CAPITAL INVESTMENT COUNSEL

The Columns

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Don't look now but after two long years in the wasteland, the tech sector has seemingly roared back to life. From November 2020 through December 31, 2022, the value-oriented Dow Industrials returned 23%, while the NASDAQ 100 actually lost 2%. The NASDAQ 100 apparently made a New Year's resolution that included playing catch up to the Dow, as tech has started 2023 with a bang. The NASDAQ 100 has a year-to-date gain of 11% versus 2.5% for the Dow Jones Industrials. Sure, it's only January, but I like the vibe tech is putting out there and the migration from value into growth may be just starting. 2022's interest rate spike impacted tech values and reduced investor's tech appetites, but the NASDAQ seems to be the latest "must-have" for your portfolio.

At the basic level, the market is simply investors around the world figuring out where they will make the most money. The market gets messy at times. Stock prices overshoot on the upside when people get overly excited, and prices plunge harder than necessary when investors hit the panic button. Remember Exxon trading at $33 per share during the Covid lows when investors thought oil stocks were finished? Exxon is $115 now.*

Investors are always searching for what sectors will do the best and those clues are reflected in stock prices. Rising interest rates typically harm the tech sector. Tech's high growth rates and sometimes expensive valuations can make them fragile. This latest tech surge has me excited. I've done this for 36 years and have historically found that when the NASDAQ leads the rally, the rest of market may benefit.

When investors ramp up their risk appetite, they tend gravitate to tech and biotech. The Biotech ETF (XBI) is also confirming the shift into riskier assets with a 8% gain, year to date. This shift may indicate two things: 1. Interest rates have peaked and 2. The economy is reaccelerating as inflation subsides. I was a little too early on the tech bandwagon, as I did not think the Federal Reserve would be as aggressive as they've been in hiking rates. It took a while, but Jerome Powell and his Board of Governors appear to think they've (finally) conquered inflation. The Fed was overly blunt in their approach. They attacked the economy on two fronts. 1. Interest rates rose dramatically and 2. 2022 was the first year on record in which money supply *actually declined*. It's like your car running out of gas and oil at the same time.

We have 62 years of money supply data, so it offers ample insight and also hints that stocks continue to move higher in 2023. The worst money supply dips have occurred before a market resurgence: 2017, 2009, 1996 and 1981. 1981 is special for me as the following year saw the beginning of the big bull market that ran until March 2000. I'm not anticipating that big of a run, but 2023 looks (very) promising, at least in my opinion.*

Let's close on a bright note. 2022 saw the market lose greater than 1% on 63 days. This reinforces what we all know - 2022 was nasty. There are only 3 years with more 1% selloffs: 1974 with 67 drops, 2002 with 73 and 2008 with 75. *(Data from Matt Cerminaro)* I was only in 4th grade in 1974 but invested actively during 2002 and '08. As we moved through 2022, I used 2002 as my mental road map for how prices would play out. 2023's potential upside might be exceptional. The returns for the 3 years following the dates above were all positive: 1975 gained 32%, 2003 gained 26% and 2009 gained 23%. Will 2023 follow suit? No promises, but we seem to be off to a good start so far. If you have any comments, feel free to reach me at heddins@capital-invest.com or call me at 919-656-0836.

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