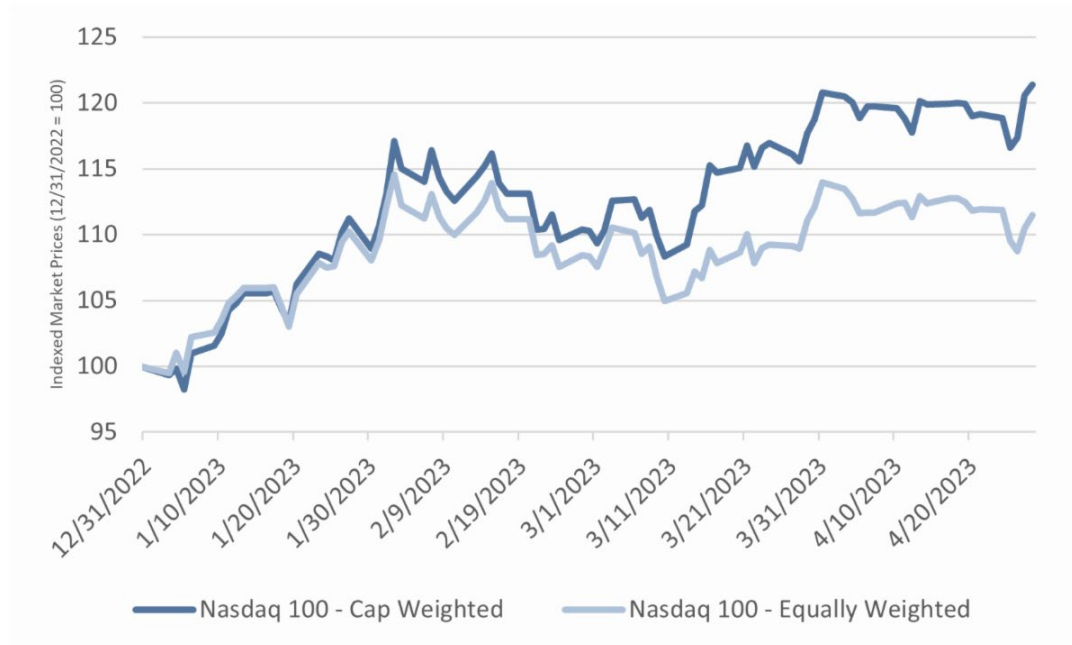


MARKET COMMENTARY

Fig. 1: Market leadership narrows as fundamental outlook continues to weaken

Nasdaq 100: Cap-Weighted vs. Equally Weighted



Source: Bloomberg, Mill Creek.

Year-to-date through April, US growth stocks have outperformed their value counterparts by a wide margin. Still, even within the technology sector, we have seen significant outperformance by just a handful of mega-cap stocks. After enduring a brutal and relentless sell-off in 2022, the sector has bounced back on the hope that inflation declines and the Fed will be forced to pivot and cut rates later this year due in part to strains within the banking sector. The breadth of the rally in the technology sector has narrowed significantly (Fig. 1) as the mega-cap names have outpaced their smaller peers. Investors seem to be betting that the larger companies will have better relative earnings this year, as many have already announced layoffs and other cost-cutting measures.

We remain skeptical of the rally in the technology sector and by growth stocks more broadly as we continue to hold an overweight position in value stocks with our global equity allocations. According to data compiled by MRB Partners, technology stocks trade at a 30% forward-looking premium to the broader equity market and valuations are just below their peak in late 2021. The sector seems to be priced to perfection, and there is little room for further multiple expansion. The forward outlook for both revenue and earnings is in a downward trend while profit margins remain elevated. The year-to-date rally has been driven by market sentiment, not improving fundamentals, and a meaningful upturn in earnings is necessary to justify current valuation levels. Despite the short-term pain of being underweight growth stocks, we remain steadfast in our belief that valuations and what you pay for a stock matters to long-term investors.

QUICK LINKS

- [May Update: Riptides](#)
- [Q1 2023 Private Equity Data: Down, but Not Out](#)
- [Losing Steam](#)
- [Q2 2023 Outlook: Red, White, and Overdue](#)

This week's contributor: Sam McFall, CFA, CAIA

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