Hamilton-Bates
Market Update

November 17, 2023

The Correction Has Run Its Course and Seasonal Strength Should Carry Stocks Higher into 2024

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Accurately calling the market is never easy, but there's often some narrative pointing in one direction or the other. The past few months, however, there's been too many moving parts — including the conflict in the Middle East, bond market volatility, the trajectory of inflation and Fed interest rate policy. That created a great deal of uncertainty and trepidation ahead of 3Q earnings season. This uncertainty manifested itself in the form of a correction in stock prices, which is pretty much what the stock market does in the face of lack of clarity—it declines. For our part we have felt that despite the uncertainty the market would end up doing what it normally does—hits a Summer peak and drops into a Fall low. That is how things unfolded.

Seasonal weakness came in on que and seemingly went out on que as well. November has fulfilled its trend as a strong month with stocks rebounding smartly off of the Fall Lows. We now head into the Thanksgiving Holiday week on much stronger footing and we believe seasonal strength should carry the financial markets upward into early 2024.

The Economy, the Fed, and Interest Rates

In the long-run earnings strength drives stocks, but there are short-term dips and detours. Q3 earnings are now largely in, with 80%+ of companies beating expectations and earnings growth coming in modestly better than expected. What has really helped this earnings season is simply that things haven't been as bad as had been expected—so this season has been a relief. While most companies state the future is uncertain, the outlook for growth is 5% for 2024 and 2025. These aren't big figures, but allow for a rise in stocks into 2024—<u>especially if interest rate pressures ease</u>.

As for the health of the economy itself, given the structure of the US economy things always start and ends with the labor market. Recent reports suggest loudly that the economy is ok—but slowing. As long as Americans have jobs they will spend—so as long as the labor market doesn't fall off a cliff—the economy will be ok.

Oil Market as a Warning

Oil prices move with the economic outlook long-term, and in the short-term with geopolitical events. Oil surged 30% after the Russia/Ukraine invasion, and briefly higher in the wake of the Israel-Hamas conflict ; but it has since rolled over to fall near yearly lows in the low $70's a barrel. This is great in some ways as it lowers inflation and helps consumers—but should oil continue to fall it would tell us the economy is a lot weaker than most believe and would elevate our concerns for the economy in the latter part of 2024.

The Stock Market & Investment Outlook

For the financial markets the driving issue has been the persistent rise in rising short-term interest rates by the Fed and the concurrent rise in long-term yields putting pressure on all types of risk assets; especially real estate, long-term bonds, small cap stocks and bond proxies such as utilities all at once. Rising rates, and in particular rapidly rising rates as we have seen are especially pernicious as the pressure on risk assets simply gets heavier and heavier as rates rise.

This has seen the stock market treat 'good news' as 'bad' once yields pushed above 4% - and even more so above 5%. Ideally we need to find some sort of soft landing that brings growth down to a 1-2% range without an eventual come down into a recession. Recent inflation data has seen a clear deceleration, and this has the market finally believing the end of rate hikes is near. The release of this downward pressure is what allowed stocks to rise so quickly the past few weeks.

The market has started its year-end rally as we thought it would—and we added to stocks in September and October. We have more to do, but the market has come along way a bit too quickly. Odds are we'll see stocks consolidate somewhat from here. We don't expect a big retrenchment, more of sideways movement before the next leg higher takes hold. Buy the dips. Enjoy the Holiday.

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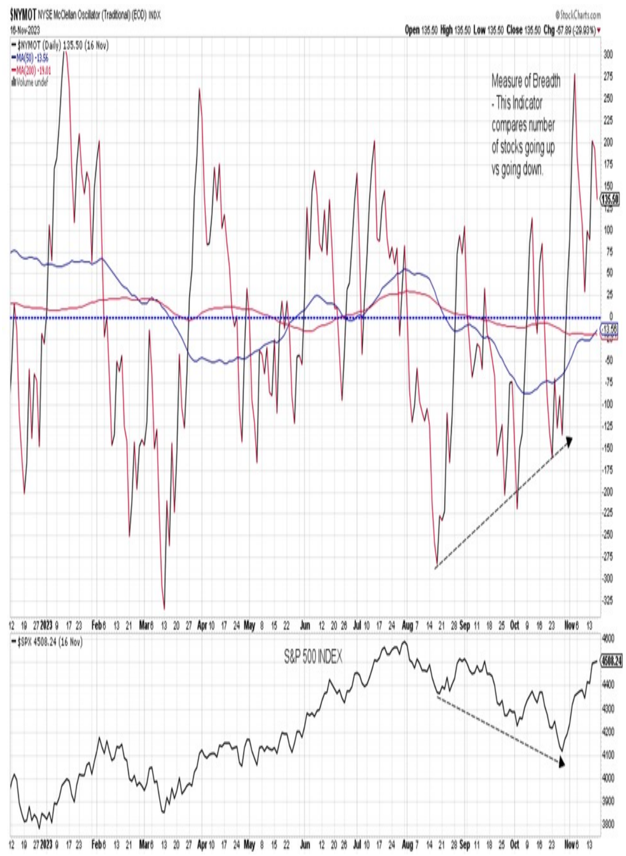
Market Charts: S&P 500—Rally Resumes



In the chart **above left** the S&P 500 stock market index can be seen, with the Summer peak just about in the middle of the chart. The Fall decline came in 3 choppy waves, culminating at the October low just a little lower than our target lines (horizontal across the chart). Since then it has spiked higher on better inflation data (meaning no more rate hikes), but a pullback from here seems likely.

The chart **on the right** illustrates this point—with the S&P 500 this time in the bottom panel, along with a technical market indicator on top. The decline in the S&P is shown with the falling arrow in its panel—while the indicator in the top panel saw its lows make each low at higher levels—the rising arrow in the top panel. This told us that the selling was abating even as stock prices hit new lows, and illustrates how our tools help us stay steady and on the right course. Now—this same indicator suggests a breather is due. The S&P has pushed higher while this indicator has not followed suit. A bit of market rest is likely, and would be a pause to refresh.