ASAS CAPITAL
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WEEKLY NEWSLETTER

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Musings

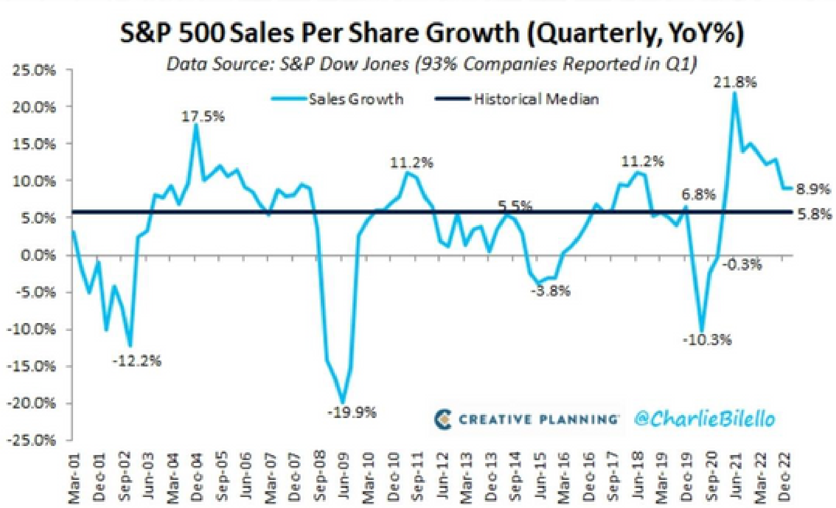
"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you want to go."

- Benjamin Graham

Last week in the markets

The stock market rally strengthened this past week. The Nasdaq composite and S&P 500 hit 2023 highs, with the Nasdaq 100 setting its best levels in more than a year. Market breadth continued to be very narrow, with gains led by AI-infused tech leaders such as Nvidia (NVDA), Advanced Micro Devices (AMD), Service Now (NOW), Google parent Alphabet (GOOGL), Snowflake (SNOW) and Palantir Technologies (PLTR).

The first-quarter earnings season is almost complete, as 95% of the S&P 500 companies have reported. Every S&P 500 sector except for utilities has beaten sales and earnings growth estimates.



Expectations, albeit significantly lowered, have been exceeded due to better-than-expected revenue growth, helped by resilient economic growth and pricing power, along with cost-control initiatives. Profitability pressures are likely to persist in the quarters ahead as the economy decelerates, but the decline in analyst estimates over the past six months may have captured a good part of the anticipated slowdown.

A report came out on Friday stating that Treasury Secretary Janet Yellen told bank execs that more bank mergers may be needed to resolve the regional banking situation. That hit regional bank stocks, though they rose strongly for the week.

Despite earlier optimism that a debt-ceiling deal could be reached by Sunday, the talks came to a halt on Friday afternoon after Republican negotiators blamed the White House for resisting spending cuts. However, negotiations resumed Friday night. We expect the debt-ceiling impasse will be resolved, but it may come down to the wire, as it has in recent years.

Another notable development this week was the rise in bond yields. The 10-year Treasury yield leapt 23 basis points to 3.69%, hitting a two-month high. The primary driver appears to be the expected increased supply of new paper once the debt ceiling discussions are resolved.

Hawkish commentary from Fed officials temporarily pushed the probability of one more quarter-point hike in June above 40%, from 15% a week ago. But the chance of another Fed hike fell again to 22% later Friday with Powell saying, "we can afford to look at the data". Absent a big surprise in the next inflation and jobs data coming out before the June meeting, it feels like the Fed is preparing to pause its rate hiking cycle.

Chart of the week

Liquidity has clearly been the biggest driver for the Nasdaq post-GFC.

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