Weight of the Evidence

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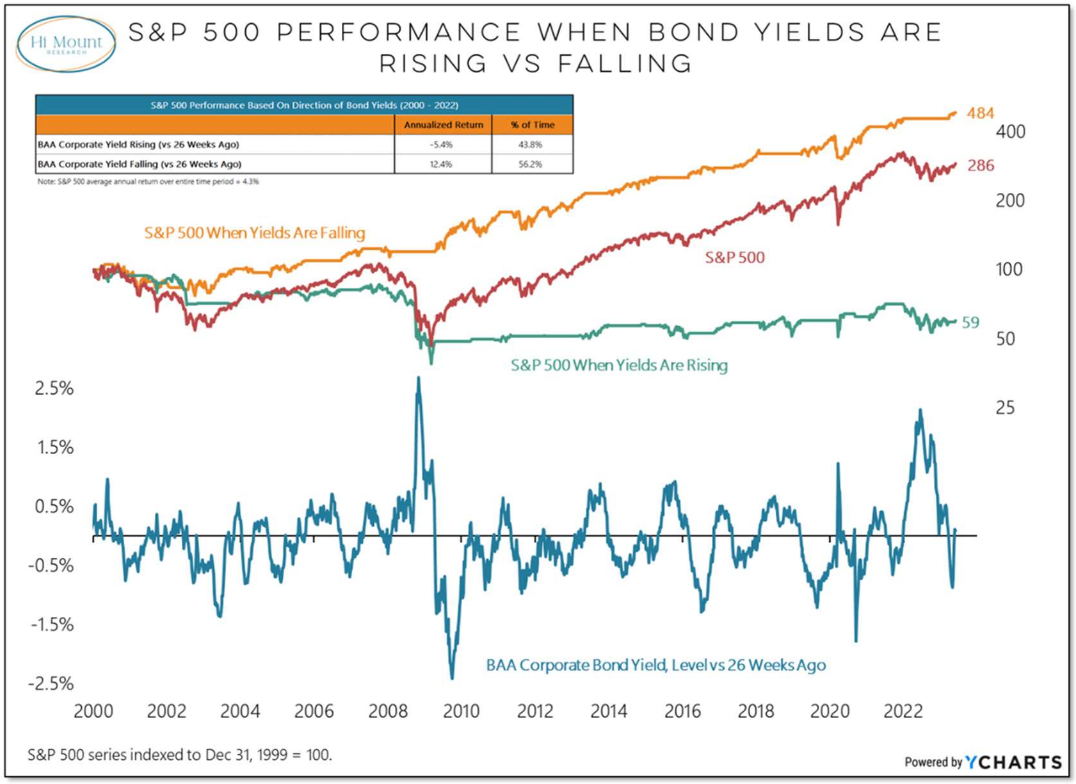
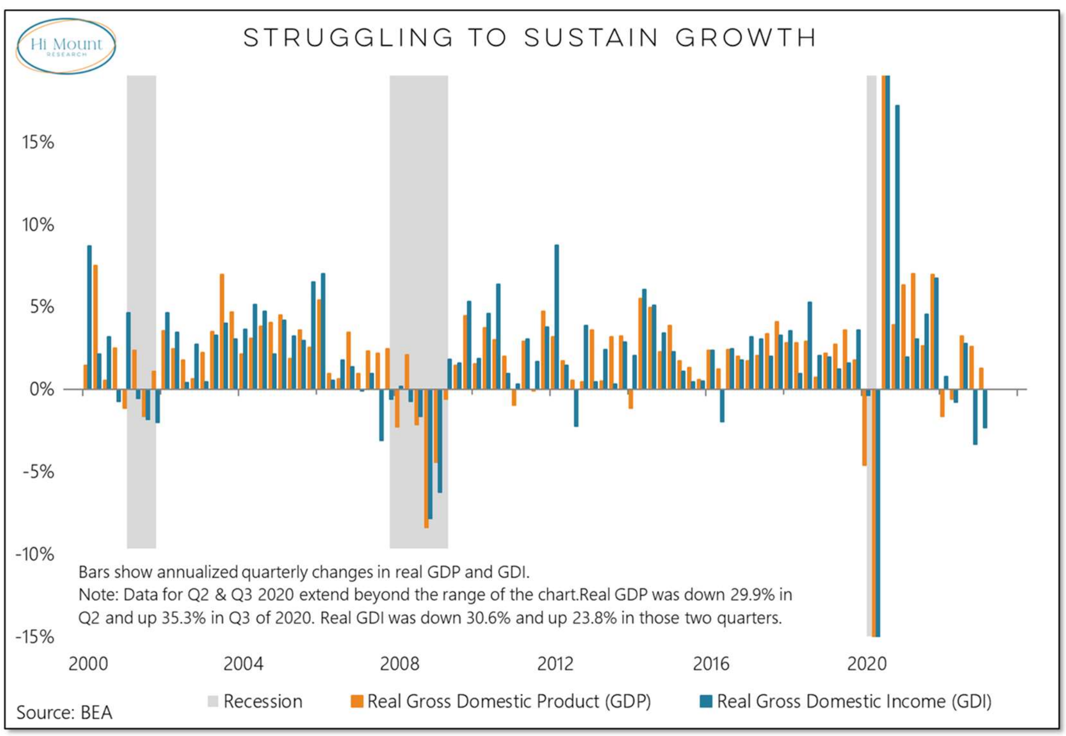
Cyclical Weight of The Evidence: -2 (Cautious)

RALLY NEEDS SUPPORT

June 7, 2023 – Key Takeaway: Index-level gains provide the veneer of a robust rally. Weighing the evidence, however, suggests more risk than opportunity in the market right now. Macro conditions remain a challenge even if widespread deterioration is not being observed. Bonds are beginning to realize that the Fed is serious about its intention to keep rates higher for longer (and show that it learned its lesson from the premature pivot in 2019). From a market perspective the absence of strength beneath the surface leaves index-level gains sitting on a shaky foundation.

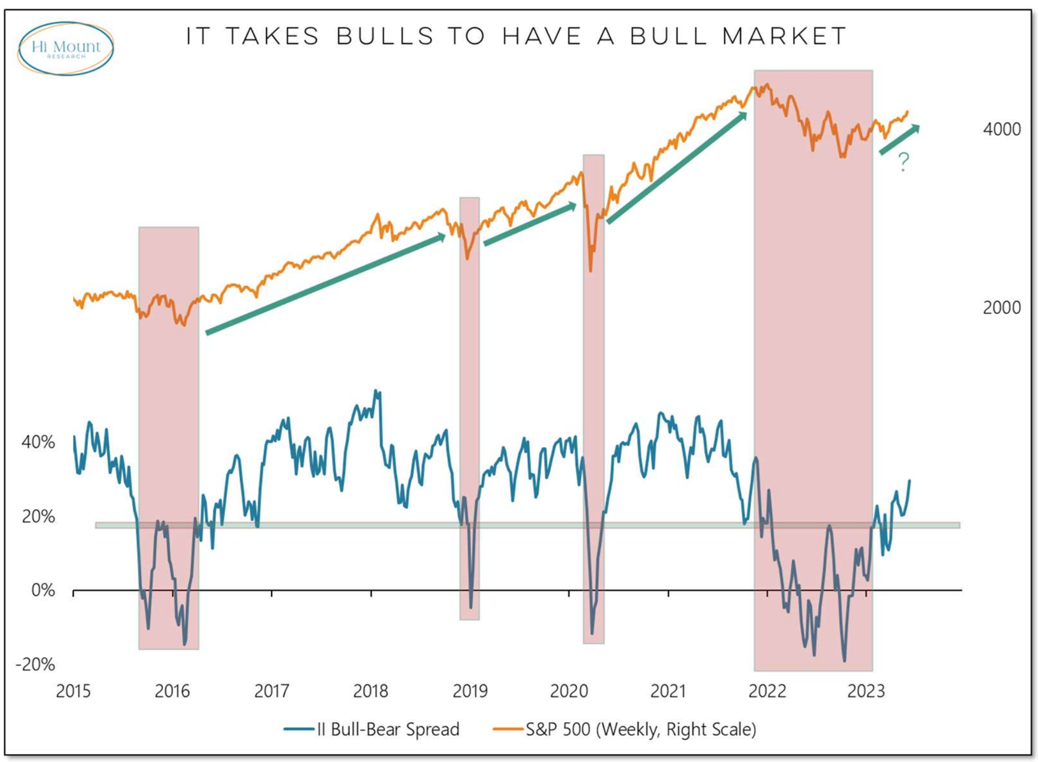


Liquidity: Bond yields have resumed their rise as the market prices in more Fed tightening. Stocks tend to struggle when 26-week momentum in corporate bond yields are positive.

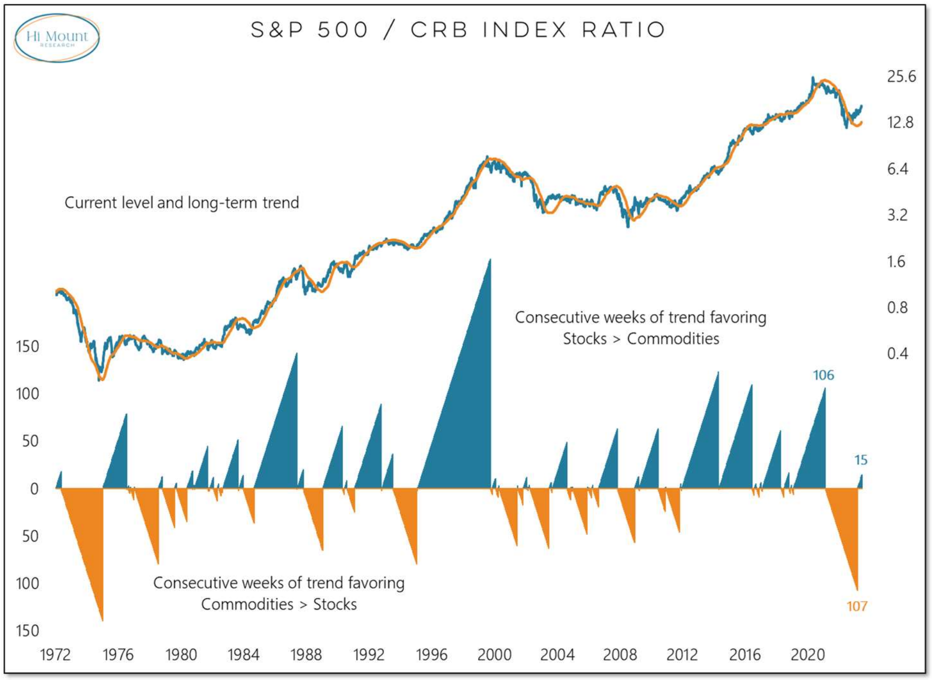


Economic Fundamentals: Hiring remains robust but from both a production and an income perspective, the economy is struggling to sustain growth. In only 1 of the past 5 quarters have both GDP and GDI expanded.

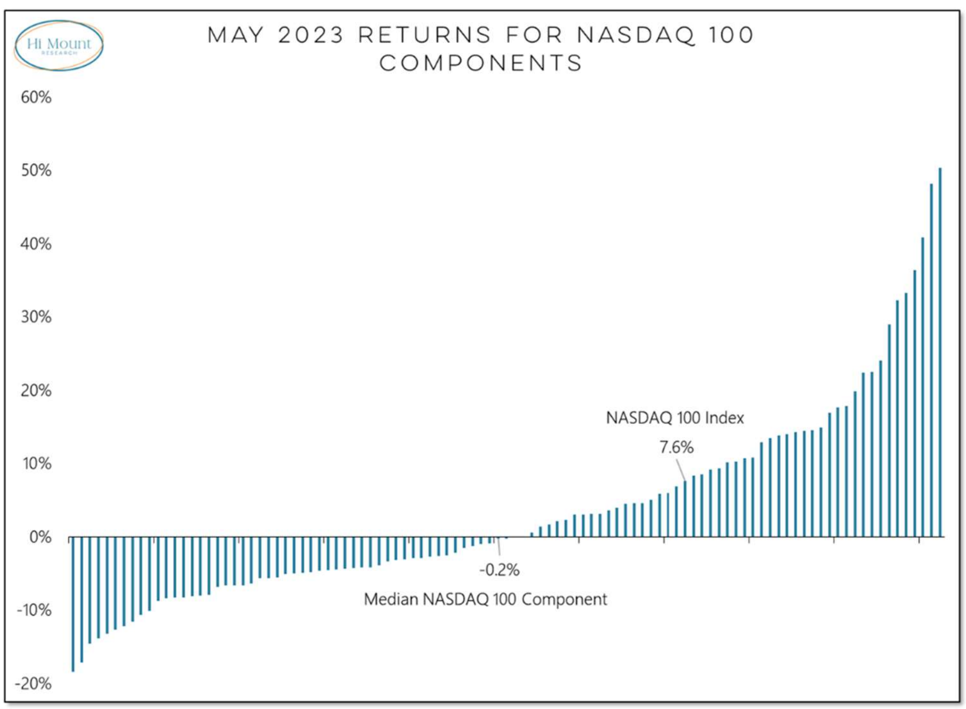
Valuations: From a valuation perspective, there is a lot riding on elevated earnings expectations being hit. This could be a challenge as the earnings revision trend looks poised to roll over.



Sentiment: Advisory services optimism is expanding but not yet excessive. The II bull-bear spread has risen to its highest level since November 2021 and is above the threshold that has produced all the net gains for the S&P 500 since 2015. It bulls to sustain a bull market.



Market Trends & Momentum: Index-level trends are improving on an absolute as well as relative to both bonds and commodities. The ACWI is at a new high versus bonds and the S&P 500 is 15 weeks into an up-trend versus commodities. Commodities are out of favor right now, but don't take them out of the asset allocation conversation.



Breadth: The NASDAQ 100 was up big in May, even as the median component was down on the month. The generals are leading, but so far the army has been reluctant to take the field. Bull market prospects improve if that dynamic changes.