

# Weekly Market Insights

May 22, 2023

## A Changing World

### Financial Markets

United States equity markets have remained in a trading range for some time. Part of the reason is investors are being asked to analyze not just the normal economic and investment cycle but a host of political and global issues as well. This past week the Dow closed up 0.38%, the S&P 500 closed up 1.65%, and NASDAQ closed up 3.04%.

The elephant in the room remains the debt ceiling. Will sanity rule and will the debt ceiling be raised, or will partisan politics overrule the good of the country? No one has the definitive answer, of course, but, as we and others have written, the most likely outcome is an agreement will be reached. Outside of the debt ceiling, Federal Reserve policy remains a concern for markets, along with the ongoing war in Ukraine, and other geopolitical events. It is hard to blame investors for being a bit risk averse.

### Economics

Last week we wrote about market concentration and the performance divergence between the market cap weighted and equal weighted S&P 500. On that topic, we have just a few more facts readers may feel surprised to read. First, at \$2.76 trillion, Apple's market capitalization is greater than the combined market value of the entire Russell 2000 index of small cap stocks. More amazing is that the top five largest stocks' combined value is almost 23% of the S&P 500. Thank you to Al Root of *Barron's* for the data. Yes, we did write about this last week, but it is a hugely important topic, and investors must keep it in mind.

Federal Reserve policy and the path of interest rates remain vital questions, and, in the absence of the debt ceiling debate, would be the paramount concerns in the minds of investors. Investors and analysts are looking for Chairman Powell to provide a definitive answer whether there will be another rate hike. In reality, we all know this question can't be answered until we receive more data on inflation and the extent of its decline. There have been some really interesting discussions about the Fed and what its proper role should be. The first and most surprising point was made by Mike Pence, former Vice President and current Republican candidate for President, when he recommended relieving the Fed of its responsibility for full employment. This is surprising because most never considered Mike Pence a student of monetary policy, and it is a point that really hasn't been brought up in the past. Even so, this deserves serious discussion. It could be argued that full employment would be better handled through fiscal policy and in the hands of elected officials.

A lot is happening in the international economic and political arenas. We have been writing about this for quite a while. On a grand scale, we look at globalization. It has been expanding with fits and starts for thousands of years, always moving forward. There have been fairly long periods when countries have moved against globalization, causing it to morph into a new form. It is way too early to make any judgments, but there has been some disruption as of late, and new trade alliances are being created. Most interesting is China's

# Weekly Market Insights (cont'd)

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attempt to create a new trading order, almost setting up an east versus west scenario. China's earlier attempt at leading the creation of a new Silk Road has not been successful. After a period of rapid economic growth, China may have run into the well-known middle income stall, but it is way too early to tell. We will have much more about China and the East in a future paper.

## **Conclusion**

"Conclusion" may not be the most appropriate term to use when ending our weekly papers because, in reality, there is no real conclusion. The best we can do is update readers given what we know at the moment. We feel that the debt ceiling will ultimately be resolved and that the Fed's battle against inflation is moving in the right direction. The United States remains in a strong position relative to the rest of the world.

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