

CHART OF THE MONTH

FEBRUARY 2023

As shown in the graph below, the S&P 500 charged ahead in 2021, peaking at approximately 4,800 in late December and early January. The index subsequently fell more than 25% to roughly 3500 in mid-October. We believe the market bottomed on October 13 when it made a 5% intra-day reversal to the upside. It then climbed 17% to its rebound high to nearly 4,200.

While the S&P 500 has given back 5%, it is our belief that the market may be in the early stages of pivoting from lower highs and lower lows (identified by red lines) to higher highs and higher lows (green). The index will need to stay above 3,800 and rise above 4,200 on the next advance to keep this latest trend in place. It is also encouraging that the S&P broke its downtrend at 4,000 in late January (green circle).

Although there are no guarantees that the market has reversed course for good, we believe it's too late to be bearish but recognize it's too early to be overly bullish. Meanwhile, the bears think the S&P 500 will make new lows while the bulls argue that the index will break out to new highs. We would be surprised by either outcome. Instead, we see a choppy market that trades mostly in a range of 3,800 to 4,200 over the near term.

The market is conflicted by two adages: (1) Don't fight the Fed and (2) Don't fight the tape. The Fed, which has been raising interest rates to combat inflation, continues to be a negative influence on the direction of stock prices. The tape, on the other hand, is generally positive based on the "trend is your friend."

January's month-over-month Consumer Price Index (CPI) and Personal Consumption Expenditures Index (PCE) were hotter than expected, albeit the year-over-year inflation rates are down meaningfully from the highs last summer. February's CPI and PCE will be released on March 14 and March 31, respectively. The Federal Open Market Committee (FOMC) is scheduled to meet on March 21-22. The Fed Funds Futures Market is currently placing a 78% probability of a 0.25% (25 basis points) hike to 4.75-5.00% and a 22% probability of a 0.50% (50 bp) increase to 5.00-5.25%.

S&P 500
Lower Highs, Lower Lows
Higher Lows, Higher Highs?

