.29%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of May 19, 2023

Index	Price	Last Week	YTD
Information Technology	2,768.34	4.19%	27.45%
Consumer Disc.	1,185.73	2.63%	17.93%
Consumer Staples	790.19	-1.68%	1.42%
Health Care	1,528.47	-0.67%	-3.60%
Financials	541.16	2.18%	-5.02%
Industrials	99.78	1.32%	1.60%
Energy	609.30	0.90%	-9.38%
Communications Services	208.41	3.06%	30.77%
Utilities	334.15	-4.36%	-6.79%
Materials	494.76	0.66%	1.06%
Real Estate	226.87	-2.40%	-2.37%

Source: Bloomberg website, Returns are appreciation only

S&P 500 Index



Stock Market Fundamentals: The fundamentals of the stock market are driven by earnings and the P/E investors are willing to pay for those earnings. Generally, earnings are driven by the economy and productivity, and the **P/E multiple is derived by** the risk-free rate of interest plus a risk premium, which is derived from **the 10-Year Treasury Yield (Nominal GDP)**. There are so many factors to consider but the bottom line is earnings and interest rates.

We mentioned a couple of weeks ago that bond yields were set up to advance on a technical basis and sure enough we got a pop in bond yields. The trend in yields is up, and we would not be surprised to see the 10-Year back to 4%. We believe above 3.75% it begins to be an issue for the valuation of the S&P 500 and above 4% it pushes the P/E of the S&P 500 down. There is a massive inversion between the longer dated bonds and very short term. The bond market is saying that nominal GDP is very weak, which implies real growth is negative with the current trend of inflation.

10-Year Treasury Yield



PVG Strategies

Tactical Strategies	QTD	YTD
Tactical Total Return	-0.3%	1.8%
Dynamic Core	0.8%	2.1%
Tactical Growth	1.2%	13.1%
Loss Averse		
Loss Averse Equity Income	-2.4%	-1.7%
Navigator Growth	-1.4%	-0.8%
Specialty		
Emerging Healthcare	15.6%	16.7%
Focus		
High Income Focus 10	-1.7%	1.1%
Blue Chip Focus 10	-3.6%	-4.6%
Growth Focus 10	-3.4%	0.1%
Emerging Healthcare Focus 10	16.3%	11.1%

Interest Rates

Fed Fund	5.08 %	5-Year	3.69%
3-Month	5.31%	10-Year	3.65%
6-Month	5.38%	30-Year	3.91%
2-Year	4.24%		

Source: Bloomberg.com

Economic Events This Week

Date	Report	Forecast	Previous
May-23	April New Home Sales	650,000	683,000
May-25	GDP Q1	1.1%	1.1%
May-26	April Durable Orders	-1.0%	2.8%
May-26	April Personal Income	0.40%	0.30%
May-26	April Wholesale Inventories	-0.40%	0.0%

Source: Briefing.com

Economic Events Last Week

May 15	New York Fed's Empire State factory gauge drops deep into negative territory
May 16	Retail sales rebound in April

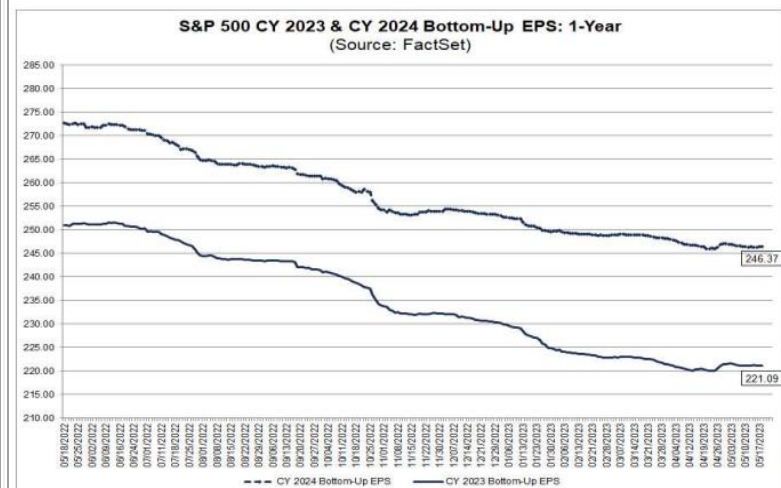
Consumer Debt Payments as a Percentage of Disposable Income



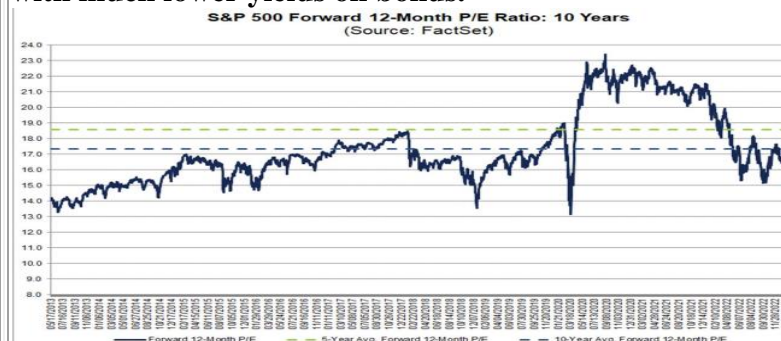
The 2023 and 2024 earnings have been revised down so significantly that they should be near a bottom, unless a recession begins. It is an odd economic trend to have a strong labor market for blue collar jobs yet we could enter a recession soon or perhaps it has started.

The P/E of the S&P 500 is 19x on 2023, which will be very tough to go any higher, and 17x 2024. If the S&P 500 hits the \$246 in earnings, the economy needs to be relatively strong, which will drive the yield on the 10-Year up. The market is highly valued and cannot withstand rising bond yields. The 10-Treasury Yield needs to stay where it is.

Bottom-Up EPS Estimates



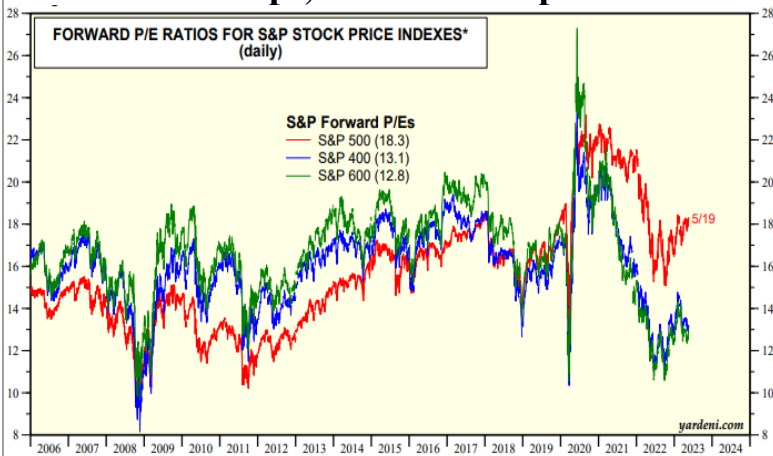
Looking at the P/E multiple over the last 10 years (you need to take the noise out from the 2020 drop and 2021) the P/E peaked out around 19x and averaged around 16x with much lower yields on bonds.



May 17	Housing market supply crunch is pushing aspiring homeowners into new homes, boosting starts at 2.2% in April
May 18	Philadelphia Fed's factory gauge shows ninth straight month of declines
May 18	Leading index signals slowing U.S. economy gets closer to recession

To reiterate this point from prior updates, generally smaller companies have higher valuations as they grow much faster than larger companies, the old **rule of large numbers**. Consequently, **smaller companies generally are valued higher, but currently they are at a significant discount**. The Russell 2000 is considered the bellweather of the U.S. Economy, it is rather shocking that AAPL's market cap is now larger than the Russell 2000 (small cap index). The last thing you want to own going into a recession are small cap companies. **We believe it sets up exceptionally well to own smaller companies later in the year or in 2024.**

P/E Multiples from 2006-2023, S&P 500, Mid-Caps, and Small Caps



Stock Market Summary: Valuations are high, it will be difficult for the market to advance, unless there is more confidence the economy is not headed for a recession, and bond yields remain stable. When the market is more confident in the economic outlook, small caps have 50%-100% upside potential!

NVDA on Wednesday: Nvidia (NVDA) reports earnings on Wednesday, we think they will beat and guide up...**they better!** The quarter will be about flat with the same quarter in 2022. Based on the next 12 months' earnings expectations, **the stock trades at 85x earnings!** This is a very over owned stock. **If the stock pops significantly, it will give a parabolic sell signal on our model.** Given the hype around artificial intelligence and the YTD strength in technology stocks this is a very important data point for the mega-cap tech stocks.

Phone:(303)874-7477

Email: jholt@pvgasset.com

Website: www.pvgassetmanagement.com