December 3, 2023

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
36,246	4,595	14,305	1,863	4.23%	39,406	$2,092	$74.38

Investment Strategy Report

Falling Interest Rates Lead to Surging Stock Prices in November

The question I posed last month, "Will November Bring An End To The 3 Month Stock Slump" was answered with a resounding "yes" in November, as stocks had their best month in years. Fears of inflation, higher interest rates, and a restrictive Fed seemed to melt away as falling interest rates unleashed a fury of stock buying that pushed the major indexes 9-10% higher. The drop in interest rates also resulted in outsized gains in bonds, with some of our bond funds gaining as much as 4-5%, a year's worth of gains in a single month.

While the Federal Reserve governors continued to talk tough about inflation and possibly needing to do more work (raise interest rates) to tame inflation, investors were not listening to them. It was more a case of, to paraphrase Groucho Marx ("who are you going to believe, me or your own eyes"), who are you going to believe, the Fed or your own eyes seeing interest rates fall. With the 10 year Treasury yield now down to 4.23%, the Fed can hardly make a case that the current Fed Funds rate of 5.35% needs to be raised higher. It has become obvious to all investors that the Fed will soon have to begin cutting rates. And stocks loved that.

As I have often said, the best predictor of future market direction is the market itself, and for several months now, the market has been indicating that it wants to move higher. My best source of analysis for determining whether the recent run-up in stock prices is an indication of things to come, is the research from the analysts at Sentimentrader.com. Their report on Nov. 6th stated that "The grandaddy of breadth thrusts (the Zweig Breath Thrust) has triggered. Since 1950, the signal has had a perfect track record of gains across most sectors". Their bullish reports continued the next day when they reported "The Russell 2000 saw so many stocks cycle from oversold to overbought that it triggered its own Zweig Breadth Thrust. Other signals preceded solid gains for the index and even more so for the S&P 500". On Nov.8th, the report was titled "The Big Money is getting more bullish" and stated that "similar behavior showed gains in the S&P 500 going forward in every case". They continued with their optimistic reports on Nov.13th with a bullish view on technology, stating that "The Nasdaq 100 triggered a breadth thrust" with similar thrust signals accompanying bullish outcomes for technology. Even after stocks moved higher in November, the analysts remained bullish at month's end. Their Dec. 1st report declared that "The S&P 500 triggered a bullish alert when it reversed from below to above its 10-day average" with similar occurrences preceding "solid returns and win rates".

The analysts at StansberryResearch.com are equally bullish. On Nov. 6th, after a one week rally, Greg Diamond stated that "It Ain't Over" and added "I'm prepared for higher stock prices across the board over the next few months into 2024". And on Nov. 29th, Brett Eversole wrote that "Stocks Swing From Oversold to Overbought in Record Time", and when that happens, "history shows that the market tends to massively outperform the typical 7.9% annual gains we've seen since 1950".

It was only a few weeks ago that investors seemed content to earn 5% a year in ultra-safe money market funds. But 5% a year is equivalent to about 0.4% a month, which compared to the outsized gains in stocks and bonds last month, will leave investors wanting more. And when they leave the safety of money funds and put that money to work in stocks and bonds, that can be the fuel that keeps this rally going.

In addition to navigating the ups and downs of the stock market derby in 2024, investors will also need to know which horse to bet on, i.e, will growth in general and the mega-caps in particular be the big winners again going forward? Or will value stocks and /or small caps take the baton next year? Thus far in 2023, the tech-heavy Nasdaq is up 39% compared to the more value oriented Dow which is up only 9.4%. And the Russell 2000 has lagged even more, up only 7.6%. However, both value and small cap stocks have shown signs of life in the last few weeks, and since both of these sectors are far cheaper than some of the technology stocks, many investors are expecting that 2024 might see a changing of the guard once tax loss selling season is over. As always, being nimble might be the watch word as we enter the new year. *Jeff Feldman*

Happy Holidays and Best Wishes For A Happy and Healthy New Year!