Ameriprise Financial

Weekly Market Perspectives

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"The Artificial Intelligence (AI) theme has played a prominent role in pushing Tech and Tech-related stocks higher this year. The anticipated transformational power and broad application of AI have spurred an arms race of spending and development across the Technology industry and sparked tremendous investor excitement for the stocks with a visible footprint or application benefit today."

Investors Keenly Focused on Debt Ceiling Negotiations and Strong Tech Performance

U.S. equities closed higher last week on improving optimism that Washington would soon find a debt ceiling resolution as well as on the back of ongoing strength across Technology stocks. The S&P 500 Index closed the week higher for the first time in three weeks and broke its six-week streak of moving less than 1.0% in either direction. In addition, the NASDAQ Composite posted gains for the fourth straight week, with some of the week's best stock performers coming out of the cyclical and growth areas of the market. Rounding out last week's broader stock index performance, the Dow Jones Industrials Average delivered a small gain, while the Russell 2000 Index performed in line with the S&P 500.

U.S. Treasuries sold off across the curve last week, with the 2-year U.S. Treasury yield reaching its highest level since mid-March. The U.S. Dollar Index finished the week higher, Gold ended lower, and West Texas Intermediate (WTI) saw its first weekly gain in five weeks.

Notably, the S&P 500 is roughly 3.0% away from its 52-week high (made in August) and has quietly moved to its highest level year-to-date. On Friday, the S&P 500 again pushed back above the psychologically important 4,200 level but quickly retreated, finishing the week at 4,192. Likewise, the NASDAQ 100 Index, a subcomponent of the broader NASDAQ Composite, made a new 52-week high last week, pushing past its previous August high-water mark. At a point last week, the NASDAQ 100 was trading roughly +14.0% above its 200-day moving average. For the more bullish investors out there, Bespoke Investment Group highlighted that in the bear markets of 2000-2002 and 2007-2009, when the NASDAQ 100 was trading that far above its 200-day moving average, the ultimate lows for both bear markets had already been made in the Index. Just a gentle reminder that bear market troughs are easy to see in hindsight but difficult to identify in the throes of heightened uncertainty.

Tech Stocks Drive Market Strength; Artificial Intelligence Theme Boosts Performance

By now, it's no secret that Technology and Technology-related stocks have moved aggressively higher this year after posting steep declines in 2022. Along with a general mean-reversion tailwind (ex., stocks tend to move towards their longer-term trading range after steep ups and downs in price), the Artificial Intelligence (AI) theme has played a prominent role in pushing Tech and Tech-related stocks higher this year. The anticipated transformational power and broad application of AI have spurred an arms race of spending and development across the Technology industry and sparked tremendous investor excitement for the stocks with a visible footprint or application benefit today. Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla are up over +60%

year-to-date as a group and trade at a price-to-earnings multiple almost twice the S&P 500. According to EFPR Global, Tech funds experienced their fifth straight week of inflows, while funds dedicated to Financials (dragged down by ongoing regional bank concerns) continued to experience outflows. Last week, Bank of America pointed out that AI may be in a "baby bubble," highlighting concerns about stretched valuations and possibly overexcitement about profit growth stemming from AI for the big seven monopolistic U.S. stocks.

Bottom line: **Broader market strength remains weak this year, with strength in the S&P 500 driven principally by the excitement across the Tech industry and related to AI.** For example, the top five S&P 500 stocks by market-cap weight (i.e., Apple, Microsoft, Amazon, NVIDIA, and Alphabet) account for over 70% of the benchmark's return this year. Taken a step further — the top twenty stocks account for almost all the S&P 500's year-to-date performance. Below the surface of the broader U.S. stock benchmarks, ongoing concerns about a potential recession, elevated inflation, and higher interest rates remain an overhang on the market. And when removing the behemoths of corporate America from the performance scorecard, stock returns this year look much more muted and consistent with the muddle-through environment most investors believe is our current state.

Fed Officials Indicate June Rate Hike Pause; Consumer Trends Show Signs of Normalizing

Last week, several Federal Reserve officials gave speeches and/or laid out their personal views on the economy and monetary policy. While the market usually views this as background noise and filler between Federal Open Market Committee (FOMC) meetings, what policymakers say around rate policy inflection points usually takes on more weight. In our view, officials' comments on policy mostly fit with a "pause in June" narrative. Speaking at the Thomas Laubach Research Conference last Friday, Fed Chair Powell said tightening financial conditions, driven by the banking sector, are likely to weigh on economic growth, hiring, and inflation. As a result, Mr. Powell implied that the fed funds rate may not need to rise as much as it would have otherwise to bring inflation back to target. Following the Chair's comments, the CME FedWatch Tool showed just a 33% chance of a 25-basis point rate hike in June, down from 45% prior to Powell's comments.

Bottom line: **The odds are high the Fed will pause rate hikes at its June meeting, barring any outsized surprises in inflation and employment reports between now and then.** We believe the pause may finally offer some long-awaited relief from higher rates and more clarity about the rate backdrop moving forward. According to BlackRock, the Fed paused an average of ten months between the last rate hike and the first rate cut going back to 1990. Every time the bond market initially rallied after the pause and before going through a more volatile period as the Fed approached cutting rates. We suggest investors holding excess cash and wanting to take advantage of the higher rate backdrop today while remaining somewhat conservative with their funds consider buying high-quality bonds. Depending on liquidity needs, and the tolerance to duration, investors may also want to consider locking in higher rates with intermediate-to-longer-dated maturities to help reduce reinvestment risk should rates head south once the Fed starts cutting rates.

Other items to note from last week, a batch of first quarter earnings reports out of retailers showed continued normalization trends across consumers, with lower spending on goods, electronics, and apparel. And the soft-landing theme gained some support from positive takeaways from April's retail sales report, as well as updates on builder confidence, housing starts, and weekly initial jobless claims.

Volatility May Increase as Investors Wait on Debt Ceiling Agreement

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This week, all eyes are squarely focused on the Beltway and whether Washington will avoid tanking markets and the economy over their incessant political theater. What looked like progress on a debt ceiling deal last week has quickly reversed and reinserted the risk Congress and the White House could take America to the brink of default in just ten days. After optimism built that an agreement could be formed in principle by Sunday, talks between Republican leaders and the White House broke down on Friday. President Biden and House Speaker Kevin McCarthy are scheduled to resume discussions on Monday at the White House, with staff-level talks again underway. On Sunday, U.S. Treasury Secretary Janet Yellen said "hard choices" will need to be made about which bills go unpaid should Congress fail to raise the debt ceiling. Ms. Yellen also reaffirmed her warning that the U.S. could default on its obligations as early as June 1st. Thus far, markets have looked through the political tension, assuming a deal will eventually form in time because the consequences of not raising the debt ceiling are too dire. Several assessments, including one from the White House Council of Economic Advisors, point to millions of jobs lost and economic and market conditions that could rival the Great Recession if the U.S. defaults on its obligations. In our view, investors should continue to assume a debt ceiling agreement and extension will be formed in time. However, the closer we move to the June 1st deadline without a deal and extension, investors should expect market volatility to rise and possibly significantly.

In the background this week, preliminary looks at May manufacturing and services activity, the May FOMC meeting minutes, a second look at Q1 U.S. GDP, PCE inflation, and housing data will provide investors with updates on the economy/rate policy.

Stock Market Recap

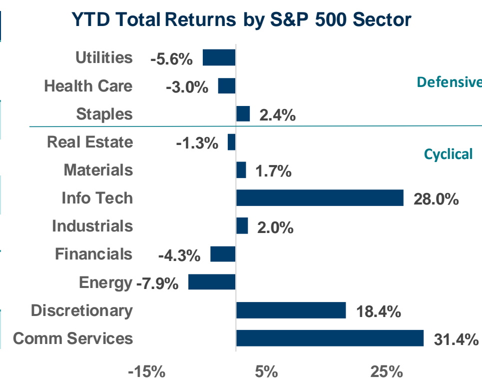
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 4,192	1.7%	0.7%	9.9%	21.3	21.1	1.6	1.7
Dow Jones Industrial Average: 33,427	0.5%	-1.8%	1.7%	20.0	19.6	2.1	2.1
Russell 2000 Index: 4,408	1.9%	0.4%	1.3%	29.1	35.4	1.4	1.3
NASDAQ Composite: 12,658	3.1%	3.6%	21.4%	36.7	30.8	0.8	0.9
Best Performing Sector (weekly): Info Tech	4.3%	4.6%	28.0%	32.4	27.3	0.9	1.1
Worst Performing Sector (weekly): Utilities	-4.3%	-4.2%	-5.6%	22.2	21.1	3.2	3.2

Source: Factset. Data as of 05/19/2023

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-1.3%	-1.5%	2.0%
West Texas Intermediate (WTI) Oil: $71.86	2.6%	-6.4%	-10.4%
Spot Gold: $1,977.60	-1.6%	-0.7%	8.4%
U.S. Dollar Index: 103.20	0.5%	1.5%	-0.3%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.28%	30 bps chg	24 bps chg	-13 bps chg
10-year U.S. Treasury Yield: 3.70%	24 bps chg	26 bps chg	-18 bps chg

Source: Factset. Data as of 05/19/2023. bps = basis points



Source: S&P Global, Factset. Data as of 05/19/2023

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There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

A rise in **interest rates** may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. These risks may be heightened for longer maturity and duration securities.

The fund's investments may not keep pace with **inflation**, which may result in losses.

The fund may invest significantly in issuers within a particular **sector**, which may be negatively affected by market, economic or other conditions, making the fund more vulnerable to unfavorable developments in the sector.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

The **Standard & Poor's 500 Index (S&P 500® Index)**, an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees. It is not possible to invest directly in an index.

The NASDAQ composite index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Dow Jones Industrial Average (DJIA)** is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Nasdaq 100** Index is a basket of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange.

The **U.S. Dollar Index** is used to measure the value of the dollar against a basket of six foreign currencies - the Euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona.

Definitions of individual indices and sectors mentioned in this article are available on our website at ameriprise.com/legal/disclosures in the Additional Ameriprise research disclosures section.

The **Consumer Price Index** (CPI) measures change in consumer prices as determined by the US Bureau of Labor Statistics.

The **CME FedWatch** Tool analyzes the probability of FOMC rate moves for upcoming meetings. Using 30-Day Fed Fund futures pricing data, the tool visualizes both current and historical probabilities of various FOMC rate change outcomes for a given meeting date.

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