STENGER FAMILY OFFICE
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Dow 38,000

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Plain and simple, we're in a bull market. Call it rolling, cyclical, temperamental, or whatever new buzz word CNBC comes up with, but the Dow hit a record high of 38,000 on January 22nd, 2024. It's not just the Magnificent 7 anymore either. The S&P 500 Index also made an all-time high of 4,850, and the S&P 500 equal weight index is only 2.5% lower than its 2021 peak level. While technology has been the clear winner the past 12 months, almost every sector is making new 52-week highs. The bears have now doubled down on their doomsday predictions assuming what goes up must come down. Obviously, a correction is coming at some point, but we think stocks could continue their upward climb for a while.

This isn't a raging bull market…yet. A raging bull market requires Fed easing and sky rocketing earnings. Right now, the market expects rate cuts. We don't expect 7 cuts like a lot of Wall Street, but we do expect some easing this year. Even without significant easing, we still think large blue chips could continue rallying because they've been largely unaffected by hikes. Take companies like Apple, NVIDIA, Amazon, Meta, Berkshire, and Google for example – these companies have massive stockpiles of cash where they're now earning 5% risk free. At the same time, they refinanced their long-term debt during COVID at rock bottom rates. For many large companies and wealthy individuals, higher rates have almost served as stimulus, exactly the opposite of the Fed's intention.

The extra interest income is fueling further demand side growth. Consumer spending is at record levels, 5.4% higher than last year. Inflation adjusted consumer spending is also up 2.7% since last year, simply put, the Fed has been mostly ineffectual at slowing down the economy. 30-year mortgage rates are also down from peak levels and nearing the 6% zone. Further, 88.5% of households have a mortgage under 6% and nearly 40% have no mortgage at all. We've continued to argue housing prices are likely to rise over the long run because most people don't plan on moving unless rates dramatically drop. To see significant rate cuts, we'd have to see seriously bad unemployment data. Layoffs are undoubtedly picking up, a trend we wrote about April of last year. But there's still plenty of unfilled jobs and companies still desperate to find workers. If unemployment rises past the 5% level, we could see the Fed cut rates sub-3%, but it doesn't seem likely in 2024.

With the S&P 500 Index now approaching 5,000 points, we think portfolio managers and investors who sat out in 2023 will be forced to buy stocks at higher levels, further pushing the market past its fair value. With eventual rate cuts and continued earnings strength, we could potentially enter a raging bull market where the S&P trades at 22 times forward earnings, around 5,800 points. As always, the market overshoots on the upside and overshoots (corrects) on the downside. Don't be surprised if we see stocks rally the next few months and then experience a 15-20% correction. For example, if we rally to 5,800 and correct 20%, the S&P will trade around 4,600, only 5% lower than today's level. Bears will use it as reason to panic, but we believe it will represent another buying opportunity for long term, patient investors.

In the short term, the Fed drives markets up or down. In the long run, earnings drive company valuations higher or lower. Companies that grow profitably have higher valuations than companies with stagnating business models. One of the key drivers of long-term earnings growth is technology. As technology gets faster, better, and cheaper, companies become more profitable and household net worth rises. For 200 years, stocks have risen higher than any other asset class and we think the trend will continue. Be prepared for some volatility later this year, but dollar cost averaging into the market is still wise even at record all time highs. Market timers who believe the doomsday narrative are simply not looking at the data and we think will underperform buy and hold investors.

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