July 8, 2023

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
33,735	4,399	13,661	1,865	4.05%	30,272	$1,931	$73.67

Investment Strategy Report

After A Stellar First Half, Stocks Set To Pause Before Resuming Uptrend

Stocks continued to move higher in June. The S&P 500 and Nasdaq were both up about 6.5% for the month, resulting in first half performances of 15.9% for the S&P and 31.7% for the Nasdaq. These were the best first half performances since 2019 for the S&P and 1983 for the Nasdaq. The latter performance helped to juice the first half returns of our growth funds to from 23-35%. Stocks achieved these out-sized gains despite a substantial move higher in interest rates.

Strong economic data has resulted in the rise in interest rates from their lows in Mid May. The 10 year Treasury yield has climbed from a low on May 11th of 3.40% to its current yield of 4.05%. The 2 year Treasury has seen a steeper climb, from its May 11th low of 3.73% to its current yield of 4.95%. The rise in rates has caused a pause in the stock market advance in the first week of July, which can also be seen as stocks digesting their first half gains. Stocks don't go up in a straight line, and even the strongest uptrends need time to catch their breath. But we do need to keep an eye on interest rates.

As I have mentioned before, 2022 was marked by rising interest rates and fears of inflation, while 2023 had seen declining rates and lowered inflation expectations. Inflation is still seen as on the decline, but interest rates need to behave themselves in order for stocks to continue to move higher. The good news is that interest rates are rising because of strong economic and jobs data. The recession, that almost all analysts had predicted would be here by now, seems to be entirely avoidable, assuming that the Federal Reserve doesn't clamp down too hard with their restrictive monetary policy. No recession can mean that a major impediment for stocks will be lifted, with higher prices the result.

Tom Lee of Fundstrats was on CNBC this past Wed. (7/5) to reiterate his bullish view of the market, calling for the S&P 500 to hit 4,750 by year end (8% higher from here). He stressed that the consensus has been wrong this year. Calls for a recession have been wrong and S&P 500 earnings estimates of 180 appear to be low by about $40. His bullish case rests on inflation coming down, strong S&P 500 earnings growth, and the emergence of AI as a driver for growth. He added that the companies that cut costs, anticipating a recession, are now ramping up capital investments in their companies. When June CPI numbers come out later this month, he sees inflation coming down to the 3% level. And he continues to like FANG and technology, sectors that have boosted the returns of our portfolios this year.

Ed Yardeni, also on CNBC this past Wed. is a little more cautious, but he still sees the S&P 500 moving higher from here, with a year end target of 4,600 (4.6% higher from here). He feels that instead of experiencing an economy-wide recession, we experienced a "rolling" recession in certain areas of the economy that is now becoming a rolling expansion. His view is that there are plenty of opportunities for investors, such as in industrials and financials, and that without including the top 8 tech companies, the market has a very reasonable P/E ratio of 16.5.

Top analyst Greg Diamond of StansberryResearch.com (Ten Stock Trader) is taking a longer term view of the current stock rally and feels that there is plenty of more upside (June 26th commentary). He feels that investors are much too bearish now. "I can't remember a time where the majority of folks were calling for a recession, a crash, or some combination of the two, *every week*". "This bearishness means the market is going to push higher from here". "I believe that the Dow Jones Average will hit 50,000 soon". His reasoning is that "each large correction over the past 40 years led to big gains". "We could see a big rally after the 2022 correction". "So if history repeats itself, the Dow reaching 50,000 is likely a "chip shot" from here".

Finally, Dean Christians of Sentimentrader.com (7/7) looked at high yield (junk) bonds and remarked about the health of that market. "Whether equities or now high-yield bonds, the message from the market suggests the economy is not as bad as some would have us believe. With more high-yield bonds registering 52 week highs vs. lows, the outlook for a high yield bond index and the S&P 500 looks bright over a medium and long-term horizon. Historically, similar spread levels are a strong deterrent against an imminent recession or bear market". *Jeff Feldman*