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Wealth Partners, LLC

MARKET COMMENTARY – April 1, 2024

Buy the rumor, sell the news. ~Wall Street adage

If it was not on the first day of our foray into this industry thirty years ago, it must certainly have been in the first week that we heard the axiom above. Whispers and innuendo spread on trading floors then as they do on social media today and those traders with a penchant for churning excitement often acted on them. Along the way, prices steadily began to act as if the rumors (and then some) were true, marching upward. Finally, when the actual news corroborated the initial stories, prices often took a tumble.

We wonder if some of the march higher in stock indices this year is a case of buying the rumor. To be sure, revenues and earnings are growing for US multinational corporations, justifying some of the gains. But what if at least a portion of the positive return in 2024 is due to the embedded expectation of rate cuts by the Federal Reserve?

Let us begin with the counterargument. The market began 2024 with rosy expectations for seven cuts by the Federal Reserve this year. It was broadly assumed inflation had been vanquished and we could all get on with our lives with a more stable currency. Alas, January and February CPI results proved to be elevated. The number of expected interest rate cuts fell to five, to four, and now to just two. And still, the market remained resilient, climbing amidst the realization that rates will be higher for longer.

These facts demonstrate that the market believes true growth and expansion will more than offset the anchor of higher interest rates. Candidly, we tend to agree with this interpretation. Companies across sectors have learned how to operate more efficiently, bringing more to the bottom line. Similarly, top lines ought to expand as the nascent AI industry is built and then deployed over a host of industries.

Now onto a discussion in support of our initial thesis, that some of the returns this year are mere froth in anticipation of rate cuts. In the hours after the release of the January CPI results, the broad market fell about 2%, indicating worry among traders that inflation had not been conquered and therefore rate cuts wouldn't occur. However, by the next day, words like "transitory" and "blip" began to be employed to describe the extra-hot inflation data from January. Markets rallied, still expecting significant cuts.

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In fact, the "blip" narrative was so fully entrenched that by the time the next CPI data was reported on March 12, and it, too, was higher than expected, the market never skipped a beat. It continued to rally. The "blip" narrative seems to say that the Fed is done raising rates no matter what. The next move must be down. And it must be this year.

The astute readers among you may have noticed by now that we are taking both sides of the issue as we seek the truth. The answer is yes, we are. We think that real growth is likely to continue and perhaps accelerate as the year progresses, buttressing prices.

However, we also think that even if we get one of these fabled cuts in rates this summer, the market will likely take a significant pause, or temporary reversal.

Worse yet, if the "blip" mentioned earlier turns out to be an inflationary phoenix rising from its ashes, there may be no cuts (if the Federal Reserve is serious about its job) and real growth would suffer along with consumers. Prices would likely tumble.

What to do in the midst of this uncertainty? In a general sense, have ample liquidity for living expenses and then maintain an investment portfolio split between stocks and bonds. More specifically, we are holding client portfolios at full weight toward equities with the expectation of fundamental growth for the underlying companies. And in an attempt to mitigate some of the risk for higher rates longer, we maintain a relatively short modified duration for our portfolios. This last fact will protect bond values better than longer dated bonds while permitting us to reinvest next year and the year after at (hopefully) attractive rates.

In the meantime, let none of us get caught up in rumors, tall tales, and momentum. Instead, let us buy sound businesses with competitive advantage, growing markets, and solid margins.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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