CAPITAL INVESTMENT COUNSEL

The Columns

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Think the world is ending? You're not alone. Your news and Twitter feeds are likely full of the Silicon Valley Bank saga. Investors have voted with their feet and fled stocks – they sold $18 billion in stock exposure the 3rd week of March and are currently sitting on $5.1 trillion in cash. That's even higher than the Covid summer levels of 2020. (Source: Bank of America) Investor sentiment numbers are also currently in the tank with only 22% of investors on the bullish side. (Source: AAII)

Adding insult to injury, Fed Chair Jerome Powell's press conference caused more disruption on March 22nd. Markets were moving higher but Powell's resolve to continue hiking rates, no matter what, stopped the rally in its tracks. On that same day, the Dow peeled off a cool 700 points from 3:30 to the 4pm close. Bespoke Investments compiled a composite of market performance during Powell's press conferences since 2018 and it's not pretty. The market dropped an average of .5% during the trading day's last half hour after his remarks. That doesn't seem like much but consider the cumulative, long-term return on stocks could be roughly 10% and that half a percent drop in only 30 minutes, leaves a mark.

After a few opening paragraphs like that, you may think I've succumbed to the dark forces and become negative. You would be wrong. There are many bright spots in the market and most of them have to do with large cap tech. Yes, the financial landscape has a good deal of turmoil. Fortunately, someone forgot to tell NASDAQ. Year-to-date, the bank index is down 9%. The S&P 500 is hanging in there with a 3.5% gain, but the NASDAQ 100 is plowing ahead with a 17% gain and the semiconductor index just punched out to a new 52-week high. Listen carefully and the market may give you answers. The NASDAQ is now at 7-month highs and is seemingly trying to break higher to new territory.

I try to learn from past mistakes and that attitude has come in handy over a 36-year career. From 2015 to 2020, I wish I'd owned more tech. The low interest rate environment on tap back then created an almost perfect breeding ground for tech companies to expand their PE ratios. Tech peaked in November 2020 right before the election. The market seemed to have a heads up that inflation and higher rates were on the way. That turned out to be dead right. Fast forward 2.5 years and the reverse is happening. Jerome Powell says that rates are heading higher, but the NASDAQ could be saying the peak in rates may be here. We'll see what happens in the coming months, but I'll personally side with the market on this one.

I referenced the extreme bearishness of investors in paragraph 1, so what happens next? The S&P was still above a 3% gain through the end of February versus an average gain of only 1%. History indicates the rest of the year could be strong. We've seen this 12 times and the market has closed the year higher 11 out of 12 with a roughly 12% gain. (Source: Ryan Detrick)

China's markets have been on a tear since the late October meltdown. Xi's power grab left many worried, but China's reopening appears to be for real. China's latest manufacturing PMI recorded a 52.6 - the best in 11 years. Chinese stocks are selling at reasonable valuations compared to their US counterparts and the US Dollar may provide the missing piece of the puzzle.

The Fed's relentless rate hikes may have caused to the Dollar to spike 5% in February. That in turn hit Chinese stocks and helped cause a 14% drop. The March banking crisis pulled interest rates lower and dragged the Dollar down with them. Chinese shares are responding positively to the news on Thursday (March 23rd) with a 3% pop to the upside. After years of underperformance, it may be time for emerging market stocks to take the lead again. 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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