Indicators of a New Bull Market?

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After a terrible first half of 2022, financial markets appear to be on the mend. July and so far in August, equity markets have been in a strong rally mode. Since the low point on June 16, 2022, the S&P 500 has rallied by nearly 17% while the NASDAQ Composite surged by more than 22%. Just when several hedge funds decided to abandon stocks, markets began their rally. What happened?

The decline in the price of oil from $122 to less than $90 at this writing represents a drop of almost 25%! Once energy prices entered a downtrend it became evident that the great government bailout had been terminated. No more free money! Tight Fed policy put downward pressure on interest rates and a shrinking federal deficit indicated that big government was not going to be as big as it was during the pandemic. Reports of lower-than-expected data on both the producer price index (PPI) and the consumer price index (CPI) in early August gave a lift to consumers who also experienced a big decline in gasoline prices. If prices are expected to continue to decline, then the Fed might not have to be as aggressive in raising the Fed funds rate. Rather than another 75-basis point increase, observers began to expect either a 50 or 25 basis point increase in the face of waning inflation. For the astute shopper, prices have begun to decline as the conscious shift to lower priced goods resulting in a curtailing of rising rates.

Investors seem a little confused by these changes in trends. Inflation is losing steam, yet long-term interest rates are falling even though the Fed is promising higher short-term rates. After a monumental collapse in cyber assets, there is a slight rally underway in some of these speculative issues. The war in Ukraine continues with little indication that the battles will end although the world is adding pressure to the Russian onslaught. The deprivation of energy from Russia to Europe is presenting a coming economic crisis as we enter the likelihood of a prolonged war and a questionable outcome. Fears of a Chinese invasion of Taiwan is another concern for global decision makers. This WWII-type of invasion is clearly changing the model for global peace. Beneficiaries are likely to be the global defense industry, not unlike the Marshall Plan following WWII.

Another subject is the status of the Covid pandemic. Thousands of Americans continue to contract the disease yet there seems to be little concern and masks are hardly seen any more. Maybe the disease has become a case of another flu bug that needs to be part of our annual inoculations or maybe people just don't care.

We are confronted with all these crises, yet the U.S. stock market has passed the low point back in June and appears to be entering into a new uptrend. Equity markets tend to lead economies by 12-18 months so next year should be a favorable environment for economic growth. Another piece of good news: the WSJ reports that traders are afraid that the rally is only short term.