CAPITAL INVESTMENT COUNSEL

The Columns

May 2025

I never expected to weave together C.S. Lewis, the Bible, and the stock market, but here we are. I'm a voracious reader, and nothing excites me more than when seemingly unrelated ideas snap into place and make sense of it all. A recent post by Kyla Scanlon on X referenced C.S. Lewis, and it nudged me to revisit his work. Paraphrasing him: *our era isn't uniquely smart or uniquely dumb—we're still wrestling with pride, fear, lust, power, love, and meaning, just in newer packaging.* That's just a more elegant way of saying: same problems, different day. Yes, that's the PG-13 version.

The irony of the human race is how little institutional memory we seem to carry. When events go sideways, I keep waiting for someone to say, "Oh yeah, we had that same issue in the 1950s and solved it by doing X," but that kind of historical thinking rarely makes it into the room where decisions are made. As someone who grew up in the '70s and '80s, it was obvious to me that the easy money of 2021 would ignite inflation.

What's shocking is how few in power saw it coming. Back in 2021, I used to think come on man(!!) whenever Jerome Powell would use the phrase "inflation is transitory." Lewis' commentary on today's tariff issues would likely say it's the same bad idea, rebranded and doomed to be repeated, until the lesson finally sticks. The bond market's been handing out a lesson over the past month, and the message to Congress is loud and clear: **cut spending**.

Investors are demanding higher yields to hold U.S. debt, and that's pushed 30-year mortgage rates back above 7%. It's starting to feel a lot like **1994 all over again** when fiscal indifference met rising rates and the market made its point the hard way. I hope we learn the lesson a little quicker this time around.

The same mindset applies in markets. Wall Street loves to overcomplicate things, offering up endless theories on why stocks should stay down after April's meltdown. But my career began just before 1987's Black Monday: a 22% crash in one day and that trial by fire taught me a simple truth: *buy when fear spikes*.

That's why I've been so impressed by the public's willingness to step in during April's Trump Dump, even as the narrative turned apocalyptic. Plenty of pros warned that tariffs would bring the whole house down. Some bears are still warning of doom even as we've witnessed a rally of Biblical proportions (see what I did there?).

Meanwhile, individual investors ignored the handwringing and bought the dip. Not just once, but consistently. On May 12th's big rally, retail investors made up 36% of total market volume: the highest share in years. They remembered what Wall Street forgot: history doesn't repeat, but it can rhyme, and the rhyme can rewards the brave.

Moody's downgraded United States sovereign debt last Friday. What happens next? I've written here about what happened in August of 2011 when S&P was the first agency to downgrade US debt from Triple A status. The two weeks after were ugly as markets dropped 8% but by the end of August 2011 stocks were 2% higher than before the downgrade. They were 8% higher by the end of October 2011. Fast forward a year later to August 2012 and stocks were higher by 19%. So much for the sky falling.

The rating agencies love an August debt downgrade because Fitch also dropped their rating on US debt August 1st, 2023. The fallout wasn't as bad this time. The max drop was 4.5% and prices had recovered by August 31st to only a 1% drop. By yearend 2023, stocks were actually up 5%. And so it goes.

What will the 2025 version of the debt downgrade bring? As of Wednesday, May 21, the market is down only 1.8% since last Friday's debt downgrade. I believe the worst of the tariffs may be behind us, so I'm inclined to take advantage of any selloffs. The market needed a rest after May's snapback rally and the downgrade is providing a convenient excuse for many to sell. Pick out some buy targets you missed during the April meltdown and if your target prices get hit, it might be time to consider doing a little buying. You don't have to back up the truck—but I've found nibbling when fear is high might increase your odds of success.

Fun observation: today is 5/22/25. For the next 7 days, each day reads the same backwards as forwards. 5/23/25 all the way through 5/29/25.

You know I like to end with positive stats, so here they are. I'm a fan of Wayne Whaley's technical work, and the recent rally from May 12th to 14th just triggered one of his rare but potentially powerful bullish signals. Normally, after a big move higher, stocks take a breather. Not this time. On Monday, May 12, the S&P ripped 3.25% higher on upbeat Chinese tariff news. Instead of cooling off, it jumped another 0.75% on the 13th. And just to drive the point home, it added another 0.10% on the 14th.

Now, that three-day sequence might not look thrilling at first glance but here's the kicker: every time this exact pattern has happened since 1950, the S&P has been up a year later. 30 for 30. Undefeated with an average gain of 20%.
There are no guarantees, but I like those odds. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

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-20250501

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