PERSONAL PERSPECTIVE

Why the most Seasoned Investors feel the most nervous…

Americans Are Really, Really Bullish on Stocks *– Wall Street Journal, 9/3/2024*

According to JP Morgan, a record 42% of U.S. household financial assets are now invested in the stock market. That has more than doubled since the last major bear market in 2009, and is far above previous peaks hit in 2007 prior to the Financial Crisis, the Tech Bubble top in 2000, and the end of the Go-Go Fund Era in 1968. All three of those periods, when investors were most bullish, ended with major bear market losses.

Earlier this year, the legendary long-time value investor Jeremy Grantham perhaps stated it most succinctly:

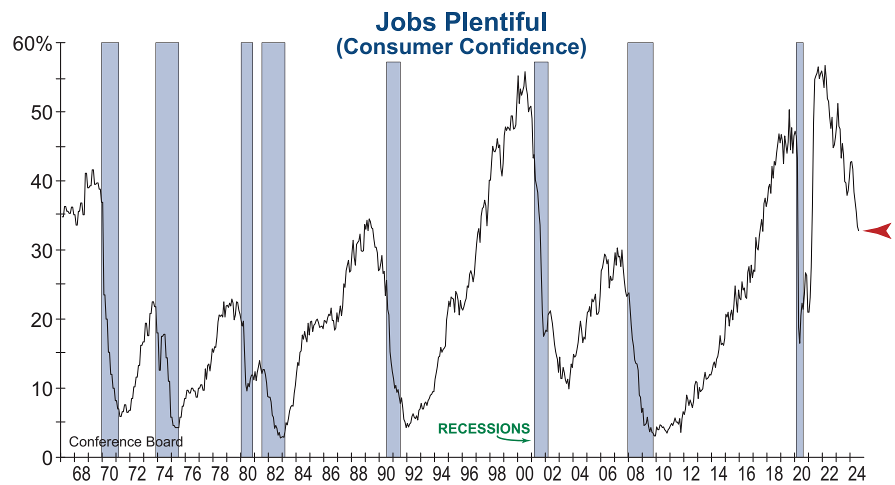
> *"We have totally full employment, totally wonderful profit margins. All the things you would not want to start a bull market from. This is where you start bear markets from. Great bull markets start with exactly the opposite."*
>
> *Jeremy Grantham, GMO, The Insightful Investor – March 19, 2024*

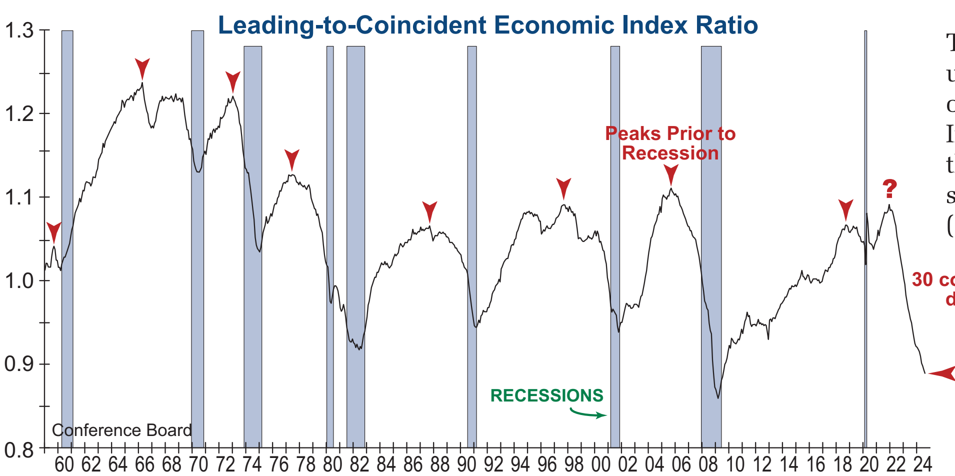
So don't feel alone if finding yourself underinvested and more than a bit skeptical or feeling too cautious. Caution is the best defense in one of the most overvalued stock markets in Wall Street history.

Monetary Policy matters (maybe) and 2 graphs you just can't unsee…

Since the creation of the Federal Reserve over 100 years ago, a reversal in policy toward easing carries over a 70% probability that stock prices will be higher 3, 6 and 12 months afterward. The bad news is that monetary policy is a very dull tool, and when it fails –as it did in stopping the unwinding of the 2000 Tech Bubble or in preventing the 2008 Financial Crisis– it can carry Wall Street over a waterfall, and investor exuberance with it.

Today's level of investor overconfidence is dangerous if anything starts to go wrong with the widely anticipated soft landing. And closing this issue, we present the latest updates on two graphics which we personally cannot "unsee" or ignore. The first, a survey from the Conference Board, shows a rapid decline in consumers who believe "jobs are plentiful" – which is usually a leading forecast of rising unemployment ahead. We cannot look at the peak and size of the current decline without questioning whether a recession still lies dead ahead of us.





The second graph, which we last used in our June issue, is the ratio of Leading-to-Coincident Economic Indexes. It basically shows that when the leading indicators are falling in spite of resilient coincident indicators (i.e., current economic conditions), the risk of recession rises dramatically. And this week it was reported that a 30th consecutive monthly decline has just occurred. If a recession isn't inevitable, then this will be the greatest aberration in history.

Bottom line, we don't like betting against historical odds or warning flags like these that appear to be getting worse. And until key evidence turns more favorable, we will continue to treat the soft landing scenario with a healthy dose of skepticism.

James B Stack