May 3, 2023

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
33,414	4,091	12,025	1,739	3.40%	28,332	$2,039	$68.20

Investment Strategy Report

Fed Throws Cold Water On Stock Rally With Another Rate Increase

It's getting harder to be a stock market bull these days. First it was the debt ceiling deadline that dominated the financial news back in February. Then we had the bank failures in March, followed by the fall of First Republic this past week. With the bank failures out of the news *for now*, we were back to the looming threat of the debt ceiling being reached now only weeks away. You could throw in the high probability of recession some time in the next 6 to 12 months and you would think that the geniuses over at the Fed (yes, that was sarcasm) would have a little compassion and take their knees off the necks of the US financial system. While admitting that the US might enter a recession later this year, the Fed governors still feel that inflation is the bigger threat and that they must continue their vigil to kill inflation. They therefore raised the Fed funds rate ¼ point today to about 5.15%.

Market forces don't seem to agree with the Fed's viewpoint. With the 10 year Treasury yield falling from a high of 4.25% to 3.40%, and the 2 year Treasury yield falling from a high of 4.80% to 3.90%, falling interest rates are screaming that inflation is not a problem. Falling interest rates are deflationary, not inflationary. So with the Fed acting as the bull in the china shop, causing so much damage, is it time to pack up and get out of risk assets now?

Rather than letting our emotions (and the media) affect our thinking, let's see what the market forces are saying about the stock market's prospects going forward.

Back on March 28th, Marc Chaikin of Stansberry Research stated that "this situation represents a huge disconnect between investor sentiment and the market's actual performance. People seem scared, but stocks are telling a different story." "The S&P 500 recently triggered a bullish signal and the tech sector QQQ earned a very bullish rating. Put simply, the market is dripping with developing opportunities. But due to the continuous fear and uncertainty in the mainstream media, many investors are staying on the sidelines."

The analysts at Sentimentrader.com see various indications that the market's uptrend can remain intact. On April 3, Dean Christians wrote "The Sentimentrader Risk On/Off indicator reversed from a bearish to a bullish position, triggering a risk-on signal for stocks. After similar shifts, the S&P 500 showed a solid tendency to rally across all time frames. When the composite reversed rapidly (as it did recently), historical precedents looked even more bullish". Another analysis on April 3 stated that "The closest analysts interested in breadth have come to a holy grail is the Zweig Breadth Thrust, a rare and impressive signal that has worked for decades with no actual failures. After the multitude of bullish signals since October, the fact that it and other reliable breadth-based thrusts have triggered again is another good sign".

On 4/17, Dean Christians wrote that "A composite trend model for the S&P 500 reversed from a bearish to a bullish trend score, triggering a buy signal. After similar composite trend change signals, the S&P 500 rose 90% of the time over the next 6 months" He added on 4/20, that "The S&P 500 closed above its 10-day average for 21 consecutive trading days, triggering the second buy signal in 7 months. After similar price trend alerts, returns for the S&P 500 were excellent, especially if a signal occurred after a 1-year low". And yesterday (5/2) he confirmed the composite trend model's reversal to a bullish trend score and that after similar readings, the S&P 500 rose 91% of the time over the next 6 months.

Remember what I pointed out several months ago: 2022 was a year of rising inflation and rising interest rates and a down market. For 2023, we are seeing declining inflation and falling interest rates. The rising stock market that we have seen thus far this year can very well continue. *Jeff Feldman*