Rochester Financial Services

Fee-Only® Financial Management Services

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Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
34,786	4,352	14,639	2,306	1.43%	34,809	$1,788	$75.19

Investment Strategy Report

Stocks Close At Record Highs As Interest Rate Fears Subside

As we turn the corner and head into the second half of the year, the markets seem to be on firm footing. After a lackluster month of May, the uptrend continued in June with the S&P 500 gaining 2.3%, In the continuing battle between growth and value, the dominance of growth resumed in June with the tech-heavy Nasdaq up 5.5% while the more value oriented Dow was basically flat. It seems that on a daily basis, growth and value are battling it out for market leadership, while the end result is that the market as whole heads higher. There is a general consensus among most market forecasters that with the strong economic recovery underway, there is not much that can get in the way of still higher stock prices.

However, when you look at specific year end targets among these analysts, there doesn't seem to be that much upside ahead of us for the next 6 months. JP Morgan's Marko Kolanovic on June 8th, with the S&P at 4,230, predicted that the next leg higher is here and forecast the S&P at 4,400 by year end. Well, that is now just 1% higher from here. Bob Brinker states in his July newsletter that he expects S&P 500 earnings in 2022 of $200. Putting a 22 P/E multiplier to that would result in an S&P 500 target of also about 4,400 at year end (since the stock market looks ahead 6-12 months). And economist Ed Yardeni, in early June, with the S&P at 4,200, was very bullish on the market and predicted that the S&P would end the year at 4,300, 1% below its current level. But he also said that he expected the S&P to hit 4,800 by the end of 2022. That would be a very respectful 10 plus percent return over the next 18 months.

It is very hard not to be bullish on this market with economic growth exploding higher. Look at the demand for housing, with homes selling for prices far exceeding their asking prices within days of being listed. Rental car prices are through the roof, if you can find a car to rent. And even airline fares, which not too long ago were ridiculously low, are now to back to their pre-pandemic levels, if not higher. Analyst Tony Dwyer points out that "snow mobiles and water craft are sold out". GDP growth for 2021 should come in at about 7% compared to 3% in 2019. The June jobs report released on Friday (7/2) shows that 850,000 new jobs were created in June vs. an expected 706,000. Bob Brinker stated that the Leading Economic Indicators (LEI) posted a strong increase in May. He added that 4.4 million new businesses were started in 2020, the largest number on record. "The current jobs market is the best in decades. The quit rate, which measures the number of workers who quit due to their confidence in getting a better job, is at the highest level in two decades. Record levels of pent-up demand should result in continued economic growth into 2022 as consumers unleash their spending power in the quarters ahead".

With this surge in economic growth, we are also seeing a concomitant rise in inflation, as defined by higher prices. The consumer price index shows an annual increase in prices of 5.0%, and a still high level of 3.8% with food and energy excluded. However, the Federal Reserve still feels that this rise inflation is transitory, arguing that the still elevated level of unemployment points to slack in the economy that needs to be addressed. The bond market apparently feels the same way. When the yield on the 10 year Treasury hit 1.75% on March 31st, investors expected the yield to continue to climb, on its way shortly to 2.0%, as inflation spiked. The opposite has occurred, as the yield now stands at 1.43%. This retrenchment in yields has apparently allayed investor fears of rising inflation and weak stock prices.

Steve Sjuggerud (StansberryResearch.com, 6/16) thinks that those investors who are afraid of this market and are selling stocks and buying bonds are making a mistake. He states that money is pouring into municipal bonds at one of the highest levels on record. From a contrarian view, his data shows that doing the opposite, staying in stocks, could lead to double digit gains over the next 12 months. The folks at Sentimentrader.com (6/29) state that based on their metrics, the stock market is overvalued. However, they say that this is not a "call to action", but rather a "call to pay close attention". "While the bull market could easily continue to push higher for some length of time, ... avoid the urge to get complacent". *Jeff Feldman*

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