

June 4, 2024

Dow	S&P		Russell	10 yr			Crude
Jones	500	NASDAQ	2000	Treas	Bitcoin	Gold	Oil
38,711	5,291	16,857	2,034	4.34%	70,314	\$2,358	\$73.10

Investment Strategy Report

Stock Rebound Continues, While Lower Interest Rates Help Bonds Join The Rally

After a pull back in April followed by a rebound the first week in May, the question remained: was the April correction a counter-trend move or the start of something worse. The market action since then seems to have answered the question. The April sell-off appears to have been a temporary set back as stocks have since moved to record highs. The S&P 500 closed at a record 5,321 on May 21st, the Nasdaq, at 17,020 on May 28th, and even the Dow, which has lagged the other indices all year, closed at a record 40,004 on May 17th. Stocks have come off of their highs since then, but the uptrend is still firmly in place.

Not only has the uptrend remained, but the market leadership of the Mega-cap technology companies has also continued. Analysts have been declaring the death of mega-cap growth for months now, ever since Apple topped out at \$198 a share back in mid December. It slid down to \$180 in early January, tried to recover, rising to \$195 by the end of January, but then continued its slide, falling to \$165 by April 19th. It has surged since then, closing today at over \$194, up 18% from its low. But of course the true winner of the Mega cap companies has been AI star, Nvidia, which is currently up 135% year-to-date. The leadership of technology companies has helped to propel growth funds to stellar returns this year, with 3 of our growth funds up over 18% thus far, compared to about 11% for the S&P 500.

Interest rates have also been behaving well as of late, and that is good news for bonds as well as for stocks. The yield on the 10 year Treasury note started the year at 3.87%. But fears of returning inflation and as a result, a more aggressive Fed, saw yields spike higher, reaching 4.71% on April 25th. The yield has since come down significantly, closing today at 4.34%. This has provided a tail wind for stocks and gains for bonds. While all stocks benefit from declining interest rates, the biggest beneficiaries should be value stocks in general and financial stocks in particular. Small cap stocks, which have a large percentage of financials in their index, should also benefit. While the outperformance hasn't occurred yet, once investors feel comfortable that this drop in rates is for real and inflation is on the retreat, they will turn to these stocks with more vigor. These stocks sport very favorable valuations, so when investors do swing their way, the potential for gains can be substantial.

I need to once again write about Tom Lee of Fundstrats, because his market forecasts have been spot on. This morning on CNBC, he made another one of his bold market calls, predicting that the S&P 500 would hit 5,500 by the end of June (a 4% move higher from here). It's hard to make calls for such short time periods, but Tom is confident that the inflation news this month will be favorable. He bases this on a jobs market that is cooling but not weakening. He also sees 2 components of the inflation index, shelter and auto insurance costs, coming down. The June 12th release of inflation data should indicate this. Add to this the fact that there is still \$6 trillion of cash on the sidelines, and that margin debt is still low, should propel stocks higher.

Ryan Detrick of the Carson Group is also optimistic about the market's prospects. Speaking on CNBC on May 24th, his main point was that strength begets strength. He pointed out that this has been the best start to an election year ever, and when the market is up 10% for the first 100 trading days of the year (which was on May 23rd), the market is up an average of 10% for the rest of the year. He sees an improving inflation picture for the second half of the year which will bode well for stocks and small caps in particular.

Those of you who are concerned about the upcoming election should know that for the 3 month period of June through August, stocks have shown gains 73% of the time during elections years vs. a 62% win rate during other years. This is research from Jay Kaeppel of Sentimentrader.com (6/3). Then again, we probably have never seen an election year like this one, so I'll end by saying that past performance does not guarantee future returns ☺ *Jeff Feldman*