March 20, 2024

Proceeding with Caution

As the stock market continues to rise, according to the news, all is perceived to be fine with the economy. However, the U.S. continues to navigate through various headwinds such as inflation, interest rates, sentiment, and debt – all of which weigh on the growth of the economy. Therefore, we are proceeding with caution due to factual data.

The market is currently pricing in at least three rate cuts by the Federal Reserve in 2024, with the first expected in June, according to the CME FedWatch Tool. The long-awaited rate cut would lower costs for businesses and give way to more consumer spending – potentially increasing corporate profits. Cutting rates prematurely, however, risks making inflation worse. The current pace of inflation has slowed to 3.2% from its recent peak of slightly more than 9% in June 2022, according to the Labor Department. The Fed must factor in that prices are still rising, however, just at a slower rate. Recent commentary from the Fed lends support to the idea that interest rates may not come down as quickly as expected, and markets could adjust if that is the case.

The S&P 500 index had its thirteenth consecutive quarter of revenue growth propelled by the "Magnificent 7" (Apple, Google, Microsoft, Amazon, Meta, Tesla, and Nvidia). While earnings growth from these stocks fuel investor optimism, it's important to note that the size of the companies has a tremendous impact on the swings in market volatility. The return on Nvidia alone has added a 20% increase to the S&P 500 over the past two years. Some investors have noted that the price-to-earnings ratio for the top companies of the S&P 500 is above the levels of the 1990s, prompting traders to reduce their positions in these holdings. The week of March 6th, investors withdrew $4.4 billion from technology funds. This begs the question, "Are we in another bubble caused by the Magnificent 7?"

Additionally, we have seen a number of CEO's sell off massive amounts of their own stock holdings in February: Jeff Bezos sold $8.5 billion, Bill Gates $14 billion, Walton family (Walmart) $4.5 billion, and Mark Zuckerberg $428 million.

Consumers continue to be in a challenging spot as they are forced to endure the cost of carrying debt. According to the Federal Reserve Bank of New York, total household debt increased by $212 billion in the fourth quarter of 2023, to $17.5 billion; home equity lines of credit increased by $11 billion to $260 billion, and credit card balances increased by $50 billion to $1.13 trillion. Not to mention, consumers appear to be saving less. The personal savings rate stood at 3.7% in December, down from 4.1% in February 2022, the month before the Federal Reserve began raising interest rates. Higher loan balances combined with elevated interest rates contribute to the overall financial pressure of borrowers.

As your financial advisor, it is our duty to assess all risks for each individual client. Protecting your hard-earned savings is of the utmost importance and is our first priority. Are there opportunities for growth? Yes, however, age and current life circumstances play a large part in considering when the potential gain is worth the risk. Your portfolio allocation is unique to your individual circumstances and investment tolerance.

As always, we at Kapusta Financial Group, would like to thank you for the trust and confidence you place in our team.