Market Commentary

May 2023

- In May, positive earnings from large chipmakers helped the Nasdaq Composite Index continue its strong performance for the year.
- Debt-ceiling worries weighed on the Dow Jones Industrial Average Index, leading to underperformance of the index.
- US recession fears seem to have quieted some, but investors still remain on edge as cracks begin to emerge in other economies, such as China. On June 14th, the Fed will again meet to discuss whether they will raise interest rates by 25 basis points or pause their efforts for now.

MARKET RETURNS AS OF MAY 31, 2023[1]

	May %	QTD %	YTD %	1 Year %	3 Year %	5 Year %
S&P 500 TR	0.43	2.00	9.65	2.92	12.93	11.02
DJ Industrial Average TR	-3.17	-0.68	0.25	1.96	11.28	8.49
NASDAQ Composite TR	5.93	6.00	24.06	8.04	11.75	12.69
Russell 2000 TR	-0.92	-2.70	-0.04	-4.68	9.24	2.74
MSCI EM GR	-1.65	-2.75	1.16	-8.07	3.86	-0.29
MSCI EAFE GR	-4.10	-1.30	7.22	3.61	9.08	3.71
Bloomberg US Agg Bond TR	-1.09	-0.49	2.46	-2.14	-3.65	0.81

MARKETS

The S&P 500 Index was up 0.43% for the month, while the Dow Jones Industrial Average Index fell 3.17%. The Nasdaq Composite Index rallied 5.93% and continued its significant outperformance for the year.

This month, concerns regarding a government default dominated conversations among investors and led to weakness in the Dow Jones Industrial Average Index. Treasury Secretary Janet Yellen expressed her concerns that if Congress does not raise the debt limit by June 5th, the U.S. government could become unable to pay its bills. In the event that the government cannot come to an agreement and increase its borrowing abilities, it would have to suspend certain pension payments, withhold or cut the pay of soldiers and federal workers, or delay interest payments, which would constitute default.

A government default would have severe consequences for financial markets and the U.S. economy, with a loss of investor confidence and a downgrade of U.S. government debt being the major concerns.

On May 23rd, President Biden and House Speaker Kevin McCarthy reached a proposed agreement to raise the debt ceiling until January 2025 and mildly curb spending during that time. The proposed deal would have only a small effect on curbing still-high inflation, because it does little to reduce government spending. On Wednesday May 31st, the bill passed through the House and now heads to the Senate with little time to spare before the June 5th deadline.

Shares of chipmakers helped advance the Nasdaq Composite for the month. In its earnings report, Nvidia forecast $11 billion in sales for the second quarter of 2024 alone, which was 50% higher than consensus estimates. Chipmakers benefited from interest in artificial intelligence (AI) platforms such as OpenAI's ChatGPT and Google's Bard.

THE FED AND RATES

Two Fed officials made the argument for the central bank to slow down the pace of interest-rate increases by holding rates steady at their June meeting and then potentially raising them again later this summer. Following ten consecutive meetings of raising interest rates, a pause would signal a potential shift in Fed policy.

With that being said, economic data still points to a strong enough economy that could potentially withstand further rate increases. U.S. job openings climbed in April and layoffs fell in signs that employers' demand for workers remains strong as the economy gradually slows. There are currently 1.79 job openings per unemployed persons, which is much higher than the average.

WHAT'S NEXT?

- **Stick to the plan.** Short term volatility is unlikely to derail a long-term allocation. It is important to remember your plan during volatile periods instead of reacting emotionally.
- **Diversification matters.** We were all reminded of this in 2022. There are many ways to diversify a portfolio, whether it means dipping a toe into international equity markets, investing across the fixed income landscape, or exploring alternative investments.
- **Do not try to time the markets.** When investors feel worried about the outlook, their natural tendency is to sell and come back when there is more certainty. However, history suggests that trying to time markets in this way is a mistake. Focus on the horizon, not the waves.

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FOOTNOTES:

Past performance is no guarantee of future returns.

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The information here is not intended to constitute an investment recommendation or advice.

Sources:

1. Data from Morningstar. Returns over one year are annualized.
2. JPMorgan Wealth Management. Source: Bloomberg Finance L.P., J.P. Morgan Wealth Management. Data as of March 28, 2023. Note: Tech proxied by the S&P 500 Technology Sector, Regional Banks by the KBW Regional Bank Index, and All Banks by the KBW Index.

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