

Convergence Commentary

April 2023 Market Recap

Quick Hits:

- CPI came in slightly cooler than expected
- Big Bank earnings beat expectations, easing fears after bank collapses in March
- All eyes are on generative AI as platform availability and capabilities expand

Market-Moving Highlights

CPI showed signs of faster-than-expected deceleration in March. Headline CPI decreased from 6% to 5% on a year-over-year basis, marking the lowest increase since May 2021. On a monthly basis, it increased 0.05% versus estimates of 0.2%. Meanwhile, core CPI (which excludes food and energy) stayed at 5.6%. As we noted in our previous market commentary, core CPI is known to be stickier due to the shelter component. However, March data for rent and owners' equivalent rent suggest that shelter costs are starting to decline. While core CPI remains stubbornly high, tighter credit, decreasing food and energy prices, and decreases in shelter costs should help cool inflation. Although there are still challenges ahead, the recent data provides some reason for cautious optimism about the outlook for inflation in the coming month.

After the Silicon Valley Bank collapse in March, big bank earnings reports in April were closely followed. Several big banks, including JPMorgan, Wells Fargo, BlackRock, Citigroup, Charles Schwab, Bank of America, and Goldman Sachs all posted an earnings beat, leading to a market rally. The biggest winner was JPMorgan, which was a performance enhancer to Large Value positions. The positive earnings report, like other banks, was largely driven by a higher interest margin. The interest margin is the difference between the interest earned by a bank on its assets (for instance, loans) and the interest paid out to its liabilities (such as deposits). The easing fear from the bank crisis was an encouraging sign for the markets.

Earnings season has begun, with about 50% of the S&P 500 releasing reports in April. Overall, 78% of companies have beat estimates by a median of 7%. Some analysts had low expectations for this quarter, quoting a slowing economy

amidst the rise of interest rates and credit tightening. The lower expectations contributed to the positive earnings reports, and the data suggests that the economy is not slowing down as fast as expected. This likely gives the Fed a reason to hike rates once again in May.

Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	5.11%	9.18%	(1.05%)	11.26%
Nasdaq Composite	4.40%	17.12%	(4.15%)	12.43%
Russell 2000	1.06%	0.89%	(6.35%)	3.96%
MSCI ACWI ex US	4.42%	8.94%	4.83%	3.04%
Bloomberg US Aggregate Bond	1.27%	3.59%	(0.93%)	1.20%

The major indexes traded sideways in April after a strong March. Investors weighed the effects of the banking crisis, a hawkish Fed, the hype over AI, and stronger-than-expected earnings. However, after Big Tech reported their earnings at the end of the month all of the indexes finished higher, adding to the great start of the year. Emerging markets performed well throughout the month, with a 4.42% gain. While the economy is slowing down more slowly than expected, the strong earnings performance means that the Fed is hiking again, possibly for the last time in May. The stock of the First Republic bank started tumbling again at the end of the month, reigniting some fears over the banking crisis. Federal regulators decided to put the bank for a bid, and a resolution will be announced on the 1st of May. Bank of America and JPMorgan are the main potential buyers.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Communication Services	7.21%	Industrials	1.81%
Real Estate	7.03%	Materials	3.60%
Financials	5.60%	Consumer Discretionary	4.35%

Initially, defensive sectors led the upward trajectory of the S&P 500 index in April, while several cyclical sectors slowed down after a strong start to the year. Many investors favored the defensive sectors due to concerns about recession risks. Some of the worst-performing sectors this year, such as financials, real estate, and energy had a reemergence. The performance of financials and real estate is encouraging to see, signaling confidence in the financial system. After Meta's staggering 15% gain after earnings, the communications sector ended up on top again.

What to Watch in May

5/2-5/3: Federal Reserve Meeting

The markets are expecting a 25 basis point hike and are pricing in a rate cut before the end of the year. This meeting will be closely watched by the market, and any indication of a higher-than-expected rate hike would come as negative news.

5/5: Employment Data Release

The consensus for unemployment is a slight increase from 3.5% to 3.6%.

5/10: April CPI Data Released

Inflation will remain to be closely watched, and it remains to be seen if the positive March reading is a change in momentum. The forecast for April's CPI numbers is 4.9% year over year and -0.2% month over month.

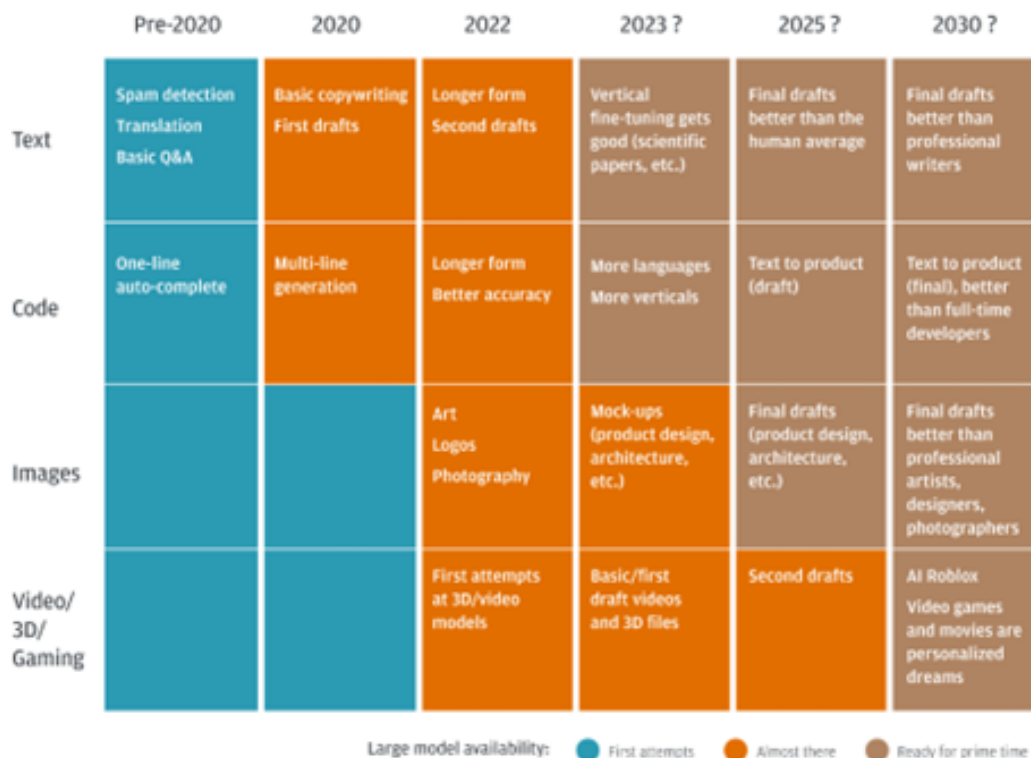
5/11: April PPI Data Released

The forecast for April's PPI is 2.4% year over year and -0.1% month over month.

Market Wrap

With the introduction of ChatGPT, there has been a growing interest in generative AI. Generative AI has tremendous potential to help companies generate content, automate tasks, and innovate processes, which has led to its popularity. According to Goldman Sachs Research, generative AI could boost global GDP by 7% annually. However, there are concerns that the rise of generative AI could lead to job displacement in fields such as programming and copywriting, as highlighted by JPMorgan. Despite these concerns, many sectors are expected to benefit from the increased demand for generative AI, particularly the cloud computing and hardware sectors such as semiconductors. These sectors have already seen above-average returns due to the expected increased demand for AI chips.

You might not have noticed, but this commentary was written with the help of ChatGPT. It not only sped up the process of writing but gave us ideas of how to better explain some concepts. We recognize the potential of AI, and we're excited to experiment with different ways to use it. The chart below shows the expected timeline of AI progression.



Source: [Seasid](#)

Sources

<https://www.jpmorgan.com/insights/research/generative-ai>

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