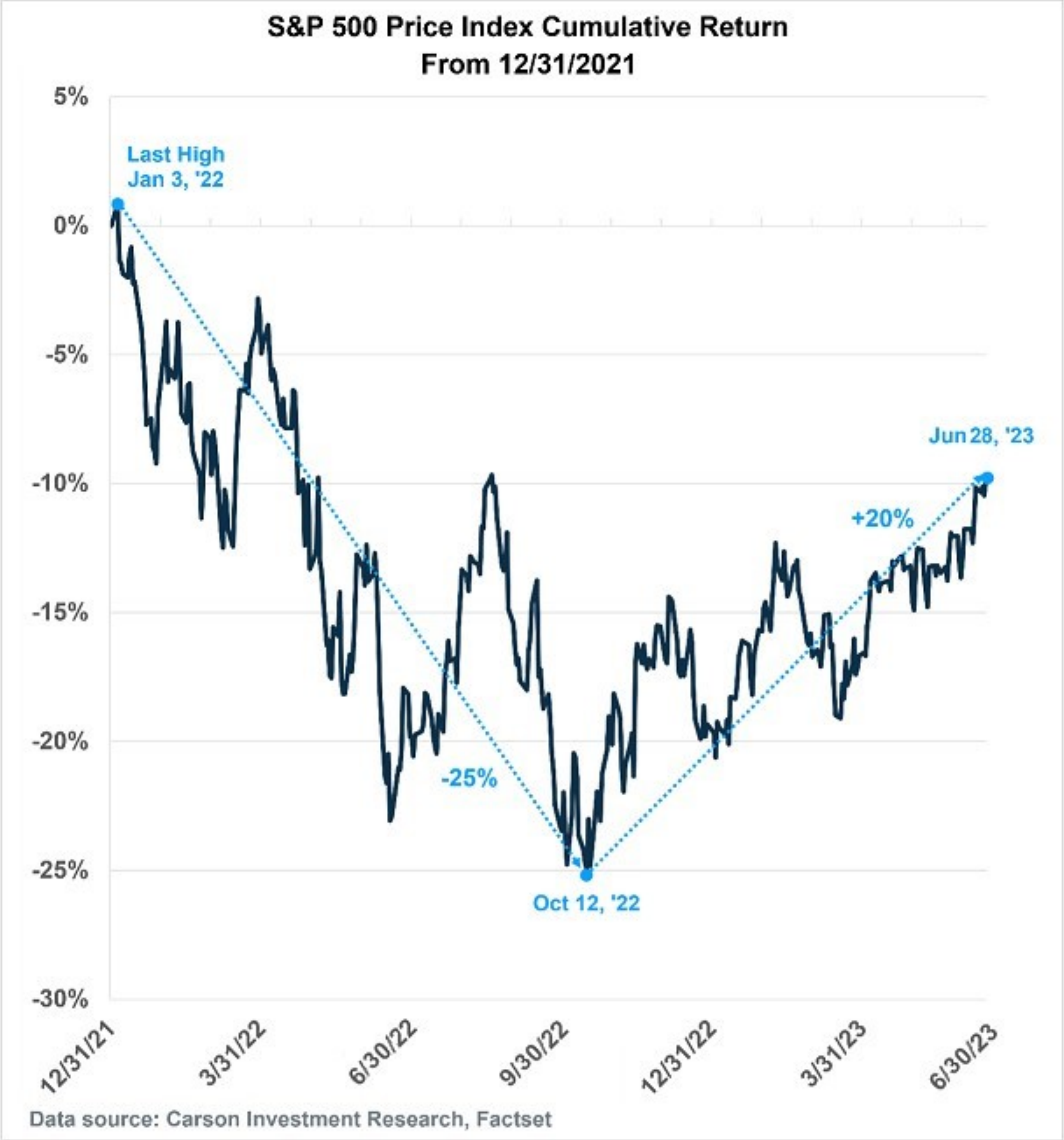
Chart of the Month

June 2023



The returns from the major market averages have been far from uniform during the first half of 2023. Through June 28, the Dow Jones Industrial Average has gained 2.0%, the S&P 500 14.0%, and the Nasdaq 30.0%. The biggest differentiator has been growth vs. value with the Russell 1000 Growth jumping 26.7% and the Russell 1000 Value advancing 3.2%.

The most significant driver of growth has been the prospects for artificial intelligence (AI). Mega-cap tech has led the way with Nvidia (NVDA), the leading chipmaker for AI, skyrocketing more than 180% year-to-date, followed by Meta Platforms (META) +137%, Amazon (AMZN) +54%, Apple (AAPL) +45%, Microsoft (MSFT) +40%, and Alphabet (GOOG/GOOGL) +36%.

The Nasdaq is on track for its best January 1 to June 30 performance since its inception in 1971, topping the 25.2% pop in 2019. This year's hot start reverses the 30% plunge during the first half of 2022—its biggest first-half loss since 1974—when investors favored value over growth in a down market caused primarily by the Federal Reserve hiking interest rates 4.25 percentage points in nine months (from 0.00-0.25% in March to 4.25-4.50% in December).

After falling 25% from the peak on January 3, 2022, the S&P 500 has now climbed over 20% since its closing low on October 12, 2022 (see chart above), suggesting by one definition that it is in the midst of a new bull market. According to Carson Investment Research, since 1956, the index has been higher 12 out of 13 times and up an average of 17.7% one year after a 20% rebound.

In addition, as shown in the chart below, a strong start to a year could mean more gains ahead. Since 1950, when the S&P 500 gained 10-15% in the first half, the median return was 10.9% in the final six months of the year. While these historical results may seem outsized, we believe the S&P (which closed at 4,377 on June 28) could challenge the old highs (4,796) within the next year if the economy can avoid a recession, which is looking more and more likely based on the incoming economic data.

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