



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -2.0%

Breadth check shows underlying performance is picking up

Key takeaways

- Two sectors that together make up nearly 47% of the total market capitalization of the S&P 500 Index are holding the market below the record high.
- But over the last week, the S&P 500 Equal Weight Index and the Russell 2000 Index both hit record highs, along with the Health Care, Industrials, Financials, and Utilities sectors.

The S&P 500 Index (SPX) is trading about 2.5% below its all-time record high of 7,609 on June 2 at the time of this writing (June 29). When looking at the performance of the 11 sectors that make up the index, a quick glance shows the two worst performing sectors since that record high have been Information Technology (Tech) and Communication Services. Importantly, those two sectors together make up nearly 47% of the total market capitalization of the SPX. No wonder the index isn't setting new highs when those heavily weighted sectors are down 6% and 7.8% respectively since the record high. Remember, the SPX is a capitalization-weighted index, which means price movements in higher valued sectors (and companies) have a greater influence on where the index goes and the magnitude of the move.

So you might be wondering what some of the better performing companies and sectors in the SPX are that are helping keep the index closer to its record high given the battering the Tech and Communications Services sectors have taken over the last month. The fact is, when you look at the overall equity market, the price participation, or breadth, is starting to broaden. And that is good news. More companies participating on the upside is, in our view, a signal that the underlying health of the market is better than some investors might assume, especially if those assumptions are focused on tech and tech-type companies and sectors, which always seem to garner most of the headlines.

What are some of the better performing areas of the market over the past four weeks? Consider this: Over the course of last week's trading, the S&P 500 Equal Weight Index (SPW) and the Russell 2000 Index (small cap) both hit record highs along with the Health Care, Industrials, Financials, and Utilities sectors. All that while the Bloomberg Magnificent 7¹ Index of giant tech hardware firms was down more than 8% since June 2. Also consider that the percentage of SPX companies trading above their 200-day moving averages has been slowly but steadily climbing for the last month and now stands at 63%. Investor funds have been flowing into other sectors and capitalization sizes while some of the biggest winners in recent years have seen outflows.

As we look ahead, we continue to believe that the artificial intelligence (AI) theme will continue to be the main equity earnings and price driver. Our projection calls for a nearly 25% earnings growth rate for the SPX this year followed by a 13% gain in 2027. We remain overweight the Tech sector but want to buy on pullbacks and not chase the market higher. We see good opportunities in other sectors that are tied to the AI theme including Industrials, Utilities, and Materials. Financials, which have lagged year-to-date, have performed better over the last month and remain our most highly rated sector. We believe Financials should benefit from an accelerated volume of initial public offerings (IPOs) and mergers and acquisitions (M&A) activity, a substantial portion of which will be tied to AI. Our year-end 2027 range for the SPX remains 8,600 – 8,800.

¹ The Magnificent 7 include Apple Inc., Microsoft Corporation, Alphabet Inc., Amazon.com, Inc., NVIDIA Corporation, Meta Platforms, Inc., and Tesla, Inc.

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Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. **Communication services** companies are vulnerable to their products and services becoming outdated because of technological advancement and the innovation of competitors. Companies in the communication services sector may also be affected by rapid technology changes; pricing competition, large equipment upgrades, substantial capital requirements and government regulation and approval of products and services. In addition, companies within the industry may invest heavily in research and development which is not guaranteed to lead to successful implementation of the proposed product. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. Some of the risks associated with investment in the **Health Care** sector include competition on branded products, sales erosion due to cheaper alternatives, research and development risk, government regulations and government approval of products anticipated to enter the market. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Materials** industries can be significantly affected by the volatility of commodity prices, the exchange rate between foreign currency and the dollar, export/import concerns, worldwide competition, procurement and manufacturing and cost containment issues. Risks associated with the **Technology** sector include increased competition from domestic and international companies, unexpected changes in demand, regulatory actions, technical problems with key products, and the departure of key members of management. Technology and Internet-related stocks, especially smaller, less-seasoned companies, tend to be more volatile than the overall market. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Definitions

Bloomberg Magnificent 7 Index is an equal-dollar weighted benchmark of seven major U.S. technology, communications, and consumer discretionary companies.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

S&P 500 Equal Weight Index is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

An index is unmanaged and not available for direct investment.

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