THE BUOYANCY OF POSITIVE SENTIMENT

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PRIVATE WEALTH MANAGEMENT

Welcome to March! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all in an attempt to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.

Stocks picked up right where they left off in January and continued their march higher in February, and at a pace more than triple that of the preceding month. Through the end of last month, the S&P 500 was up +6.3% and off to its strongest start since 2019[1]. Were the market to maintain this accelerating momentum, the S&P could see a +50% year. Certainly, stranger things have happened, but we'd be quite surprised.

Drawing from historical data since World War II however, years that began with at least a 6% gain in the first two months went on to experience an 11.9% gain on average by year-end. Even more encouraging is that only one of those years (1987) saw a decline in the final ten months[2]. So even though a 50% gain may be wildly unrealistic, our optimism remains rooted in historical precedent.

We believe the engine behind the market's recent advance is a marked improvement in sentiment surrounding the economy in general and stocks in particular. However, it's crucial to remember the fickle nature of sentiment, as excessive optimism can be a contrarian indicator and a bad omen for stocks. But we don't believe we're there yet. More than anything, we believe the current uptick in sentiment stems from a growing realization amongst economists, strategists, and CEOs that the Federal Reserve Bank's policy measures may actually result in the elusive "soft landing" and that the economy might not stall into recession after all.

Over the past 18 months, economists surveyed by the Wall Street Journal have steadily revised down the probability of an economic recession from at least 50% to 39% currently, underscoring the prevailing optimism. The outlook for interest rates has evolved significantly since the beginning of the year as well. Initially projecting seven rate cuts in 2024, the consensus now anticipates only four, thanks to robust inflation and employment reports in February.

In sync with this positive sentiment, CEOs are increasingly optimistic as well. A February survey by The Conference Board revealed that corporate executives are the most upbeat they've been about their companies' prospects since 2022, an outlook that bodes well for corporate profits growth.

We can't forget the impact of a rising stock market on individual investor sentiment either. The National Bureau of Economic Research concluded that for every dollar increase in stock market value, consumer spending increases by nine cents (some studies have actually calculated it as high as 15 cents). Since last October's lows, the S&P 500 has added $9.8 trillion in market value (through 2/29/2024), suggesting an additional $880 billion in consumer spending. In an economy that is two-thirds consumer-based, this is a very big deal.

Yet, notwithstanding our positive outlook, we've been advising our clients of the possibility of a pause at some point this year for the market to digest its gains. Whether such a pause is imminent or unfolds down the road, perhaps influenced by the upcoming elections, a resurgence of inflationary pressures or geopolitical tensions, it all remains to be seen. The fact is, corrections are intrinsic to market dynamics and occur for a multitude of reasons – and sometimes for no reason at all – but more importantly, they cannot be predicted with any consistency nor traded with any meaningful success. Despite this, it's difficult to turn our backs on a market firmly in an uptrend and enjoying the buoyancy of improving sentiment, so we reaffirm our belief that holding stocks remains the prudent course of action.

As always, there is more to come.

[1]Ned Davis Research [2]Birinyi Associates

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