



CAPITAL INVESTMENT COUNSEL

The Columns

May 2024

I'll be blunt. November, you've got competition. I've always loved November for Thanksgiving, the crisp air and historically strong market returns. But May is making a move to become my favorite month. With Memorial Day, the perfect amount of daylight, and a market winning streak with stocks rising in 9 out of the last 10 years – what's not to like. May 2024 seemingly continues the tradition with a 5% increase in stocks so far this month. It's incredible what falling interest rates and cooling inflation can do for stock prices.

On May 16th, the Nasdaq's Arm's Index or TRINQ recorded a rare .16 reading, marking just the sixth time in 40 years. Thanks to Jason Goepfert at White Oak Consultancy for the stat. I won't bore you with too many details, but the gist of the ARMS index measures how broad a market rally is. Like a party, a stock market rally with more participants tends to last longer and be more fun.

It's interesting that the previous five occurrences happened during periods when the market was under significant pressure: March 2001, July 2002, November 2008, August 2011, and February 2021. It's peculiar that May 2024 shows a similar ARMS reading but this time with the market near all-time highs. Regardless of the reason, history has favored stocks. Since 1985, similar ARMS readings have led to positive outcomes over various time frames. Markets were higher all five times three months later, and higher in four out of five cases after six and twelve months respectively.

For some perspective, the only instance where stocks weren't higher six and twelve months later was in 2001, during the aftermath of the 9/11 attacks. The one-year period after such readings has shown the most potential, with the market up an average of 16%. Although it's a small sample size, I see this as another (positive) piece of the market puzzle and a potential tailwind.

We all breathed a sigh of relief last week after the consumer and producer price inflation reports. Remember the anticipation of waiting for your college acceptance letters? Rushing to the mailbox every day and tearing open the envelope to see your result? CPI and PPI days are like that for me. The release comes out at 8:30 and has significantly moved markets over the last two years. If I'm driving, I make sure to pull over to check the premarket quotes when the numbers come out. Good news for May: both CPI and PPI dropped, allowing interest rates to fall again. Key mortgage rates fell below 7% for the first time in what seems like ages, which could boost home sales.

Last month, we highlighted the problematic shelter portion of the CPI. To recap, the CPI shelter calculation uses values several months old that don't accurately reflect the *current* housing picture. The Fed's target for inflation is 2%, and using current shelter numbers, the CPI comes in at 1.8%. We might see rate cuts sooner than expected. Thanks to Jeremy Schwartz for the numbers.

This feels like an Ozempic economy. Ozempic peels the weight off your body, but it can come in the form of muscle removal. It might be the worst of both worlds; you can end up skinny fat with less weight on the scale but less strength to live your life. That's like slow economic growth with inflation.

Inflation remains stubborn, and the consumer is under pressure from higher rates and inflation. Recent earnings from Target and Lowes highlighted a consumer who is having to make tough choices, and the latest GDP report came in at only 1.6% growth. The

positive here is that slowing growth might persuade the Fed to begin cutting rates which might give stocks a leg up during the second half of 2024.

I remember the excitement when Dow 10,000 hats were passed out back in 1999. There's something about big round numbers that captivates us, and markets seem to gravitate toward them. If history repeats itself, the Dow passing 40,000 this month could be a slingshot that propels prices higher. Ryan Detrick over at Carson found notable one-year returns following the market surpassing major milestones. The Dow was 10% higher one year after reaching 10,000 and up 31% the year after hitting 20,000 in early 2017. When the Dow hit 30,000, it racked up a 19% gain twelve months later. Considering the potential tailwind from an election year combined with the allure of a big round number, 2024 and '25 might be good ones indeed. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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