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Are We in a Bull Market?

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Another Goldilocks Jobs Report

It may be hard to believe, but the S&P 500 closed out last week (ending 6/2/23) up over 20% from its previous low point set in mid-October. This officially puts us into "bull market" territory (over 20% increase from trough to peak). It's even more fascinating that we have notched the highest close since last August.

The reason these gains are surprising is because events like the recent debt ceiling debate, the banking crisis in March and Federal Reserve (Fed) interest rate hikes have caused volatility in the markets and increased fear and uncertainty. It's sometimes hard to tell which way you're going into a choppy market. Luckily, resiliency is tested over longer time periods and it often wins out for the market.

On the economic front, the biggest news was the jobs report from the U.S. Bureau of Labor Statistics. The key highlights include:

1. **Jobs Growth – Strong.** Non-farm payrolls grew much more than expected in May, rising 339K, while expectations were a relatively modest 190K increase. This is the 29th straight month of positive job growth. <u>Why is this good? It indicates the U.S. economy is still on solid footing and is a sign that we may avoid a strong recession.</u>
2. **Wage Growth – Lower.** Yearly wage growth moderated down to 4.3%. <u>Why is this good? Lower wage growth is supportive of falling inflation and continued movement toward the Fed's targeted inflation levels.</u>
3. **Unemployment Rate – Higher.** Unemployment rate increased from a 53-year low of 3.4% to 3.7%. <u>Why is this good? It helps to support a decision from the Fed to not increase interest rates further.</u>

It seems like all three bears are in a good spot and Goldilocks is here to stay: moderate economic growth with lower inflation. This further reinforces the view that the Fed may be done hiking rates and the potential that a severe recession can be avoided.

For more clarity, all eyes will be on the June 13 inflation report, which happens to coincide with the next two-day Fed meeting. If inflation continues to come down, as I expect it will, there is low probability of a hike.

The Great Reversal

There has been a rally across all asset classes since the markets reversed to the upside on October 13 (my birthday). That's quite a different story from the first nine months of the year where is seemed like nothing could go right and all hope was lost.

We all know about cyclicality and the benefits of staying diversified and invested, but this last year and a half has put investors to the test. The table below, "Performance of Key Asset Classes," shows broad based asset class performance before and after the inflection point. Here are the key observations:

1. **Markets Are Cyclical** – What goes down, must come up. History has shown that markets cannot perpetually go down and eventually reverse course. This was very evident over this period as U.S. stocks have almost made up all of their losses from last year.

2. **Diversification Works** – Different asset classes behave differently over different time periods. If you ever find yourself happy with every investment in your portfolio, it means you aren't diversified. Notice how international developed markets were the laggards prior to the reversal, but have outperformed domestic markets by almost 10% since.

3. **Cash is Rarely the Answer** – Money markets may have seemed like a good investment last year, but if you missed out on any of the reversal, it would paint a different picture. Staying well diversified among the key asset classes and staying invested for the long-term is the key to reaching your investing goals.

Performance of Key Asset Classes
(Before and After the Low in U.S. Stocks 2022)

	1/1/22 to 10/12/22	10/13/22 to 6/5/23
Intl Developed Markets	-27.68	30.02
U.S. Large-Cap Stocks	-24.01	20.85
Emerging Markets	-28.01	15.50
U.S. Small-Cap Stocks	-24.05	8.14
U.S. Bonds	-15.08	4.66
Short-Term Bonds	-6.69	2.99
Money Markets	0.71	2.79

Source: Morningstar Direct as of 6/5/2023. Intl Developed Markets represented by MSCI EAFE NR USD Index, U.S. Large-Cap Stocks represented by S&P 500 TR USD Index, Emerging Markets represented by MSCI EM NR USD Index, U.S. Small-Cap Stocks represented by Russell 2000 TR USD Index, U.S. Bonds represented by Bloomberg US Agg Bond TR USD Index, Short-term Bonds represented by Bloomberg US 1-5Y GovCredit FlAdj TR USD Index, Money Markets represented by Bloomberg Short Treasury 1-3 Mon TR USD Index. Past performance is no guarantee of future results.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

Should you need help navigating client concerns, don't hesitate to reach out to Dynamic's Investment Management team at (877) 257-3840, ext. 4 or investmentmanagement@dynamicadvisorsolutions.com.

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