

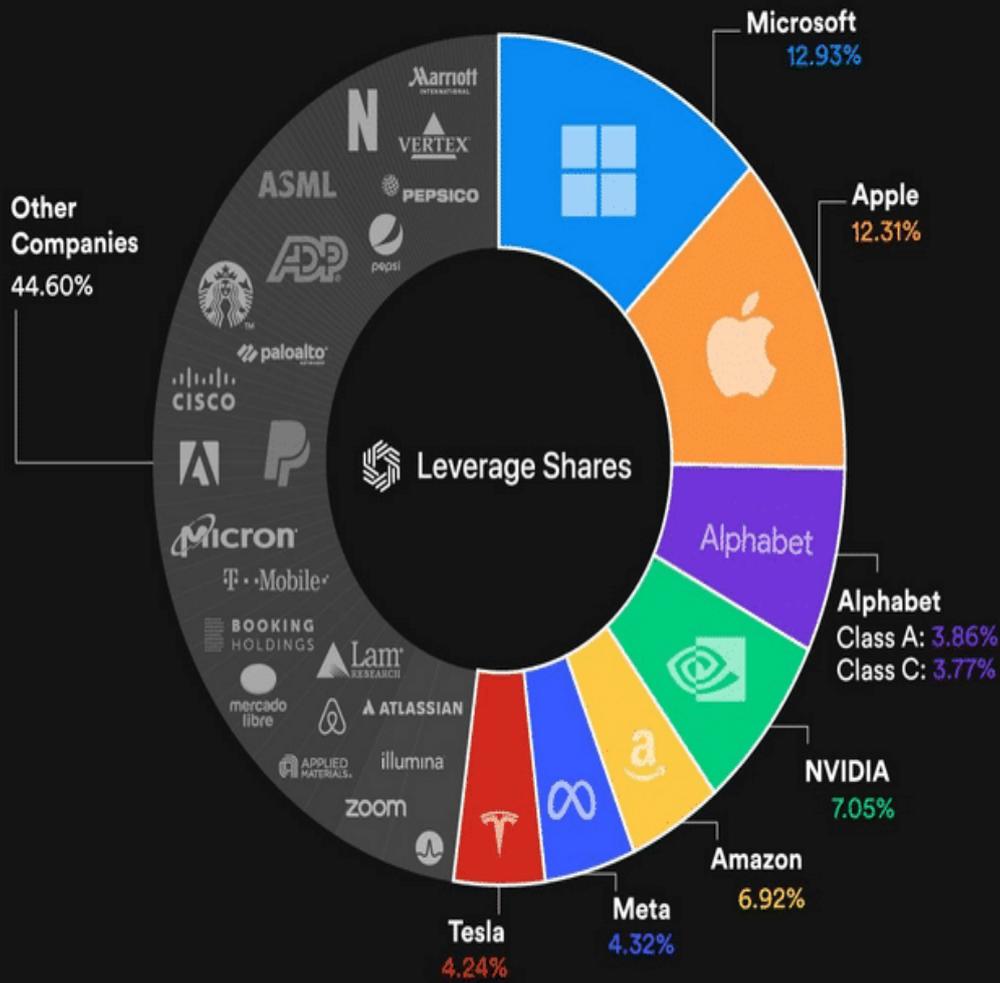


The Coming NASDAQ 100 Rebalancing

NASDAQ announced it will rebalance the NASDAQ 100 Index to *address overconcentration in the index by redistributing the weights.* They do not expect to add or remove stocks from the index. They will announce the changes to the NASDAQ 100 this Friday, but they will not take effect until July 24th. Click [HERE](#) for the press release from NASDAQ. The market weighting of the NASDAQ 100 has become skewed by the so-called *“magnificent seven.”* As shown below, Microsoft, Apple, Google, NVDA, Amazon, Tesla, and Meta account for over half of the index. Based on the NASDAQ 100 index methodology, the total weighting of those seven stocks is expected to fall by 6-8%. Conversely, the other stocks will rise slightly.

As a result of the NASDAQ 100 rebalancing, index ETFs and mutual funds will have to sell shares in the seven stocks and increase their holdings of the remaining stocks. Further, many professional money managers that closely track the index will take similar action. Professional and individual investors may start rebalancing their portfolios when the proposed changes are announced this Friday or even before in anticipation. Index ETFs, like QQQ and mutual funds, must wait for the rebalance date. For context, the largest NASDAQ 100 ETF (QQQ) will have to sell between \$8.5 and \$11.5 billion worth of the magnificent seven stocks. We presume they will make these changes after the market close on the 23rd or on the 24th. As a result, we may see a brief bout of relative underperformance of the mega-cap stocks listed above.

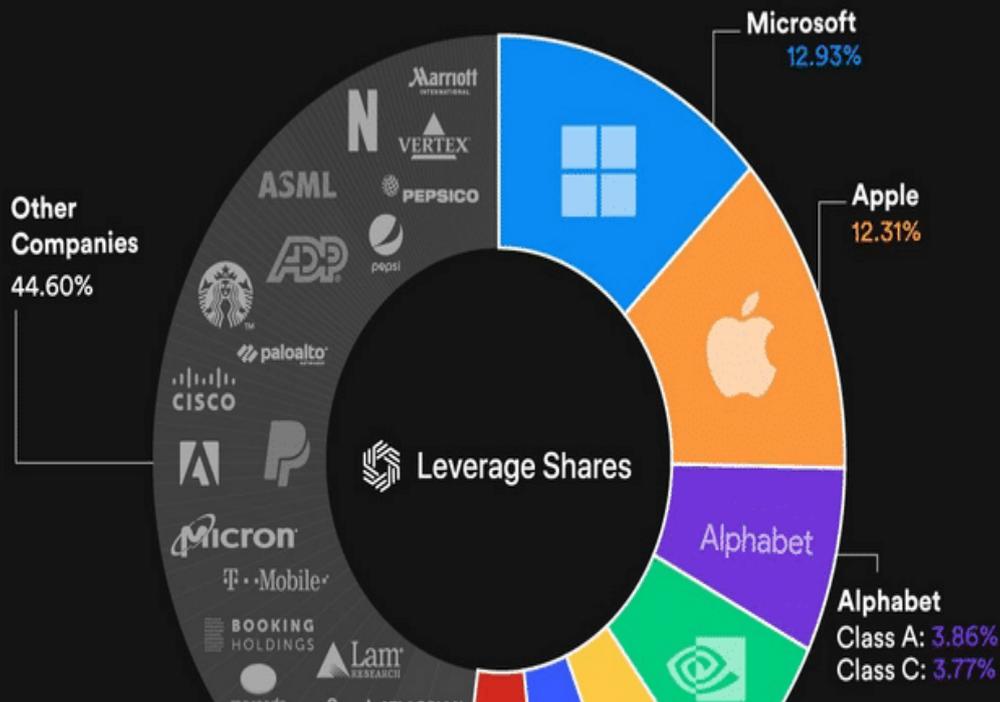
7 Companies Make Up Over 50% of the Nasdaq-100



Source: Invesco QQQ. Holdings correct as of 06/25/2023

Capital at risk.

7 Companies Make Up Over 50% of the Nasdaq-100



What To Watch Today

Earnings

- *No notable releases today.*

Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
TUESDAY, JULY 11						
10:00	USD NFIB Business Optimism Index(Jun)		-	-	89.9	89.4
12:55	USD Redbook Index (YoY)(Jul 7)		-	-	-	0.7%
13:00	USD Fed's Bullard speech				SPEECH	
14:00	USD IBD/TIPP Economic Optimism (MoM)(Jun)		-	-	45.3	41.7
15:30	USD 52-Week Bill Auction		-	-	-	4.93%
17:00	USD 3-Year Note Auction		-	-	-	4.2%
20:30	USD API Weekly Crude Oil Stock(Jul 7)		-	-	-	-4.382M

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Market Trading Update

The recent pullback to support at the 20-DMA is unsurprising, with the market on a short-term sell signal. That initial support level continues to hold for now as we head into earnings season. There is a bit more than 8% to retest the 200-DMA which falls well within the norms for a correction in any given year. Since the financial crisis with the regional banks in March, the market continues to trade in a bullish advance, with the 20-DMA acting as a rising bullish trend line support. Without a 3-5% correction, the current advance is getting pretty extended from a time perspective. We would

logically expect a correction/consolidation period to work off some of the deviations from underlying moving averages. Any such correction will provide a better risk/reward entry point to increase equity exposures.

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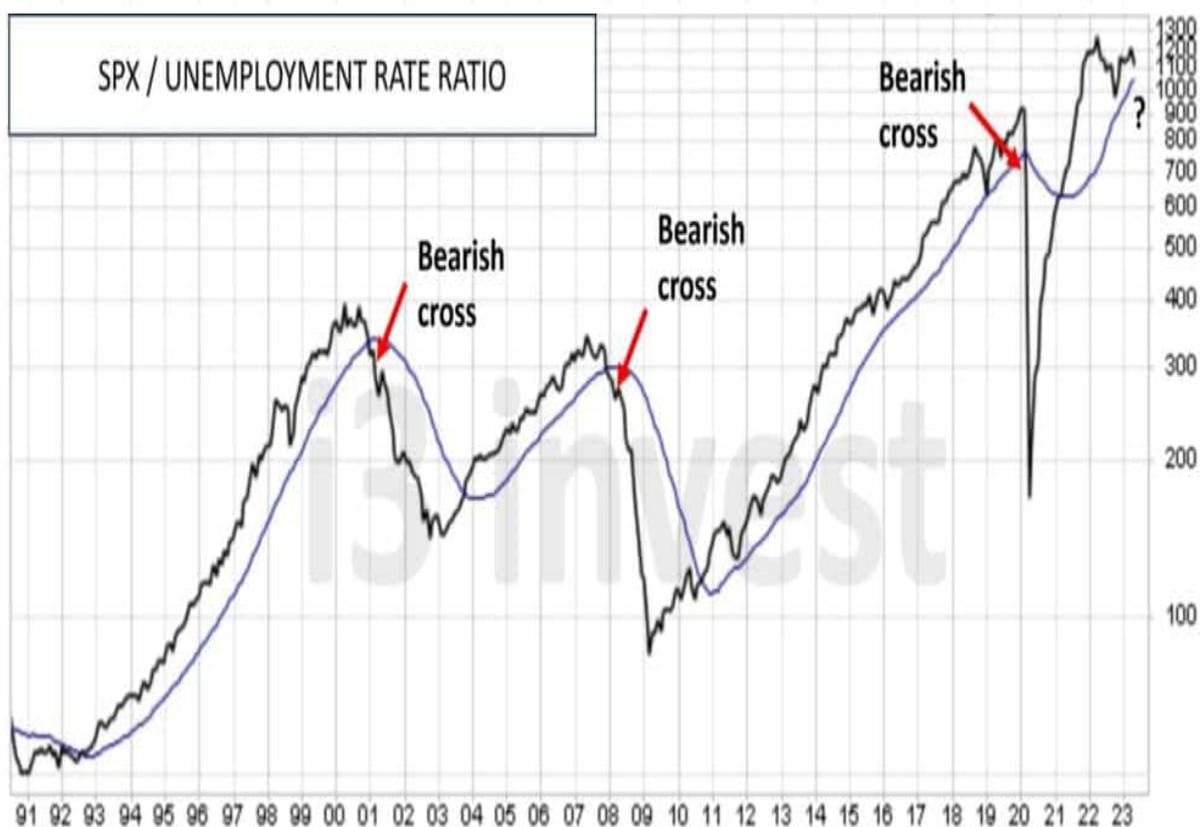
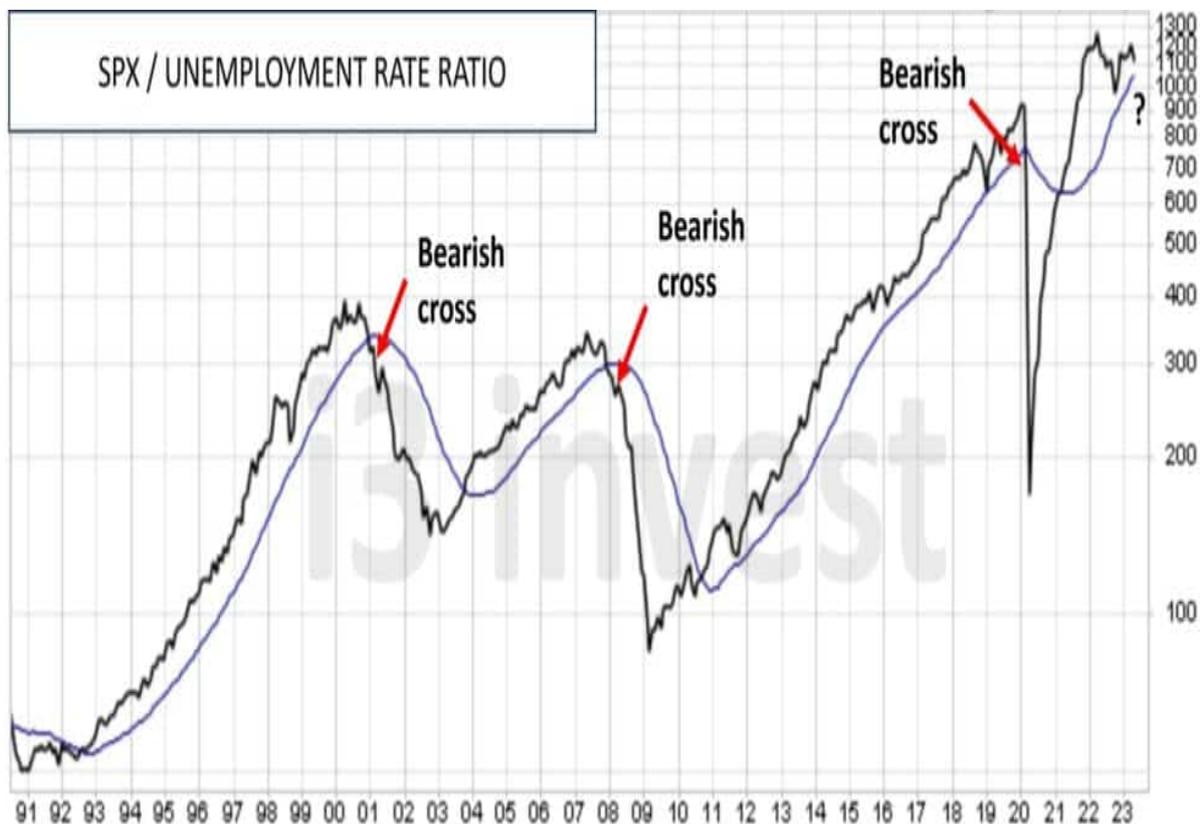
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S&P 500 and Employment

We highly doubt there will be a recession without weaker labor markets. Consequently, the odds of a meaningful stock market drawdown are relatively low as long as the unemployment rate stays low. With that, let's look at the graph below. As it shows, the ratio of the S&P 500 to the unemployment rate (blue) tends to flatten and turn lower as the last three significant declines occurred. The graph can be misleading as the S&P 500 is part of the formula for the ratio. That said, the correlation between stocks and the economy is robust; therefore, the monthly employment data remains a pivotal factor to follow.



Servicing Debt and Unemployment

Adam Taggart of Wealthion recently had Michael Green on to share his macroeconomic and market views. Michael is in our camp, thinking it's just a question of when higher interest rates will likely cause a recession, not if. Michael provides statistics on how higher interest rates will affect corporate profitability. The entire video can be watched [HERE](#). Adam's recap of Michael's statement is as follows:

- 14:48 oh my gosh let me just repeat that to make sure I heard you say it correctly um at the current interest rates that
- 14:55 they're paying on the existing debt they hold about 85 percent of the companies in the index are profitable
- 15:01 um but if they rewrite to what you're seeing as as what new issuances are
- 15:07 charging um it drops to seven percent that would be profitable yes wow and sorry which
- 15:14 index were you looking at there so this is this is effectively the high yield Universe okay the Hollywood Universe
- 15:21 okay um that is frightening I mean some some would call that kind of apocalyptic uh and I know you're not saying they're
- 15:26 all going to reset at the same time right but but that is uh that that would be really hard to say
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As noted earlier, higher unemployment often coincides with weaker economic activity and market drawdowns. As companies recognize higher interest expenses, they will hurry to cut costs. Depending on the company, there are many ways to cut expenses, but given the outsized role of wages, many companies will likely choose to lay off workers. Such will coincide as their debt

matures and is reissued at higher interest rates. This process explains why there can be a lag between higher interest rates and economic weakness.

Does it Pay to Buy Apple?

The graph below from Ned Davis Research shows that since 1972, the S&P 500 tended to outperform its highest market cap constituent. However, Apple is so far bucking that trend. Passive investing has become very popular over the last ten years. Given that many of the popular stock indexes are market cap weighted, there is a propensity for the largest stocks to outperform. So, while chasing the largest stock didn't work in the past, the passive age may spread better luck to the largest market cap stock.

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INTERNET 7 YEARS
TWITTER 5 YEARS
FACEBOOK 4.5 YEARS
SNAPCHAT 3.9 YEARS
WHATSAPP 3.4 YEARS
INSTAGRAM 2.5 YEARS
TIKTOK 9 MONTHS
CHATGPT 2 MONTHS
THREAD'S 5 DAYS

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