Intrinsic Investors

The Month in Review

February Takeaways

- Stocks continued their winning way in February, with the major indexes adding to their January gains. The S&P 500 gained 2.97%, while the NASDAQ climbed 3.45% led by resurgent tech stocks.

- In the last installment of (Investors Quarterly (IQ), we referenced the relative value chart on our website Relative Value, where we track the actual versus hypothetical value of the Dow Jones Industrial Average using a cumulative average long term return for the model price.

- At the beginning of the year, the market stood at 23,327, well below the new 2019 target. The month-end close of 25,917 is still below the 2019 model target price of 26,728, suggesting we still have room to move up on the year. For anyone keeping score (you know who you are!), that's an 11.11% gain for the first two months of the year.

- We follow a lot of factors and data points when deciphering the markets. Some are complicated and other fairly simple. An easy one to keep track of is the slope of the 50 day-moving-average (50 DMA). When the average turns down, as it did in early October, it signals caution. When it turns back up, as it did at the end of February, it is viewed as a positive moving forward.

- As earnings season heads towards a close, we continue to see mostly positive trends, which is also positive for the markets. Continuing concerns include interest rates (neutral), global growth (watch jobs), trade (talks continuing) and Brexit (wait a month). At least the government shut-down is over, which may or may not be a good thing!

- Shifting back to the prospects for recession, most of the talk that dominated the headlines at year-end have receded into the background for now. Nevertheless, we continue to monitor the yield curve and accompanying probability model here at II. Our Recession Predictor currently shows a 67% chance of recession. It continues to trend higher, but we still don't see a recession in the offing. Interest rate spreads have stabilized, but the probability model continues to creep higher. Bottom line – we remain cautiously optimistic on the economy.

- Finally, analysis from one of our data sources suggests that stocks have room to move higher through mid-year. Should trade prospects improve, earnings may climb higher into the second half of the year. Stay tuned.