

May Market Update

- 📌 Market Commentary
- 📌 The Independent Advisors Podcast
- 📌 Special Holiday Hours

Market Update

Stocks were relatively muted last month if you just look at month end numbers. However, the rally in the last few days of the month was enough to put most indices in the green. Below are the April returns for popular benchmarks that investors track (Data provided by Y-Charts & Commonwealth Financial Network):

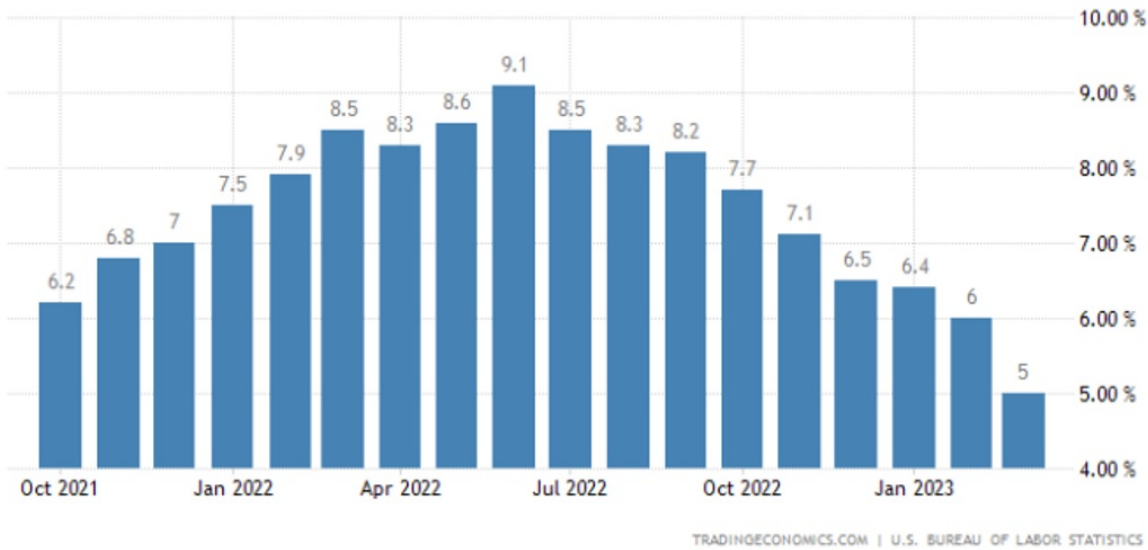
- S&P 500 Index: +1.09%
- Dow Jones Industrial Average: +1.48%
- Nasdaq Composite Index: +.30%
- Russell 2000 Index: -1.85%
- S&P Target Risk Moderate Index: +0.95%

Investors are getting frustrated with the sideways movement in the market that we have experienced for the past year. As you can see below (Source: Stockcharts.com), the S&P 500 has traded sideways, in a 17% range since May of 2022.



The S&P500 has been taking one step forward and one step back. This is extremely different from the investment environment we experienced before 2022 (two steps forward, one step back). Eventually, stocks will either break up or down out of this range. That will dictate where the market goes next.

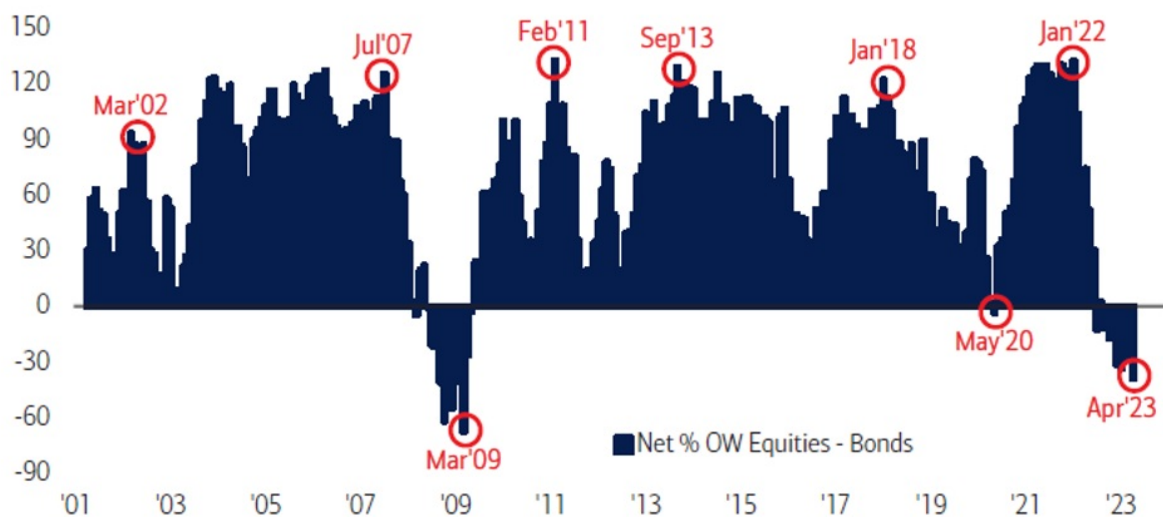
We have not discussed inflation much in our most recent monthly market updates. Now is a good time for an update. Inflation has continued to decline after reaching its peak in June of 2022. This is positive news for risk on assets such as stocks.



When inflation is low, people can buy more goods and services because things cost less. This means that companies may be able to achieve larger profits. When companies are doing well and making more money, their stock prices tend to go up. This is because investors see that the company is profitable and expect it will continue to make money in the future, making the stock more valuable.

In addition to being a pre-election year (see past podcasts and market updates for background), investors are the most overweight to bonds relative to stocks since the great financial crises. As you can see in the graphic below, the last time we were at these levels was close to the market bottom in 2009.

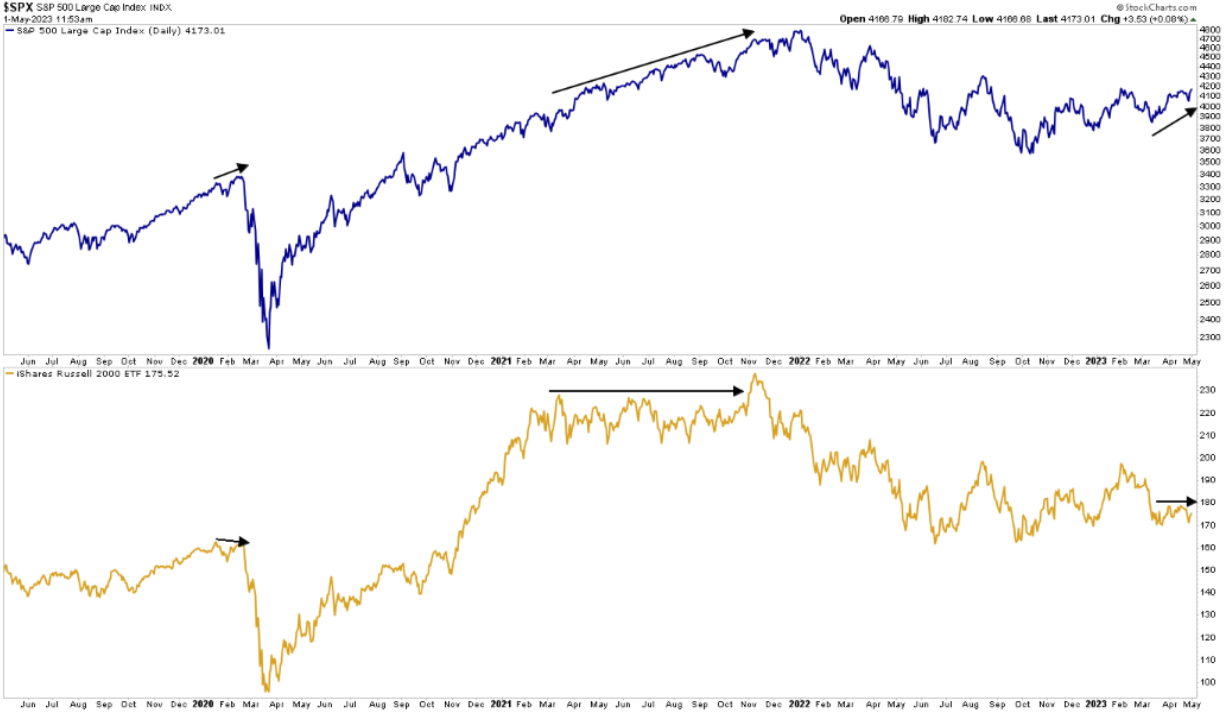
Chart 12: ...and relative basis
Net % overweight equities vs bonds



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

While we still believe the market will climb higher between now and year-end, there is one chart that gives us some pause. Small-cap stocks have been underperforming their larger-cap peers so far this year. Small caps often lead the market in both directions because they are viewed as more "risky" than large, well-established companies that have been around for a while. They also tend to be more sensitive to economic and stock market changes. As investors, we want to see them outperform to signal a new uptrend.



As you can see in the graphic above (Source: Stockcharts.com), small caps (bottom panel) started to underperform large caps (top panel) prior to the COVID collapse in early 2020. Similarly, in 2021, small caps traded sideways while the S&P 500 was making new all-time highs. We all know how the market reacted in 2022. For a healthy market to move higher, I believe small caps will need to kick it into gear over the next few months

As always, don't hesitate to reach out to our team with any questions you may have.

Regards,

Mark McEvily

Chief Investment Officer

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Special Holiday Hours

- Our office will be closing early on Friday, May 26th. We will be in the office from 9:00 am to 12:00 pm. From 12:00 pm to 4:00 pm, you can reach us remotely via our office phone.
- Our office will be closed Monday, May 29th, in observance of Memorial Day

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We have added amazing new hires to the team and are even increasing our physical office footprint! This growth equips JWM with all the tools to allow us to advise more clients, while maintaining the premium quality of service we pride ourselves on! We would greatly appreciate your client referrals. Let us care for those you care about!

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