

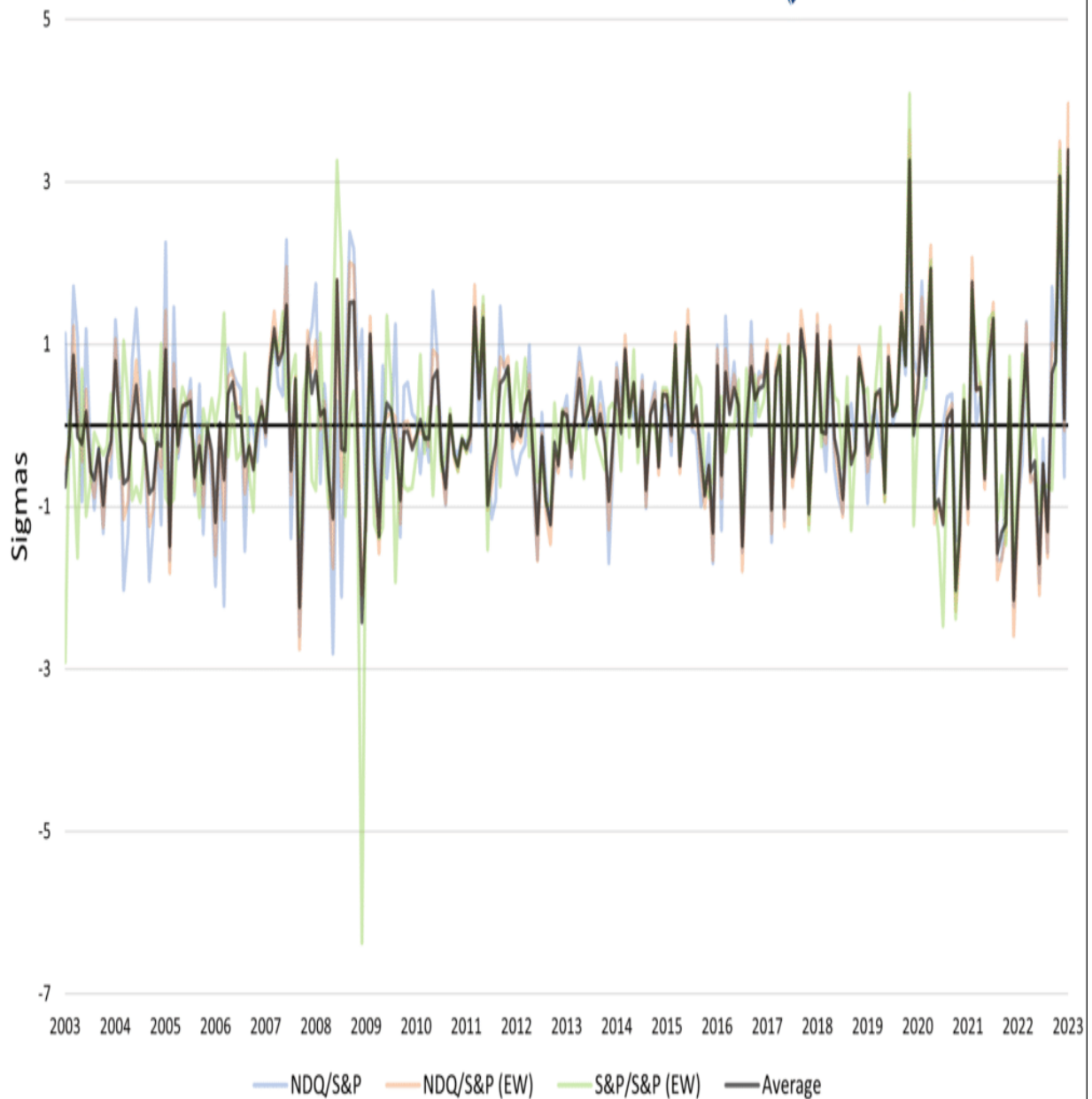


May Market Recap- 20-Year Anomalies

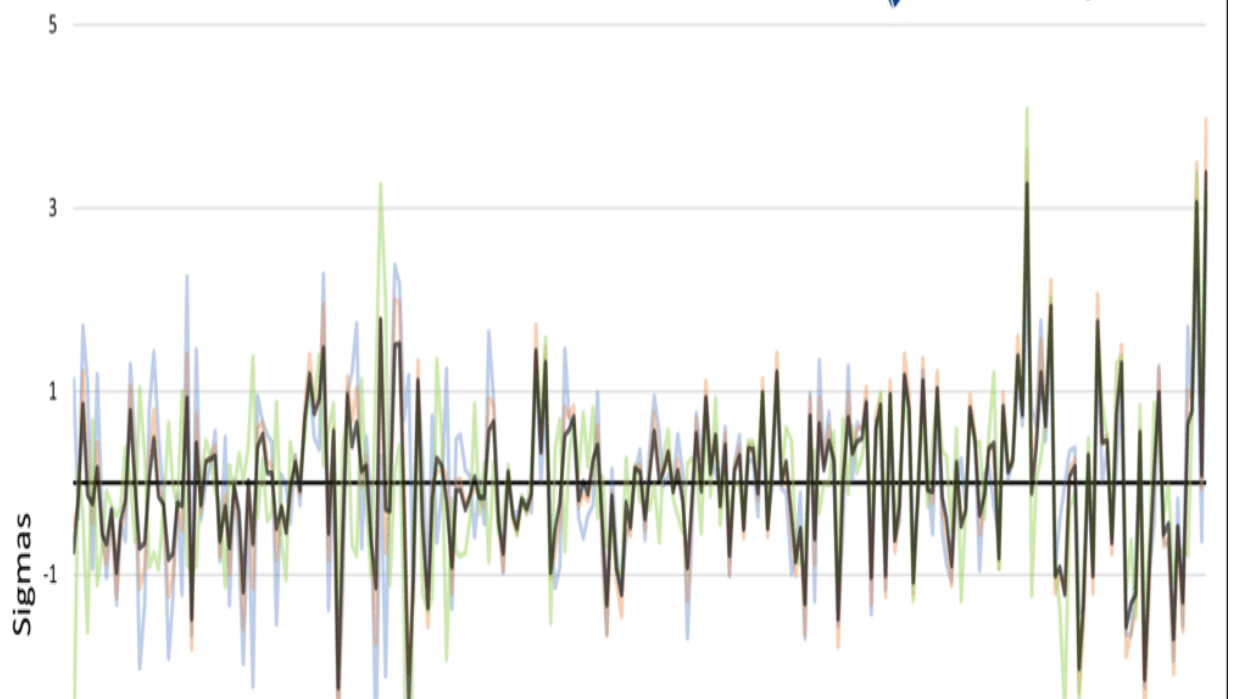
More than 100% of SPX market cap gains this year have been driven by just 7 stocks with 3 stocks accounting for nearly 70%.? Stuart Kaiser- Citibank. The S&P 500 rose by a scant 0.5% in May, while the Nasdaq 100 was up nearly 8%. At the same time, the equal-weighted S&P 500, representing a large majority of stocks, fell by 4%. The divergence between indexes in May is one for the record books.

The graph below puts the wide divergence of May's monthly index returns into context. To construct the chart, we took monthly performance changes for the Nasdaq 100, S&P 500, and the equal-weighted S&P 500 and calculated the performance difference for each combination of the two indexes. For instance, the largest performance gap in May was 11.69%. That comprises the Nasdaq, up 7.42%, and the equal-weighted S&P 500, down 4.27%. The 11.69% is a four standard deviation (sigma) move! The average sigma of the three relationships (black) is the highest in at least 20 years. The only other time we witnessed divergences anywhere near May's magnitude was in March 2020, when the pandemic wreaked havoc on markets.

Index Return Deviations (Sigmas)



Index Return Deviations (Sigmas)



What To Watch Today

Earnings

- *No notable earnings reports*

Economy

FRIDAY, JUNE 2							
12:30	USD	Average Hourly Earnings (MoM)(May)		-	-	0.3%	0.5%
12:30	USD	Average Hourly Earnings (YoY)(May)		-	-	4.4%	4.4%
12:30	USD	Average Weekly Hours(May)		-	-	34.4	34.4
12:30	USD	Labor Force Participation Rate(May)		-	-	62.5%	62.6%
12:30	USD	Nonfarm Payrolls(May)		-	-	190K	253K
12:30	USD	U6 Underemployment Rate(May)		-	-	6.6%	6.6%
12:30	USD	Unemployment Rate(May)		-	-	3.5%	3.4%
17:00	USD	Baker Hughes US Oil Rig Count		-	-	-	570
20:30	USD	CFTC Gold NC Net Positions		-	-	- \$160.7K	
20:30	USD	CFTC Oil NC Net Positions		-	-	- 193.1K	
20:30	USD	CFTC S&P 500 NC Net Positions		-	-	- \$-404.3K	
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Market Trading Update

The market rallied yesterday as the debt ceiling drama was finally resolved. While we have repeatedly stated the debt ceiling crisis was a non-issue, it still weighed on market sentiment. With that hurdle now behind the market, as the passage in the Senate is mostly assured, today's employment report will be the next focal point for traders.

Given yesterday's strong ADP report, it is likely that today's employment report will top estimates once again. Strong employment is not Fed-friendly in trying to reduce inflation. With the Fed meeting in just two weeks, the market continues to think the Fed will now pause on rate hikes and potentially cut rates later this year. So far, the data is not supportive of either hope.

Nonetheless, the market rose above the 4200 resistance level again, and a break above Tuesday's opening high will clear the way for a further advance. However, while the market is on a buy signal currently, it is getting overbought and pushing the upper end of its Bollinger band range.



TradingView

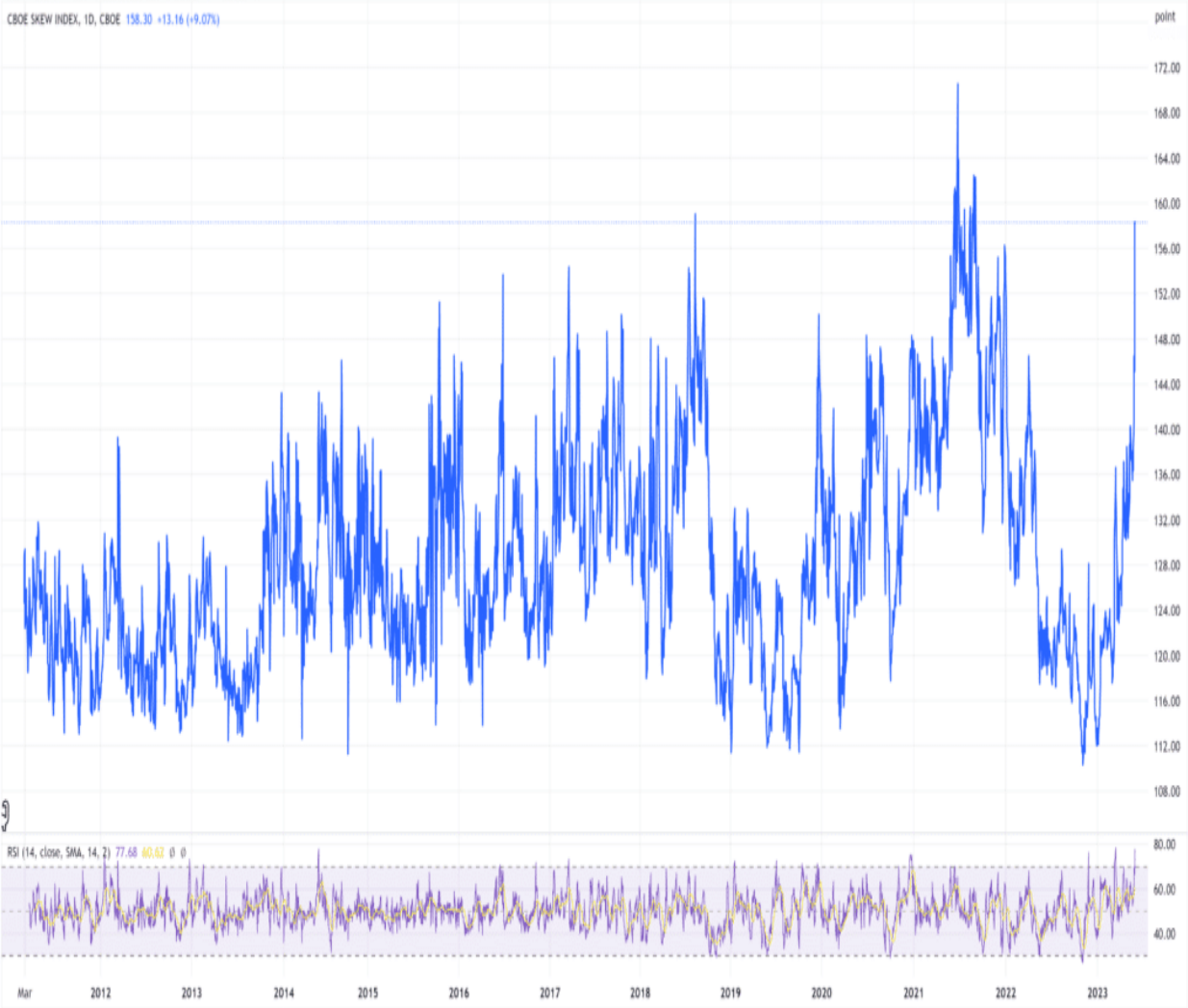




CBOE Skew Index Points to Perceived Risk

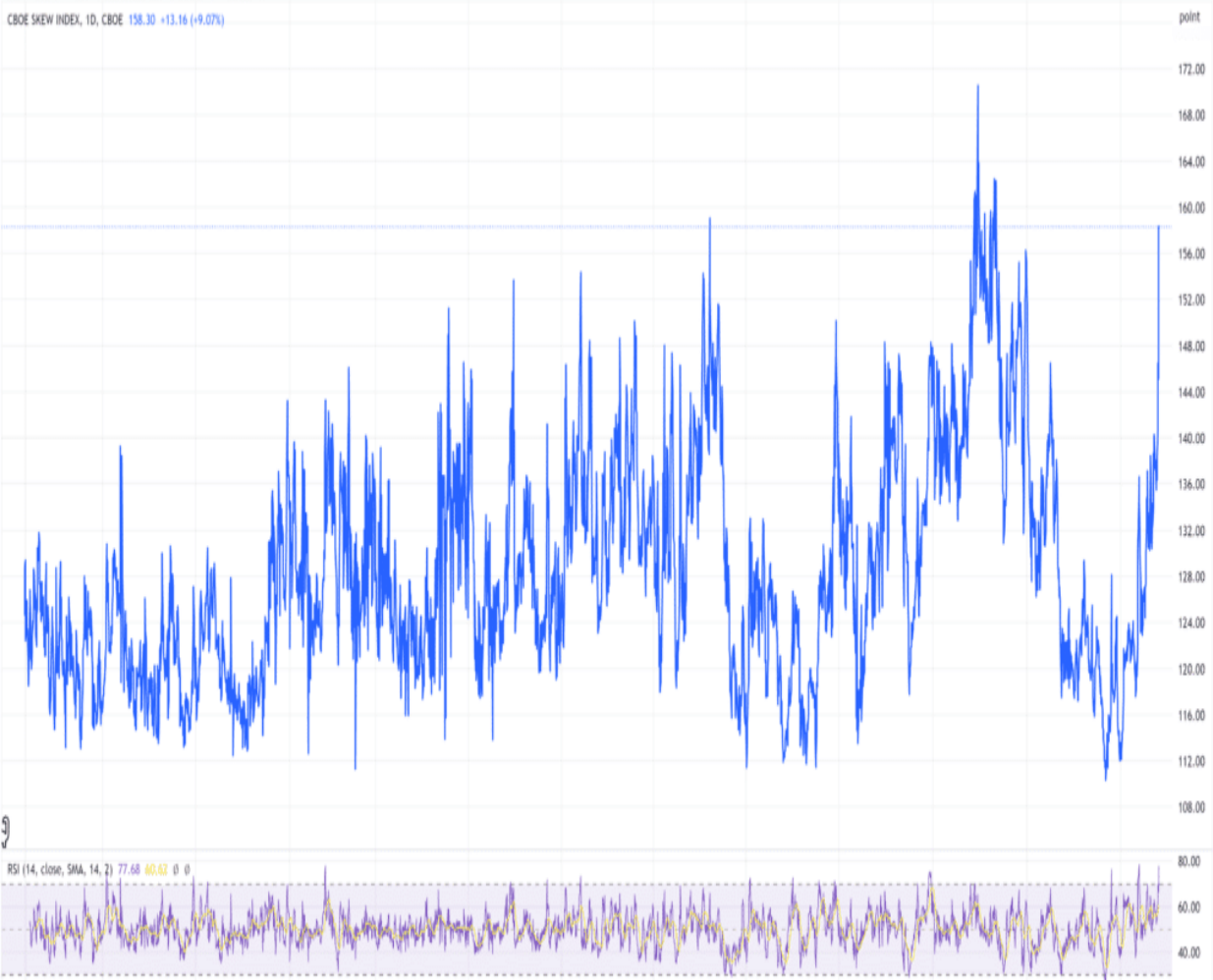
While the VIX volatility index points to relatively low levels of perceived risk, the CBOE Skew Index tells a different story. Unlike the VIX, the Skew index measures implied or expected volatility of out-of-the-money options. So, while markets may seem steady, an increasing number of traders are nervous that an outlier event, bullish or bearish, may occur. As we wrote in yesterday's Commentary, markets tend to climb a wall of worry. If so, the high skew may be bullish for the time being.

CBOE SKEW INDEX, 1D, CBOE 158.30 +13.16 (+9.07%)



TradingView

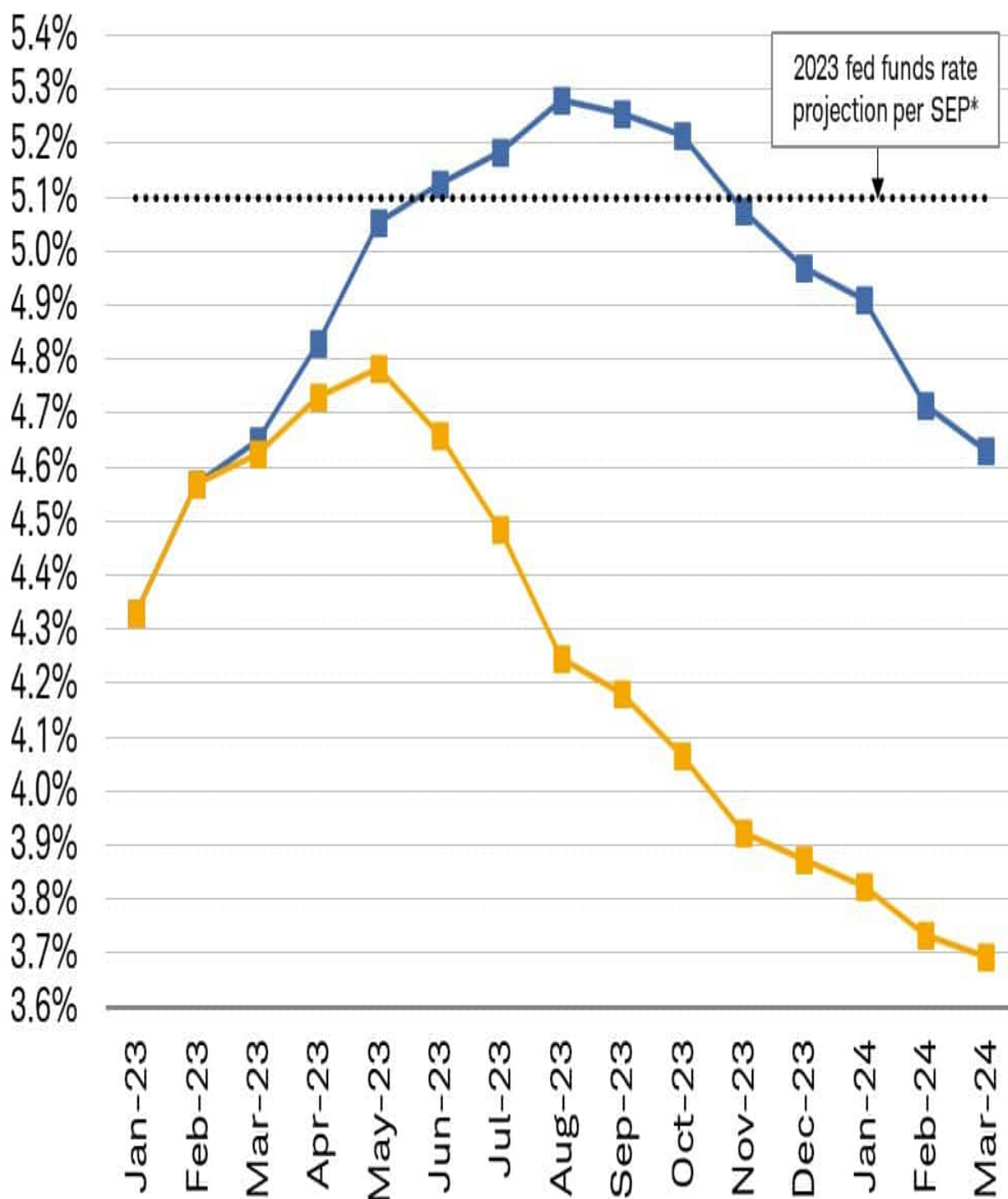
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Fed Funds Futures

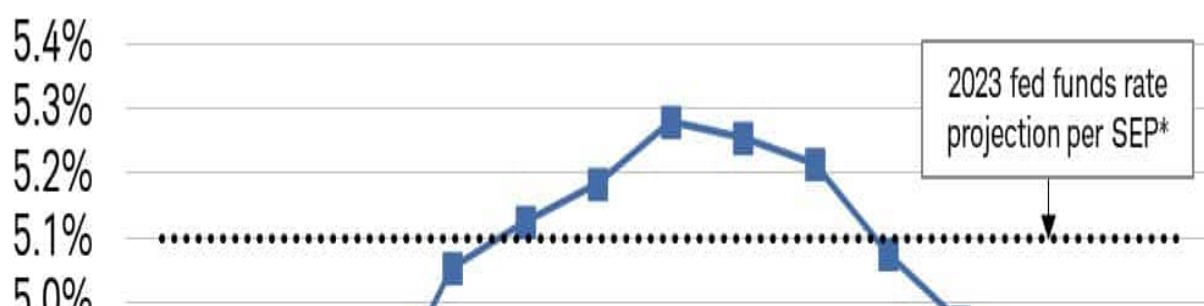
The Charles Schwab graph below shows that the market is slowly accepting the Fed's "higher for longer" narrative. Labor market strength, resilient economic activity, and sticky inflation is causing traders to price out the odds of rate cuts later this year. As the graph shows, the Fed Funds futures curve has taken 1% of rate cuts for later this year off the table.

Fed funds futures curve: 5/31/2023 3/17/2023



Source: Charles Schwab, Bloomberg, Federal Reserve, as of 5/31/2023. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. *SEP is Summary of Economic Projections; latest is as of March 2023.

Fed funds futures curve: 5/31/2023 3/17/2023



Manufacturing Weakness Continues

The manufacturing industry continues to exhibit weakness. The latest [ISM manufacturing survey](#) fell slightly to 46.9. New orders, a good leading indicator, fell for a ninth consecutive month. At 42.6, it sits just a bit above recessionary levels. The report did have some good and bad news for the Fed. The employment index rose to 51.4 from 50.2, which will keep upward pressure on wages. Such a situation is inflationary. However, the prices paid component declined from 53.2 to 44.2.

The following quote from Tom Fiore, the Chair of the ISM, discusses a marked weakening in May.

*Price instability remains and future demand is uncertain as companies continue to work down overdue deliveries and backlogs. **Seventy-six percent of manufacturing gross domestic product (GDP) is contracting, up from 73 percent in April.** A larger number of industries contracted strongly, as the proportion of manufacturing GDP registering a composite PMI[®] calculation at or below 45 percent ? a good barometer of overall manufacturing weakness ? increasing to 31 percent in May, compared to 12 percent in April. **May performance was clearly weaker compared to April,***

While manufacturing is bearish, the service sector surveys remain in economic expansion territory. Further services account for about three-quarters of the economy. However, despite the steadily declining share of manufacturing in the entire economy, it has proven to be a solid leading economic indicator.

MANUFACTURING AT A GLANCE

May 2023

Index	Series Index May	Series Index Apr	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	46.9	47.1	-0.2	Contracting	Faster	7
New Orders	42.6	45.7	-3.1	Contracting	Faster	9
Production	51.1	48.9	+2.2	Growing	From Contracting	1
Employment	51.4	50.2	+1.2	Growing	Faster	2
Supplier Deliveries	43.5	44.6	-1.1	Faster	Faster	8
Inventories	45.8	46.3	-0.5	Contracting	Faster	3
Customers' Inventories	51.4	51.3	+0.1	Too High	Faster	2
Prices	44.2	53.2	-9.0	Decreasing	From Increasing	1
Backlog of Orders	37.5	43.1	-5.6	Contracting	Faster	8
New Export Orders	50.0	49.8	+0.2	Unchanged	From Contracting	1
Imports	47.3	49.9	-2.6	Contracting	Faster	7
OVERALL ECONOMY				Contracting	Faster	6
Manufacturing Sector				Contracting	Faster	7

MANUFACTURING AT A GLANCE

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Inventories	45.8	46.3	-0.5	Contracting	Faster	3
Customers' Inventories	51.4	51.3	+0.1	Too High	Faster	2
Prices	44.2	53.2	-9.0	Decreasing	From Increasing	1
Backlog of Orders	37.5	43.1	-5.6	Contracting	Faster	8
New Export Orders	50.0	49.8	+0.2	Unchanged	From Contracting	1
Imports	47.3	49.9	-2.6	Contracting	Faster	7
OVERALL ECONOMY				Contracting	Faster	6
Manufacturing Sector				Contracting	Faster	7

Tweet of the Day



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How Badly Has Silicon Valley Robbed America?
This Should Make Your Stomach Ache & Blood Boil.



Market cap at IPO vs. current market cap



Source: CB Insights tech IPO and valuation data. IPO valuations based on EOD market cap on day of IPO; current valuations based on EOD market cap as of 3/13/2023.

CBINSIGHTS



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...

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Market cap at IPO vs. current market cap



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2023/06/02

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