CAPITAL INVESTMENT COUNSEL

The Columns

April 2023

I thought you'd be more excited. Ever have that experience? You've picked the perfect gift for your person and carefully wrapped it. Your anticipation is through the roof. Then you watch their reaction as they open it, and their facial expression is almost indifferent. Yikes! Tim Hucks and I talked on March CPI Day and we both thought the market might be more grateful for the solid CPI data. The market closed the day basically flat. It's frustrating because if the CPI had come in hot with too much inflation, the market would have likely stumbled hard.

Looking back at historical S&P returns, the market typically likes a CPI that's heading down. After peaking in July 2022 at 9.1%, the CPI continues to drive lower. Markets have been flat since this month's release on April 12th. The S&P is down .20%. The S&P initially jumped 2% in the days following the CPI but faded quickly. That's similar to last August when the market popped 5% higher before faltering.

Slowing inflation is the backbone to my positive market outlook. The latest money supply numbers show M2 money returning to levels last seen before COVID. Excessive money sloshing through the economy was a major driver of inflation, as the Fed continued to pump stimulus even as inflation raged. This return to "normal" could further reduce the heat of the inflationary fire.

The market has a good track record when extreme CPI inflation plummets over time. We only have five occurrences, but stocks were higher two years later in all five instances with an average gain of 31%. *(Source: S&P)*

How's that working in 2023? The market bottomed out October 12th, 2022, and is currently up 11% from that low. If the history runs true to form, that gives us a potential gain of another 20% by August 2024. In the meantime, you may want to use the present lower prices to your advantage. I remember Wells Fargo (WFC) at $60 a share last year and wishing I'd bought more during COVID. Well, now may be my chance. There's a number of relatively good quality financials on the bargain rack today. I favor North Carolina based banks so if Wells isn't your thing, maybe consider Bank of America (BAC). Both currently offer a 3% dividend and are down roughly 30% from their 2022 highs so the bad news may be baked in.

It's ironic the news is full of the banking crisis, but financials are actually up 1% since the CPI release. Markets are stuck in sideways mode with no appreciable moves up or down. I think the market is coiling up energy for a drive higher later this year, but the Wall Street majority is leaning bearish. Hedge funds are sitting on the largest bets against the market since 2011. Spoiler alert: it didn't end well for the bears back then as the market gained 17% from August 2011 to December 2012.

This year's market is a neither nor: neither bull nor bear. Last year was a full-on grizzly full of nasty selloffs. For all the nasty headlines, the market is still up 6% year to date and last year's grizzly is now a teddy bear at worst. Let's end on a positive. The market finished Q1 with a gain greater than 5%. We've seen that 16 times before and the market finished the year higher 15 out of 16 with 10% gain. *(Source: Carson Group)* If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

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Capital Investment Counsel, Inc. 100 E. Six Forks Road, Ste. 200; Raleigh, North Carolina 27609

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