Intrinsic Investors

Market Monitor

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- *Signs of life? The Fed blinked this month and inflation at least flat-lined in the latest CPI report, giving the bulls some reason to hope the worst is behind us.* Since hitting a bottom last October, the S&P500 has bounced back close to 20%, which to some analysts signals a new bull market.

- *Does this signal the all-clear moving forward? Possible, but not probable, as a multitude of challenges still face investors.* True, the folks in Washington managed to avoid a debt default for the next year or two, but the spending problem isn't going away, which will continue to weigh on the future of interest rates. For now, they have kicked the can down the road…again.

- *We attended the symphony recently and I was once again impressed at the ability of such talented musicians to work together in such harmony.* Maybe they should be running the country! Wishful thinking, I know.

- *Meanwhile, back on the street, there is growing optimism that we are closer to the end of the current correction than the beginning.* We still may see a mild recession moving into the latter part of the year, as our recession predictor continues to indicate. While the Fed is belatedly addressing the challenges of inflationary pressures, they are at least moving in the right direction.

- *Of course, challenges also bring opportunities.* We always try to be cautious during unsettling markets and avoid as much of the market volatility as possible. Looking back at the last 18 months, leadership in the equity markets has been concentrated in the perceived safety of large cap stocks, regardless of valuations. We need to see an expansion in the market breadth that will include greater upside participation before we feel more confident about the market trend. Generals attacking without troops do not end well…

- *We also need to consider the opportunities in the fixed income markets, which as we noted in the last letter have had little to offer and have been very negatively affected by rising interest rates.* Current opinion holds that the Fed may hike rates another half of one percent before ending the inflation battle. That said, there is relatively less risk in testing the waters in bonds and other income oriented investments.

- *Looking ahead, keep an eye on employment data as well as the direction in prices. There are so many things that look backwards or upside down in the present environment.* It's interesting to note that some analysts maintain that employment is the final thing to fall going into a recession. We shall see. Meanwhile, we can start nibbling around the edges, picking up a few bargains and see if this market has any legs. More next time!

- *Disclosures:*

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