

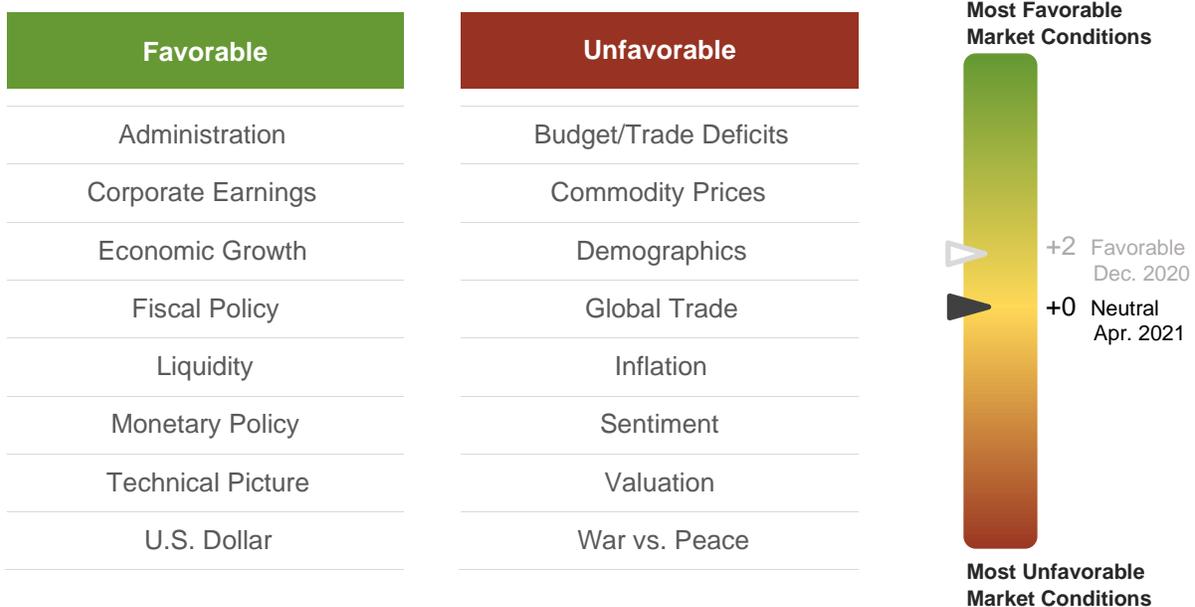


# Market Gauge

April 2021

## GAUGE NEUTRAL; MARKET MILDLY ATTRACTIVE

Every month, we sort 16 building blocks of market strength into two categories: favorable to market conditions, or unfavorable. We use the difference between the two to gauge the overall environment for U.S. stocks. This most recent iteration shifted the weight from Favorable (+2) to Neutral (+0).



## WHY “NEUTRAL” WHEN WE LEAN TOWARD LIKING THE MARKET HERE?

We believe the market to be mildly attractive at current levels. The bull market looks like it has room to run, but we are watching several factors that could shift in the months ahead. After some skepticism at the start of the year, investors have gained confidence in Fed Chairman Jay Powell’s intention to keep monetary policy accommodative—a major support to this bull market. More than 90% of the companies in the S&P 500 trade above their 200-day moving average, showing broad participation in the bull market which is a good sign that we are not near a market top. If we use 10% nominal GDP growth projections as a proxy for corporate revenues, we could see profits up by 30% in 2021. If there is any bad news, it’s that our sentiment indicators suggest that a lot of the good news is already priced into stock prices.

Currently, the Biden administration is in the Favorable column due to the stimulus package set to power the economy for the rest of 2021 and into 2022. The country’s fiscal health is a long-term risk, but the market does not appear to be reacting badly to increased government spending. We know little today about the administration’s future spending plans, methods of funding that spending, and its attitudes towards regulation, particularly antitrust. These unknowns could develop into unfavorable factors in the second half of the year. We have long felt that the U.S. 10-year Treasury note is the most important asset price to follow, but the Fed’s continued heavy purchasing of Treasuries has made us turn to the U.S. Dollar Index as an important price to watch. The dollar has weakened over the last month, and we believe that bears watching in the context of concerns about inflation.

### HOW DO WE DECIDE HOW TO CATEGORIZE EACH BUILDING BLOCK?

**Administration:** Are the White House priorities market-friendly? How do they view taxes, regulation, trade/tariffs, etc.?

**Budget/Trade Deficits:** Are deficits growing or shrinking? Are they projected to grow or shrink over coming years?

**Commodity Prices:** Do commodity prices (e.g., gold, copper, oil) reflect economic growth or contraction?

**Corporate Earnings:** Are the earnings of U.S. companies growing? Are profit margins expanding?

**Demographics:** Is the demographic trend (population growth, average citizen age, worker-to-retiree ratio) positive?

**Economic Growth:** Did GDP grow or drop in the previous quarter? Are leading indicators rising or falling?

**Fiscal Policy:** Are the major policy initiatives from the White House and Congress pro-growth and market-friendly?

**Global Trade:** Are current attitudes pro-globalization and free trade or pro-nationalism and protectionism?

**Inflation:** Is there price stability around the Federal Reserve's new target? Are we experiencing deflation or hyperinflation?

**Liquidity:** Is there more money or less money circulating in the financial system than there has been recently?

**Monetary Policy:** Are interest rates accommodative or tight? Are other central bank programs market-friendly?

**Sentiment:** Are investors broadly optimistic (a negative) or pessimistic (a positive) about the market?

**Technical Picture:** What is current price action telling us? What do market breadth, trend, and momentum look like?

**U.S. Dollar:** Is the dollar strengthening or weakening versus other world currencies? What are the factors causing the move?

**Valuation:** Do stocks look expensive or cheap vs. historical averages?

**War vs. Peace:** What do the world's geopolitical tensions look like? Are they inhibiting global economic growth?

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