

SUMMER 2023

“Sell in May and go away” is an old Wall Street maxim cautioning traders to lock in profits and avoid the doldrums or pitfalls of summer markets. For us soggy Maine homeowners it might also sound tempting as we slog through another gloomy spring and early summer. However, given the searing heat to our south and the wildfires to our north, perhaps our damp little oasis hasn’t been so bad.

We don’t advocate selling stocks either, although the performance of a few stocks in the first half of 2023 may have pushed some valuations to unsustainable levels. The stock market in the second quarter was led once again by a handful of technology giants and year to date the NASDAQ has advanced 31.7%. Driven primarily by the technology sector, the S&P rose 15.9% in price (16.9% total return including dividends). However, most of the advance in the S&P 500 was due to only a few stocks. According to Barron’s¹, the average stock in the S&P 500 rose only 6% and many stocks declined year to date. The more diverse Dow Jones Industrial Average, including industrials, health care and financials for example, rose only 3.8% year to date.

The S&P 500 index is capitalization weighted, so the largest companies by capitalization dominate the performance of the index. Apple and Microsoft alone represent over 14% of the index and the top ten stocks by capitalization represent over 30% of the total index. Apple rose 42.7% year to date while Microsoft rose 36.3%. These impressive advances were dwarfed by fellow S&P 500 top ten names, Tesla, up 112.5% year to date and Nvidia, up 190.4% year to date. The top ten stocks in the index are not technically all technology stocks as Tesla and Amazon are in the Consumer Discretionary sector and Meta (Facebook) and Google are classified as Communications Services companies but they are certainly similar. Berkshire Hathaway (Financial) and United Healthcare (Health Care) round out the top ten.

Like the S&P 500, many investors’ portfolios are dominated by Apple and Microsoft and, while this is a nice problem to have, it is important to regularly review one’s holdings considering long-term objectives. We do not view either Apple or Microsoft as dangerously over-valued, but any time one or two stocks begin to dominate a portfolio it may be prudent to consider further diversification, particularly when many top-quality stocks are still relatively good values.

The stock market faces many challenges in the second half of 2023 as interest rates remain high and the Federal Reserve may have one or two more rate hikes in store.

¹ Barron’s June 30, 2023, Nicholas Jasinski

Whether or not a recession is looming remains a question and the poor relative performance of many stocks outside the favored few may be an indication of this lingering fear.

Being more optimistic by nature there appear to be opportunities in selected stocks and in short-term bonds as 2-year Treasury notes are yielding close to 5%. Emerging market and small cap stocks also seem relatively attractive. This may also be an opportune time to review long-term stock and bond allocations, and raise any cash needed over the next year or two. Money market yields are quite attractive so holding reasonable cash reserves might make sense.

While we never know what the markets will do in the short term, we are reasonably confident the sun will eventually shine, and summer will finally arrive. We wish you all the best,

John C. Knox, CFA

John C. Downing, CFA

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