



Weight of the Evidence

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Willie Delwiche, CMT, CFA
Investment Strategist @ Hi Mount Research

Cyclical Weight of The Evidence: 0 (Neutral)

IMPROVING LIQUIDITY & EXCESSIVE OPTIMISM

January 9, 2024 – Key Takeaway: Improving financial market liquidity (in the form of bond yield momentum rolling over) has been offset by excessive investor optimism and other sentiment headwinds. Market breadth is strong and supportive, but stocks are neither unloved nor underowned.

Macro Factors (What Could Happen):

FINANCIAL LIQUIDITY



Bond yield momentum rolling over provides a liquidity boost but Central Banks remain more foe the friend for stocks.

ECONOMIC FUNDAMENTALS



One quarter of all the jobs created last year were in the government sector while the average workweek in the private sector is falling.

VALUATIONS



Stocks are priced at premium valuations on top of elevated earnings growth expectations for the coming year.

Market Factors (What Is Happening):

SENTIMENT



Investor optimism has surged to multi-year highs and long equities remains the crowded trade.

MARKET TRENDS & MOMENTUM

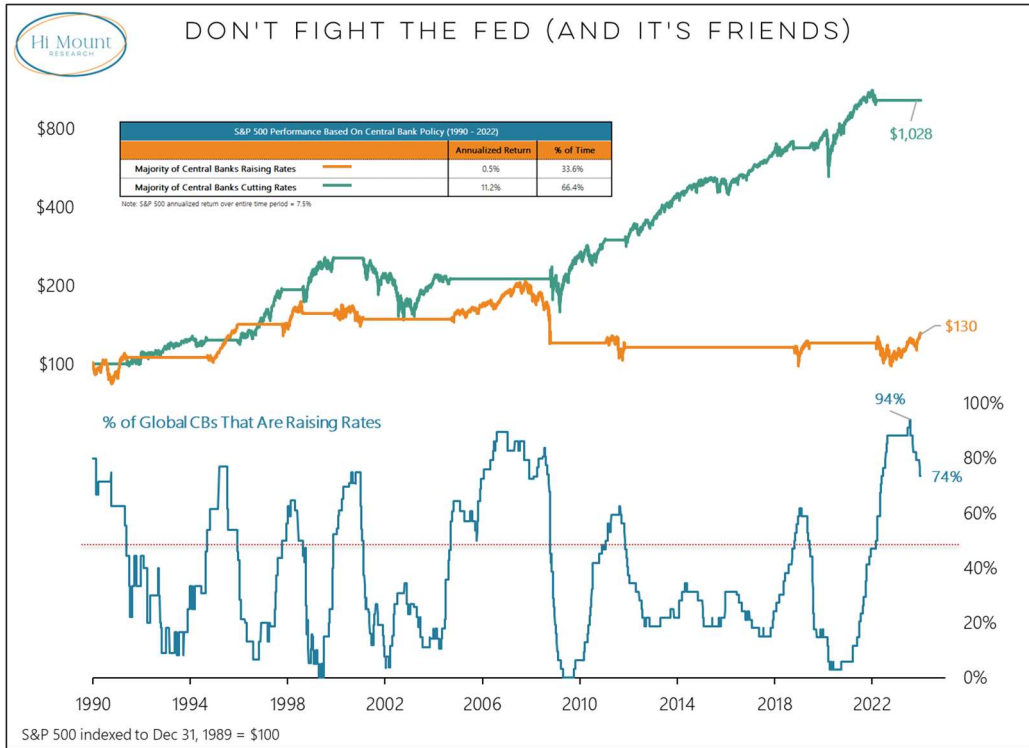


The 200-day average for the S&P 500 continues to rise while 10 of 11 sectors are trading above 200-day averages of their own.

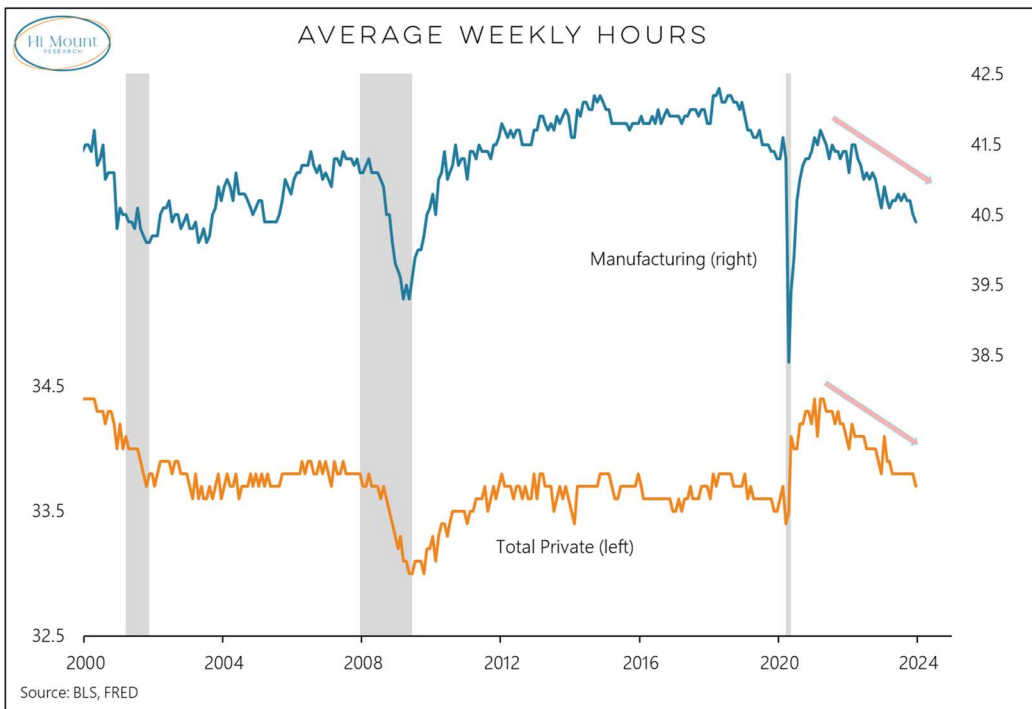
BREADTH



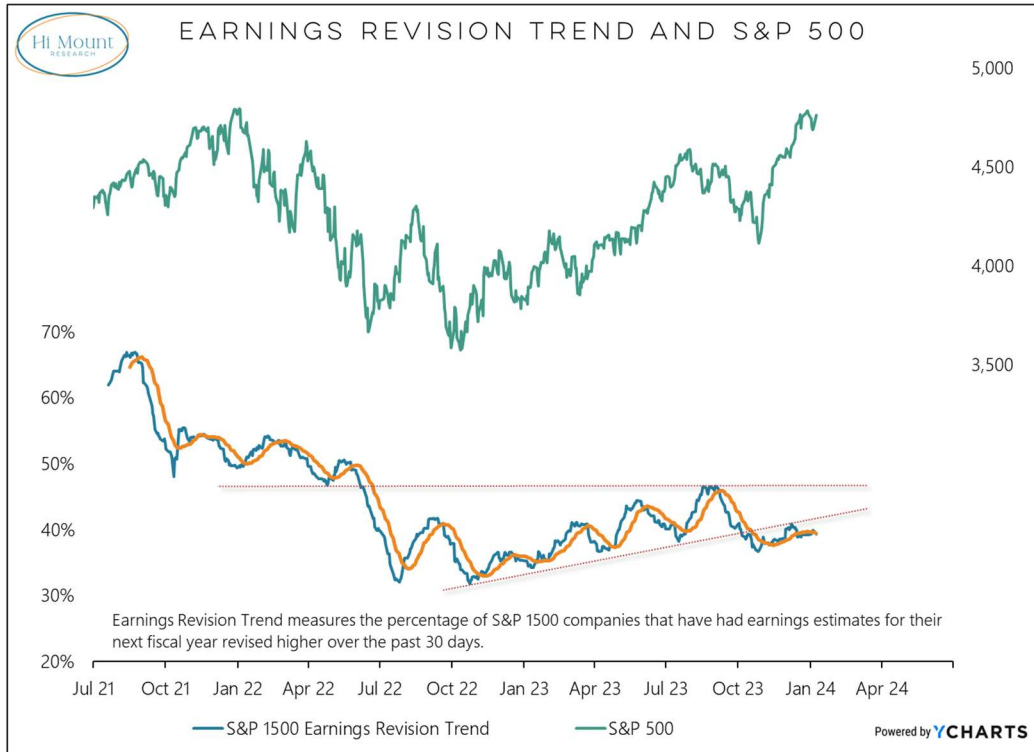
More than 80% of industry groups made new 13-week highs in December - over the past decade only June 2020 saw a similar spike.



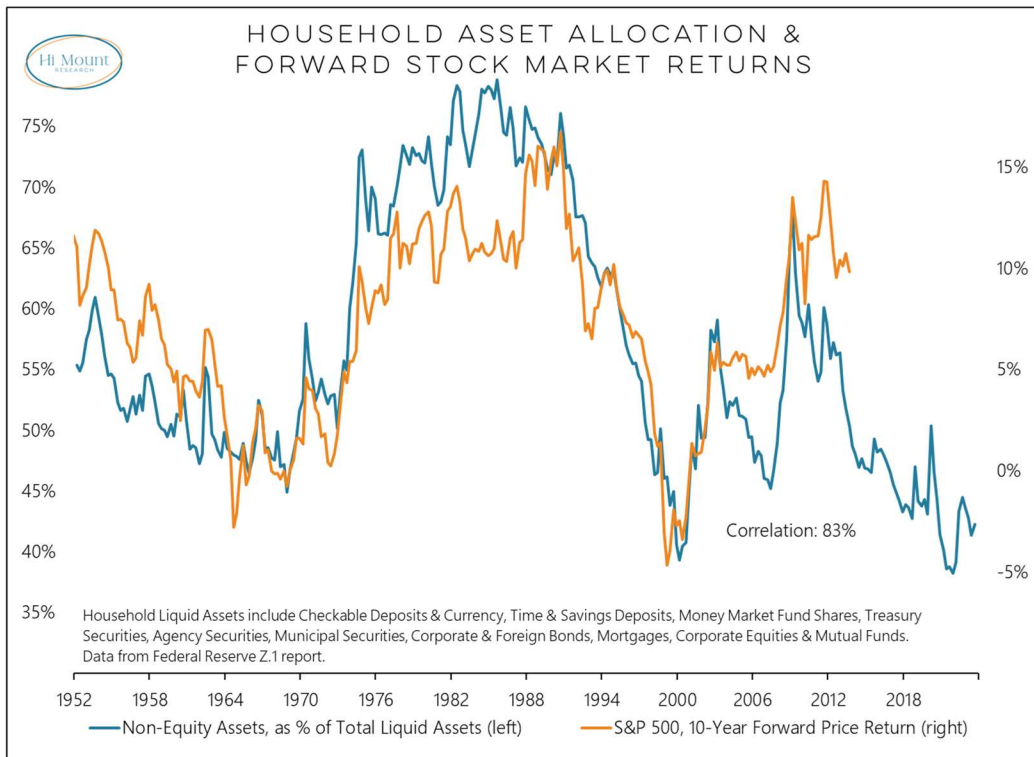
Liquidity: More Central Banks are moving from raising rates to cutting rates, but until a majority has made that switch it's hard to conclude that the liquidity backdrop has turned bullish for stocks.



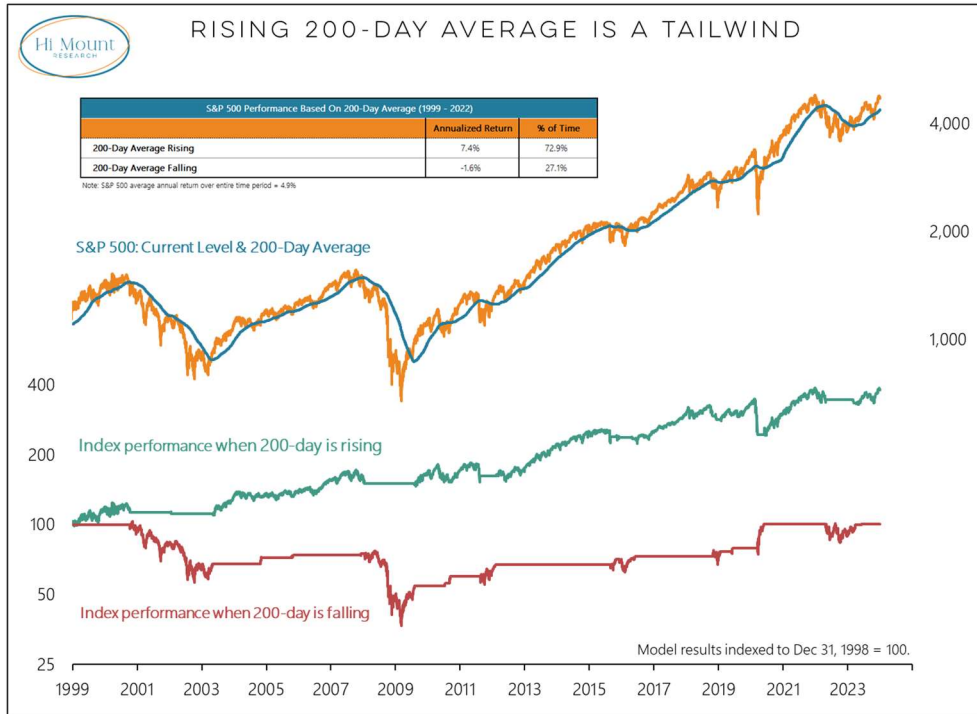
Economic Fundamentals: Private-sector employers have been reluctant to cut jobs, but they have not been shy about trimming the workweek. Looking at just hourly earnings or total payrolls may overstate the health of the labor market right now.



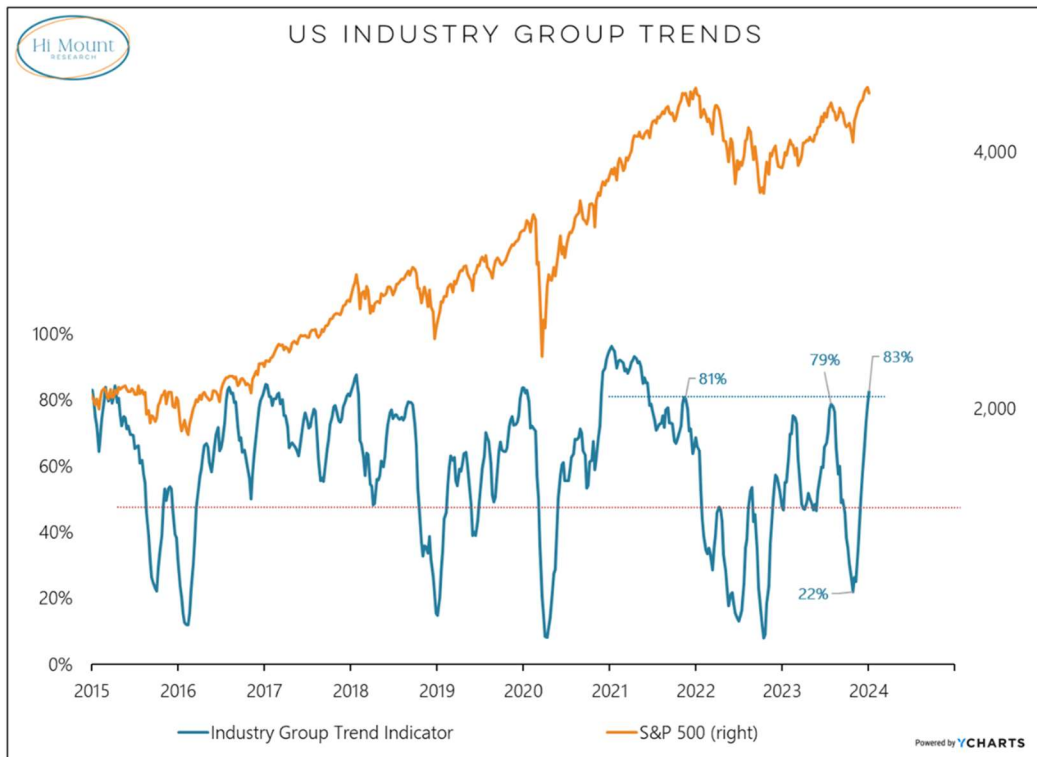
Valuations: Investors could struggle with paying premium valuations at a time when earnings revisions are not trending higher.



Sentiment: Our [sentiment scorecard](#) shows optimism at multi-year highs and households lacking the liquidity that can fuel robust stock market returns going forward.



Market Trends & Momentum: All the net gains in the S&P 500 over the past quarter century have come when the 200-day average is rising. Stepping to the side & reducing equity exposure when the trend is not your friend reduces portfolio volatility over time.



Breadth: After dropping to a new YTD low in Q4 2023, our industry group trend indicator has surged higher in recent weeks and opens the new year at its highest level since H1 2021.