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The Howard Group
Market Commentary

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Price Action
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-Gray Howard, Senior Portfolio Manager

There has been a lot of bad news thrown at the stock market as of late, yet the S&P 500 is up around 18% from the October low and 7.5% in the first quarter.1 While many have challenged my view, I continue to believe the market bottomed in June of last year, had a classic retest in October, and now we are seeing the typical signs of an early bull market advance. This resilience has caused many pundits to double down on their cautious or bearish narratives, often saying the market has it wrong.2 While that could turn out to be the case, putting one's opinion over price action is a very dangerous exercise. 3 As I mentioned in my February note titled, *Look Forward, Not back:*

"It's important to understand what actually moves markets. It's not retail investors watching CNBC or reading the Wall Street Journal, but the collection of large institutional interest such as hedge funds, pension plans, and mutual funds. Considering their size or the amount of money they manage, it can often take weeks if not months to complete a buying or selling campaign. Therefore, the last thing, in my view, they would want to do is advertise their research before they have bought or sold a sizable position. This is often called buy side research as the analytical work is not intended for the public, but only used to increase shareholder value for the particular fund. Conversely, sell side research is what the public receives through major brokerage firms and is designed to sell products and services which is why market strategists and analysts are so often a day late and a dollar short."

Again, this is why it is so important to listen to what the market is saying as opposed to a bunch of opinions. Take for example homebuilding stocks, why would anyone want to buy anything tied to housing if we are staring down the barrel of recession, yet these stocks did not make a new low in October and are now up 47% off their June low.1 The same goes for Technology stocks as it's hard to find a single Wall Street firm that is overweight the sector, even though tech is up 30% from the October low.2 Meanwhile defensive sectors like consumer staples, utilities, and healthcare are down to flat for the year. 1

So is the market completely irrational and disconnected from reality? Not at all in my view, as these economically sensitive areas got crushed last year in anticipation of a slower economy and the Fed killing the liquidity driven speculation that was rampant in 2020 and 2021.1 Since October, large institutional investors have likely been picking up the pieces of quality businesses that should do well as the economy cycles back up into 2024. All the while, using the defensive areas that worked well LAST year as the funding source for new purchases.

Furthermore, we continue to see negative outflows from mutual funds and ETFs as retail investors continue to capitulate and provide fresh supply for these large funds to gobble up. 4 While tragic, this is often a key hallmark during the early stages of a bull market.4 All the reasons why it is important to have an open mind, turn off current news as most has been priced in, and focus on the price action for clues as to where the economy will be in six to twelve months.

Investing is all about the future but unfortunately it's human nature, even for the so called experts, to get stuck in the present.

As always please feel free to reach out if you have any questions or comments.

All the best,
Gray

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Sources

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