CONWAY• JARVIS LLC
Investment Outlook

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Update

A Shadow Correction Lurks Within This Rotation

As we head into the long holiday weekend, stocks have meandered within a narrow trading range for the past week. A memorable and impressive earnings season has given rise to speculation over whether we're seeing "peak" fundamentals for this economic cycle. (*Not yet)* The inflation debate continues and will apparently persist until the Fed announces a change of course. (*Don't hold your breath)* That's likely to be at least a quarter or two out in the future. Meanwhile, the much-discussed Rotation of investor capital from Growth to the Cyclicals enters it fourth month and has tongues wagging over whether Big Tech will rise phoenix-like to reclaim its throne as the best-performing sector. (*We're confident it will but it won't be now)*

We see this economy continuing to expand through the year. We expect to see inflation pressures rise, fueled by the massive amounts of helicopter money being dropped across the broad economy. Those pressures should eventually abate as supply disruptions and manufacturing bottlenecks are resolved. For that reason, any inflationary surge should prove to be transitory. A heated expansion will likely prompt the Fed to announce a shift in its *approach* to managing rates sometime later this year. As in the past, they will *announce this in advance* of any actual shift in policy. Of course, heads will explode over at CNBC but any increase in rates shouldn't come as a surprise and likely won't occur until well into next year.

Could a change in the Fed's narrative be the catalyst for a market correction? Yes, but we would advise looking to the market internals of the past several months for clues as to what might happen. To an extent, there's already been a correction or even worse for a significant number of companies that led the market to new heights this past year. Amazon, Walmart, Merck, Disney and others fell into correction territory during the Rotation. Apple, Tesla, PayPal, Nvidia, Google, Qualcomm, and Adobe all occupied bear market territory at their lows of 2021. That explains the Tech-heavy NASDAQ *barely* correcting and then only for a brief time. Yet at no time did the DOW or S&P occupy correction territory (a decline of 10% or more), pulling back less than 4% from its high to recent low. This is an indication of investor capital migrating to better relative value *within* the market. It's an encouraging sign of rationality among *investors* that prompts us to accept any correction as part of the market's ride. Diversified investors who are able to stand pat with quality companies will continue to do well in the post-pandemic market era.

This leaves us in a place we rarely find ourselves: Appreciative of what we own for clients, happy with our diversification and allocation levels, and enjoying the market's ride. *And all the while mindful of what could go wrong.* For most stock investors, this past year has been the best they've seen in terms of performance. What is certain is that this will change. When and under what circumstances we can only speculate, but right now it's never been more critical for those with money in the markets to separate real news from noise generated by the financial media and to remain focused on what really affects an economy that has significant runway ahead. We see this as one of those times when *inaction* may be the best course of action. Stay tuned.