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## FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

Investors have largely shied away from a full-on return to the U.S. stock market this year. After massive outflows in 2022, mutual fund and ETF net flows for the aggregate U.S. equity market have been relatively flat year-to-date. This has not been the case, however, for the technology sector. Tech stocks and tech-oriented mutual fund and ETF strategies have pulled billions off the sidelines in recent months, resulting in a historically concentrated stock market with a small number of haves and many have-nots.

Exuberance around artificial intelligence, Apple announcing the release of their new VR headset, and Microsoft and Google announcing expansions of their edge computing divisions have headlined a compelling first half of the year for the tech sector. The S&P Technology Index has returned almost 40% thus far in 2023. Meanwhile, the average return for the remaining ten sectors is 4.51%. Looking at the broader index, nearly all of the S&P 500's approximately 14% return this year can be attributed to just ten stocks, strip those out, and the return on the index from the remaining 490 names would be 1.4%. The narrow breadth of the market this year likely underpins a view that is more pessimistic than the headline return on the S&P may indicate. There are a handful of historical examples of a similar market dynamic, notably during the tech run-up in the late '90s and early '00s. Forward results from these instances are mixed; some kicked off broad market rallies, while others commenced significant drawdowns. This makes sense given the varying fundamental environments in each of these past cycles. While having a small number of stocks lead the market higher isn't necessarily an ominous warning, history suggests it is something to pay attention to.

Market resiliency this year has certainly been a welcome respite from 2022. However, it raises the question of whether this resiliency is proof that the impacts of tighter monetary policy and lower growth have been fully assessed? One could argue that the narrow breadth would indicate that they haven't and that uncertainty remains. Until there is a more unified consensus view on these factors, it will likely be difficult for market leadership to broaden. Thanks for reading, and as always, if you have any questions or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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