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Quote of the Week:

...never go against the long-term trend. - Mark Minervini

Market Observations:

Admin Note: I started a new publication which explores my views on retirement investing. Feel free to sign up here.

Last week's CPI (aka inflation) report came in above expectations which means more inflation than expected. From what I read, people are expecting the Fed to cut rates multiple times this year. If inflation keeps running above expectations/target, these rate cuts may not happen to the degree that people expect (or at all).

On the back of all of this, bonds have been falling and rates have been rising. These moves seem to be driving money back into the US dollar at the expense of most non-US currencies. And while most stock indexes remain near recent highs, they are looking a bit wobbly.

A look at stock sectors continues to give cause for concern as YTD, money is going into defensive sectors (healthcare, consumer staples, etc.) while it is coming out of most other sectors and, sometimes, aggressively. Semiconductors, oil & gas equipment, and transports are all down around 8% year-to-date.

While the factors above are raising red flags – I do think things needs to be put in context at least as it relates to stocks. Larger trends in stocks remain up and indexes are still close to highs. The YTD moves would be more concerning if the 4th quarter of 2023 hadn't been so strong. Said another way, volatility tends to cluster and tends to be a two-way street – you rarely get big up moves without decent sized pullbacks. So, some pullback in 2024 isn't a huge surprise.

Beyond that, the second half of 2023 reminded me why the old timers advise to stick with the long-term trend. Things were looking pretty dicey as we entered November, but the long-term trend was still up at that point and sticking with the long-term trend paid a lot more than trying to catch the wiggles and waggles. In aggregate, I remain cautiously optimistic on stocks.

As it relates to interest rates and Fed cuts, when you focus on the FOMC statements only (like I do) it can be a bit puzzling on how people expect so many rate cuts in 2024. The Fed continues to say they will respond to incoming data. By expecting a lot of rate cuts, people seem to be predicting falling inflation and hard economic times. FWIW, I've never had much luck predicting in markets – I have had luck sticking with price trends, using stops, and adhering to a plan. Nothing I've seen in 2024 makes me want to abandon my approach.

Stock Market Indicators:

Trend: The trend in stocks is up.

Stock Volatility: Volatility has declined to levels that support owning stocks.

Interest Rates: Short-term rates are around 5% which is compelling to many. However, stocks put up a banner year in 2023 so the money market crowd is probably feeling some FOMO which could prompt buying on any stock market rally.

The Fed: The Fed has shifted the language a bit indicating policy will be on “wait and see” mode. While rate increases could resume, for now this is a positive change in favor of owning stocks. You can find the latest FOMC release here.

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