Ridgetop Wealth Management
Market Update – March 2022

Narratives & Data

There are more narratives out there than one can count:

- Continued strong corporate earnings vs slowing growth
- Transient vs "sticky" inflation
- Productive peace talks vs WWIII
- Soft landing vs looming recession

In our business, it is not the news that matters, it is the market's reaction to the news that matters. Regardless of the headlines, data emerges every day which indicates the health of the markets. This daily data can then be analyzed over weeks and months to illuminate actionable emerging trends.

Including the amount of overall speculation present (measured by margin debt: borrowed money to buy investments), high corporate price to sales ratios, and several other indicators at historically elevated levels, we were vigilant coming out of Q4 of last year. It was not until around the time of the Russian invasion though that internal market price action like the advance-decline line, (which measures the volume of advancing stocks to declining stocks), started to illicit a greater cause for concern.

While it is an exercise in frustration to attempt to call every little twist and turn in the market, as money managers we want to be proactive in neutralizing risk. There have been some improvements in the technical picture over the last week, but we continue to find it prudent to proceed with a level of caution and elevated vigilance.

Inflation

In our last market update, we discussed the likelihood of declining inflation in the latter half of the year. It is still very likely we are coming off peak levels caused by supply chain disruptions, but geopolitical developments and surging commodity prices over the last month are going to make inflation pressures stickier than we would have hoped.

Recession?

No, there is no evidence of a recession in the near-term, but indication of a slowing economy is emerging[1]. The Leading Economic Index (LEI) improved by a modest 0.3% in February, yet the Conference Board still warns of challenges to growth in the months ahead. And while companies continue to make money the earnings cycle is transitioning from its most bullish phase into modest headwinds in our opinion.

A lot is going to depend on the attitudes of the consumer over the coming months. After all, consumer spending comprises roughly two-thirds of U.S. GDP. Consumer Confidence surveys, which reflect how consumers see the broader economy, looks to have peeked mid last year but is still strong as people see an abundance of job openings and rising wages. On the other hand, Consumer Sentiment has recently fallen to levels only seen during recessions[2]. Consumer sentiment is more of a measure of how people

[1] The Conference Board

[2] InvesTech Research

feel about their own personal financial situation. If consumers do not feel good, they are not going to spend, which could be a meaningful hinderance to the economy ahead.

Synopsis

In our opinion, like many crisis events before, the market is currently oscillating between over-sold and over-bought conditions. Oversold: between February 2nd and mid-March the S&P 500 had not risen more than two consecutive days; a span on 27 trading days. Over bought: last week the S&P 500 had four consecutive days of at least a 1% gain, a feat accomplished only four previous times over the last 85 years[3].

While our base case is that this is a correction amidst a secular Bull market which started in 2009, we do see elevated risk and prudence in proceeding with caution at this time. Last week's positive market momentum has given us some significant bullish hope, but we need to see further improvement in the technical picture before we will confirm.

Sincerely,

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[1] The Conference Board
[2] InvesTech Research
[3] Ned Davis Research

[3] Ned Davis Research

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