| July 6, 2022 | Dow Jones | S&P 500 | NASDAQ | Russell 2000 | 10 yr Treas | Bitcoin | Gold | Crude Oil |
|---|---|---|---|---|---|---|---|---|
| | 31,038 | 3,845 | 11,362 | 1,726 | 2.91% | 20,312 | $1,739 | $98.54 |

# *Investment Strategy Report*

## ***After Another Brutal Month, Are There Signs Of Hope?***

While stocks escaped the month of May unscathed, thanks to a month end rally, investors were not so lucky in June as the heavy selling pressure continued. The S&P 500 did stage a 6.7% rally during the 3rd week of June, but the rally ended and stocks slid into the end of the month, with the S&P ending June down 8.3%. The index is now officially in a bear market, having fallen more than 20% from its all time high. And many individual stocks are down much more, with many stocks down anywhere from 50 to 80%. And the fear now is that the economy might enter a recession, some time this year or early next year. If that does occur, how much further will stocks fall? Is there any reason for optimism now?

At this point, even the most optimistic bull is probably getting ready to throw in the towel. Every hope that a rally would lead to a market rebound has turned out to be a false hope, a temporary rally that has given way to a resumption of the downtrend. So, should we make anything of the 3 day winning streak that stocks have begun the month of July with? It's a very modest rally, with the S&P 500 up 1.6%, although the hard hit Nasdaq composite is up a more convincing 3.0%. But have any of the fundamentals changed, enough to think that the rally has some substance to it?

Well maybe. To begin with, the yield on the 10 year Treasury, which hit a recent high of 3.48% on June 14th, dropped yesterday to 2.81%, before rebounding to 2.91% today. This drop is significant because arguably the biggest fear investors have now is that the Fed has let inflation get out of control and that the Fed will have to continue with a very restrictive monetary policy in order to curb it. And tight monetary policy can very easily choke off the economy and lead us into a recession. With interest rates beginning to reverse lower, the thinking now is that inflationary pressures are beginning to ease. Not only have interest rates dropped, but the price of oil has dropped about 20%, from a high of $122 on June 8th to today's price of $98, another sign that the global economy might be slowing. In addition, the price of copper, a key indicator of economic activity, has fallen over 20% in the last month. Also, the red hot housing market has begun to slow down, with drops in housing starts and a decline in existing home sales.

You might be thinking that these signs of a slowing economy might be a negative for stocks, but remember that the biggest fear for investors was that runaway inflation would cause the Fed to tighten monetary policy. With the economy beginning to slow on its own, the economy is doing the Fed's work. We might be in a situation in which bad news for the economy, a slowing to a more reasonable rate, is good news for the stock market.

Another thing to remember is that even if the economy does enter into a slowdown or an official recession, a lot of the damage to stocks has already taken place. As Jim Cramer said on his Mad Money show tonight, "Why am I so sanguine about this market? Because the damage already meted out has been severe. I don't like to hate a market that has come down this far. At these levels, many stocks already reflect a recession. If we merely get a stagnant economy that will then re-accelerate, (instead of a recession), then stocks can go much higher".

Throughout this market sell-off, I have pointed to sentiment indicators that have shown extreme negative sentiment, which from a contrarian viewpoint, usually points to positive stock market action. Thus far this year, this has not been the case, as the negative stock market momentum has taken precedence over the sentiment indicators. However, the selling pressure this year has been so extreme, and the resulting sentiment so negative, that should some positive news spark a stock rally, the resulting change in momentum could very well lead to a substantial market rebound. However, this being a mid term election year, stocks have very often found a bottom in late summer or early fall, leading to a 4th quarter market rally. If that's the case this year, stocks could muddle through the next few months before finding their footing, and investor patience might be tested for a while longer. *Jeff Feldman*