CONWAY• JARVIS LLC
Investment Outlook

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# Update

## Not a Market Bubble….Yet

Last week we highlighted the Fed's shift in policy allowing for a period of higher inflation beyond the 2% target threshold where previously it would begin to normalize (raise) key interest rates. We noted that allowing the economy to inflate was more acceptable and easier to remedy than the alternative: deflation leading to a depression. History has shown that the massive injection of liquidity such as we're seeing can have a side effect. Investors tend to pile into risk assets, such as the stock market and real estate, to keep pace with the inflation that usually follows. Unfortunately, this can create *unsustainable* asset class "bubbles" that eventually burst.

So, is that what's happening today in the stock market? Not yet. We pointed out that *selected* stocks are taking the indexes higher into record territory. For the most part, investor capital is pursuing the *success* of quality companies in the public markets and not their mere presence in the index. The fact that we've been discussing winners and losers within the indexes disproves that a market bubble is forming. An industry stock market metaphor refers to the tide rising on all beaches, taking all boats higher. That's not the case today. Energy, Materials, and Financials languish while the Tech, Healthcare, and Consumer Discretionary sectors prosper. Some beaches still remain dry with boats aground and that's a good sign when talking about market bubbles.

We're on the lookout for signs of a market bubble developing. One of those is seeing capital chasing *any and all* stocks regardless of quality or a record of success. That's what we witnessed in the last days of the 90's in stocks and in 2007 in real estate. Those were irrationally exuberant markets where investors "couldn't lose" until they did…. in a big way. However, even though we may not be seeing a *market* bubble at present we do see some evidence of irrational pricing in a few stocks reminiscent of the Dutch tulip bulb mania of the 1600's. We know how that ended.

For now we expect to see, at worst, only a period of market consolidation in the months ahead as investor capital migrates from a number of nosebleed-priced growth stocks to more rationally priced opportunities. That's healthy for stocks in the long run and indicates that the Fed is on a path to inflate the broader economy while avoiding, so far, the side effect of a stock market bubble.

We'll dispense with an update in the holiday-shortened week ahead. Look for our latest Investment Outlook in the days to come. Enjoy the holiday!

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