Hamilton-Bates

Market Update

September 10, 2021

September is a Seasonally Weak Month—but the Market is Trying to Buck that Trend.

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The summer months have been very good for the market and the economy, as things opened up and economic activity grew sharply. The market's rebound from its 'June Gloom' continued. Demand was strong for both goods and services as consumers yearned for a return to anything close to normalcy.

Yet Covid remains, and recently new variants have made their appearance, tempering sentiment somewhat. The next few months will tell us whether the latest wave of Covid is peaking, or just ramping up ahead of flu season. Most recent data and research we have read suggest some optimism that a peak is close at hand in cases. Let's hope so.

The Economy, Interest Rates, and the Fed

The economy remains strong, particularly in the jobs department—with over 2 million more open jobs than current unemployed people. That is good news and suggest a job is available for all those that may want one. Anecdotally, we can confirm this by noting that nearly every business we see has a 'help wanted' sign.

There is no doubt though that economic growth has slowed from the blistering pace of early in the year, but that is to be expected. When things reopened there was a big pent-up demand wave, and now the economy is leveling off to more stabile levels of growth in the wake of that surge.

Inflation has been a concern, but it is showing signs of moderating. Some goods remain in short supply such as autos (due to shortages in semiconductor chips); but a lot of the materials based inflation of earlier in the year has abated. Lumber for example, has come down 68% from its peak craziness just a few months ago.

The Fed is now starting to tentatively talk about tapering QE, which would gradually reduce the massive amount of bond buying they are doing each month. They won't be hiking rates anytime soon, but we'll be on watch to see how any diminishment of Fed liquidity affects the financial markets.

Stock Market Outlook

The stock market has been strong this summer, even a bit stronger than even our own optimistic outlook, as stocks bucked seasonal August weakness to manage new highs. September is historically the weakest month of the year (everyone thinks it's October given that months historic crashes), but so far we have seen more volatility than outright decline.

Recently marker breadth has weakened, only heightening investor concerns about seasonal weakness, and investor sentiment readings have actually showed bearish sentiment building with the market within 1% of its high. So even a small decline in the next week or so would likely see sentiment get to levels normally associated with a market low not a top.

In a tipsy turvy Covid world perhaps the market doesn't present seasonal weakness at all, and shrugs off these concerns and continues it's advance. We think there is a good chance of that happening as the bigger cycle just doesn't appear complete as of yet. So after a summer of surprising strength, we might just see a Fall without a fall, and that would continue a year of surprises.

The problem with further gains is that it would leave markets very stretched in terms of valuations, and at a time when the Fed starts to actively talk about tapering QE. That could leave the market vulnerable to a pullback around year-end, at a normally seasonally strong period of time. That too would be a surprise in a year full of them.

Over all we remain positive on stocks since the economy remains solid, and yields haven't risen enough to hurt the economy. Even if there is a hiccup in the seasonally weak month of September, we think there will be a rally on the other side of it. We see some concerning signs building, but they are far enough off that we still believe in solid upside potential in the coming few months.

9/11/01

It's now 20 years since 9/11/01, and it seems both so far away and yet still painfully fresh in memory. We were in our center city Philadelphia office when events unfolded- and there were concerns of more attacks on other cities populated areas. It was terrible seeing those images and wondering whether folks we knew in affected areas were ok. Let's all hope we never have to experience anything like that again.

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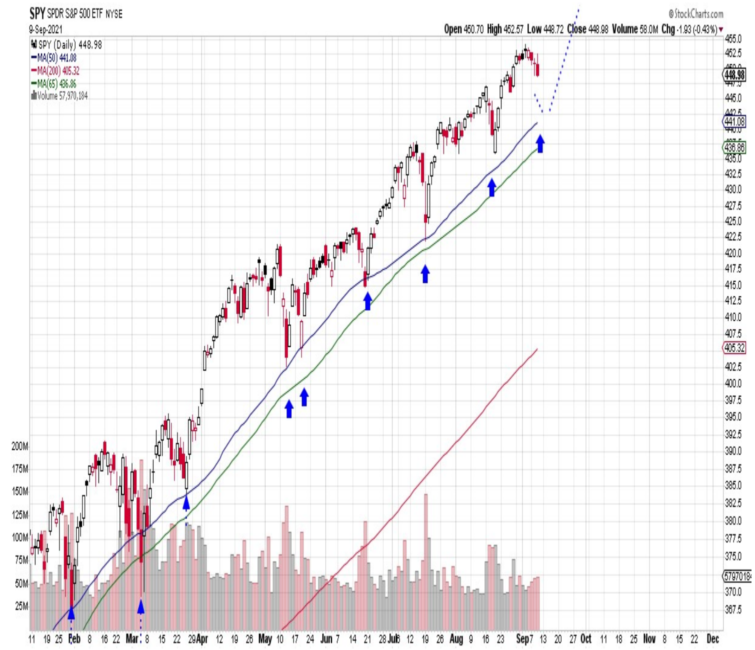
Market Charts

S&P 500
The stock market had a very good first half of the year, and that trend suggested a continuation of that strength in the second half. Historically such strength leads to gains of nearly double digits the rest of the way. We are nearly 3/4 through the year and that market strength has remained. We could see a really strong couple of months to close things out—perhaps better than most expect. Seasonal weakness has many on guard, so perhaps the market will trick the majority once again with a big move. For now the uptrend remains intact and corrections have held at their key moving averages (arrows and blue/green lines illustrate this).



Interest Rates—10 Year Bond Yield
If the stock market is the 'heart' of the economy, then interest rates are its 'blood pressure'. That said, we like to see rates show signs of life but not too much that rates rise enough to hurt the economy. Conversely, if rates fall too precipitously it would suggest the economy is weakening suddenly, and that we don't want to see either. We want Goldilocks rates, not too high nor too low. In that regard things are going well, with rates not near the higher warning and danger zone levels shown on the chart, but neither have they dropped low enough to signal a slowdown.