Weekly Market Insights

February 12, 2024

Markets are at Record Levels, Economy is Looking Fine, Consumers Remain Unsure

Financial Markets

United States equity markets continued on their remarkable bull run this past week. The S&P 500 closed Friday's session at 5,027, up 1.37%, marking the fourteenth time in fifteen weeks that the index closed higher. Remarkably, this is the first time since 1972. The other major equity indexes also gained, with the Dow Industrials up 0.04% and the NASDAQ up 2.31%. The interesting question on the minds of many—is the market priced appropriately? While no one really knows for sure, we can look at earnings and the economy for guidance. The first thing to address is earnings. Earnings have exceeded expectations, which is certainly a positive. Much has been said about just a few mega-cap stocks being the primary drivers of this rally. There is some truth to this, but critics have to concede that, for the most part, while the companies' earnings have been very good, their businesses still haven't come close to fulfilling their full economic potential. Investors should keep in mind John Templeton's description of the relationship between sentiment and the investment cycle when he said, "Bull Markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." This sounds very logical, but the question is how do we know where we are? Perhaps, that is where economics helps.

Economics

Nothing on the United States economic blackboard has changed much over the past week, but we are paying attention to six areas: monetary policy, fiscal policy, the real economy, consumer confidence, and international.

Monetary policy in the United States appears to be in a good place, and Chairman Powell has kept investors well informed about where the Fed stands. Their aim, of course, is to first ensure that inflation continues to slow on a clear path to their 2% target. They are holding rates steady and are hesitant to cut too early in order to make sure inflation does not reignite, nor the economy fall into recession. Trying to achieve these goals simultaneously is inclined to please no one. That is probably a positive. Ultimately, we put monetary policy on the positive side of the ledger.

Fiscal policy is in a shambles. This should come as a surprise to no one. The most obvious sign can be seen in the House of Representatives and their inability to pass any fiscal legislation. Somehow the majority party has found themselves in a position where they seemingly cannot internally agree on anything.

Remarkably, the real economy is doing very well. As we know, consumer spending is about 70% of the U.S. GDP, so job creation and unemployment are very important statistics to gauge the overall economy. Employers have been telling us that it has been quite difficult to fill job openings. The latest government release on the quit rate shows that it has been falling, which should relieve some of that employment pressure. Along with this, wage growth has remained strong, particularly middle and lower-wage earners.

Weekly Market Insights

The real question is, why are Americans unhappy and apprehensive about the economic future? To a great degree, we answered that question last week. Although economic statistics indicate that Americans are doing well, they still have fears about the future and displeasure about the cumulative effects of inflation. Their concerns range from technology, particularly AI taking their jobs, to wars in both Europe and the Middle East, to political turmoil at home. As we wrote last week, consumer confidence surveys are showing some improvement, but there remains a lot of doubt.

Conclusion

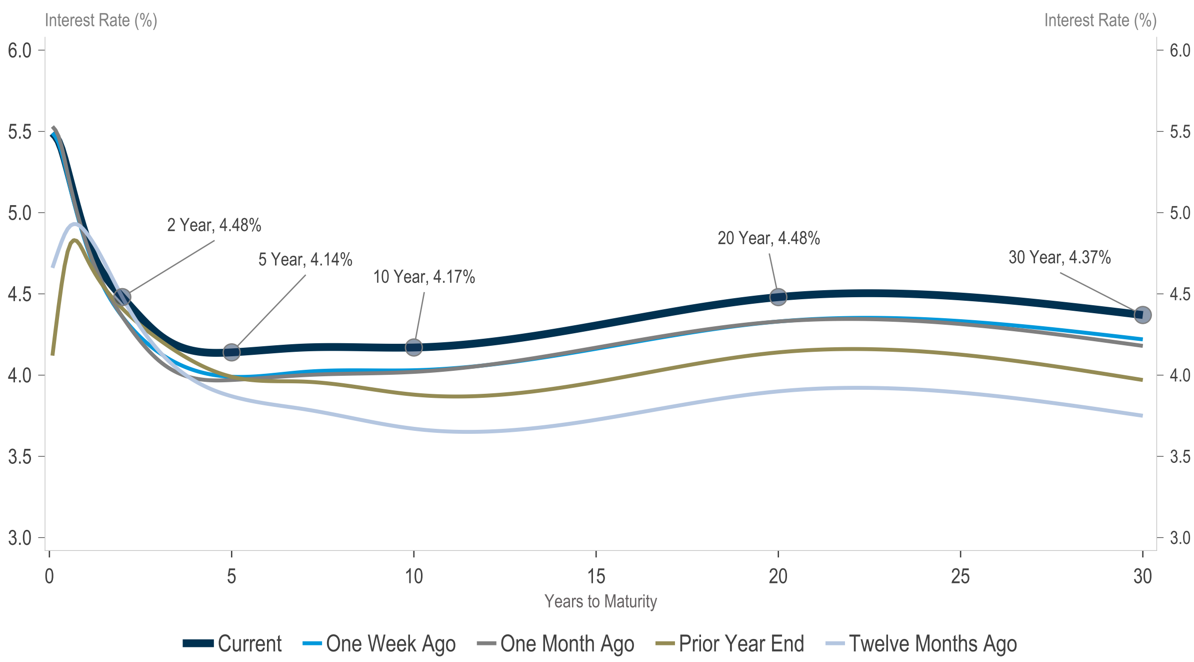
A dominant event affecting both the United States economy and public confidence has been the paralysis of the House of Representatives. The House, of course, is vital to the progress of spending bills. Therefore, bills, ranging from the support of our allies to the federal budget, are dependent on a smooth functioning House. Interestingly, at the moment, Congress' inaction hasn't deterred equity investors. Investors are seemingly choosing to pay attention to economics over politics.

Earlier, we delineated Mr. Templeton's four stages of the investment cycle, keeping in mind that deciding which stage we are in is almost a parlor game. Looking at current market behavior and public sentiment, we seem to be at a point between skepticism and optimism, although some sentiment data is tilting towards optimism. Having said that, we don't think there is enough evidence to suggest investors move aggressively in either direction, but we are watching for signs of excessive enthusiasm. In our next paper, we take a deep dive into Asia.

We will not be publishing for the next two weeks and will return on March 4.

Yield Curve

Interest Rates for U.S. Treasury Securities by Maturity Date



U.S. Department of Treasury, Daily Treasury Bill Rates Data
Data as of 2/9/2024

Michael Olin Clark
Senior Advisor
moclark@1919ic.com

Ryan Schutte, CFA, CFP®
Senior Investment Associate
rschutte@1919ic.com

Abigail McKenna
Portfolio Administrator
amckenna@1919ic.com

Please visit us at 1919ic.com Follow us

I. Front End Disclosure

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of 1919 Investment Counsel, LLC ("1919"). This material contains statements of opinion and belief. Any views expressed herein are those of 1919 as of the date indicated, are based on information available to 1919 as of such date, and are subject to change, without notice, based on market and other conditions. There is no guarantee that the trends discussed herein will continue, or that forward-looking statements and forecasts will materialize.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all clients and each client should consider their ability to invest for the long term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

All investments carry a degree of risk and there is no guarantee that investment objectives will be achieved.

This material has not been reviewed or endorsed by regulatory agencies. Third party information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

There is no guarantee that employees named herein will remain employed by 1919 for the duration of any investment advisory services arrangement.

1919 Investment Counsel, LLC is a registered investment advisor with the U.S. Securities and Exchange Commission. 1919 Investment Counsel, LLC, a subsidiary of **Stifel Financial Corp.**, is a trademark in the United States. 1919 Investment Counsel, LLC, One South Street, Suite 2500, Baltimore, MD 21202. MM-00000911.

II. Investment Analysis

The information shown herein is for illustrative purposes. 1919 may consider additional factors not listed here or consider some, but not all, of the factors listed here as appropriate for the strategy's objectives.

There is no guarantee that desired objectives will be achieved. 1919 has a reasonable belief that any third party information used for investment analyses purposes is reliable but does not represent to the complete accuracy of such information by any third party.

III. Portfolio Composition

For illustrative purposes. There is no guarantee that the portfolio composition for the strategy discussed herein will be comparable to the portfolio shown here.