

# Markets Set New Highs as Investors Embrace Risk

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Markets performed quite well in May with the S&P 500 climbing nearly 5% while the NASDAQ was up nearly 7%. The Dow Jones Industrial Average rose a bit more than two percent. The performance for the month led all three indices to new highs and the Dow closed above 40,000 for the first time in history on May 17th.

While technology stocks led the recent rally, other stocks contributed as well as investors continued to bet on the strength of U.S. consumers and future interest-rate cuts. In last trading session in May, Norwegian Cruise Lines (ticker: NCLH) jumped 7.6% after it raised

Leisure and hospitality added just 5,000 jobs versus 53,000 the prior month. The increase of 175,000 was less than economists had predicted, and job growth was also revised down by a combined 22,000 for March and February.

The growth rates and revisions all suggest an easing labor market, which spurred the stock market up since it appears the Fed's actions to slow the economy are working. Many investors are betting that a slowing economy will spur the Fed to cut interest rates sooner rather than later.

Furthermore, investors are jumping back into the market. US-based mutual and exchange-traded funds have attracted net \$172 billion of inflows so far this year versus the outflows seen during the past two years. Investors are embracing the narrative that the U.S.

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profit expectations and projected a strong future. Rivals Royal Caribbean Cruises (ticker: RCL) and Carnival Corp (ticker: CCL) also gained 4.1% and 7.3%, respectively. Cruise lines have been a strong leading indicator because they reflect the strength of consumers.

An early May labor-market report for April reported employers had continued to add jobs, albeit at a slower pace. More than half of the new jobs last month were in government, healthcare and social assistance — none of which contribute to long-term productivity growth.

economy will be strong enough to support current earnings and future growth.

Against this backdrop, skeptics argue that equity valuations have rarely been valued so highly by price to forward earnings and other measures, and yet still investors keep pushing stocks up. Of the 10 ETFs that have taken in the most money this year, just one is a bond fund.

With all the good news, there is evidence of potential market weakness. Nvidia's (ticker: NVDA) recent earnings release powered their stock forward nearly 20% in three days, but the usual widespread market rally failed to follow. Julian Emanuel, a managing director with Evercore (ticker: EVR), noted that a stock with a top-five weighting in the S&P 500 has never surged 20% in three days without the index ending higher over the same time. Essentially, the broader market ignored Nvidia, and it could mean the market is poised for a pullback, possibly around 10%, according to Emanuel.

There's also a lot of fiscal stimulus coursing through the economy as evidenced by the boom in jobs that depend on government spending. Annual federal budget deficits of nearly \$2 trillion aren't sustainable over the long term. At some point, likely soon, the U.S. will need an investment-based boom in the private economy to finance these government-financed jobs.

Still, good news is driving many parts of the economy and markets forward despite high valuations and other inevitable challenges. Given all the money the current administration is adding to the economy, the current path has the potential to continue through elections.

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