June 5, 2023

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
33,563	4,274	13,229	1,808	3.69%	25,630	$1,978	$71.84

Investment Strategy Report

Stocks Move Higher Despite Debt Ceiling Debate and Higher Interest Rates

Thus far in 2023, stocks have been able to take multiple "lickings" … and keep on ticking (like the old Timex watches). Stocks have suffered through several bank failures in March, the Fed continuing to raise rates and pursue their restrictive monetary policy, and finally the threat of a US default. Yet the markets have continued to move higher, with all of these concerns providing plenty of substance for the proverbial "wall of worry". For those of you confused about the market's resilience, you should know by now that the market never does what you or the majority of investors think it should do. It does its best to confound, as is its contrarian nature.

It has been almost 8 months since the S&P 500 bottomed on October 14th, and a little over 5 months since the Nasdaq bottomed on Dec. 28th. Those indexes have since shot higher by 19.3%, for the S&P, and 29.5% for the Nasdaq. Yet up until recently, many analysts were calling this uptrend a bear market rally, or a rally that needed to test those lows before moving higher. And as investors and analysts get religion and begin believing in this rally, the infusion of cash from the sidelines can help to sustain this market uptrend.

Tom Lee of Fundstrats believes that the market can continue to build on its gains. Many critics of this rally point out that most of the S&P's gains this year can be attributable to the gains of the index' top 5 tech stocks - a FANG led rally. But Tom feels that the rally is beginning to broaden out. And if you remove those top stocks from the index, the market is very reasonably valued at a P/E value of 15. If interest rates stabilize, he feels that the ratio can expand to 18, which would represent 20% upside to certain areas of the market. He also feels that the rate of inflation is coming down significantly, as evidenced by the latest Eurozone PPI data showing 1% inflation, down from 5.5% last month. Less concern about inflation would add more fuel for the stock rally. He has a year end target of 4,750 for the S&P 500.

The analysts at Sentimentrader.com have provided their share of studies over the past month, most of which have a decidedly bullish view on the market. On 5/15, Dean Christians pointed out that "More than 50% of sub-industry groups exhibited positive momentum over the last year after falling to a historically low level. Since 1942, when this occurred, the S&P 500 has never been lower a year later". On May 25th, Jay Kaeppel discussed the performance of 2 indicators that he follows (the S&P High Beta/ High Quality ratio and the Panic/Euphoria Model). They are showing that "the worst is over for stocks and more favorable price action may lie ahead."

And on 5/12, Dean Christians also addressed the question, "Does a narrowing in market leadership suggest an unhealthy market", as gains by the large technology stocks have provided most of the upside to this market. His conclusion: "other periods with a similar narrowing in market leadership have not produced a doom-and-gloom scenario for the S&P 500. More often than not, the divergence between sectors and the S&P 500 tended to resolve itself with an upward bias in price". And as Tom Lee pointed out above, a broadening out of this rally to other sectors of the market can lead to further gains to the market as a whole.

Back in November, I wrote the following: "2022 has something else going for it. This year is a mid term election year, and stocks have outperformed during these years compared to non mid term years, by a wide margin. Looking back from 1962 to the present, stock performance from November 1st of a mid term election year going forward was on average 7.3% (3 months), 15.1% (6 months) and 16.3% (12 months)". And it now appears, that after such a dismal year as 2022, stocks now in rebound mode can do even better than those averages. *Jeff Feldman*