Building your financial future

WIMAN & WONG
Wealth Management Group

March 2023 Comment

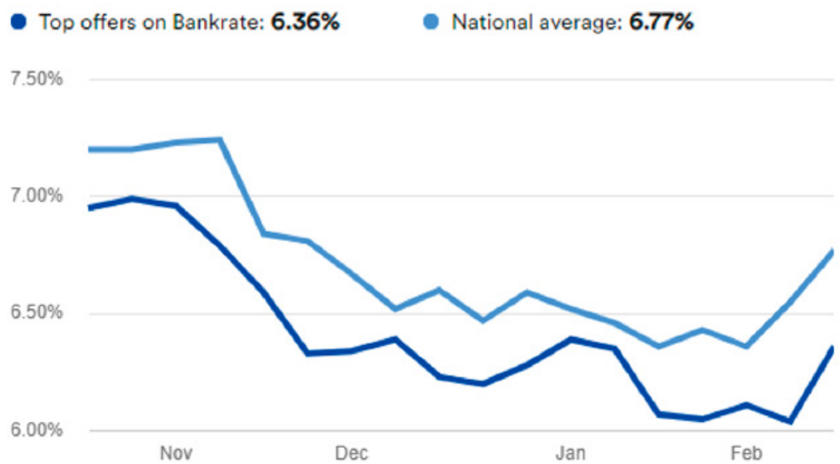
Trendless

We wish we had a better tittle to start the month or finish the month (pending your point of view), but the unfortunate reality of broader market over the past 6 months has generally been trendless. The chart below of the DOW index shows what we have been up against. The six month chart shows that the DOW Index has over the 124 days of trading basically experienced an index that is up 1.23%!

Source Eikon (chart date Feb 21, 2023)

Now clearly by the time you are reading this a lot has likely changed but this is the general observation at this point and the activity on a near term basis say the last four months has been full of head fakes and whip saw action. Ultimately the net result has been trendless.

The question we ask ourselves around this is why? The easy answer would be well it's the market but as we dig a bit deeper, we can see significant arguments on both sides of the bull and bear camp. We know now from strong words from the FED that their job is not complete until we hit 2% inflation, or there is a clear line of sight to that target. The most recent chatter around this is that the bond market is now pricing in a FED rate something above 5%. The rate environment is dynamic and moves around a lot based on comments out of FED participants. An interest way to view this is through the lens of mortgage rates in the US. The chart below is developed from bankrate.com and is a reflection of the rate action on the 30 year mortgage rate in the US (YES you read it correctly a 30 year rate!). The observation is that over the past 4 months the rate has been in a reasonable decline. Most recently however the chatter of higher rates for longer has taken hold and mortgage rates are heading up again.



Source: Bankrate.com

This likely could put pressure on home prices or sales numbers in the US again. Only time will tell.

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A word or two about volatility – Pigs Flying and Crashing

It used to be that for a long time you could rely on the volatility index to provide some sense of market risk. However, in timea like this when the world is somewhat directionally challenged you can kind of through the index out the window. When we looked through the list of names that we could have highlighted it became too long. So, we are just going to say or suggest we have seen or reviewed too many charts like the one below. The name has been omitted to protect the innocent (Flying Pig).

We call these flying pigs because when you drill down to a bit closer view we see these stock moving from December bottoms in this case up 50% but in other cases some names up 100%! Only to start crashing back to earth again (did we use the word head fake or whip saw above?). The name below in the short term was up 48% and is now over the short term again down about 18% in a matter of a couple of trading sessions.

These are real companies with real revenues, but the above volatility is more a reflection of FED reactions versus real or fundamental changes in said companies. Bottom line – challenging to corral flying pigs.

Source EIKON

Source EIKON

Green Shoots

The earnings season has been broadly mixed. There have been some decent observations and some companies are managing the change in the consumption climate. The world is not lost. As we uncover decent dividend yielding names and growth names that have seen valuation reductions, we know they can weather the storms with decent revenue and balanced balance sheets. Some more economically sensitive names seem to be at cycle lows. The reality is that some days it really does not matter, good companies get sold down and others surprise in other ways. Until we get to some broader stability and messaging from the FED that rates have stopped going up it is likely to remain somewhat undecided.

Thanks for reading and enjoy March Break season!

Observation

As Leading Economic Indicators hit or reach the minus 5% reading it is highly coincidental that recessions also occur.

Best Guess

If the FED remains steadfast in continuing to raise rates to get inflation down to 2% the previous graph should/could continue to deteriorate to lower levels (lower LEI and lower GDP).

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