Ropes Wealth Questions the Idea of a MAMU Moment

Unless you are the current resident of Mar-a-Lago, it has been a slow news week. We have received weak readings on service and manufacturing activity, factory and durable goods orders, and jobless claims. All eyes are on next week’s Consumer Price Index release and the Fed meeting for the direction of future interest rates and an outlook on the probability of recession. There are credible arguments on both sides about the potential for a slowdown or soft landing, and only time will tell the ultimate course. Our goal as your advisor is to guide you through this course without losing ground on a recovery but staying flexible and balanced to ensure you don’t get caught offsides.

Speaking of offsides, there is a lot of focus among market participants right now about the recent concentration of stock market performance in technology companies up the capitalization spectrum and what it might say about the broader environment and the near-term trajectory for the stock market.

The five largest stocks in the S&P 500—Apple, Microsoft, Amazon, Nvidia, and Alphabet—now represent about 25% of the overall index, having just reached a post-1990 high. If you add in Meta, Berkshire Hathaway, Tesla, United Healthcare, and ExxonMobil, the 10 largest stocks in the S&P 500 now represent nearly 35% of the index. And yet, more than half of the S&P 500's member stocks have negative year-to-date returns, in stark contrast to the overall index’s year-to-date gain of more than 11%. Nearly a third of the index's stocks are still in bear market territory, meaning down more than 20% from their highs.

There is no doubt that investors have had a lot to contend with thus far in 2023. Moderating economic growth, persistent inflation, volatile interest rates, falling profits, stress in the banking sector, war in Ukraine, and the debt ceiling debate have all combined to weigh on sentiment. Optimism about growth prospects connected to artificial intelligence has caused excitement, but we also suspect misguided hopes that a change in the direction of monetary policy is another contributor to large cap equity and mega-cap tech outperformance.

After gaining clarity on the debt ceiling, we look for the Federal Reserve to remain steadfast in its policy pursuits, with elevated interest rates and tighter credit standards weighing on economic activity for the remainder of the year. Falling corporate profits historically have led to reductions in employment and capital expenditures. We can now expect to add into the mix a slowing consumer with student loan forgiveness off the table as part of the debt ceiling increase negotiations. Inflation, interest rates, manufacturing, housing, falling profits, and credit tightening will ultimately affect employment, consumption, capital expenditures, and services activity, prolonging economic and market anxiety and creating conditions ripe for recession. The earnings recession has already begun as profit growth for companies in the S&P 500 has declined for two consecutive quarters, with further weakness anticipated in the current quarter before resuming growth by year end.

As a result, we continue to suggest investors don't chase outsized returns. We recommend some profit taking as the S&P 500 sits roughly 20% above the October lows, and rebalancing to keep portfolios from becoming overly biased toward a small handful of stocks. FOMO, or Fear Of Missing Out, is not an investment strategy. We continue to emphasize a diversified approach for long-term portfolios favoring quality in bonds and equities to help endure the volatility that may come. Maintaining some excess cash on hand ready to deploy once investors reprice a recovery in GDP and corporate profits next year is also a good idea.

Some in the financial press have dubbed this year's remarkable market action in the wake of last year's declines as a MAMU moment (Mother of All Melt Ups). We are grateful for a reprice of stocks from last year's market lows but remain wary of declaring a melt-up moment due to the narrowness of price action and elevated valuations. To swap acronyms for an analogy, markets go up on an escalator and down in an elevator. Therefore, we will invest on your behalf with a healthy mix of courage and caution as we navigate through the uncertainty.

Thank you as always for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

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