Hamilton-Bates
Market Update

October 17, 2023

Seasonal Pullback Came Right on Schedule—Should Set Up for a Rally Into Early 2024

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Seasonal Correction Sets Up for Bull Run
Seasonal weakness has taken all the froth out of the market, and exuberant sentiment has now turned cautious or out-right negative. We remain pretty confident in the near-term durability of the economy, and the set-up now for stocks (especially large-cap tech) is now pretty compelling. The longer-term trend remains intact and now bullish seasonality and buy-backs should send stocks higher into year-end. Against all that we remain wary of the risks from higher bond yields and now political risks from the Middle East. However, on balance the odds favor higher equity prices.

The Economy, the Fed, and Interest Rates
Everyone is so certain the economy is slowing or soon will, but it continues to defy the predictions. We are even surprised at how resilient the economy seems to be in the face of rate spikes, inflation, and now geopolitical uncertainty. With so much noise out there, it seems the answer is pretty simple. If Americans have jobs (they do), they will spend (they are). That means the labor market is the key, and last week's 336k payrolls print speaks loudly that the economy is still ok. As for earnings, on this front as well things are looking better than expected. Wall Street always shoots too high at peaks and too low at the troughs. It seems that earnings troughed two quarters ago, and results that are now being announced should show moderate growth of 7-8%. Big-cap tech should continue to lead the way, and if their earnings remain strong it will likely provide enough momentum to carry the market higher into 2024.

The Fed seems near and end to its rate hike cycle, with perhaps one or two more quarter point hikes before its all said and done. The financial markets have likely priced this in, and are also in the process of pricing out expected rate cuts in the first half of 2024. It looks like rates will be 'higher for longer'. This is fine by us; as we believe stable interest rates is better than herky-jerky moves up and then down to zero. Such moves create massive asset swings one way and then another. Holding rates above 3% and letting long-term rates normalize in the 3-6% range would be best for the economy <u>and</u> main street.

The Stock Market & Investment Outlook
Our **Big Picture View** on the stock market hasn't changed. We believe 2023 will be positive for stocks, a bit of a breather between a tough 2022 and what could be a tough 2024. That has generally be correct although it has been an uneven and choppy market rally so far. The rally has been lead by large-cap technology firms and energy stocks. Two sectors that have favorable fundamental tail-winds.

Much of the rest of the market has struggled, as have bonds. The bond market is currently muddling through its worst bear market in history as rates jumped from near zero to above 5%. We have been underweight bonds for awhile now, years really, as the trend and risk/reward has been unfavorable. That is a long-time for a balanced manager like ourselves to be avoiding bonds, but it been the right call. Extra cash in portfolios now yields above 5% and in our view fills the fixed income role as we ride out the rise in yields. With yields now above 5% across the yield curve, fixed income is becoming much more attractive. We are being patient here, as there could be a bit more to go before bonds bottom, but we believe they will. <u>2024 could be the year bonds turn the end of the bond bear</u>.

As for equity holdings, we continue to favor solid dividend payers. Large-cap continues to dominate, as these companies have the financial where-with-all to handle challenging economic and funding environments. We added to holdings during October weakness and we look for stocks to eventually rebound and rally into year-end.

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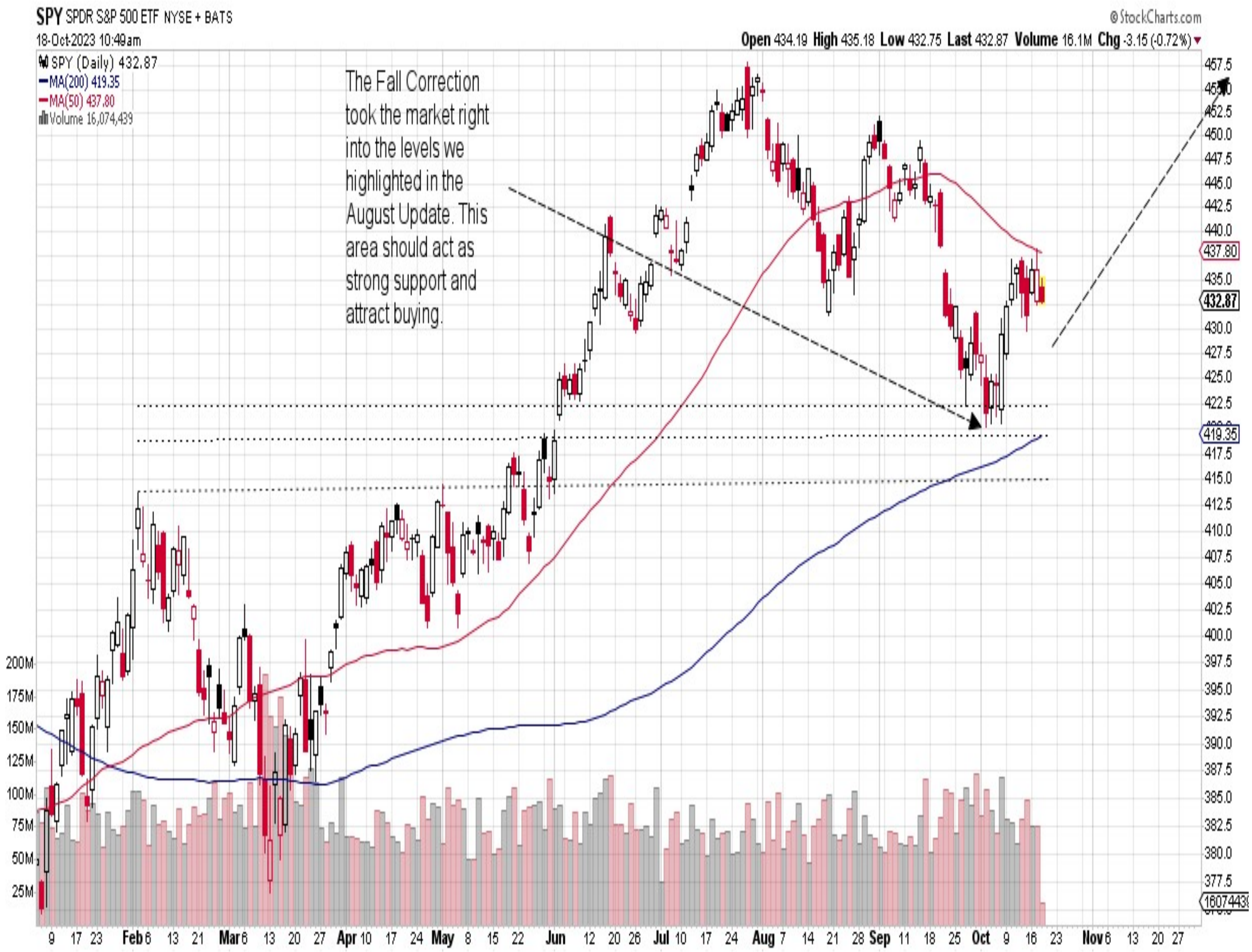
Market Charts: S&P 500—A Pause After a Five Month Rally



S&P 500

The trend upward from the October 2022 lows is shown in the chart above, with the S&P moving up and to the right in a general upward trend. Of significance is the 'breakout' in June above the February peak, which saw an accelerated rally into the Summer high in late July. From there we have seen typical seasonal weakness, with a correction coming back down to test the breakout level and the long-term moving average (blue line). **We believe most of the corrective selling is done, and the market will hold key levels around 4200 on the S&P. From there we believe stocks should rally into year-end and early 2024.**