Monday June 12, 2023

SUMMARY-

I. *S&P 500 now in a "bull market?"*

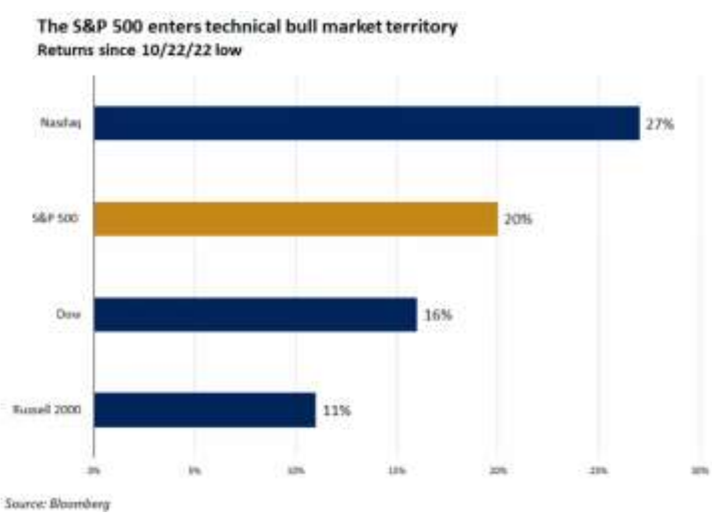
II. *Market shows additional signs of broadening.*

III. *This week's CPI data and FOMC meeting to set tone.*

IV. *Investor emotions driving FOMO trade.*

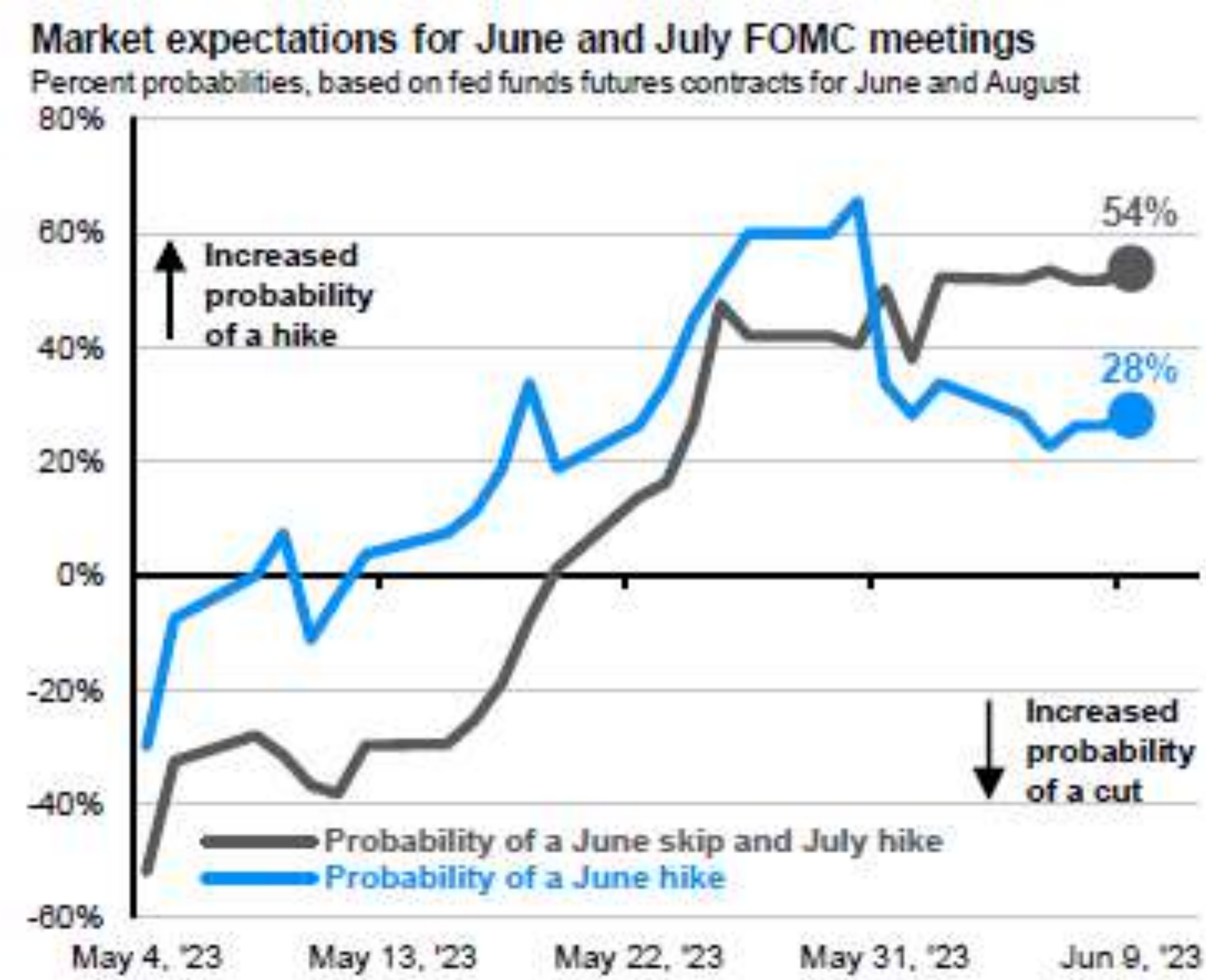
Good afternoon:

With the debt ceiling debate now resolved, markets continued to drift higher last week, adding less than ½% to major equity averages. The S&P 500 is now up about 20% from last October's low despite seven months of aggressive rate hikes, regional banking turmoil, and continuous calls for imminent recession from many of the biggest voices on Wall Street. However, concerns about the sustainability of this budding bull market have many investors and market strategists torn.



On one hand, a 20% move higher from a low point meets the technical definition of a “bull market.” Some may see crossing this threshold as an all-clear signal that markets are on their way to higher levels. In this case, questions regarding the validity of this “bull” are still widespread. We have continued to cite the outsized gains this year in a very small number mega-cap tech stocks and the market’s need to broaden out. Remember, since indices like the S&P 500 are weighted to the size of each company in the index, the majority of this year’s gain is attributable to less than ten of these very large stocks. Recent instances of outperformance of both value sectors and small caps will need to continue before more analysts will believe this is a true bull market. Last week’s gain of 1.92% by the small caps in the Russell 2000 illustrates the value appeal of previously unloved areas of the market.

This will likely prove to be an important week for both the market and the economy in the near term. Updated inflation figures will be released before markets open tomorrow when the U.S. Bureau of Labor Statistics reports May CPI data. This final piece of information will potentially have an impact on the Fed’s decision on Wednesday at its FOMC meeting. Even though current expectations suggest a pause rather than another hike, a hotter-than-expected CPI number could certainly alter that result. Last week’s surprise hike by the Bank of Canada may very well be repeated by our Fed in the coming months if inflation fails to continue its descent towards their 2% target. As this chart illustrates, expectations about the Fed’s next moves continue to vacillate significantly in recent weeks as futures traders try to predict the near-term rate environment.



Source: J.P. Morgan Asset Management

While the Fed sees the strong labor market, resilient consumer, and remaining pent-up demand for experiences as inflationary, and thus concerning, it surely recognizes the lagging effect on growth their nearly 16 months of aggressive hikes will produce. Tighter commercial lending in the wake of several bank failures also further dampens economic growth potential. Therefore, we believe the Fed is likely to pause, or at least skip hiking this week, but refrain from declaring an end to this tightening cycle while they closely monitor subsequent inflation and economic data to guide their next moves.

Although it might be somewhat premature to fully trust this year's market performance, particularly within the top gaining sectors, history shows that some of the best days happen during the early phase of a new up cycle, arguing against trying to time the pullbacks. We view any potential renewed phase of volatility in equities as an opportunity to position for a more sustainable rebound that is likely to have broader shoulders than what we have currently seen so far this year. We recommend our clients stay close to their strategic, long-term allocation while remaining well-diversified within their portfolio and resist the temptation to make concentrated bets or engage in market-timing.

As cash equivalents like money markets continue to have attractive yields for sidelined capital, this year's double-digit positive moves in equities may be starting to prompt fears of missing out (FOMO) in some investors, particularly institutional investors. We continue to see the contradictory effects of logic and emotion drive decision-making in every market cycle. Committing to being a long-term investor, rather than a short-term trader, may ease some of the anxiety that comes with historically typical market volatility.

Have a great week!

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

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