Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

APRIL 2023 MARKET COMMENTARY

EQUITY & FIXED INCOME MARKETS COMMENTARY

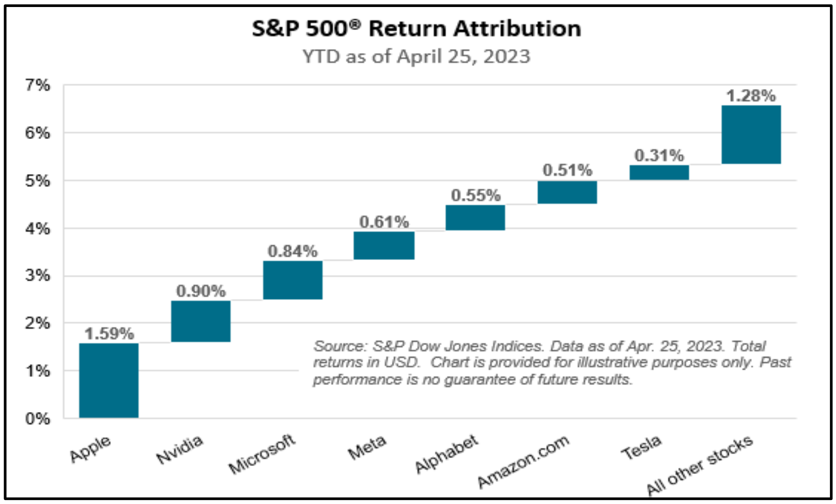
Stocks were mixed in April, with large-cap stocks once again doing better than smaller ones. The S&P 500 was up 1.6% and the Blended Equity benchmark was flat for the month, as the Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index fell -0.8% and -2.8%, respectively. The NASDAQ Composite Index was up only 0.1% for the month. International stock indices were also mixed, with developed markets up 2.4% and emerging markets down -1.3% in April.

NARROW LEADERSHIP

An important aspect of this year's stock market that is getting little to no press is that almost all the market's returns this year have come from just a very small handful of stocks - something we highlighted in our ***Q1 2023 Client Letter***. According to JP Morgan, this is the narrowest stock market leadership in an up market since 1994. This can be seen in the chart below, courtesy of S&P Dow Jones Indices, which reflects that over 80% of this year's S&P 500 6.60% return through April 25th came from a mere seven stocks – Apple, Nvidia, Microsoft, Meta, Alphabet (Google), Amazon, and Tesla, which were up an average of 38% during that time period. It is important to note that the seven aforementioned stocks were also among the worst stocks to own last year, as they were down an average of -46%.

If an investor did not own any of these seven stocks – or not enough of them (keeping in mind that Apple and Microsoft alone combine for a record 13.7% weight of the S&P 500) – it would be nearly impossible to outperform the S&P 500 this year. Fortunately, GFC has owned three of the stocks for much of the year – Alphabet, Amazon and Nvidia (which we just recently sold). Consider that while the S&P 500 was up 6.60% through April 25th (as mentioned earlier), an equal-weighted S&P 500 index was up a mere 1.56% for the same time period. Similar results can also be seen in the year-to-date returns through April 25th for the Mid-Cap S&P 400 Index (up 1.35%) and the Small-Cap S&P 600 Index (down -1.88%). Said another way, excepting these few previously mentioned mega-cap stocks, the broader stock market has otherwise gone roughly sideways so far this year.

It seems to us that the level of outperformance of these mega-cap stocks is getting to be a bit extreme. While further outperformance is always possible, it would be more attributed to speculation at this point than to any fundamental reason in our view. With the exception of Amazon and Alphabet, the other five stocks are getting to be very expensive following the considerable gains they have chalked up this year and are trading well above our estimation of their fair value. Meanwhile, there remain many stocks beyond these mega-caps that are currently undervalued and have the potential of meaningful upside, including those of our Core equity holdings.



S&P 500 – market capitalization weighted index of 500 leading publicly traded companies in the U.S.
S&P Midcap 400 – index of 400 companies that broadly represent companies with a midrange market capitalization between \$3.6 billion and \$13.1 billion.
S&P Smallcap 600 – index of small-sized companies that meet specific liquidity and stability requirements defined by Standard & Poor's.