April 1, 2023	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
	33,274	4,109	12,222	1,797	3.49%	28,455	$1,988	$76.51

Investment Strategy Report

Stocks Survive Bank Failures (For Now) And Head Higher

What banking crisis? That's what investors must be thinking as stocks surged to end the month and the first quarter. If I had told you a month ago that we would have several banks fail in March and yet the S&P 500 and Nasdaq would be up 3.5% and 6.6% for the month and 7% and 16% for the quarter, you would have said, no way. Back in the beginning of March, the talk was all about the impending debt ceiling and possible US default. Combining that threat with the turmoil in the banking system and you would have told me to sell everything (and many of you tried to). Stocks did struggle through mid month, as news of the failures of Silicon Valley Bank and Signature came public. Yet swift action by the Fed, the Treasury, and the FDIC stabilized the system and gave confidence to investors. These actions allowed stocks to throw off those concerns and rebound 6.6% (S&P) and 9.7% (Nasdaq) from their mid March lows.

In last month's letter, I lamented that stocks faltered in February, not being able to continue the strong uptrend begun in January. However, I also mentioned that stocks had held up fairly well considering that interest rates had spiked substantially higher. I then added "And falling interest rates can provide the stimulus needed to propel stocks higher". I reinforced that message in the mid month letter I emailed to you on 3/15. The yield on the 10 year Treasury has fallen 58 basis points from the levels of a month ago and the yield of the 2 year Treasury is down to 4.04% from last month's peak of 5.07%. This interest rate decline has occurred despite the Fed's quarter point rate hike on March 21st. We are seeing interest rates fall and inflation pressures ease, and that is good for stocks.

There are plenty of other reasons to be bullish on stocks now. Yes, I know that the chances of a recession are high, given that the leading economic indicators have been negative for 11 consecutive months and the yield curve remains severely inverted (although this has improved over the past month). Investors need to listen to the market, and the market now is telling a different story. The analysts at Sentimentrader.com have painted a fairly rosy picture for stocks going forward. Here is a summary of their recent reports:

-1) Credit spreads have not widened (3/17) – Despite the banking crisis, the spread between yields on low vs. high credit quality bonds has not widened. "This suggests that the prominent players in the financial markets are not viewing the latest "crisis" as a four alarm fire".
-2) A significant number of technology stocks have a rising 200-day moving average (3/31) – cycling from less than 5% to greater than 75%. "A year later, technology was higher 100% of the time and so was the S&P 500".
-3) Small traders continue to make big bearish bets (3/29) – Despite the recovery in stocks from their October lows, the recent turmoil in stocks in mid March (due to the banking issues) has caused small (retail) traders to bet on a continued market decline. When these traders become this pessimistic, stocks usually do well.
-4) Among financial stocks, insiders are buying (3/28) – I mentioned in my 3/15 email message "When I see the price of stocks like JP Morgan and Goldman Sachs dropping despite having solid balance sheets, I think- once the fear subsides, these stocks will do well". It seems that the insiders at these companies think the same, as they have been heavily buying despite the recent volatility in their share prices. Similar buying sprees in the past have preceded impressive returns.
-5) Seasonality (3/28) – "The stock market has shown a tendency to advance during the late winter to early spring period. This trend reminds us to keep an open mind regarding the potential for a surprising stock market rally".

The analysts had Stansberry Research also feel that stocks should rally this year. Their main thesis is that when investors get scared and sell, stocks usually do the opposite and rally. Brett Eversole noted (3/22) that the most recent AAII survey showed that the percentage of bulls dropped precipitously, from a high of 60% in February to a low of 28% in mid March. That decline in bullishness "was the largest 5 week drop we've seen at any point over the past decade". "Similar extremes have led to fantastic gains over the following year", typically twice what normally is seen. *Jeff Feldman*