

As of April 5, 2023, 10 stocks accounted for 90% of the S&P 500 rally year to date.

They are Apple, Microsoft, Nvidia, Meta, Tesla, Amazon, Alphabet, Salesforce, AMD, and Broadcom - all technology centric companies.

At current levels, it is hard to argue the market is cheap. The chart below is interesting from a historical perspective as it shows that S&P 500 is expensive by almost all valuation metrics.

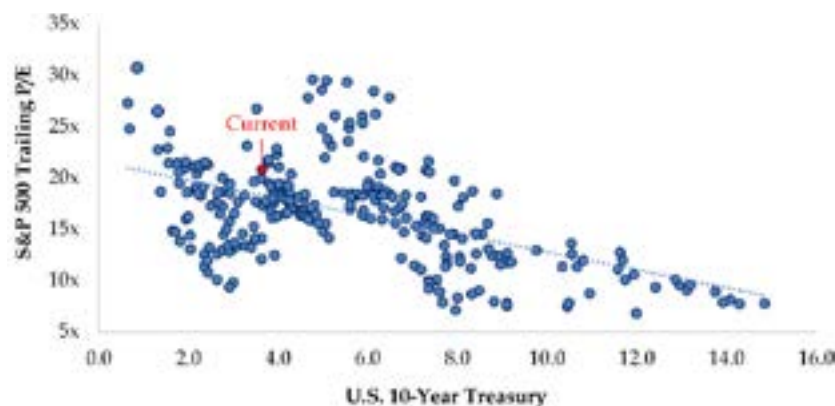
S&P 500 Valuation: Current Percentile Ranking Relative to History



Strategas Investment Strategy, April 5, 2023

As you can see from the next chart, when we consider the current interest rate environment, valuations are even less compelling. With the 10-year treasury yield at 3.4%, an S&P 500 trailing P/E of over 22 times looks expensive on a historical basis.

U.S. 10-Year Treasury Yield vs. S&P 500 Trailing P/E (1953 - Current)



Strategas Investment Strategy, April 5, 2023



Recessionary Signals

The recessionary signals are stronger today than they were last fall. As we wrote in **November of 2022**, there were a **number of recessionary signals** including:

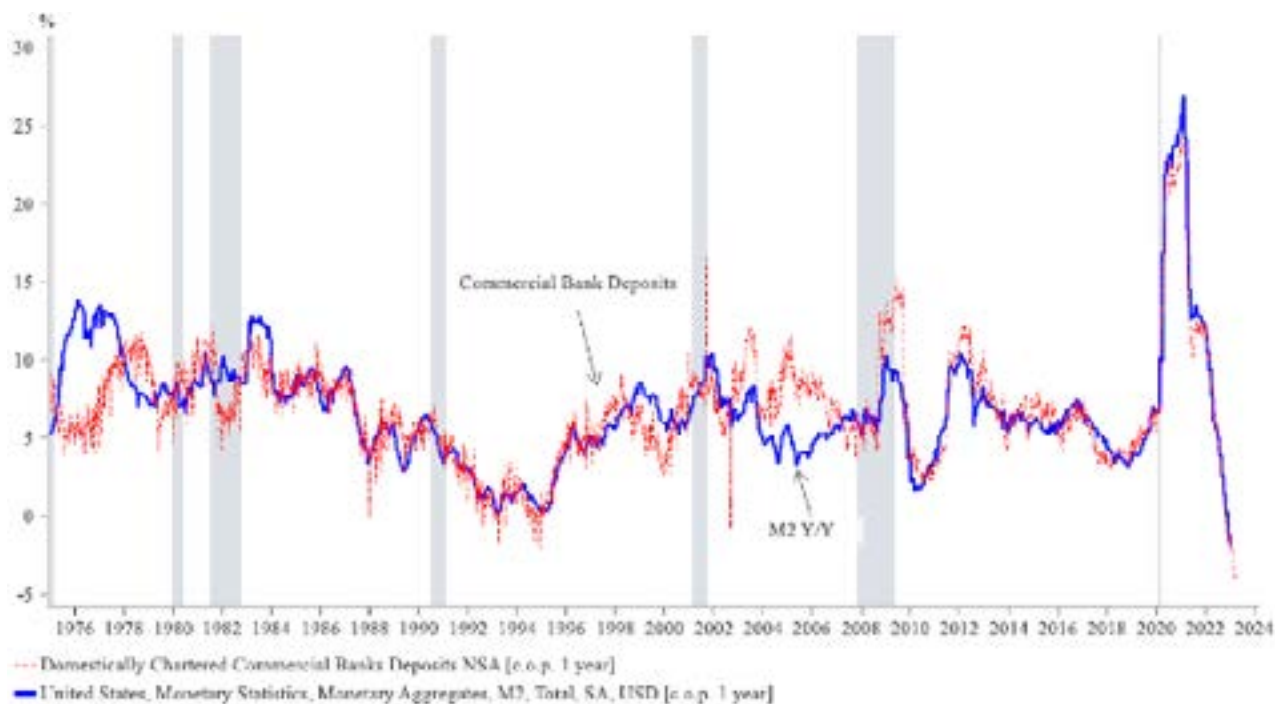
- The Federal Reserve raised interest rates at the fastest pace in the last 35 years.
- In periods where the Fed is hiking and food and energy inflation rose above 5%, the economy has always gone into recession.
- Every time we have had unemployment below four percent and inflation above four percent, we have had a recession within the next two years (Piper Jaffrey, Macro Economics, October 17, 2022)
- Money supply growth fell dramatically, a typical precursor to recessions. Real M2 (a common measure of money supply) is the most negative since the 1973-74 recession and bear market.
- Consumer expectations have declined 10% - history has shown drops of this level lead to recessions.

Since our November 2022 blog, **the data has gotten worse, and we have additional recessionary signals:**

- M2 has fallen further and as the chart below shows, commercial bank deposits point to the money supply falling even more.

Timely Commerical Bank Deposits Point to Continued M2 Declines

U.S. M2 vs. Commercial Bank Deposits Y/Y



Strategas Technical Research, March 27, 2023

- Job openings are falling
- Company earnings estimates are falling
- A banking crisis, precipitated by the failure of Silicon Valley Bank, is causing a slowdown in bank lending, particularly at regional banks. To understand what happened listen to our podcast, [Nest Egg!](#) We discuss how the Federal Reserve circled the wagons to protect the banking system and what insurance is available for your own assets

The only outlier to the strong recessionary data is employment. We have a different perspective on the West Coast because of all of the tech layoffs, but labor markets are still quite tight across the rest of the country.

Now What?

While we are not fans of market timing, we think it is a bad idea to increase equity investment exposure with an impending recession. Since ~1957, the S&P 500 has never bottomed before a recession, and one of the most dangerous terms in market lore is 'this time is different'.

Market Outlook - "The" Low Happens During Recession

U.S. Recessions			SPX Low		SPX Low in	Weeks from
Start	Trough	# of Mths	Date	SPX	Recession?	Start to Low
8/30/1957	4/30/1958	8	10/22/57	38.98	Yes	8
4/29/1960	2/28/1961	10	10/25/60	52.3	Yes	26
12/31/1969	11/30/1970	11	5/26/70	69.29	Yes	21
11/30/1973	3/31/1975	16	10/3/74	62.28	Yes	44
1/31/1980	7/31/1980	6	3/27/80	98.22	Yes	8
7/31/1981	11/30/1982	16	8/12/82	102.42	Yes	54
7/31/1990	3/31/1991	8	10/11/90	295.46	Yes	10
3/31/2001	11/30/2001	8	10/9/02	776.76	After	79
12/31/2007	6/30/2009	18	3/9/09	676.53	Yes	62
2/29/2020	4/30/2020	2	3/23/20	2237.4	Yes	3
					Median	23.5

Source: Bloomberg/ nber.org

Tony Dwyer, Canaccord



To learn more about why an upcoming recession may be unique, listen to our latest podcast.

(Click on the link in Nest Egg! or listen on Apple, Spotify or wherever you listen to podcasts.)

As we said in our blog and podcast on [‘Why an Upcoming Recession May be Unique’](#), we believe inflation will be sticky so...

The FED is in a Pickle

We quote from the Eagles famous song, "Hotel California", to explain the danger of using quantitative easing to solve all of the world's problems - "you can check out any time you want, but you can never leave." With the banking crisis front and center, the Fed may have to choose between two of its children, the banking system and inflation. We think the Fed will choose the banking system which means they will be increasing liquidity rather than taking it away.

But we have not lost hope for the economy. As Larry Fink, CEO of Blackrock recently said "This new economy of fragmentation brings risks – like elevated inflation – but also opportunities. I believe that North America could be one of the biggest global beneficiaries. We have a large and diverse labor force. We have abundant natural resources, with the potential for both energy and food security. Public policy is helping to keep chip manufacturing in the U.S., and the latest innovations in AI have become a new preoccupation. Other national winners will emerge as well."

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