

# BULL & BEAR BULLETIN



May 2023

Cultivating  
relationships  
for over  
**35**  
Years  
Since 1984

## VALICENTI ADVISORY SERVICES, INC.

400 East Water Street  
Elmira, NY 14901  
**607-734-2665**  
Fax: 607-734-6845

447 East Water Street  
Elmira, NY 14901  
**607-733-9022**  
Fax: 607-734-6157

24 West Market Street  
Corning, NY 14830  
**607-936-1203**  
Fax: 607-936-0213

[www.valicenti.com](http://www.valicenti.com)

Asset management  
as individual as you

An on-line publication by  
The Investment Committee

## Land of the Giants, Home of the Dwarves

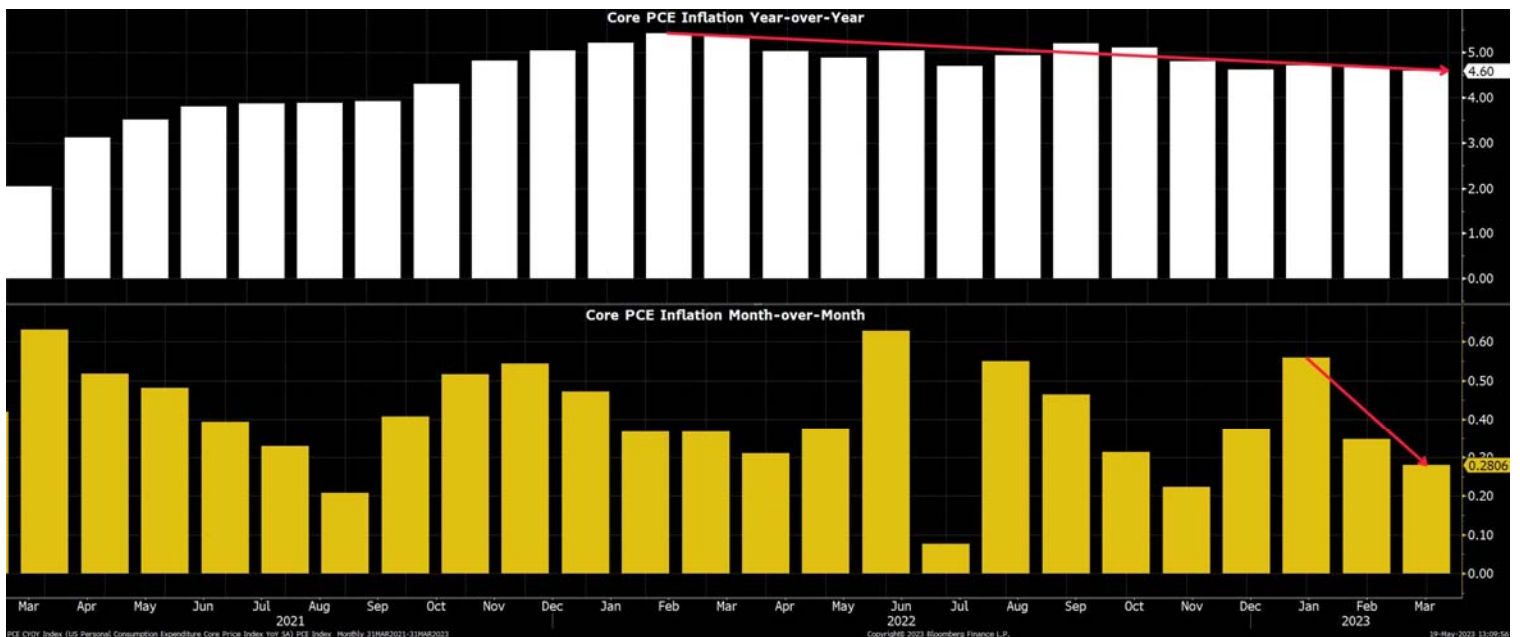
The main U.S. large-cap equity benchmark index is the S&P 500 Index. On a total return basis, since falling 18.11% in 2022, it has rallied 7.71% year-to-date as of May 16th. Similarly, the S&P 500 Equal Weighted Total Return Index and the Russell 2000 Total Return Index are down 0.12% and 0.89% respectively. The S&P 500 Index is a market cap weighted index, which means that companies with a greater market value will have a larger weighting in the index. The S&P 500 Equal Weighted Index, on the other hand, has the same constituents as the S&P 500, but each company has the same fixed weight. Finally, the Russell 2000 consists of 2000 smaller-sized companies and is also market cap weighted.

Most of the rally this year in the S&P 500 can be attributed to a handful of mega-sized companies (greater than \$200B market value). Apple, Microsoft, Amazon, Google, and Tesla are up over 30% as of May 16th. Nvidia and Meta are each up close to 100%. The larger size of these companies gives them more weight and return contribution in the S&P 500 Index. More empirically, these names make up about 26% of the S&P 500 Index's total market cap but have contributed 7.82% to the Index's 7.71% overall return. This may be in part due to the fact that in times of distress, investors deviate towards these well known mega-cap stocks. Looking on a broader basis, however, we can see that the S&P 500 Equal Weighted Index and the Russell 2000 Index are relatively flat this year, implying that the smaller and lower market value companies have not done as well.

Bulls may cite a number of reasons why the strength in the market will persist. One of the Federal Reserve's (FED) primary inflation gauges is the core personal consumption expenditures (PCE) price index. This is defined as PCE prices but excludes the volatile food and energy prices. We can see that the rate of inflation is slowing both on a year-over-year (top panel) and on month-over-month (bottom panel) basis as shown in the chart below. Inflation is still measuring above the Fed's 2% target, but recent trends demonstrate that inflation continues to slow and may warrant a pause in further rate increases. Another reason may be that earnings for the first quarter of 2023 were not as bad as expected. For the 92% of companies that have reported, 78% of the S&P 500 companies have beaten the earnings per share (EPS) expectations and 75% have beaten revenue expectations, as per FactSet. Finally, the labor market still appears to be strong with the unemployment rate for the month of April registering at 3.4%, matching a 53-year low hit in January.

Bears, on the other hand, may cite a number of reasons why the market strength may not persist. One reason may be valuation. A very elementary tool investors use to consider market valuation is to simply look at the index price level in relation to the total expected earnings over the next 12-months for all the companies that comprise the index. Currently, the S&P 500 trades at a multiple of earnings of 17.99x with the 10-year average being 17.31x. With inflation still above the Fed’s target and with rapid rate hikes not yet impacting credit, multiples may need to contract as headwinds arise later into the year or in 2024. Finally, real GDP growth has been slowing since Q3 2022’s reading of 3.2% quarter-over-quarter annualized. For the first quarter in 2023, we have decelerated to 1.1% with further expectations of deceleration for the rest of 2023, based on current estimates.

We believe that in the midst of all the uncertainty, it is favorable to have a slight defensive posture in relation to asset class and sector allocations. This would entail allocations to intermediate and long-term government and corporate bonds as well as defensive equity sectors such as healthcare, consumer staples and utilities. The slowing growth and inflation data and expectations contribute to our view.



Source: Bloomberg

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ["Valicenti"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Valicenti. Valicenti is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the Valicenti’s current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at [www.valicenti.com](http://www.valicenti.com). Please Remember: If you are a Valicenti client, please contact Valicenti, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Valicenti account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Valicenti accounts; and, (3) a description of each comparative benchmark/index is available upon request. \*Please Note: Ranking Limitations. Neither rankings nor recognitions by unaffiliated rating services, publications, media, or other organizations, nor the achievement of any professional designation, certification, degree, or license, membership in any professional organization, or any amount of prior experience or success, should be construed by a client or prospective client as a guarantee that the client will experience a certain level of results if the investment professional or the investment professional’s firm is engaged, or continues to be engaged, to provide investment advisory services. A fee was not paid by either the investment professional or the investment professional’s firm to receive the ranking. The ranking is based upon specific criteria and methodology (see ranking criteria/methodology). No ranking or recognition should be construed as an endorsement by any past or current client of the investment professional or the investment professional’s firm. ANY QUESTIONS: Valicenti’s Chief Compliance Officer remains available to address any questions regarding rankings and/or recognitions, including the criteria used for any reflected ranking.