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The Howard Group
Market Commentary

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Glad Tidings
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-Gray Howard, Senior Portfolio Manager

The most consistent and predictable factor of investing is certainly human behavior.[1] Even with today's advanced trading, there are still individuals behind the algorithms that are subject to the same innate biases we all face.[1] Famous investor, Jessie Livermore said over 100 years ago, "Wall Street never changes, the pockets change, the suckers change, the stocks change, but Wall Street never changes because human nature never changes." [2]

Recall the overarching pessimism on Wall Street at the beginning of the year as many believed a recession was just around the corner. [3] In fact, I remember being at a conference in February and hearing a market strategist recommend remaining in cash until we see two negative employment reports. While it certainly sounded intelligent, the S&P 500 is up almost 20% year to date, and we have yet to see a negative employment print. [4]

Of course, some will argue that hindsight is 20/20 but markets are forward looking and after a 25% drawdown in the S&P 500 last year and 36% for the Nasdaq, the odds seemed pretty high to us that 2023 would be a pretty good year.[4]

In fact, we titled our 2023 Outlook '*Animal Spirits'* as I felt the consensus narrative was way too bearish and investors would eventually have to throw in the towel and embrace the bull market that began in October 2022. However, I've said many times that the stock market actually bottomed in June of 2022 and the October low was just a classic retest as several of the economically sensitive areas, like the homebuilders, did not make a new low .[4]

That said, I totally understand why investors have been reluctant to embrace this rally considering the long list of things to worry about, but at the end of the day it all comes down to investor's expectations and positioning, in my view.

For example, coming into 2023 investors were expecting the worst and had already positioned very defensively and this defensive positioning is the very reason why markets tend to have limited downside as there's essentially no one left to sell.[5] Conversely, heading into 2022, investors were way overweight growth stocks and once the Fed started to raise rates, it was the very act of these investors bringing down their exposure that caused the market to adjust lower. Economics 101- supply and demand.

After the market soared higher through the spring and early summer, the consensus on Wall Street was starting to warm up to the bullish narrative, however, everyone seemed to be waiting on a pullback. [7] But when a healthy 10% correction finally arrived in early August, the narrative flipped right back to overarching pessimism. In fact, according to the National Association of Active Investment Managers, asset managers reached their lowest exposure of the year the week ending October 27th.[6] Since then, the S&P 500 has rallied around 10%. [4] Again, human behavior never changes.

So where do we go from here?

After this latest ramp, the market is in slightly overbought territory so I'm expecting some consolidation from here. However, I still think too many investment managers are offsides and will have to chase into yearend. Furthermore, market strategists that have been bearish all year, are just starting to begrudgingly upgrade their outlooks for 2024, which tells me there's still gas in the tank as we head into 2024. 8 Ultimately markets find a top when the Animals Spirts finally reach irrational exuberance and we are a good way from that, in my judgement. So, in the meantime enjoy the holidays and the glad tidings.

Lastly, in the spirit of Thanksgiving, I got into this business when I was 22 years old thinking I was going to be some hot shot portfolio manager, not understanding that you actually need clients first. After a decade of cold calling and pounding the pavement, thankfully enough people were willing to give me a shot. So, for all those that have entrusted us with your hard-earned money over the years, I want to say thank you for allowing me to do what I love to do.

All the best,

Gray

Please note: *If you do not have assets under management with our group and would like more information, please let us know.*

Also, If you've been forwarded this email and would like to be included on future commentary, please feel free to reach out to hilary.miller@ubs.com.

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