March 2, 2023

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
33,004	3,981	11,463	1,902	4.07%	23,513	$1,843	$78.01

Investment Strategy Report

Stock Rally Fizzles Out in February As Inflation Fears Resume

It would have been nice if the January surge in stocks and bonds continued in February, but it was not to be. For the month, the S&P 500 was down 2.4%, holding on to most of January's 6.3% gain. The stock market performance over the last month would be better appreciated once you realize that interest rates have surged since the beginning of February. The yield on the 10 year Treasury began last month in the 3.4 to 3.5% range. It now stands at 4.07%, a substantial gain in just 4 weeks. Despite this strong headwind of rising rates, stocks have somewhat held their own.

2022 was the year that fears about inflation and the resulting rise in interests rates pummeled both stocks and bonds. Thus far in 2023, despite the rise in rates and the recent pullback in stocks, the S&P 500 is still up 4.0%. Stock market bears insist that the January move higher was just a bear market rally. They contend that with the strong January payroll report that showed that 517,000 new jobs were created, the Fed will have to continue their restrictive monetary policy of raising rates higher and for longer.

However, the bears can't have it both ways. If strong economic data means that the Fed will have to maintain their restrictive policy for longer, than the strong data also means that the chances of a recession are diminished – the odds of a "soft landing" are increased. Another factor to consider is that once the effect of the Fed's monetary policy is fully felt – it is thought that it takes up to 18 months – inflation will be conquered and interest rates will fall. And falling interest rates can provide the stimulus needed to propel stocks higher, just as rising rates last year caused stocks to fall.

It has been 15 months since the bull market days of 2021, and investors are understandably very frustrated. It appears that the market bottomed last October, now that we are about 10% higher than those lows. However, just when it seems that an uptrend is in place, the market faces a setback. It happened back in December, and now in February. Of course, it's the market's job to frustrate as many investors as possible, and it is certainly doing its job. And investor sentiment is very negative. Anyone who listens to the "experts" on the business channels must be concerned about all the negative projections of economic uncertainty and predictions of new lows for the stock market.

There is data to support these views. The leading economic indicators have declined for 10 straight months. The inversion of the yield curve is one of the widest in history (when short term bonds yield substantially more than long term bonds). These indicators almost always signal an impending recession. However, there is also good news on the economy. The strong labor reports show that there is an underlying strength. Consumers are resilient and continue to spend. Companies have strong balance sheets and there are signs that inflation is moderating. And the high level of pessimism among investors is a bullish contrarian signal for the markets.

There is no question that over the short term, the markets can go either way. One factor in favor of the bulls, is that the move higher since October increases the odds that this is the beginning of a new uptrend. As Brett Eversole writes in StansberryResearch.com (2/9), "A crucial shift is taking place in the depths of the stock market. Despite the market's seeming downtrend, most stocks have stopped falling. More stocks are going higher than lower". He is referring to the rising advance/decline line that is signaling that a majority of stocks are moving in the right direction. Changes in this indicator have signaled changes in market direction in the past. Let's see how prescient it is now.

Qualified Charitable Distributions and Taxes – Those of you who made charitable donations from your IRA last year (QCDs), need to let your tax preparer know. It is the taxpayer's responsibility to note them as qualified withdrawals so that they are not included in your income, and therefore not taxable. *Jeff Feldman*