CAPITAL INVESTMENT COUNSEL

The Columns

November 2022

I love camping. The North Carolina mountains are wonderful this time of year - cool nights and that smell of wood smoke from a campfire. When you wake in the morning, the fire embers are still glowing and putting off heat. Before leaving, Smokey the Bear says to make sure the fire is completely out, so I stomp on it with my boots to make sure it's good and dead.

The Federal Reserve must like putting out campfires too as that stomping action reminds me of what the Fed has been doing to the markets since August 24th. The economy rolls along, and inflation seems to have peaked, but the Fed keeps on stomping. It's almost like they want the economy and markets to be good and dead. Stocks rallied after November's softer CPI numbers, and investors were thinking that, with inflation finally retreating, maybe the Fed would (finally) slow down their rate increases.

It feels like that, just as the market's hope begins to blossom, one of the Fed governors will come out with a statement indicating the Fed's resolve to keep stomping on the fire: there seems to be no end in sight to the rate hikes. Christopher Waller in particular seems to enjoy seeing his name in the news. Although inflation seems to have peaked, Waller loves to talk about more hikes and the market swoons in response. Another Fed governor, Neel Kashkari said point blank in August that markets need to go lower. I'm not sure that sending stock prices lower is the Fed's mandate, but no one seems to have told them that. Bonds seem think the worst is over for inflation as Ten-Year US Treasury yields have dropped from 4.3% in October to 3.6% this week.

Those first three paragraphs seem a little bleak but there's actually good news: 1. Despite the Fed's restrictive actions, the market is currently 15% higher than the October lows and 2. Midterm elections are over, and a yearend rally may kick off. Midterm years can be back-end loaded and markets may head higher now that the results are in. The economy is still robust, and we feel markets may build on their recovery gains. The 12 months following midterm election day have a rich history of gains, so the run into November 2023 may prove to be better than most investors are positioned for. Historically, the market was positive in the twelve months following a midterm election 18 out of the last 18. I like those odds.

Another possible kicker is the potential size of gains on tap. Once the market has reached bottom in a midterm year, the historical gain has been 32% from that bottom. That low from October of this year is 3491 on the S&P 500. Yes, we have recovered 15% from there, but history suggests we could add another 15% or more over the next year.

I'm not shooting for an exact prediction. I simply want to concentrate on the market's trajectory and caution you against becoming too negative. As much as the Fed's comments irritate me, I like to take advantage of them. If the trend is higher from these levels, those pullbacks offer a chance to buy.

Despite all that, the economy is still rolling along. The big 3 retailers reported earnings last month and their growth story appears intact. Between them, Costco, Wal-Mart, and Target serve most of America and sales are solid. Target has some inventory issues from their supply chain but nothing longer term in nature. Gas prices are rolling over and that should give the consumers an added boost. After hitting $4.99 this summer, premium gas has recently plummeted to $3.14 a gallon at the Costco I visit and I'm all for it. We've come a long way from that dark Covid Thanksgiving of 2020, and it encourages me to think about where we might be in 2024. Let's keep it rolling. If you have any comments, feel free to reach me at heddins@capital-invest.com or call me at 919-656-0836.

Disclosures:

***Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Capital Investment Counsel reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.**

Capital Investment Counsel is a registered investment advisor. More information about the advisor including its investment strategies and objectives can be obtained by visiting www.capital-invest.com. A copy of Capital Investment Counsel's disclosure statement (Part 2 of Form ADV) is available, without charge, upon request. Our Form ADV contains information regarding our Firm's business practices and the backgrounds of our key personnel. Please contact us at (919) 831-2370 if you would like to receive this information.

CIC-202211-01

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