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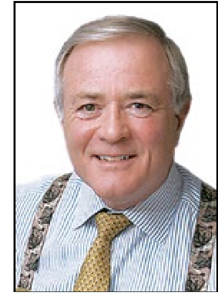
William Rutherford

Bulls vanquish bears; outlook promising for stock market | Opinion

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The U.S. stock market officially entered bull market territory in the first quarter: a 20 percent increase in the S&P 500 from its previous low. By that measure, and according to the S&P Dow Jones indices, the current bull market began on Jan. 19, 2024.

The S&P was up 10.2 percent for the first quarter of 2024 and closed at record highs 22 times during that period – the most since the first quarter of 1998. The Nasdaq rose 9.1 percent and reached record highs three times. The Dow Jones average was up 5.6 percent, with 17 record highs, and was closed in on crossing the 40,000 threshold for the first time. More good news for bulls: of the 16 times the S&P 500 has risen 8 percent or more in the first quarter from 1950 through 2023, only once did the index lose ground for the remainder of the year. That equates to the market having risen 94 percent of the time in years with such powerful first-quarter gains.

Robust economic indicators and company earnings reports are fueling the stock market rally. U.S. gross domestic product (GDP) grew at 3.2 percent in the fourth quarter of 2023. For a developed economy, annual GDP growth is expected to be 2-3 percent. The tendency of stocks in the same sectors to move in the same direction has fallen to low levels, and the equal-weight S&P held its own against the market capitalization S&P. This means that individual company performance is having the most impact on share prices, as the market broadens out from being driven only by AI news. It also means that the indexes may not always reflect how well certain stocks are performing, as moves higher and lower cancel each other out. It was a stock picker's market.

Market watchers are no longer focused on every word of Federal Reserve governors, but rather have come to accept that good news can and is happening without rate cuts. There remains a wide divergence of views as to whether, when and how much the Fed will cut this year, but the stock market does not really seem to care anymore, and the Fed is not in any hurry.

Overall, inflation data reported for the first quarter thus far is positive for economic growth and less so for near-term interest rate cuts. The core CPI reported in February, which excludes food and energy, increased 3.8 percent, on an annualized basis. Some economists had hoped for a slightly lower rate, but others considered it just right – not too hot and not too cold. The Federal Reserve prioritizes the Personal Consumption Expenditures Price Index (PCE) as its main inflation gauge. The CPI reflects what items cost, whereas the PCE measures what consumers buy, although it excludes food and energy. The CPE reported in March was up 2.8 percent, annualized, in line with expectations and not far from the Federal Open Market Committee's projection of 2.6 percent at year end, but still distant from its long-term target of 2 percent by 2026.

The unemployment rate reported in March was decisively indecisive, reflecting a gain from January's 3.7 percent to 3.9 percent. This is the 25th consecutive report of a rate under 4 percent. Job creation, primarily in the service sector (especially hospitality), topped expectations. Payroll processing firm ADP reported jobs growth in March of 184,000 versus 155,000 expected. The JOLT (Jobs Openings and Labor Turnover) was at its lowest level since 2021, which generally indicates a softening labor market as it means people are not leaving their jobs. This should result in less upward pressure on wages and help to tamp inflation – exactly what the Federal Reserve is trying to accomplish with its" higher for longer" interest rates. Initial claims for unemployment are at historically low levels at 210,000 per week. Female workforce participation has shot up and is above pre-pandemic levels, likely due to more job flexibility resulting from COVID workplace realignments. While consumer spending is outpacing income growth, which could portend future cutbacks in purchases, the resilient stock market also means consumers' assets have empowered continued spending.

Are stocks overvalued in this market? The S&P aggregate-forward Price Earnings (PE) multiple estimate is at just over 19 times, which is a 2.91 percent decrease from the previous quarter and a 12.23 percent decrease from a year ago, at the close of the first quarter, according to YCharts. The outperformance of the "Magnificent 7" stocks raises the overall average, whereas the typical stock is valued at 14-15 times forward earnings. Historically, the "normal" forward S&P PE multiple is 20.5 to 29 times, with a median of 18 times, according to GuruFocus.

A bull market does not mean stocks will continue to rise, but it does reflect optimism in the broad economy and expectations for multi-decade productivity and earnings gains. According to the New York Times, the previous bull market lasted less than two years, starting in March 2020 and ending in January 2022. Prior to that, stocks enjoyed a bull market from March 2009 until plunging in February 2020, as COVID-19 became a world economic disaster.

Unexpected events like the earthquake on the island of Taiwan, the world's most important source of computer chips, can cause new supply disruptions. And there is certainly plenty to worry about on the global stage. The record prices of gold and bitcoin reflect those worries. Yet the world is always in flux, and the biggest driver of geopolitical crises is often the price of oil, which has remained remarkably stable, despite wars started by Russia and the Middle East, two of the largest oil-producing areas.

According to Barron's, when looking back at 25 of the most significant geopolitical crises since World War II, the S&P dropped on average 4 percent, bottomed out in 15 days, and recovered in 33. That confirms our oft-repeated recommendation in this column: invest for the long term in a well-diversified portfolio and do not try and time the market.

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