

Asset Values Have Been Heading Higher

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During March, seemingly all assets ranging from stocks to gold to even bitcoin set record highs. The S&P 500 was up 10% for the quarter, marking its best start in five years. Importantly, more than a small group of tech stocks are participating in the rally with 10 of the 11 S&P 500 sectors up on the year, and more than half of the stocks in the S&P 500 setting new 52-week

highs.

Some analysts are projecting the S&P 500 to report a third consecutive quarter of earnings growth, and profits for the first quarter are expected to have risen

times by the end of the year. Some cash-like investments have seen their yields decline making stocks relatively more attractive.

Many analysts are increasingly getting behind the market rally with many claiming that the recession risk is continuing to shrink. Confidence in the economy appears to be steadily growing.

Another driver of stock prices is likely the recent rise in productivity. The rise in short-term productivity gains is clearly evident across various areas of the economy. However, the productivity increase is unlikely repeatable, since it was largely due to a reversal of pandemic-era supply shocks, and the market appears to be a bit overconfident about continued increases.

Another potential caution comes from Bernard

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more than 3% from the same period last year (according to FactSet). For the year, analysts expect 11% earnings growth.

Part of the recent momentum in stock prices may also be resulting from the lessening attractiveness of cash. Certificates of deposit, money-market funds and various other cash-like investments have offered healthy returns over the past two years since the Federal Reserve started lifting interest rates. Recently, the central bank signaled that it expects to cut rates three

Connolly, a highly esteemed advisor to hedge funds and central bankers across the world. He recently said that there is little doubt of a U.S. recession unless the Fed loosens hard and soon – neither of which appear likely. He pointed to three factors. The first is consumers which are growing more fragile due to the weakening labor market and the nearly exhausted pandemic-era handouts. The second is a weaker economy than many understand. He references Gross Domestic Income (rather than GDP) which grew at an anemic rate of just 1.2% last year. A Fed study found that GDI is more

accurate in predicting economy stalls and foretold a recession in 2007 when GDP figures (revised down later) were still signaling blue skies. Finally, unemployment recently jumped from 3.4% to 3.9%, a large enough increase to nearly signal a coming recession according to the Fed's "Sahm Rule".

There is also concern about how long the rally can last. If companies don't deliver expected profits, recent momentum could vanish quickly. The stock market remains expensive, with companies in the S&P 500 trading around 21 times their projected earnings over the next 12 months, above the five-year, ten-year, and 20-year averages.

At the end of first quarter, investors remain mostly bullish about the U.S. economy and equities, and have kept valuations fairly high, possibly with good reason given various ongoing developments. Yet, it seems that for those more focused on the short-term and potential risks, some level of caution should likely be maintained.

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