

# Equity Market Commentary

SOLUTIONS & MULTI-ASSET | APPLIED EQUITY ADVISORS TEAM | SLIMMON'S TAKE | AUGUST 2022

## Who Do You Listen To?

The battle between the bears and the bulls at the intersection of Wall and Broad appears as epic as ever.

**In the bear corner are major Wall Street firms' strategists.**

Chart 1 shows their beginning of the year 2022 S&P 500 year-end targets and those same targets as of August 15<sup>th</sup>.

## AUTHOR



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## Chart 1

### S&P 500 2022 Year-End Targets

		As of 1/5/22	As of 8/15/22	Change
	<i>Average</i>	5,002	4,362	(641)
	<i>Median</i>	5,050	4,300	(700)
JPMorgan	Dubravko Lakos-Bujas	5,050	4,900	(150)
Oppenheimer	John Stoltzfus	5,330	4,800	(530)
BMO	Brian Belski	5,300	4,800	(500)
Deutsche Bank	Binky Chadha	5,250	4,750	(500)
Barclays	Maneesh Deshpande	4,800	4,500	(300)
Credit Suisse	Jonathan Golub	5,200	4,300	(900)
Wells Fargo Investment Institute	Darrell Cronk	5,200	4,300	(900)
Goldman Sachs	David Kostin	5,100	4,300	(800)
RBC Capital Markets	Lori Calvasina	5,050	4,200	(850)
Citigroup	Scott Chronert	4,900	4,200	(700)
UBS	Keith Parker	4,850	4,150	(700)
Morgan Stanley	Mike Wilson	4,400	3,900	(500)
Bank of America	Savita Subramanian	4,600	3,600	(1,000)

Source: Fundstrat, Bloomberg, CNBC

**Every strategist is more pessimistic today than they were at the beginning of the year.**

With a median year-end target of 4,300 for the S&P, that's a potential 2% return from where we sit today, as of August 22. This is certainly no reason to be anything but cautious.

- In many ways, the increasingly clouded macro picture explains the higher pessimism today versus the beginning of the year. Russia's invasion of Ukraine and the protracted war's impact on gas and food prices were certainly not on investors' radar and is one of the many reasons why inflation is proving to be far stickier today than expected.
- As a result, the Fed has pursued a far more hawkish path, reminding us of the adage, "Don't fight the Fed".
- Not to mention, at an 18.8x forward P/E, the market does not appear all that cheap<sup>1</sup>

Clearly, a majority of strategists would consider this recent rally to be a "bear market rally".

### Meanwhile, over in the bull corner is ... "Mr. Market".

Despite all the negative headlines that are undoubtedly driving the bearish sentiment above, the market internals are flashing a far more optimistic tone.

1. The S&P 500 has put in an awe-inspiring recovery since its June 16<sup>th</sup> low. The extent of the rally historically suggests far more than a simple "bear market rally."

Consider:

- a. By June 16<sup>th</sup>, the S&P 500 had faced a thorough washout. On that day, less than 2% of stocks were trading above their 50-day moving averages. Such extreme readings are quite bullish and reflect some level of maximum pessimism. In fact, Chart 2 shows the past occurrences since 1990 of similar sub-2% readings with their corresponding future returns.

## Chart 2

Date	% Above 50-DMA	S&P 500 Performance (%)		
		3 Month	6 Month	Year
7/19/2002	1.20	(0.75)	7.88	15.46
10/8/2008	1.20	(5.84)	(16.22)	8.18
8/8/2011	0.40	8.83	20.09	25.18
12/24/2018	1.19	19.12	24.09	37.10
3/12/2020	0.99	30.30	37.02	58.96
6/16/2022	1.98	?	?	?
	<b>Median</b>	<b>8.83</b>	<b>20.09</b>	<b>25.18</b>
	<b>% Positive</b>	<b>60.0</b>	<b>80.0</b>	<b>100.0</b>

Source: Bespoke August 12, 2022

- b. Fast forward to August 14<sup>th</sup> and over 90% of the S&P 500 stocks traded above their 50-day moving average. Wow, what a turnaround!

Chart 3 shows the returns for the S&P 500 (since 1990) with a similar kind of broad rally.

### Chart 3

Date	% of Stocks Above 50-DMA	S&P 500 Performance(%)		
		3 Month	6 Month	Year
2/6/1991	94.4	6.35	9.09	15.58
5/30/1997	90.4	8.47	12.09	28.61
3/18/1998	90.2	1.23	(4.41)	21.28
11/5/1998	91.4	12.19	18.62	20.85
5/2/2003	90.4	6.37	12.69	20.15
11/12/2004	91.0	0.66	(2.54)	4.27
4/29/2009	90.6	12.09	22.13	38.13
3/17/2010	90.2	(6.40)	(3.87)	7.77
10/5/2010	91.2	8.37	14.83	(3.17)
10/24/2011	91.8	4.88	9.39	12.67
1/4/2013	90.1	5.95	11.28	24.57
5/14/2013	91.2	2.86	7.29	14.43
3/16/2016	90.7	3.40	4.92	17.47
2/15/2019	92.5	2.12	2.59	21.43
5/26/2020	90.9	12.80	19.79	39.99
4/8/2021	90.5	6.23	6.07	9.37
8/12/2022	92.5	?	?	?
	<b>Median</b>	6.09	9.24	18.81
	<b>% Positive</b>	93.8	81.3	93.8

Source: Bespoke August 16, 2022.

- However, it's not only the magnitude and breadth of the rally that is flashing a far more optimistic tone. Market leadership has shifted dramatically, and this is a very bullish sign.

Consider:

In the first half of the year, the best performing sectors relative to the S&P 500 (down -19.97% as of June 30) were energy (+51.39%), utilities (+19.37%), staples (+14.69%) and health care (+11.65%). The worst performing sectors were consumer discretionary (-12.53%) and technology (-6.60%).<sup>2</sup>

Makes total sense to me:

*Energy and utility stocks have done well as inflation rises and demand continues. But as growth contracts, stocks that are sensitive to the health of the economy lose favor and defensives perform better. These include stocks of companies that produce items such as toothpaste, electricity, and prescription drugs.*<sup>3</sup>

However, since the end of the second quarter, **there has been a complete market leadership change.** The best performing sectors relative to the S&P 500 (up +13.44% as of August 18) are consumer discretionary (+11.09%) and technology (+5.46%). Meanwhile the worst performing sectors are health care (-10.21%), consumer staples (-6.93%) and energy (-2.87%).<sup>2</sup>

*Since 1962, stocks have delivered their highest performance during the early cycle, returning on average 20% per year during this phase. **Consumer discretionary** stocks have beaten the broader market in every early cycle since 1962.*<sup>3</sup>

While it's not surprising to see some weakness after such a strong move into overbought territory, could Mr. Market be sending a signal that we are at the beginning of a new bull market?

Or is this just a bear market rally head fake?

I guess it depends on whose corner you are in.

Andrew

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<sup>1</sup> Bloomberg as of August 18, 2022.

<sup>2</sup> As measured by XLE, XLU, XLP, XLV, XLY and XLK. Bloomberg.

<sup>3</sup> Fidelity. How To Invest In A Business Cycle. August 12, 2022.