Capital Ideas

05/05/2023

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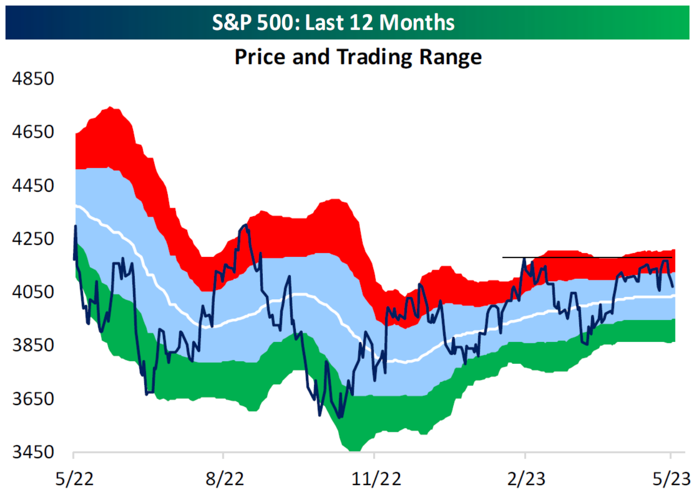
Dear Reader,

The market continued to grind higher during April – the S&P 500 was up 1.6% during the month. The gains were concentrated within the largest technology companies which reported earnings that were overall better than expected. These seven behemoth companies alone have accounted for nearly $3 trillion in cumulative price appreciation over the past several months, or roughly half of the market's recent rally from the October 2022 lows. While we welcome positive performance across these handful of companies, other stocks have unfortunately failed to provide much of the follow-through necessary for the overall market to break through to the upside. While we look for more evidence that a new bull market is emerging, which would be supported by a greater percentage of stocks meaningfully participating in the rally, it is our view that companies with significant scale, growth prospects, and healthy operating cash flow with modest debt levels should continue to outperform.



Change in Market Caps of the Mega-Caps

Stock	Company	Max Mkt Cap	Mkt Cap at Low	Loss of Mkt Cap	Current Mkt Cap	Gain in Mkt Cap off Low
AAPL	Apple	$2,986.1	$1,988.8	-$997.3	$2,664.9	$676.0
MSFT	Microsoft	$2,576.1	$1,597.1	-$978.9	$2,272.6	$675.5
GOOGL	Alphabet	$1,995.1	$1,080.2	-$914.8	$1,348.4	$268.2
AMZN	Amazon	$1,881.8	$834.7	-$1,047.1	$1,080.2	$245.5
NVDA	NVIDIA	$834.4	$279.6	-$554.8	$676.4	$396.8
META	Meta	$1,077.5	$235.7	-$841.8	$607.1	$371.3
TSLA	Tesla	$1,235.2	$341.4	-$893.8	$514.6	$173.2
	Sum	**$12,586.2**	**$6,357.5**	**-$6,228.7**	**$9,164.0**	**$2,806.5**

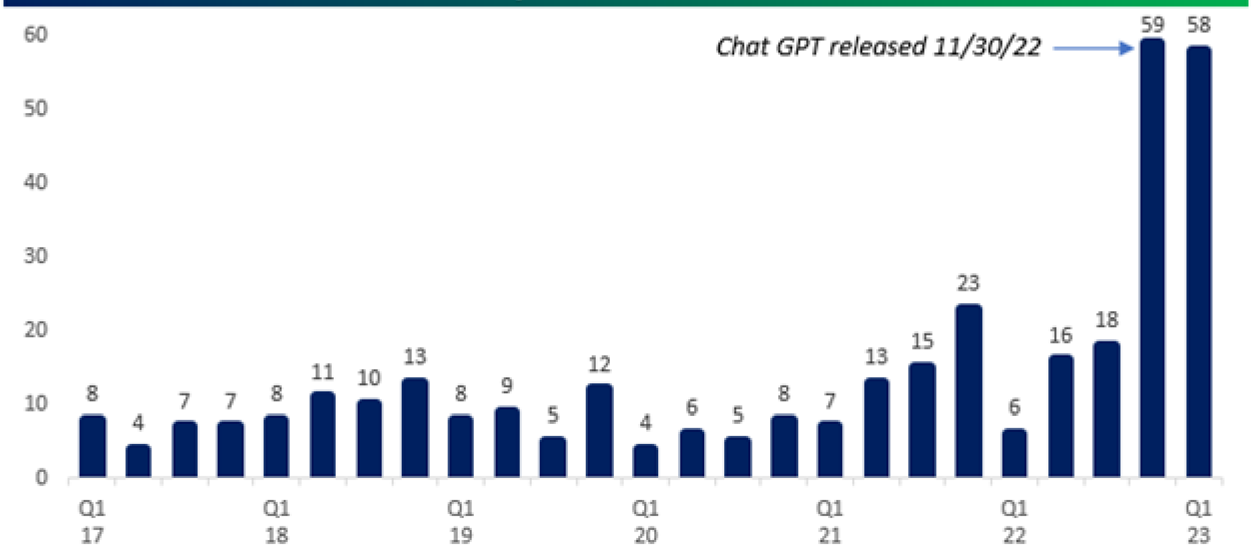
Source: Bespoke Investment Group

During April, we decided to trim some positions to reduce overall risk across your portfolios. These sales were predominantly across holdings we believe present elevated risk over the near-term should market volatility increase. This could occur as a result of anxiety regarding the debt ceiling debate in Washington as the summer approaches, recessionary economic indicators, or a persistently aggressive Federal Reserve continuing to raise interest rates into a growth slowdown. Thus, we decided to sell some positions with strong gains for the year and

Trends: Big Tech

			% Change				Trading Range			
Tickers	Name	Price	YTD ↑	5-Day	50-DMA	Trend	Current	OS	50-DMA	OB
META	Meta Platforms	238.56	98.24	11.96	20.49		Extreme OB			
NVDA	NVIDIA	272.26	86.34	0.45	7.47		Neutral			
AMZN	Amazon.com	109.82	30.74	5.79	11.09		Extreme OB			
TSLA	Tesla	160.19	30.05	-1.72	-14.51		Extreme OS			
AAPL	Apple	168.41	29.82	1.06	6.85		Overbought			
MSFT	Microsoft	304.83	27.43	6.54	11.99		Extreme OB			
GOOGL	Alphabet	107.59	21.94	2.18	7.88		Overbought			

Mentions of "AI" on Alphabet Conference Calls: 2017 - 2023



Source: Bespoke Investment Group

temporarily invest proceeds into a fund holding short-term Treasuries yielding just under 5%. In our view, pairing securities generating risk-free income with stocks offering promising growth potential even in a slowing economy offers an attractive risk/reward profile in the current market environment.

During recent earnings calls, technology companies have been discussing in depth the use of artificial intelligence ("AI") within their core businesses. While this concept has been on the map for many years, it has recently become a key focus as investors assess the ultimate impact of AI technology on these companies' bottom lines. We believe the advancement and adoption of this technology should yield substantial economic benefits for businesses across industries through higher margins while also driving exponential sales growth for firms which have invested at scale to build commercially viable AI platforms. In our view, the upfront capital investment necessary to develop this technology has largely been deployed with increasing magnitude and success since the 1990s. Shareholders are now eager to realize returns on their capital through new sources of revenue and more profitable existing lines of business.

While the economic picture remains murky, and we are currently at above-average levels of liquidity to manage near-term risk exposure, we are somewhat encouraged by the market's recent reaction against a backdrop of continued investor pessimism and bad news headlines. According to Bank of America's global fund manager survey, in April investor appetite for stocks reached the lowest level since March 2009. This was driven by concerns regarding the health of the banking sector and spillover effects into the broader economy following the collapse of Silicon Valley Bank and eventually First Republic. Generally, when expectations are low and investors are reluctant to hold stocks, any positive momentum (or results which are simply better than feared) can provide support for the market, which is in part what happened last month. This price action is in sharp contrast to the brutal market declines following lackluster economic data or company results during the first half of 2022 when expectations among investors were much rosier. Contrarians have generally fared exceptionally well across market cycles historically, highlighting the power of taking a long-term approach to investing and avoiding a herd mentality when the mood is especially dour.

As always, we thank you for your patronage and encourage you to call us with any questions or concerns.

Sincerely,

CJ Brott

Karen Burns

Andrew Kerai

Pros:

1. Six Months Past the Low
2. Buy the Dip
3. Bearish Sentiment
4. Dollar Tailwind
5. Peak Inflation
6. Fed Finally Done
7. Bonds, 60/40 Stabilized
8. Homebuilders Strong
9. Energy Prices Down
10. A Mega Comeback
11. Beat Rates/Guidance
12. Big Banks Steady
13. Artificial Intelligence
14. Buy & Hold

Cons:

1. Don't Fight the Fed
2. Regional Bank Stress
3. Tight Credit
4. Recessionary Indicators
5. Jobless Claims
6. Yield Curve
7. Debt Ceiling
8. Semis Weak
9. Mega-Caps Masking
10. Inflation Sticky?
11. TIAA
12. Seasonality
13. Geopolitics

Source: Bespoke Investment Group