CAPITAL INVESTMENT COUNSEL

The Columns

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Finally, we're seeing interest rates head in the right direction—down. The Fed, after overshooting inflation concerns, has kept rates too high, but that might be changing. The Fed's preferred inflation gauge, the PCE Index, is sitting at 2.6%, but they're keeping rates at a whopping 5.25%. That's some seriously tight monetary policy—capital T tight—and it's putting a potential chokehold on growth. Something's got to give, and there may be a good chance we'll see a rate cut at their September meeting. The Fed Fund Futures are currently pricing in a 66% chance of a 25-basis point drop, bringing rates to 5%. It's a start.

I'm more interested in where longer-term rates are heading since they drive mortgage rates—the real key player. After flirting with 8% last October, rates recently dipped to 6.5%. Another leg lower could be the spark that gets the housing market moving again.

August has produced the classic "pop and drop" setup in rates—a head fake that sometimes gets investors leaning the wrong way before rates go in their "true" direction. It works both ways – when rates are moving higher or lower. Before rates spiked higher in 2021, we saw this play out with the long-term bond ETF, TLT. Back then, TLT took a nosedive from $165 to $133, then head-faked with a rally to $155, only to drop like a rock to $82. We're seeing similar behavior now as rates are starting to head lower.

Last December, TLT made a run higher as rates dipped, flirting with $98 and looking like it was ready to head higher. But just as it seemed poised for a breakout, it slipped on a banana peel and tumbled down to $85 by May. Fast forward, and we've clawed our way back to $98, with the potential for more upside if rates continue to drop.

There's plenty of noise about an impending recession, but I'm not buying it. To me, lower bond prices point more toward deflation than recession—and that's the better scenario in my book. We'll just have to wait and see where this ride takes us.

I recently experienced the future in San Francisco and its name is Waymo. Like Uber, Waymo is a ride-hailing service. Waymo uses Jaguar I-PACE SUVs, but there's a key difference—no human driver. Instead, 29 cameras and advanced technology control the vehicle. It's fascinating to see the car navigate turns without anyone at the wheel, and surprisingly easy to trust. During my ride, when another car cut in front of us, the Waymo smoothly braked and maneuvered around it with ease. Owned by Google, Waymo currently operates in Phoenix and San Francisco. If you're in the area, try it—you'll love it.

After that ugly Monday selloff on August 5th, the market's been on a tear. Through Tuesday, August 20th, the S&P 500 notched eight straight days of gains. It might need to catch its breath soon, but the longer-term outlook is looking pretty solid. According to my research, we've seen these eight-day streaks 53 times before, and six months later, the market was higher 80% of the time, with an average gain of 5%. Stretch it out to 12 months, and stocks were up 73% of the time, with a 10% gain. So, next time the market takes a nasty dip, keep that in your back pocket. 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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