CAPITAL INVESTMENT COUNSEL

The Columns

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The election is finally over, and the market is letting out a big sigh of relief. I like a lot of what I see so far: markets have rallied sharply, but so have interest rates and that raises some concerns. Rising rates have also affected the U.S. Dollar and that makes me wonder about the potential ripples from that.

Now, the U.S. Dollar—what a star—decided to rally and it's at a two-year high. Fantastic if you're planning a beautiful trip to Italy, sipping wine, seeing the sights. But, and this is a big but, it's not so fantastic if you're a global exporter. Suddenly, your products are pricier because of that strong dollar. That headwind might make things tougher for these big international companies. US markets have mostly ignored the Dollar, but foreign stocks have taken it on the chin. Europe is down 6% since the election and emerging markets have dipped 5%. This may be an opportunity to buy, as growth remains solid overseas. However, it's tough to compete against the US when it comes to growth.

Simply put, the S&P 500 is a globe-trotting cash machine at present, hauling in 60 percent of its profits *internationally*. A strong dollar impacts American goods being sold overseas. It could also hit margins, but big tech has awfully nice profit margins. It's not even close really—big tech profits are typically nearly double what their non-tech brethren bring in.

This trend has been building since the turn of the century. Sure, big tech took it on the chin in 2000, but the revamped and revised versions have wiggled their way into every corner of our lives. At dinner the other night, someone said he had banned Google products from his home.   I started laughing at the joke until I realized he was serious.....Try going without Google Maps, Fiber or YouTube for a few days and get back with me.

Stocks may be a little stretched to the upside and markets are looking deep into 2025 to justify those prices. Will we have a hiccup along the way that causes some short-term market pain? If our positive growth story holds up—and I think it will — a sell-off could provide the chance we've been waiting for.

Let's go back to the summer of 2017. Stocks had been riding high since the prior November, thanks to the buzz around deregulation and tax cuts. Out of the blue, interest rates spiked (sound familiar?), and the stocks took a quick hit. Financials dropped 6%, and big tech slid 5%. The sell-off took place over a month, but that turned out to be the last solid buying opportunity of 2017. Financials rallied off that summer low to close the year 22% higher and tech went along for the ride with a 19% gain into year-end.

Here's my advice: think about those companies you've been kicking yourself for not buying sooner. Set a reasonable buy target and be ready if the market serves up an opportunity. Sometimes the best trades come from patience and a little bit of preparation.

You all know me—I'm as bullish on the future as anyone, but even a good horse needs to rest after a hard run. Right now, the market's riding high, powered by that strong seasonal momentum we all love to see this time of year. But once we turn the page to January? Well, I wouldn't be surprised if the market took a breather.

Here's something to chew on from Jason Goepfert: leveraged long ETF index assets are seeing $12 for every $1 in leveraged short ETFs. In other words, a lot of investors are extremely bullish. We've not seen this level of bullishness since early 2022, and only four times since 2010.

Don't get me wrong — I'm not waving a red flag. But when you see this kind of frothy optimism, it's worth asking: are we getting a little ahead of ourselves? Sometimes, the smartest move is to pause, regroup, and let the dust settle. A little lull early next year might not be the worst thing for the long haul.

If we do see a pullback, I intend to take advantage and buy the dip. Here's two pieces of potentially bullish data to back up my positive view.

After October 25, the S&P 500 broke its six-week winning streak. Sure, a little dip a month later isn't unusual — it's like a speed bump on the way to a destination. But what about a year out? Well, history has favored the bulls in the past: 86% of the time, the market's higher a year later, with an average gain of 13%. Long streaks like these don't often show up in bear markets.

Now, let's shift to the Fed. They cut rates this month while the market was sitting at an all-time high. So, will stocks start heading lower now, as the pessimists would have you believe? I wouldn't bet on it. The Fed's pulled this move 20 times before, and guess what? The market is undefeated—a perfect 20-for-20 record, up an average of 14% a year later. The takeaway? History might not repeat itself, but it can rhyme, and I like the odds on this one.

It's Thanksgiving next week and we all have a lot to be thankful for. I was driving home this week from Food Lion (we call it the Kitty at our house) and remembered this passage I wrote back in 2020. Here it is to stir your memory:

This has nothing to do with stocks or the markets and everything to do with why we're here. Covid packed a wallop this year and KO'ed many of the normal events of our lives. It seems like the thing we miss the most is each other. We're pack animals and we like to be near our people. I was at Food Lion early one morning last week. It was 48 degrees and spitting rain. Not the most pleasant weather, but there was a group of six middle age ladies tailgating in the parking lot. Tailgating what you might ask? I'd say they were tailgating life. They were all social distanced, six feet apart, in their outdoor chairs. They were drinking coffee (at least I think it was coffee) and enjoying each other's company. As humans, we always find a way. Covid is tough but we'll figure it out. In the meantime, let's keep supporting each other. That's what we're here for.

There weren't any ladies tailgating in the parking lot this week but there was a bustle of people going about their daily lives: to-ing and fro-ing as I like to call it. Hard to believe that's only been four years since the Covid nightmare. We tend to take normal life for granted but sometimes it's nice to stop and give thanks. Think of the progress over the last four years and think about how great things will be in 2028! Happy Thanksgiving. 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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