Before the Bell

An Ameriprise Investment Research Group Publication

May 26, 2023

Starting the Day

- U.S. futures are pointing to a slightly higher open
- European markets are trading mixed at mid-day
- Asian markets ended higher overnight
- Excitement over AI helps carry the market higher
- It's crunch time for the debt ceiling
- 10-year Treasury yield at 3.79%
- West Texas Intermediate (WTI) oil is trading at $72.58
- Gold is trading at $1,953.60

Market Perspectives

Anthony M. Saglimbene, Chief Market Strategist

AI helps buoy markets but also contributes to narrow S&P 500 leadership. As of this morning, there is no debt ceiling agreement. However, on Thursday, House Republican negotiators indicated they were closing in on a deal with the White House to raise the debt ceiling. Although House lawmakers are breaking for the Memorial Day recess, GOP leadership told members they would have 72 hours to review any legislation and 24 hours to get back to Washington if a deal was struck, according to *The Wall Street Journal*. The largest sticking point based on several reports continues to revolve around discretionary spending caps and the length in which those caps would remain in place. On Thursday, the U.S. Treasury Department reported that its cash balance fell to $49.5 billion on Wednesday, down from $76.5 billion a day earlier. Two weeks earlier, its cash balance stood at $140 billion. The Treasury's cash balance has been falling since implementing extraordinary measures to pay U.S. obligations and now sits at its lowest level since December 2021.

	YTD Return Through May 25	Contribution to S&P 500 Return
S&P 500	**8.85**	
APPLE INC	33.53	2.00
MICROSOFT CORP	36.54	2.00
AMAZON.COM INC	36.90	0.87
ALPHABET INC-CL A	40.04	1.23
NVIDIA CORP	159.93	1.78
S&P 500 Return	8.85	
excluding APPLE INC	6.85	
excluding MICROSOFT CORP	6.85	
excluding AMAZON.COM INC	7.98	
excluding ALPHABET INC-CL A	7.62	
excluding NVIDIA CORP	7.07	
S&P 500 Return Excluding Top 5	**0.97**	
S&P 500 Return Excluding Top 20	**-0.15**	
Number of Stocks with Positive Return YTD		240
Number of Stocks with Negative Return YTD		267
Number of Stocks outperforming S&P 500 YTD		132
Number of Stocks underperforming S&P 500 YTD		374

Source: Bloomberg. Data as of 05/25/2023

Meanwhile, and as we noted yesterday, Nvidia crushed analyst earnings estimates for the previous quarter and said it expects sales in the current quarter to be more than +50% higher than analyst estimates, driven by strong demand for its AI chips. In our view, the market's fascination with AI will likely continue. *BCA Research*

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT.

recently noted that AI has the potential to impact economic growth in ways comparable to the Agricultural and Industrial Revolutions. Under each of those economic transformations, growth increased 30-to-100-fold relative to the prior period. Notably, such economic benefits from AI are not yet obvious today. And the far-reaching, transformative nature of AI on the economy that would rival the Agricultural/Industrial Revolutions is even less understood at the moment — only that AI "feels" like it's the technology to transform the world and usher in what may ultimately define the 21st century. And while it is also unclear which companies or areas will lead in AI longer-term, investors are clearly looking at companies like Nvidia as an early leader in the AI transformation, as their GPU chips help run the architecture and processing power behind AI. *Insight Partners* estimates global revenue for AI-dedicated processors will grow at an annualized rate of +35% from 2019 to 2024, reaching $83 billion by 2027. Companies such as Nvidia, AMD, and others have the opportunity to benefit from that potential growth, which investors appear to be seizing on as of late. Nvidia jumped roughly +24% on Thursday after Wednesday night's earnings release and is up an eyepopping +160% this year, following a decline of roughly 50% in 2022. With Thursday's jump in the share price, Nvidia neared the $1 trillion market-cap club and could become only the fifth publicly traded company to hold such a value. Apple, Microsoft, Alphabet, and Amazon are the only other companies sitting in the $1 trillion or more club. This year's Tech story? The big keep getting bigger as investors continue to favor size and certainty in a highly uncertain environment. **For a deeper dive into AI, please see the latest *Sector Insight* report titled *Investing in Artificial Intelligence* by Andrew Heaney, CFA, Director, Information Technology & Communication Services at Ameriprise.**

Finally, this morning, the *Ameriprise chart* on page one highlights how top-heavy S&P 500 returns have been this year, and not coincidentally related to our comments on the AI dynamics above. In our view, the fever around AI, Big Tech tailwinds, and secular strength of the Index behemoths have clouded the more subdued market performance across the rest of the S&P 500 this year. A bullish takeaway from the table above may point to the S&P 500's narrow leadership helping to hold up the broader market until today's uncertainties can clear and more stocks can participate in an upward trend. A bearish takeaway would point to the significant number of stocks treading water or moving lower this year as evidence the numerous macro uncertainties are taking a toll on S&P 500 performance below the surface. Simply, both points of view are valid. In our opinion, investors should remain modestly defensive in their portfolios and recognize security selection can help insulate risks, especially when market leadership is this narrow. Yet keep in mind investors gravitate toward perceived opportunities regardless of the investing landscape — look no further than the current AI boom. Remaining flexible in your investment approach and willing to change direction if/when the tide shifts remain a solid principle to adhere to as we move through the remainder of the year.

Please enjoy the Memorial Day weekend with family and friends, giving thanks to those who served our country. But, of course, kicking off the unofficial start of summer with a BBQ and beverage of choice is also a great way to enjoy the long weekend holiday.

U.S. Pre-Market Indicators / Overnight International Market Activity

United States:

Here is a quick news rundown to start your morning:

- **Stock futures are pointing to a slightly higher open this morning.** Moving into the long Memorial Day weekend, stocks are trading slightly higher in premarket activity. Investors continue to wait on the details of what may look like a forming debt ceiling deal as well as an update on April PCE inflation. As noted above, market leadership has been very narrow this year, with *FactSet* pointing out that this year has seen the lowest number of stocks beating the S&P 500 Index since March 2020. In addition, *Bespoke Investment Group* noted that the three-month performance spread between the S&P 500 and S&P 500 Equalweight Index is the widest since December 1999. In the background, Q2'23 S&P 500 earnings per share (EPS) estimates have declined by 1.5% since the end of April, while Q3'23 EPS estimates have fallen by 1.0% since the end of April. Our point in noting that this morning? As earnings expectations continue to fall, investors usually gravitate to stocks with more clarity on that front, and it is one reason why leadership has been so narrow, in our view.
- **Debt Ceiling Update:** Multiple reports point to the White House and Republican leaders closing in on a debt ceiling deal. Reports indicate the deal could raise the debt ceiling for two years while capping discretionary spending for two years. However, defense spending would be allowed to rise by 3% next year. At the same time, *FactSet* notes nondefense discretionary spending would fall slightly or remain roughly flat from this year's level. Other items of note about a potential debt ceiling agreement from press reports point to the potential for caps to be lifted in 2025 and rolling back the $10 billion the previous Congress passed to strengthen IRS enforcement of tax evasion. While the details are still forming,

House Speaker Kevin McCarthy may need some support from Democrats to pass a bill that is very likely to see conservative House GOP members balk at due to modest spending cuts.

Europe:

European markets are trading mixed. European Central Bank (ECB) speeches from officials this week point toward rate hikes at the June and possibly the July meetings. UK retail sales came in better than expected in April, with sales volumes over the last three months to April coming in at the highest rate since August 2021. However, inflation impacts continue to weigh on sales volumes.

Asia-Pacific:

Asian equities ended mixed on Friday. Taiwan Q1 GDP contracted 2.9% y/y, driven by a drop in exports of goods and services due to weakening global demand and inventory adjustments. And Tokyo May headline and core inflation slowed more than expected, driven by lower energy prices.

WORLD CAPITAL MARKETS

5/26/2023 **As of: 8:30 AM ET**

Americas	% chg.	% YTD	Value
S&P 500	0.9%	8.9%	4,151.3
Dow Jones	-0.1%	-0.3%	32,764.7
NASDAQ Composite	1.7%	21.8%	12,698.1
Russell 2000	-0.7%	0.2%	1,754.6
Brazil Bovespa	1.2%	0.3%	110,054
S&P/TSX Comp. (Canada)	-0.8%	3.2%	19,774.1
Mexico IPC	0.7%	11.8%	53,744.7

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	0.6%	16.1%	4,293.2
FTSE 100 (U.K.)	0.3%	3.7%	7,591.1
DAX Index (Germany)	0.3%	13.8%	15,843.9
CAC 40 (France)	0.4%	14.3%	7,259.6
FTSE MIB (Italy)	0.2%	11.6%	26,452.1
IBEX 35 (Spain)	0.0%	12.9%	9,118.9
MOEX Index (Russia)	0.8%	27.2%	2,671.9

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	0.4%	19.7%	30,916.3
Hang Seng (Hong Kong)	-1.9%	-4.4%	18,746.9
Korea Kospi 100	0.2%	14.6%	2,558.8
Singapore STI	0.0%	1.2%	3,207.4
Shanghai Comp. (China)	0.4%	4.0%	3,212.5
Bombay Sensex (India)	1.0%	3.2%	62,501.7
S&P/ASX 200 (Australia)	0.2%	4.4%	7,154.8

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	0.2%	7.8%	646.0

Developed International	% chg.	%YTD	Value
MSCI EAFE	-0.8%	8.6%	2,069.4

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	-0.7%	1.7%	964.0

Note: International market returns shown on a local currency basis. The equity index data shown above is on a total return basis, inclusive of dividends.

S&P 500 Sectors	% chg.	% YTD	Value
Communication Services	0.4%	30.7%	207.4
Consumer Discretionary	-0.5%	16.0%	1,162.3
Consumer Staples	-0.8%	-1.3%	762.2
Energy	-1.9%	-8.6%	604.8
Financials	0.0%	-6.4%	528.9
Health Care	-1.0%	-5.6%	1,486.3
Industrials	0.3%	-0.2%	824.0
Materials	-0.4%	-1.9%	477.2
Real Estate	0.3%	-3.8%	221.1
Technology	4.4%	31.1%	2,834.1
Utilities	-1.4%	-7.7%	326.5

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	-0.8%	2.9%	223.7
FTSE NAREIT Comp. TR	0.0%	-4.3%	20,556.9
DJ US Select Dividend	-1.0%	-8.6%	2,704.0
DJ Global Select Dividend	0.1%	-0.7%	208.9
S&P Div. Aristocrats	-0.6%	-1.1%	3,897.8

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	-0.4%	1.2%	2,073.9
Barclays HY Bond	-0.1%	3.2%	2,257.0

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.1%	-4.7%	542.8
NYMEX WTI Crude (p/bbl.)	0.8%	-9.8%	72.4
ICE Brent Crude (p/bbl.)	0.6%	-10.7%	76.7
NYMEX Nat Gas (mmBtu)	-2.6%	-49.8%	2.2
Spot Gold (troy oz.)	0.4%	6.9%	1,949.0
Spot Silver (troy oz.)	2.0%	-3.2%	23.2
LME Copper (per ton)	0.8%	-5.4%	7,914.8
LME Aluminum (per ton)	1.5%	-4.5%	2,244.8
CBOT Corn (cents p/bushel)	0.7%	-11.5%	594.8
CBOT Wheat (cents p/bushel)	1.1%	-23.9%	610.8

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	0.1%	0.3%	1.07
British Pound (£/$)	0.4%	2.4%	1.24

	% chg.	% YTD	Value
Japanese Yen ($/¥)	-0.1%	-6.4%	140.14
Australian Dollar (A$/$)	0.4%	-4.1%	0.65

	% chg.	% YTD	Value
Canadian Dollar ($/C$)	0.2%	-0.5%	1.36
Swiss Franc ($/CHF)	0.2%	2.3%	0.90

Data/Price Source: Bloomberg. Equity Index data is total return, inclusive of dividends, where applicable.

Ameriprise Global Asset Allocation Committee (GAAC)

U.S. Equity Sector - Tactical Views

	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
Information Technology	26.0%	Overweight	2.0%	28.0%
Health Care	14.5%	Overweight	2.0%	16.5%
Consumer Staples	7.3%	Overweight	2.0%	9.3%
Financials	12.9%	Equalweight	-	12.9%
Industrials	8.6%	Equalweight	-	8.6%
Energy	4.5%	Equalweight	-	4.5%
Utilities	2.9%	Equalweight	-	2.9%
Materials	2.6%	Equalweight	-	2.6%
Real Estate	2.5%	Equalweight	-	2.5%
Consumer Discretionary	9.9%	Underweight	-3.0%	6.9%
Communication Services	8.3%	Underweight	-3.0%	5.3%

As of: March 31, 2023

Index w eightings represent the respective market capitalization of each sector in the S&P 500 as of 03/23/2023. The GAAC Tactical Overlay, as w ell as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).View s are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Global Equity Regions - Tactical Views

	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight		MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
United States	59.1%	Overweight	3.4%	62.5%	**Latin America**	1.0%	Equalweight	-	1.0%
Asia-Pacific ex Japan	11.9%	Equalweight	-	11.9%	**Europe ex U.K.**	14.2%	Underweight	-1.0%	13.2%
United Kingdom	3.8%	Equalweight	-	3.8%	**Japan**	5.6%	Underweight	-1.0%	4.6%
Canada	3.0%	Equalweight	-	3.0%	**Middle East / Africa**	1.4%	Underweight	-1.4%	0.0%

as of: March 31, 2023

Index w eightings are based on the regional market capitalizations of the MSCI All-Country World Index as of 03/23/2023. The GAAC Tactical Overlay, as w ell as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). View s are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Economic News and Views:

Russell T. Price, CFA – Chief Economist

Releases for Friday May 26, 2023

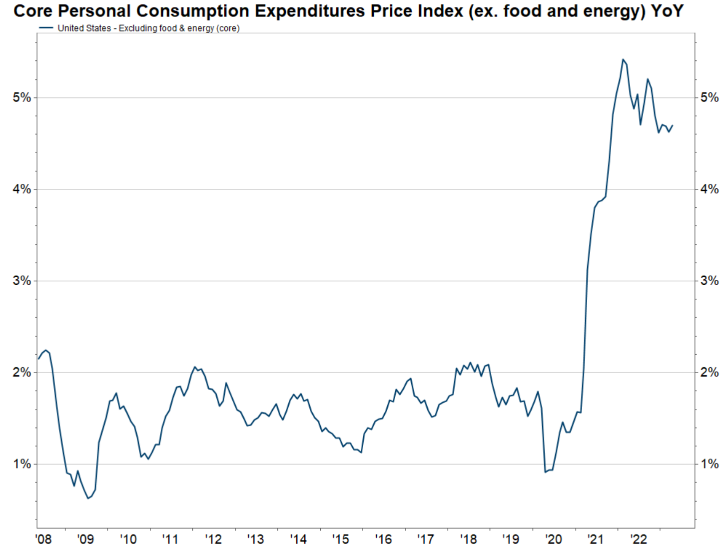
All times Eastern. Consensus estimates via Bloomberg

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
8:30 AM	APR	Personal Income	+0.4%	**+0.4%**	+0.3%	
8:30 AM	APR	Personal Spending	+0.4%	**+0.8%**	+0.0%	+0.1%
8:30 AM	APR	PCE Deflator (MoM)	+0.3%	**+0.4%**	+0.1%	
8:30 AM	APR	Core PCE Deflator (MoM)	+0.3%	**+0.4%**	+0.3%	
8:30 AM	APR	PCE Deflator (YoY)	+4.3%	**+4.4%**	+4.2%	
8:30 AM	APR	Core PCE Deflator (YoY)	+4.6%	**+4.7%**	+4.6%	
8:30 AM	APR	New Orders for Durable Goods (MoM)	-1.0%	**+1.1%**	+3.2%	+3.3%
8:30 AM	APR	Durable Orders – Ex. Transports (MoM)	-0.1%	**-0.2%**	+0.2%	+0.3%
8:30 AM	APR	Advance Goods Trade Balance	-$85.7B	**-$96.8B**	-$84.6B	-$82.7B
10:00 AM	May F	U. of M. Consumer Sentiment	58.0		57.7	

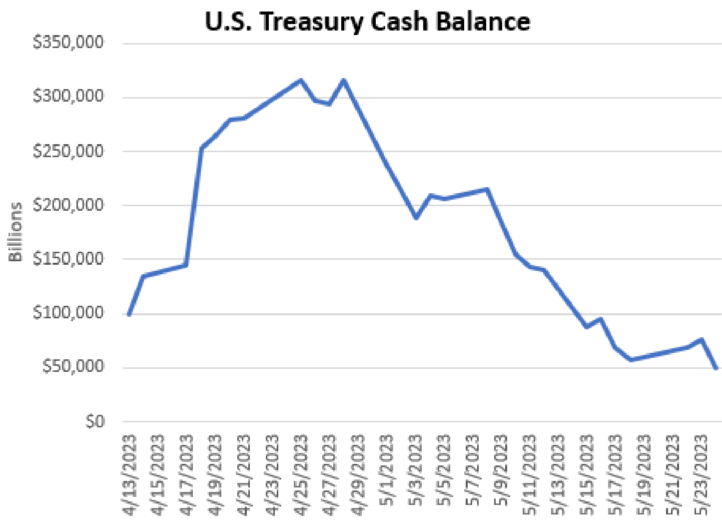
Commentary:

- **Another day of data that looks to support the need for additional Federal Reserve interest rate hikes.** Consumer spending was shown to have grown by a much stronger than expected pace in April (and revised higher for March) while the income and spending report also showed headline and core inflation to be a bit hotter than expected.
- Though the stronger pace of consumer spending would likely lift real GDP estimates for the current quarter, we note that the Advance report on the Trade of Goods showed a much larger than expected deficit which will weigh on estimates for the period.
- **Personal Income** continued to grow at a solid pace, registering a 0.4% increase in the month of April. On a year-over-year basis, total personal income was up 5.4% while the most important component of income, wages and salaries grew by a strong 0.5% for the month and was a strong 5.6% above year-ago levels.
- **Spending**, meanwhile, was a strong 0.8% higher in the month with a surprise jump in spending on goods (up 1.1% in the month) was a primary driver of the outperformance. Overall, spending was 6.7% higher with goods expenditures up 8.4% and spending on services up 3.6%.
- **PCE Inflation**: Investors will once again focus on the Fed's preferred inflation measure – the Personal Consumption Expenditure Price Index excluding food & energy, i.e., "Core PCE". Headline and core rates were both a tick higher than expected leaving PCE year-over-year rates to further their trend of weak improvement.
- Today's report could help alter expectations for another 25-basis point hike at next week's FOMC meeting.
- *The chart at right has been sourced from FactSet and HAS been updated to reflect today's release.*

Core Personal Consumption Expenditures Price Index (ex. food and energy) YoY



- **Treasury Cash Balance: countdown to zero.** Treasury Secretary Yellen has been fairly consistent in noting June 1st as the "X-date" at which time the federal government may run out of cash and its ability to pay its bills. We strongly note that the "X-date" is not necessarily the date at which time the federal government might default on its Treasury interest obligations as there could be room to move or delay some other payments – most notably the issuance of Social Security checks as to still pay required interest expense.
- In past debt ceiling pinch periods, the Treasury Department had been somewhat conservative in their X-date estimates. According to the Treasury Secretary that looks to have been the case this time as well – at least initially. The date appears to have become more accurate in recent weeks as expected government revenues have come in below estimates for various reasons.
- **Doing the x-date math:** As of Thursday evening, the U.S. Treasury's General Account held just $49.5 billion.
- If we apply the same non-financing (i.e., debt issuances and redemptions) cash flow patterns as experienced last year to the current situation, **we estimate that the U.S Treasury would indeed run out of funds on June 2nd. As mentioned above, however, this would not necessarily equal a default as debt interest payments are not paid daily. According to the CBO, debt interest payments are generally paid on the last day of the month and the 15th.**
- According to the CBO, the next payment of interest on the debt comes on May 30 when approximately $10 to $16 billion in interest payments would be required (this IS incorporated into our calculations).
- Over the next week or so, the most significant non-financing use of funds would be the June 1st scheduled payment of military salaries and social security payments, the value of which the Congressional Budget Office (CBO) puts at about $25 billion. A lack of available funds to pay Social Security would clearly cause an uproar but it would not constitute a default. Markets would very likely respond negatively nonetheless.



Ameriprise Economic Projections

Forecast:	Full-year				Quarterly						
	Actual 2021	Actual 2022	Est. 2023	Est. 2024	Actual Q2-2022	Actual Q3-2022	Actual Q4-2022	Actual Q1-2023	Est. Q2-2023	Est. Q3-2023	Est. Q4-2023
Real GDP (annualized)	5.9%	2.1%	0.8%	1.2%	-0.6%	3.2%	2.7%	1.1%	0.8%	-1.0%	-0.2%
Unemployment Rate	3.9%	3.5%	4.2%	4.2%	3.6%	3.5%	3.5%	3.5%	3.8%	4.0%	4.2%
CPI (YoY)	7.0%	6.4%	3.8%	2.5%	9.1%	8.2%	6.4%	5.0%	3.2%	3.2%	3.8%
Core PCE (YoY)	4.9%	4.4%	3.4%	2.5%	5.0%	5.2%	4.4%	4.6%	4.0%	3.6%	3.4%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy.

All estimates other than GDP are period ending. **Last Updated: May 3, 2023**

Ameriprise Global Asset Allocation Committee Targets and Views

Targets

2023 Year-end Targets:	Favorable Scenario	Base-Case Scenario	Adverse Scenario
S&P 500 Index:	4,600	4,300	3,600
10-Year U.S. Treasury Yield:	2.50%	3.00%	4.00%
Fed Funds Target Range:	5.00% to 5.25%	5.00% to 5.25%	5.75% to 6.00%

Estimates (Est.) via American Enterprise Investment Services, Inc.

Please see the latest Quarterly Capital Market reports for more information.

Last Updated April 28,2023

Ameriprise Global Asset Allocation Committee Targets and Views

2023 Year-end S&P 500 Target: 4300

2023 Year-end 10-year Treasury Target: 3.00%

as of 03/31/2023

	Overweight	Equalweight	Underweight
Equity	• U.S. Large Cap Value	• U.S. Mid Cap Value • U.S. Mid Cap Growth	• U.S. Large Cap Growth • U.S. Small Cap Value • U.S. Small Cap Growth • Emerging Foreign Equity • Developed Foreign Equity
S&P 500 Sectors	• Consumer Staples • Health Care • Information Technology	• Energy • Financials • Industrials • Materials • Real Estate • Utilities	• Communication Services • Consumer Discretionary
Global Equity Regions	• United States	• Asia-Pacific ex Japan • Canada • Latin America • United Kingdom	• Europe ex U.K. • Japan • Middle East / Africa
Fixed Income	• U.S. Government • U.S. Inv. Grd Corporate • Municipals	• Developed Foreign Bond	• High Yield Bond
Alternatives		• Alternative Strategies	
Cash	• Cash		

Note: Our Tactical Allocations are designed to augment a Strategic portfolio over a 6 to 12-month time horizon. **Asset Allocation and Diversification do not ensure or guarantee better performance and do not eliminate the risk of investment losses. Investors should note that rising interest rates could have a detrimental effect on bond prices. Please consult with your financial advisor.**

Cash generally refers to assets, securities, and/or products low in risk and high in liquidity. For asset allocation purposes, instruments can include Treasury Bills, certificates of deposit, money market funds and high quality bonds whose maturities are less than 3-months. Outside of asset allocation purposes, cash investments can also include illiquid cash held in a mutual fund or pledged as collateral for derivatives. You can only access this cash by redeeming the fund using it, subject to fees or time constraints associated with redemtions.

		Rolling Returns			
Major Market Indices	**Q1'23**	**Year-to-date**	**1-year**	**3-years**	**5-years**
Russell 3000® Index (U.S. Equity)	7.18%	7.18%	-8.58%	18.48%	10.45%
MSCI ACWI Ex USA Index – net (Foreign Equity)	6.87%	6.87%	-5.07%	11.80%	2.47%
Bloomberg U.S. Universal Bond Index (Fixed Income)	2.93%	2.93%	-4.61%	-2.02%	1.05%
Wilshire Liquid Alternative Index (Alternatives)	1.20%	1.20%	-2.68%	4.09%	1.27%
FTSE Three-Month Treasury Bill Index (Cash)	1.12%	1.12%	2.61%	0.95%	1.40%

Past performance is not a guarantee of future performance. Performance calculations use FactSet data and are as of 03/31/2023.

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The Ameriprise Investment Research Group

With Ameriprise Financial, you can benefit from our dedicated team of experienced investment research and due diligence professionals. Our objective market insight, strategies and guidance are designed to provide you with investment strategies and solutions to help you feel more confident about your financial future. It's the higher level of sophistication and service you've come to expect from Ameriprise.

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