CAPITAL INVESTMENT COUNSEL

The Columns

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The following question is stuck in my head. If everything is so bad, then why is the S&P up 9% year to date? Why is the semiconductor average up more than 30% this year? Why is the NASDAQ 100 up 25% in 2023?

The answer is that things just might not be so bad. Probably not nearly as bad as your Twitter or news feed is telling you. Regional banks have been the poster children for bad news this year, but they've seemingly stopped going down. (finally) Yes, the regionals are still down 34% year to date, but they've rallied 7% in the last two weeks. Deposits appear to be stabilizing so maybe, just maybe, that cloud is lifting.

I pay attention to what groups are driving the market train. Last year it was oil (inflation driven), along with utilities and consumer products. That tells me the 2022 economy was not the greatest. When the safety plays lead the charge, the outlook is typically weaker.

2023 has been led by the NASDAQ 100, semiconductors, and software. In the old days, you bought heavy equipment stocks like Caterpillar. In 2023, I feel you go for tech if you want to tap into global growth. Those three leadership groups show me that things are potentially better than many believe. I love the NASDAQ-driven market.

What if we get a debt ceiling deal? Currently, large speculators are still massively short the S&P futures. The level is similar to what we saw in 2011 *(Commitment of Traders Report CME)*. I bring this up again because a potential debt ceiling deal may kick off a rally. The covering shorts would buy to cover, and the resulting cash inflows might help take any potential rally even higher. During the last debt ceiling crisis, the market bottomed in October 2011 and finished the year with a 14% rally. It tacked on another 16% gain the following year to bring the total gain to 30%. Regional banks liked the action as well and notched a 51% gain from October 2011 through year-end 2012. Yes, markets react differently each time, but I like this as a potential blueprint for how things may play out.

The always excellent Ryan Detrick at Carson Group tweeted this out. May 25 is trading day 100 and markets are up 9 percent so far in 2023. What happens next? The market finished the year higher 24 out of 27 with a gain of nearly 10%. That would put the potential 2023 gains near 20%. I don't know about you, but I'd chalk that up as a win. This is the best yearly start since 2021 but it sure doesn't feel like it does it? My takeaway is to avoid the noise and concentrate on what's working. Like a horse with blinders on, keep your eyes focused on the track ahead and not the distractions up in the stands. One of my favorite advisors at Capital, Ed Sabo puts it like this: "It's important to remember that fear drives attention, and attention drives media advertising revenues… So, try not to get too caught up in the daily noise." That's my mantra for 2023. Happy Memorial Day everyone – summer is almost here. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.