Hamilton-Bates
Market Update

April 11, 2024

Pause to Refresh

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

The market rally has continued as we start the second quarter, but things have definitely become more labored. The reason for that is inflation. Inflation data has remained elevated, and has not come down as quickly as the Fed and most economists have expected. This has put pressure on the bond market, sending bond yields on the long-end higher, back near the 2023 highs.

These higher yields have in turn started to pressure many sectors, which is now weighing on the averages. In our view the market is showing weakness during what is traditionally a weak period (the first few weeks of April into tax season), but should rebound to make another rally attempt into early summer.

What is Inflation?
Inflation is a hot topic right now but it can be a little difficult to understand, and how it fits with portfolio management. We'll go through a quick primer. Simply put inflation is the loss of purchasing power. It happens over time, and over very long periods of time it really jumps out. When you watch an old episode of the Waltons or old movies and see how little things cost—penny candy, gas tank fill-ups for a buck or two —those price changes over time are due to inflation.

These changes happen over long periods, earnings inflation the moniker the 'invisible thief'. But it can really be an issue. Since 1913 the US Dollar has lost 96% of its purchasing power. This means you'd spend 4cents in 1913 for something that would cost a buck today. I chose 1913 because that is when the Federal Reserve was created. Coincidence? Maybe not.

Since 1971, when the US went off the gold standard and moved to true FIAT currency (money backed by nothing but faith in the govt), the US Dollar has lost 85% of its purchasing power. More recently, since 2019 (pre-covid), the US Dollar has lost 20% of its purchasing power. That might even be low—it seems like things are up more than 20% since then—but we'll use these govt figures for illustration. That is still a lot of purchasing power to lose if your income didn't rise by 20% since then.

What We are Doing
Inflation was pretty tame for a long-period of time, until the combination of excessive government spending since COVID, supply constraints, and high government debt levels combined to get inflation out of its decade long slumber. We believe the next decade may be like the 1970's—where periods of high inflation came and went. During this period there were opportunities in other sectors like precious metals, miners, material producers, and small-cap stocks. We will look to these areas to add to portfolios where appropriate to help protect portfolios from inflation. Rest assured we are on the case. Our portfolios will evolve to handle changing market conditions.

Stocks in general are an inflation hedge, and unless there is rampant hyper-inflation stocks should do ok even during inflationary periods until the Fed hikes rates to high enough levels to create a recession. That is not happening now, and the current Fed seems very reluctant to create a recession. This may mean no hard landing, and an economy that has to deal with inflation of 2-3% rather than the sub-2% the Fed was targeting. Stocks can do well if that proves to be the case. We are treading carefully in bonds, preferring floating rate bonds, inflation protected bonds, and shorter-term maturities. During periods of inflation these segments of the bond market do comparatively well.

Stock Market and Investment Outlook Now
The market is undergoing a bit of a correction now but we believe it will be short-term. The Fed seems very reluctant to create a downturn. In the wake of the recent hot inflation numbers Fed speakers went out of their way to say they thought the higher inflation data was just a bump in the road. They really seem to want to cut rates—but whether inflation gets low enough remains to be seen. Still the Fed clearly wants to keep the market and economy stable. They are also likely to reduce QT in May, providing more liquidity to the markets. In this environment stocks can rally. We expect them to do so after some April showers.

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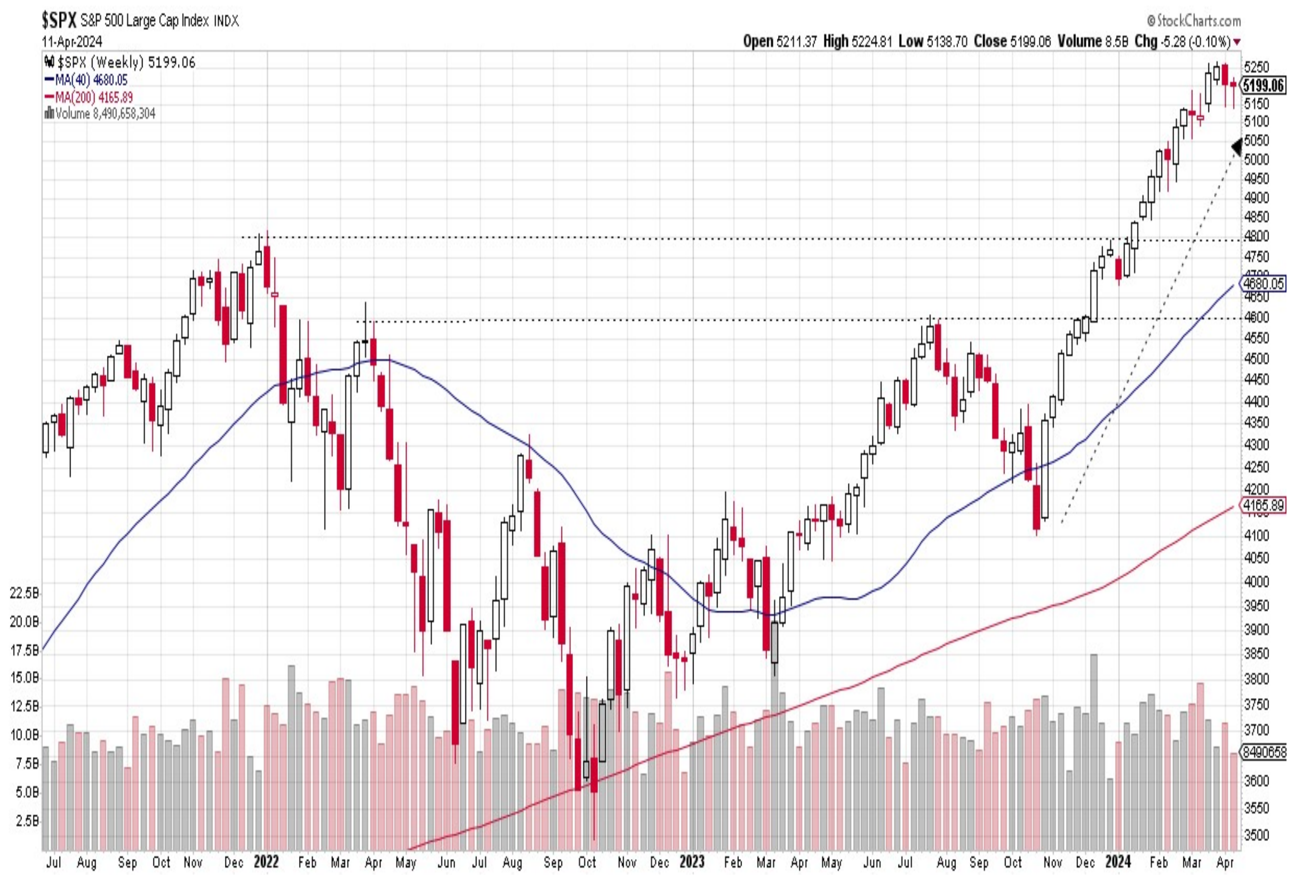
Market Charts: S&P 500—Bull Market Still Intact



S&P 500 Chart (Above)
The S&P has moved above the hold highs around 4800, suggesting the bull is alive and well. There was a brief pause at the beginning of the year around that level but the market has since moved decisively higher. We are once again pausing, this time as inflation has seemed to heat up again put the number of rate cuts expected in doubt. Still, the market hasn't done anything wrong and looking under the hood shows a healthy number of stocks advancing (this is not shown on this chart).

The rally from last Fall's lows (shown by the dotted arrow point up and to the right) has come pretty far pretty fast, so some sideways action is to be expected. We are also in a weak seasonal period around tax-time. Investors sell stocks to pay the IRS their money! We expect this correction to run its course and then allow for another push higher in the summer.