CONWAY• JARVIS LLC
Investment Outlook

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Update

The Bear Market Box Has Been Checked

Traders and investors took a breather Monday after last week's market tumble to a new post-pandemic low. Volume was light, the indexes mixed, and generally flat. Tuesday's rally was erased the following day with frenzied selling and the year's biggest one-day decline of the S&P 500. The breadth of that dive points to forced selling in the stock market. That's where borrowers on margin and pledged equity lines of credit are required to sell and meet capital maintenance calls in their bank and brokerage accounts. The collapse of crypto assets could be an added factor if purchased with equity-based leverage. Forced liquidation is a common trait of most bear market declines. That threshold was breached this morning. The S&P 500 officially joined the NASDAQ in posting a drop of more than 20% from its previous high.

With that box checked, we'll return our focus to news of the economy rather than the noise emanating from the market. This week's economic data belies what stocks are telling us. Industrial Production remains robust and could be signaling an easing of supply chain woes. Retail Sales data showed an upward revision of past gains and continued growth in the willingness of consumers to spend. When considered with current employment data, we find it difficult to envision recession as a foregone conclusion as some market seers have. Of course, they're basing that on the premise that the only cure for what ails us, Inflation, is a recession curated by the Fed. While that could be what's required in the end, it's by no means assured as some "experts" would have you believe. We're seeing signs of inflation easing in the next 4-6 weeks. We'll watch what conditions shape the Fed's policy response in the coming months rather than rely on the "crystal ball" predictions of future actions by the Fed.

We've seen brief glimpses this week of selective buying of relative value in some individual names. That's an encouraging sign of some investors viewing current market conditions as an opportunity. We'll need to see more of that before predicting any level of market support and an end to the decline. We agree with the analyst who said this week that, while it's too late to sell, it's a good time for those with a long-term investment horizon to be choosy and deliberate in buying quality issues at rational P/E multiples. Be mindful that not all of the favorites of the past bull market will return to their glory. Some mega-caps and most meme stocks will not likely revisit their highs beyond the longest of investment horizons. Avoid them.

We expect the current volatility to persist through May as more economic data is made available. Mark your calendars. All eyes will be focused on the next CPI report of June 10 and the Fed meeting of the following week. We'll continue to update you weekly. Stay tuned.

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