Improving Stock Market Breadth

Market breadth refers to the measure of the number of individual stocks participating in a particular market move. It is an essential aspect of stock market analysis that helps us to gauge the overall health and strength of a trend. In episode three of our 'Making Waves' podcast last month, as well as in many of our investment updates so far this year, we have spoken about the poor stock market breadth that has been seen in the United States, and the potential issues that could arise from this.

The Artificial Intelligence boom of H1 was a significant driver of gains in the US, with the so-called 'Magnificent Seven' (Apple, Alphabet, Microsoft, Amazon, Meta, Tesla, and Nvidia) seeing most of the S&P 500's gains from January to May. These seven names are split across the technology, communication services, and consumer discretionary sectors – which as can be seen below severely outperformed other sectors and basically dragged the S&P 500 higher over the first five months of 2023. This led to concerns among investors that the rally had become too concentrated and was potentially due for a pullback.

In the meantime, however, it has been encouraging to see the broad participation of every sector in the US stock market rally. Market breadth has undoubtedly improved lately, with sectors such as energy, materials, and industrials witnessing 14%+ growth during June and July. This compares to the circa 8.5 – 14.5% growth seen in the three aforementioned AI-related sectors.

Stock Market Rally Broadened in June, July

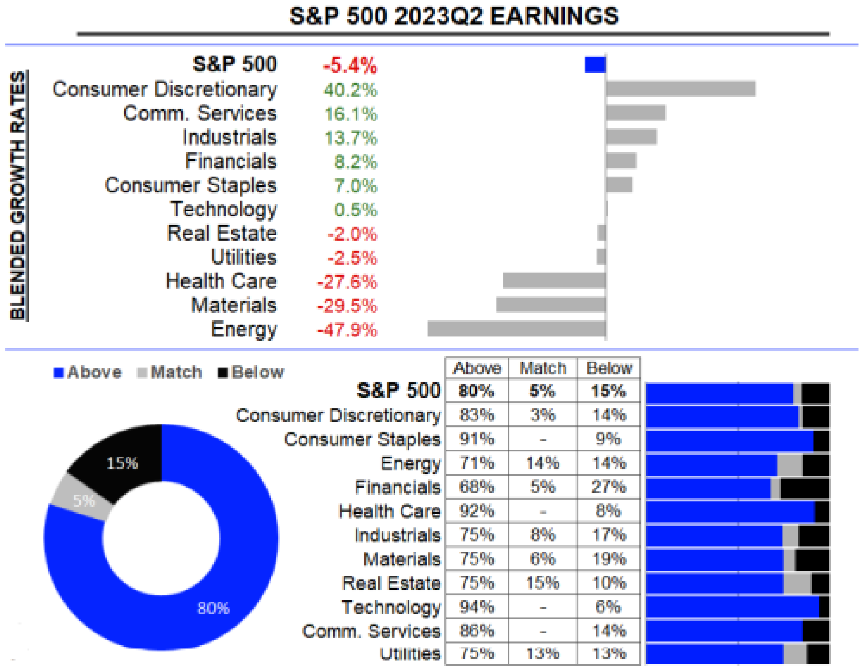
S&P 500 Select Sector SPDR ETF Returns

Ticker	Sector	Jan - May Return	June - July Return
XLK	Tech	32.02%	8.56%
XLC	Communication Services	29.69%	10.52%
XLY	Consumer Discretionary	17.38%	14.60%
XLE	Energy	-12.44%	14.22%
XLU	Utilties	-7.90%	3.30%
XLF	Financials	-7.13%	11.24%
XLV	Health Care	-5.90%	4.94%
XLB	Materials	-3.42%	14.26%
XLP	Consumer Staples	-2.52%	4.24%
XLRE	Real Estate	-2.41%	5.97%
XLI	Industrials	-1.38%	14.01%

Source: Yahoo Finance

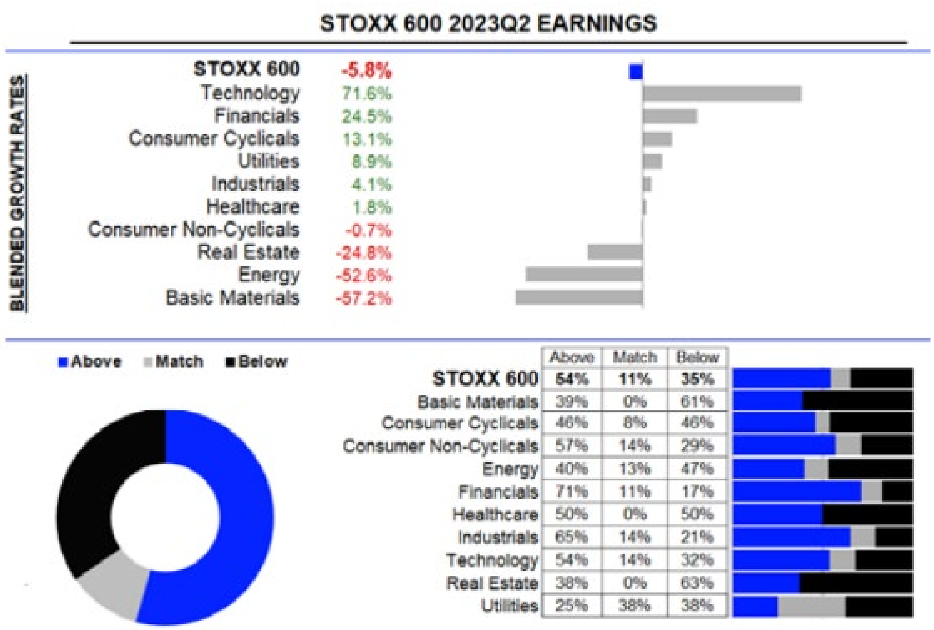
Corporate Earnings

- Coming into this earnings season, the S&P 500 was expected to see an Earnings Per Share (EPS) decline of around -6.5% y/y. The blended growth rate now stands at -5.4%.



	Above	Match	Below
S&P 500	80%	5%	15%
Consumer Discretionary	83%	3%	14%
Consumer Staples	91%	-	9%
Energy	71%	14%	14%
Financials	68%	5%	27%
Health Care	92%	-	8%
Industrials	75%	8%	17%
Materials	75%	6%	19%
Real Estate	75%	15%	10%
Technology	94%	-	6%
Comm. Services	86%	-	14%
Utilities	75%	13%	13%

- Coming into this earnings season, the EuroStoxx 600 was expected to see an EPS decline of around -8.2% y/y. The blended growth rate now stands at -5.8%.



	Above	Match	Below
STOXX 600	54%	11%	35%
Basic Materials	39%	0%	61%
Consumer Cyclicals	46%	8%	46%
Consumer Non-Cyclicals	57%	14%	29%
Energy	40%	13%	47%
Financials	71%	11%	17%
Healthcare	50%	0%	50%
Industrials	65%	14%	21%
Technology	54%	14%	32%
Real Estate	38%	0%	63%
Utilities	25%	38%	38%