Weight of the Evidence

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Cyclical Weight of The Evidence: +1 (Mildly Bullish)

STOCKS FLOURISH AFTER PERSISTENT PESSIMISM

March 13, 2024 – Key Takeaway: Investors have embraced equities in both word and action. That optimism is being rewarded as stock market trends remain strong and rally participation is historically strong and continuing to improve. After a period of persistent pessimism, the crowd is turning giddy. Rather than seeing that as a headwind, remember that we need bulls to have a bull market.

Macro Factors (What Could Happen):

FINANCIAL LIQUIDITY

Sticky inflation could keep central banks from pivoting and keep upward pressure on bond yields.

ECONOMIC FUNDAMENTALS

Peel away price increases and the recovery in real activity looks less than robust.

VALUATIONS

Stocks are expensive on an absolute basis and no longer cheap on a realtive basis.

Market Factors (What Is Happening):

SENTIMENT

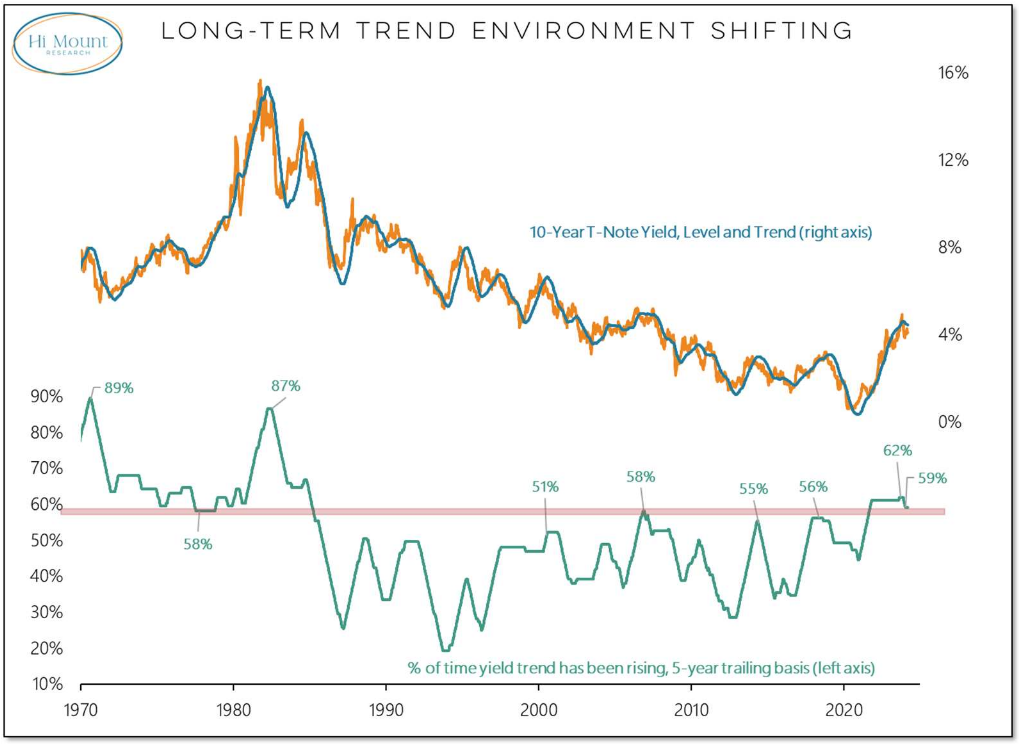
Optimism is in the sky, but the transistion away from the persistent pessimism suggests sentiment is neutral factor right now.

MARKET TRENDS & MOMENTUM

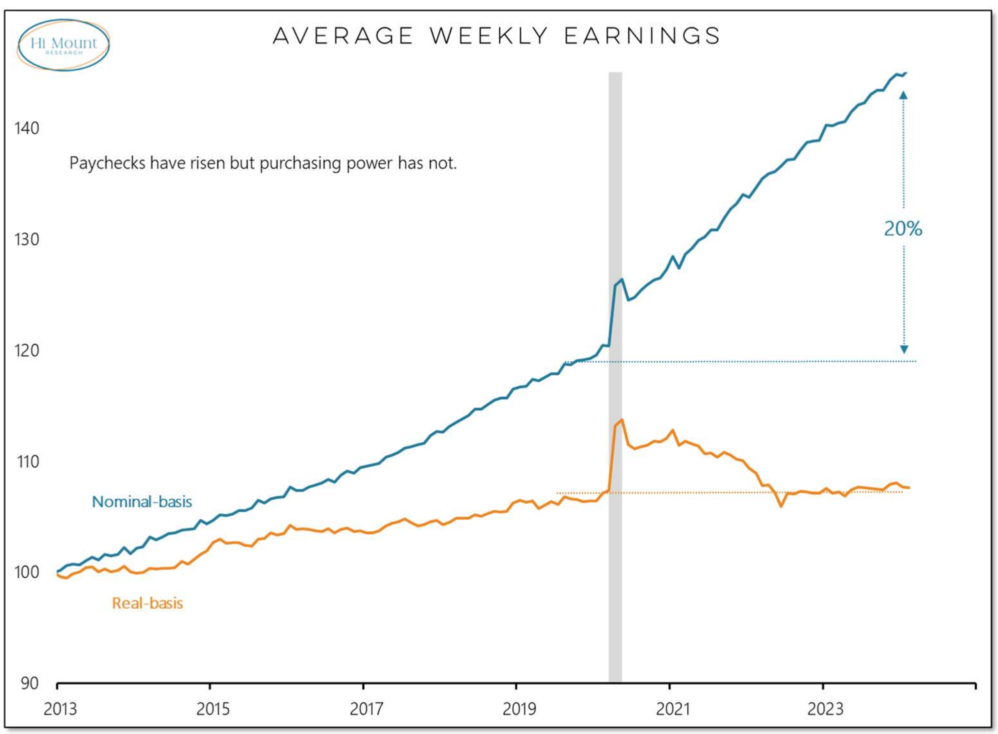
New highs following multi-year consolidations is consistent with a bullish trend environment.

BREADTH

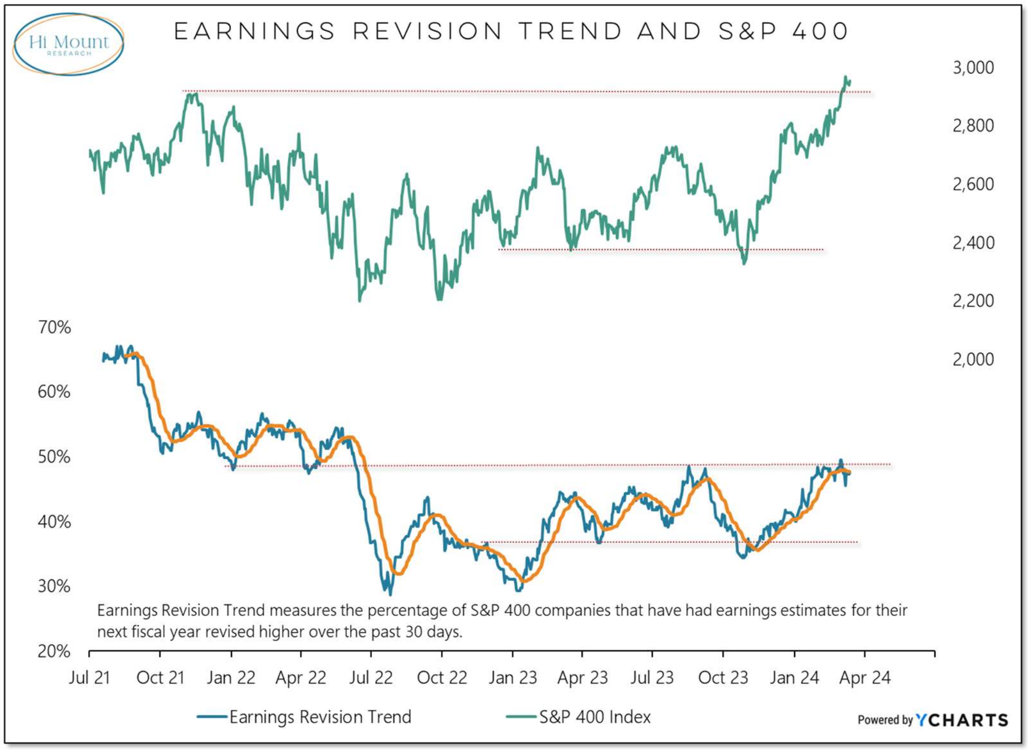
The percentage of S&P 500 stocks above their 200-day average has climbed to a new recovery high.



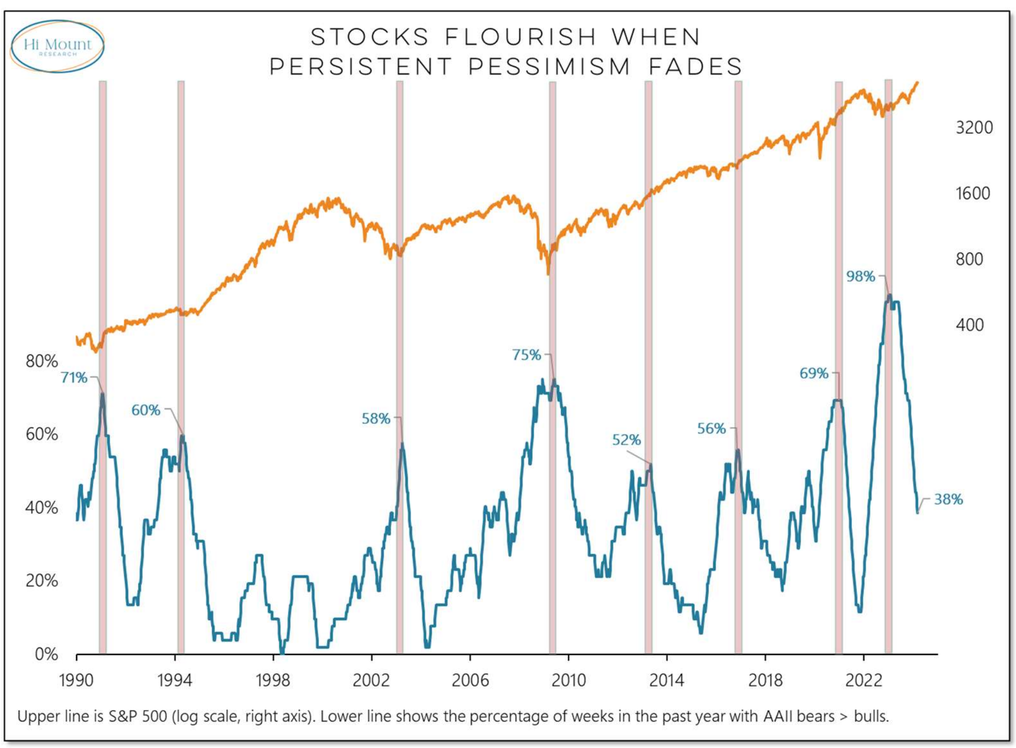
Liquidity: It is not unusual for the market to see a Fed pivot where there is none and if recent inflation trends persist the conversation will turn back to a long-term trend environment for bond yields that is markedly different than the experience of recent decades.



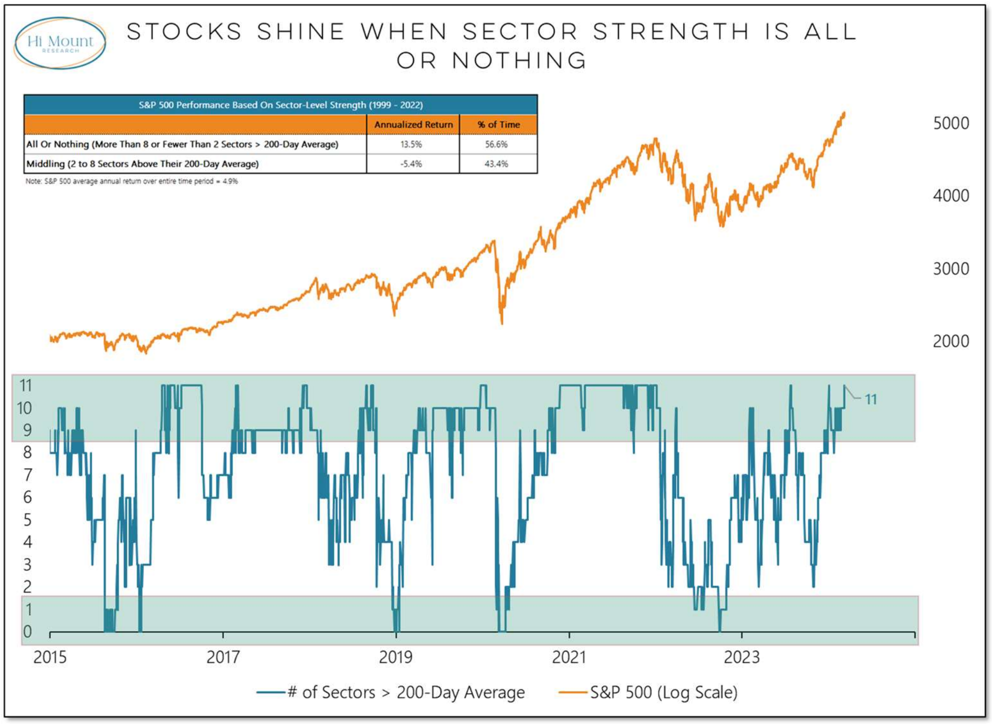
Economic Fundamentals: Adjusted for inflation, weekly earnings are stuck in the mud and are not meaningfully higher than pre-COVID. Other indicators of real activity show a similar lack of progress.



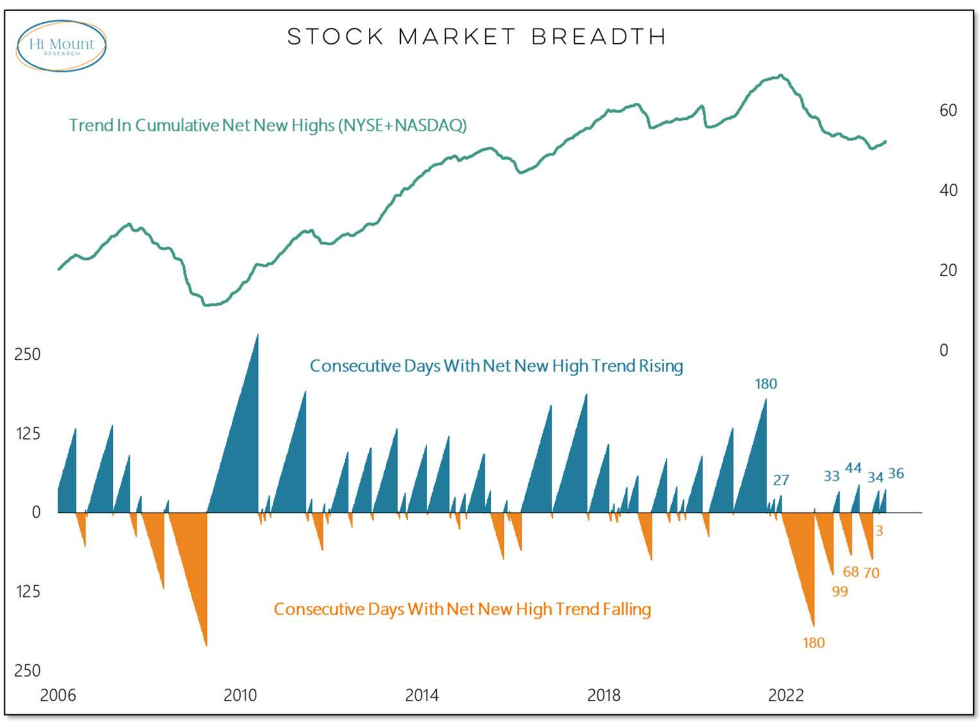
Valuations: Valuation concerns are less acute when earnings expectations are being revised higher. Right now the earnings revision trend is at risk of breaking down even as prices break out.



Sentiment: While there is plenty of focus on how bullish investors are right now, remembering the persistent pessimism of the recent past provides meaningful context. It is not elevated optimism that is a headwind for stocks, it is retreating optimism that brings volatility. The pendulum is still swinging in favor of the bulls.



Market Trends & Momentum: All eleven sectors in the S&P 500 are trading above their 200-day averages and the percentage of stocks in the index that are above their 200-day averages has broken out to a new recovery high. Strength begets strength.



Breadth: But for a three-day blip earlier this year, the trend in net new highs would be enjoying the longest sustained increase since before the market peaked in 2022. When new highs outnumber new lows, the indexes are usually moving higher.