Capital Ideas

February 6, 2024

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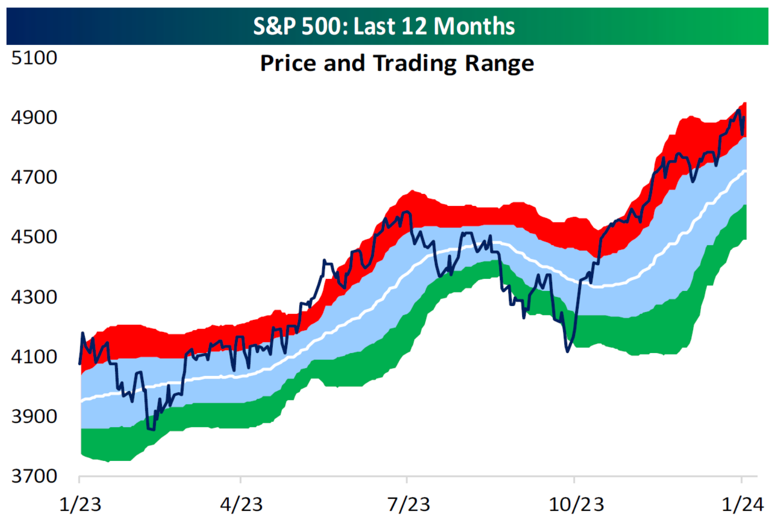
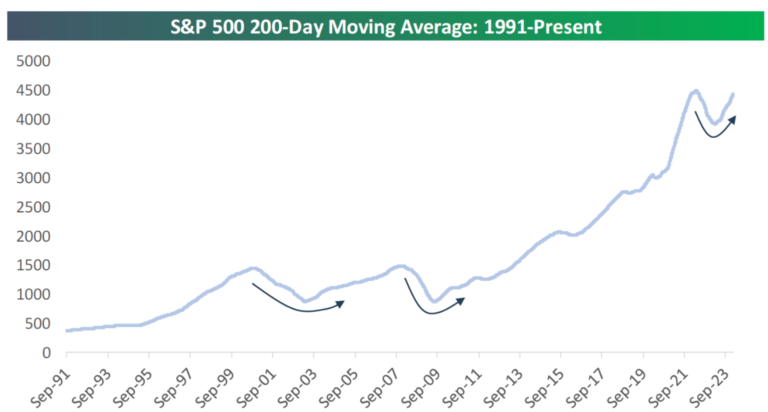
Dear Reader,

So far, the rally has continued into 2024. While off to a sluggish start during the first few trading days following New Year's, stocks quickly resumed their march higher with the S&P 500 notching a 1.7% gain during January. The index has now surpassed its previous high watermark reached in early 2022 to establish new highs.

On January 31, stocks sold off sharply, posting their worst daily return in four months, following what has basically been a straight line higher since the recent October lows. The sell-off was driven by comments from Federal Reserve Chair Jay Powell that many believed suggested interest rate cuts might not be coming as quickly as expected. Given the roughly 20% rally occurring over the last three months, the market was due for at least a modest pullback and the Fed provided the catalyst. However, stocks have since rallied sharply in early February and very quickly more than erased those losses to post new highs.





Source: Bespoke Investment Group

We believe the current bull market is likely to continue for a number of reasons. Many of the largest technology stocks, such as Microsoft and Nvidia, which have fueled the market's run since late 2022, are likely to continue to exhibit significant growth. This should drive elevated earnings growth for the overall market which supports higher stock values. In addition, the Federal Reserve now appears likely to begin cutting interest rates later this year, meaning monetary policy should be a tailwind for stocks versus as a significant negative during the 2022/2023 aggressive rate hiking cycle. Furthermore, election years when an incumbent President is on the ballot generally produce strong market returns. In fact, since 1952, the S&P 500 has posted a positive return during every year when a sitting President is running for re-election with an average gain of 12.2%. This is partly because the incumbent administration is incentivized to enact policies that stimulate the economy to ensure a recession doesn't hit as voters head to the ballot box.

Six Largest S&P 500 Stocks: Most Recent Earnings

Stock	Company	EPS	Revenues	2024 Est. Revenues ($, Bln)	2025 Est. Revenues ($, Bln)
AAPL	Apple	Beat	Beat	$394	$416
AMZN	Amazon	Beat	Beat	$640	$717
GOOGL	Alphabet	Missed	Beat	$286	$328
MSFT	Microsoft	Beat	Beat	$244	$278
META	Meta	Beat	Beat	$156	$175
NVDA	NVIDIA	Beat	Beat	$59	$94
			Sum	**$1,779**	**$2,008**

Source: Bespoke Investment Group

With the 2022 bear market now in the rear-view mirror and finally setting new highs after two years, we believe the most likely path for stocks from here is higher. Following the 11 bear markets that have occurred since 1957, stocks have produced positive returns during the subsequent one, five, and ten year periods after recovering to establish new highs with only one exception, which is the period that included the financial crisis of 2008.

Returns From New All-Time Highs After a Bear Market

Peak	Trough	% Decline	New Highs	+1 Year	+3 Years	+5 Years	+10 Years
7/15/1957	10/22/1957	-20.7%	9/24/1958	17.3%	47.0%	68.5%	183.3%
12/12/1961	6/26/1962	-28.0%	9/3/1963	21.1%	17.5%	17.5%	108.5%
2/9/1966	10/7/1966	-22.2%	5/4/1967	14.4%	-5.2%	44.8%	54.3%
11/29/1968	5/26/1970	-36.1%	3/6/1972	7.8%	-14.6%	13.2%	66.4%
1/11/1973	10/3/1974	-48.2%	7/17/1980	20.5%	71.8%	115.0%	377.3%
11/28/1980	8/12/1982	-27.1%	11/3/1982	27.9%	62.9%	131.1%	354.8%
8/25/1987	12/4/1987	-33.5%	7/26/1989	6.5%	35.4%	54.8%	396.5%
3/24/2000	10/9/2002	-49.1%	5/30/2007	-6.7%	-23.9%	-4.5%	95.5%
10/9/2007	3/9/2009	-56.8%	3/28/2013	21.9%	39.8%	86.8%	217.4%
2/19/2020	3/23/2020	-33.9%	8/18/2020	31.2%	35.0%	???	???
1/3/2022	10/12/2022	-25.4%	1/19/2024	???	???	???	???

Source: New All-Time Highs After a Bear Market - A Wealth of Common Sense

Data: Ycharts (my calculations)

While we remain constructive on the near-term path for the market, this is not to suggest there are no concerns on the horizon. Tensions in the Middle East remain elevated, which threatens global security and raises the potential for energy price shocks. In addition, continued economic weakness in China, the world's second largest economy, has the potential to reduce demand for goods and services in the aggregate across the globe. While there will always be reasons to worry, and short-term market volatility comes and goes, over the long-term stocks eventually climb this wall of worry to reach higher levels, rewarding those with the patience to remain invested despite the recurring negative headlines.

As we became more positive regarding the market's prospects last year, we have been gradually putting your excess cash to work while also rotating across positions within your portfolios. We continue to favor companies with strong balance sheets and recurring cash flow, which reduces the need to borrow in today's higher rate environment, as well as higher growth prospects. Please contact us directly with any of your questions or concerns.

Sincerely,

CJ Brott

Karen Burns

Andrew Kerai