Hamilton-Bates
Market Update

March 13, 2024

P.O. BOX 98 Mertztown, PA 19539 877.768.4247 www.hbir.com

Is the Bull Getting a Little Tired?

The markets started off the year a little hung over from the late run in 2023. We stated then that this was fine and we expected a strong first half of 2024. That has indeed come to pass with the financial markets picking up where they left off in 2023. In fact, the 5 month gains of 20% in the stock market have only happened 10 other times in history. Most of those were coming out of a recession, which we did not technically have. We did see 2 quarters of slightly negative GDP growth in 2023 but nothing remotely resembling a recession. In our view the Fed pivot has been a main driver of the move, along with the enthusiasm for the AI space. NVDA and the chip stocks have been tremendous leaders. It does seem a bit frothy, and a seasonal pullback into April would make some sense here.

The Fed Pivot Remains Key

We cannot say enough how important it is that the Fed has stalled the rate hike cycle. The market rallied into year-end on hopes for rate cuts. The strength of the market and the economy have so far pushed these off, and it has not hurt stocks. This is a positive. Clearly the market is pricing in a lower inflation (2-3%) and low growth economy. Earnings have held up well—especially in tech. If earnings can remain strong the market can continue to rally. As long as the Fed does not need to return to rate hikes the market will be fine.

As for the economy, we continue to see things as 'O.K.'. The job market remains strong enough to keep plenty of Americans employed and as long as we have a job we spend. However, any cracks in the labor market will be a red flag should they appear. This continues to be our main concern and is something we are watching closely.

Cryptos are Back

Cryptocurrencies are hot again, largely on the approval of ETF's that now allow big and small investors to buy crypto in their investment accounts rather than just through apps like Coinbase. Cryptocurrencies are encrypted and exist only in digital form, and most of them are limited in quantity—the Bitcoin float is limited to 21 million BTC. Thus they cannot be created beyond that amount. Some see this trait of bitcoin as making it a store of value, much like gold. Gold cannot be printed, and there is a finite supply—thus gold has been seen as a store of value for millennia. We are old school and prefer hard assets like gold and silver, but crypto can have a place in portfolios. We prefer the two biggest—Bitcoin and Ethereum. If anyone has interest or wants more information please let us know.

The Stock Market & Investment Outlook

Rate cut expectations have been pared back but this has not stopped the stock market in 2024. Inflation has come down, but remains stubbornly stuck around 3%. This has kept the Fed in limbo—not cutting but not hiking either. So far the market has liked the Fed on the sidelines.

Our 2024 outlook is based on a resilient U.S. economy and a consumer that, while not seeing outsized job or income gains; is still spending. With employment still strong, a very resilient economy will continue to allow for modest earnings growth. Fed Policy is no longer a headwind, and it could very well become a tailwind once rate cuts arrive. We remain bullish for the first half of 2024 at least, with a bit of seasonal weakness into tax time—as investors pull liquidity to pay the tax man.

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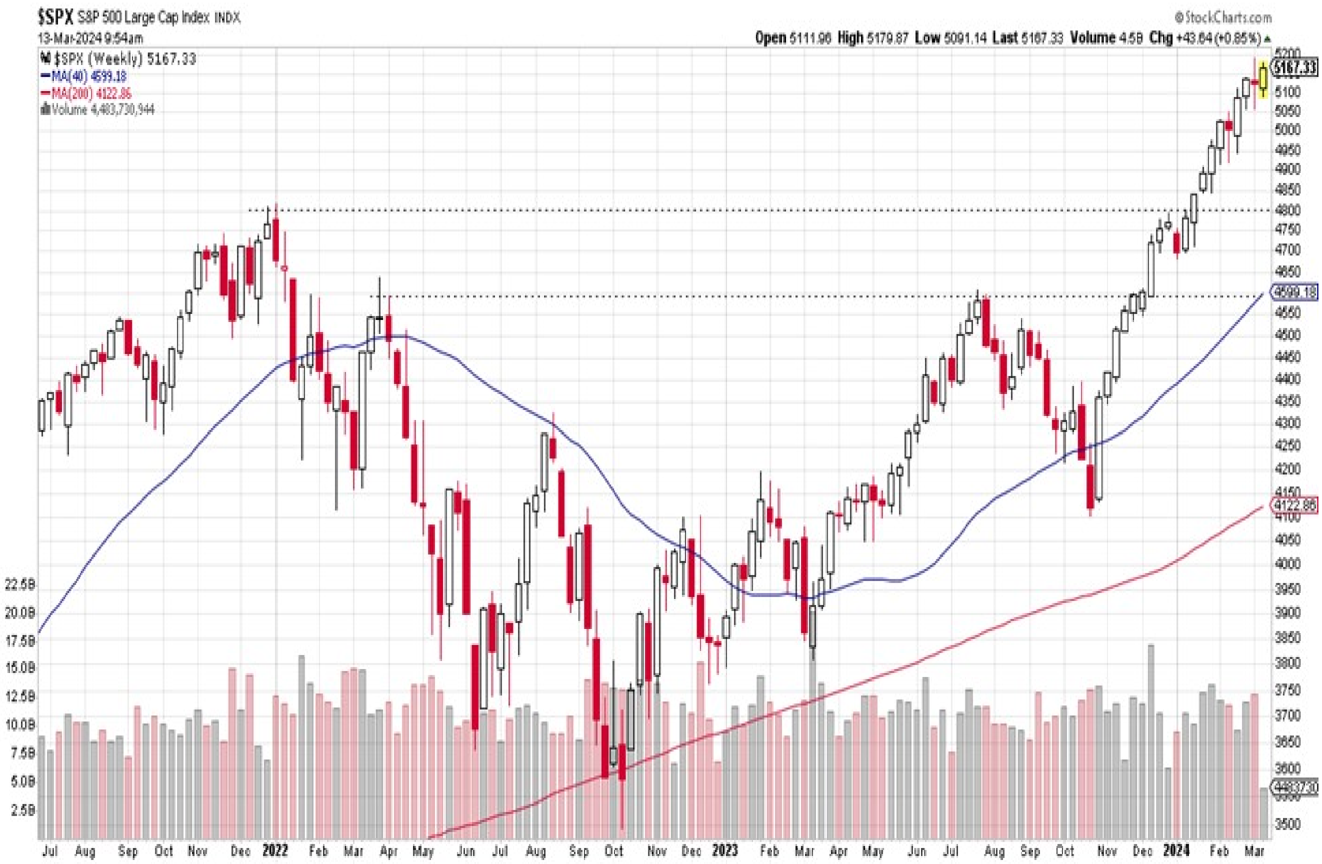
Market Charts: S&P 500—Rally Strength Implies New Bull Market



S&P 500 Chart (Above)
The market has broken out to new highs, after pausing a a bit around the New Year at the old peak (around 4800) - this is shown by the top horizontal line. Since taking out the 2021 peak stocks have moved steadily higher. Market internals have confirmed the move, with the advance-decline line making a new high as well. The market hasn't done anything 'wrong' yet, but it is pretty extended above its 50day and 200day moving averages (shown in blue and red respectively). Normally when a market or stock gets very far above these averages it starts to get pulled back toward them. This can happen with a pullback, but it could also happen with a period of sideways action. For a number of reasons we would expect a bit of a consolidation, but we expect strength into mid-year.