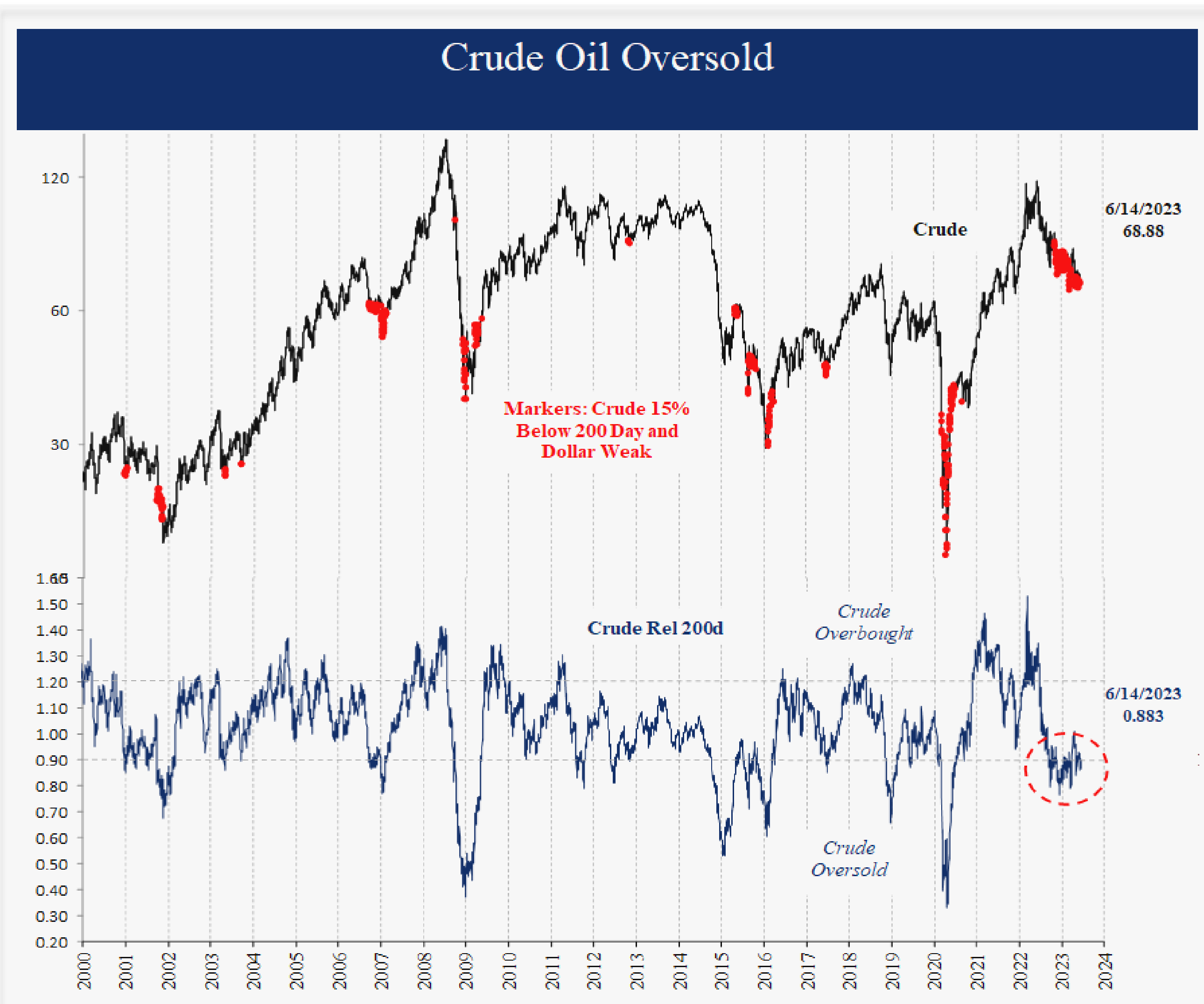
BRENTON POINT
WEALTH ADVISORS

June 20, 2023

Investing Environment Review and Outlook – Volume 72

Commodities Rating Uptick

Last month we discussed the lower than expected debt ceiling event risk, deficit spending, and the end to positive presidential cycle seasonality. Since then, the equity market moved sharply higher into overbought territory led by technology stocks, with a parallel shift in investor positioning as usual. This month we discuss these new market conditions and the positive developments for commodities. U.S., foreign-developed and emerging markets equities remain bullish 5 ratings. Long-term bonds remain a neutral 3 rating. Gold remains a bullish 5 rating and industrial commodities up ticked to a bullish 5 rating.



This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

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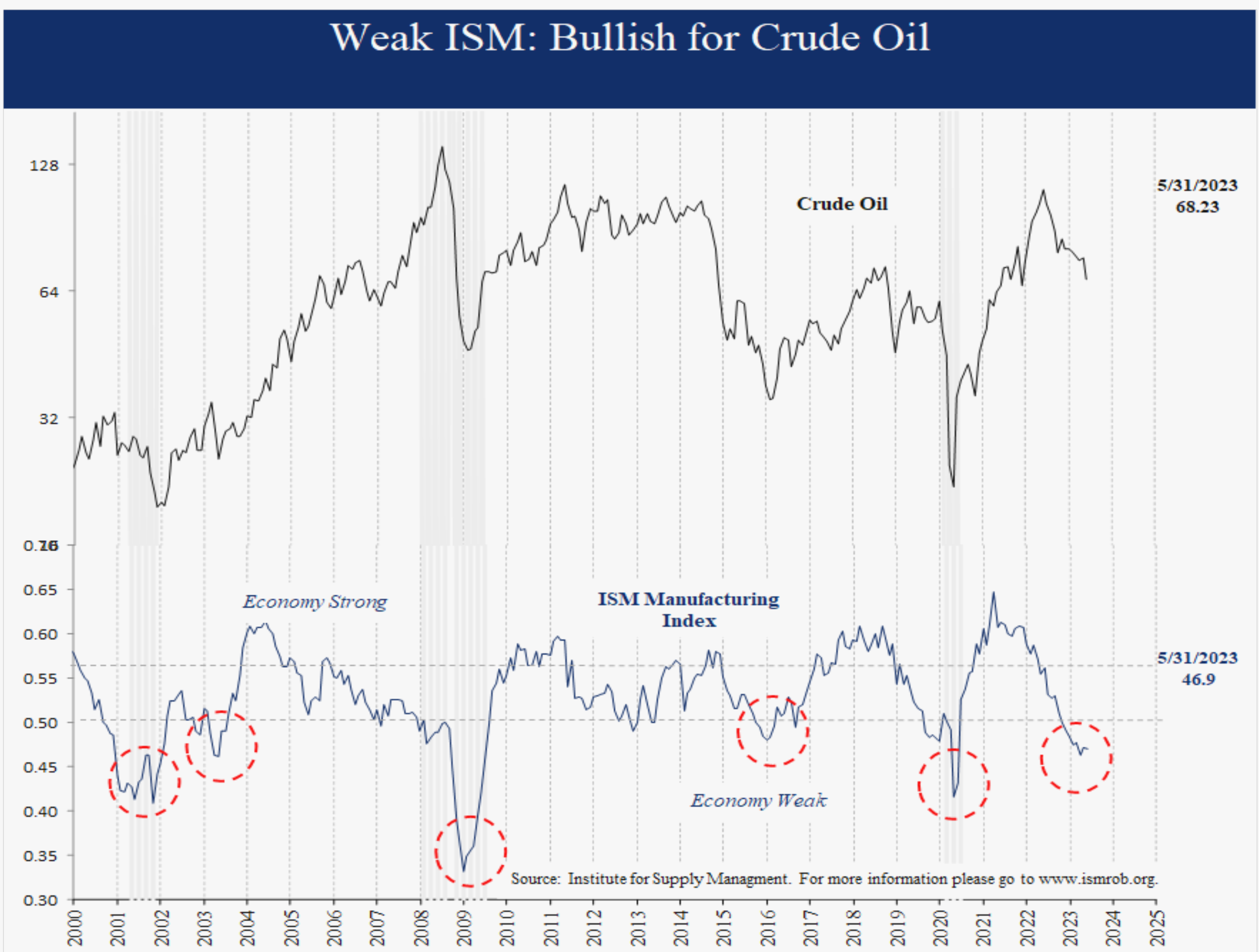
Weak ISM Index: Bullish for Crude Oil

The ISM Index is the one of the best coincident economic indicators for the U.S. economy since it is timely, has decades of history, and is not revised. May's reading of 46.9 was weak in the 12th percentile historically. Although a weakening economy is negative for industrial commodity prices like oil, an already weak economy is actually bullish. Since 1979 ISM readings below 50 were bullish for crude oil, particularly if they coincided with an economic turn to the upside. Today our economic outlook indicators are still neutral but have improved to 48.4 from 39 in May. Other positive signs for crude are stronger copper, CRB Industrials Index and natural gas prices. Finally, the weak dollar (down 2% in June and 10% since October) is also bullish for crude and most industrial commodities historically. For instance, since 1979 crude oil returned 32% annualized during Q3 when the dollar was weak.



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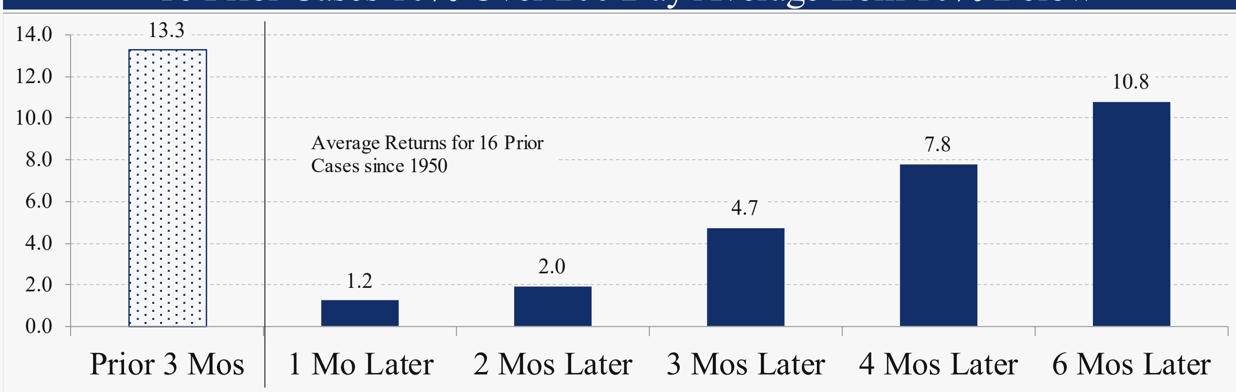
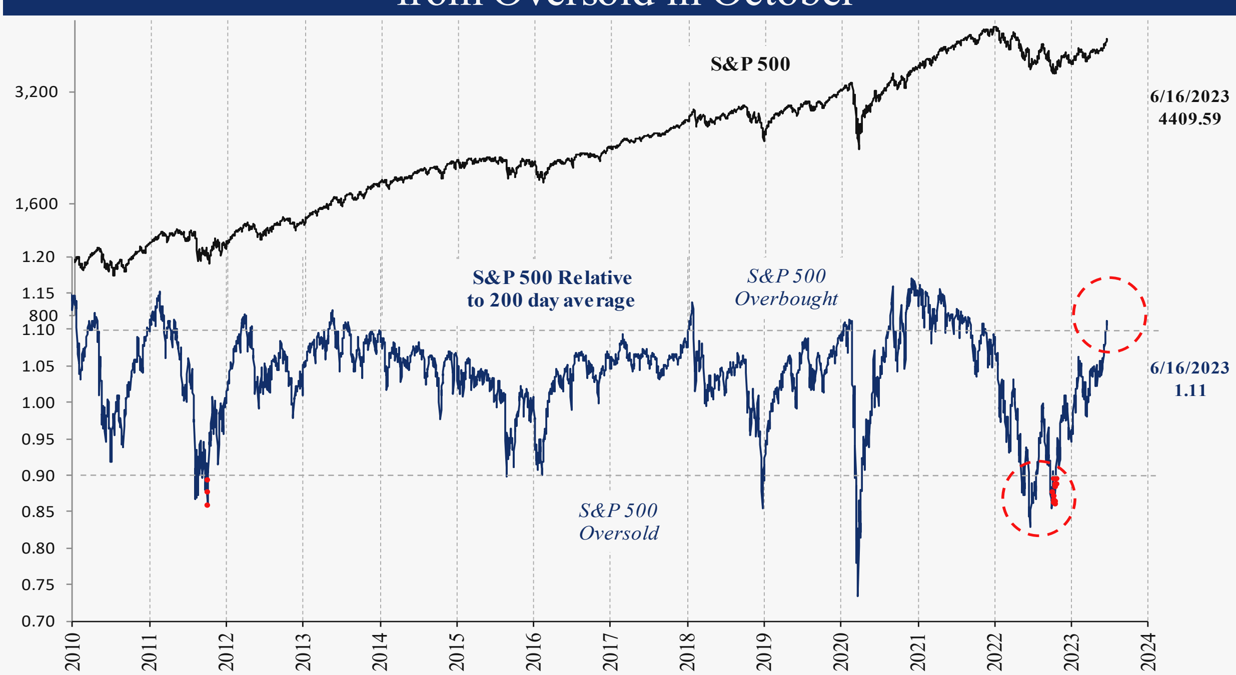
S&P 500 Overbought: Lower Returns Ahead

The S&P 500 is up 13.3% since the March 15th banking panic low, an extreme move to the upside. For perspective, the S&P 500 is 10.6% above the 200-day average in the 87th percentile as of 6/16. In other words, the market was only stronger 13% of the time historically. This is the mirror image from the October 12th low when the S&P 500 was 14% BELOW the 200-day average. In the 16 prior cases since 1950 when the S&P 500 rallied from 10% below the 200-day average to 10% above, average returns in the prior 3 months were similar at 13.3%, but forward returns were much lower at 1.2% a month out and 4.7% 3 months later. Investors expecting more of the same will likely be disappointed.

S&P 500 Overbought: Lower Returns 3 Months Out
16 Prior Cases 10% Over 200 Day Average from 10% Below



S&P 500 Overbought in June
from Oversold in October



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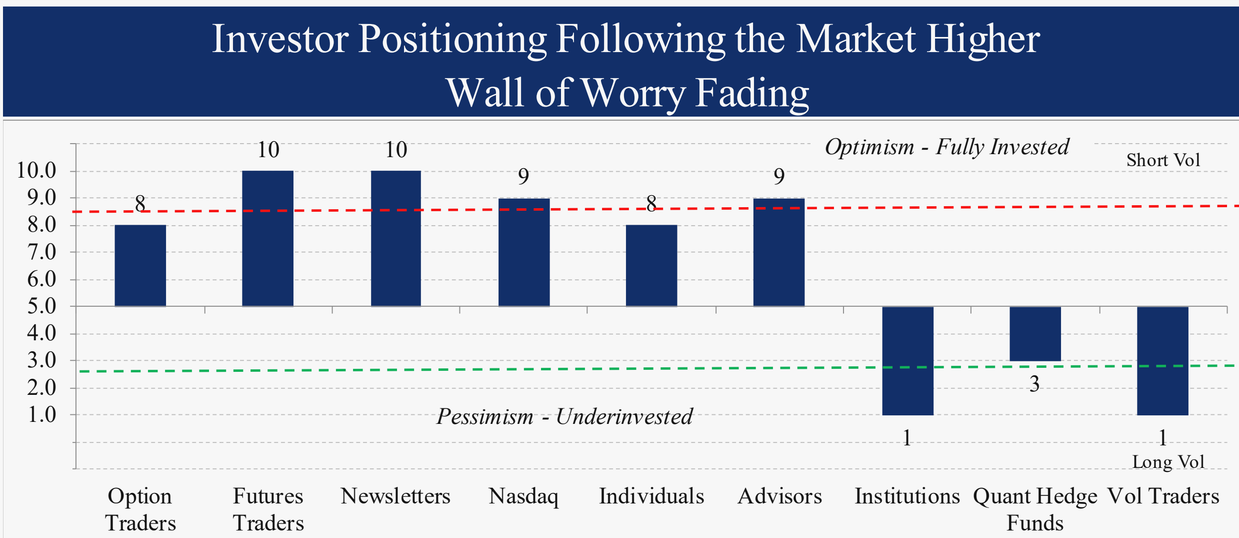
Investor Positioning: Shifted Long

Equity investor positioning among the 9 groups we track shifted last week to net long for the first time since the S&P 500 October low. It was a testament to the strong wall of worry that it took 8 months and a 23% rally until investors were convinced. Like the overbought condition, there are no strong implications since positioning is not yet extreme with institutions and hedge funds still underinvested. Investors underinvested means liquidity available to drive stocks higher.



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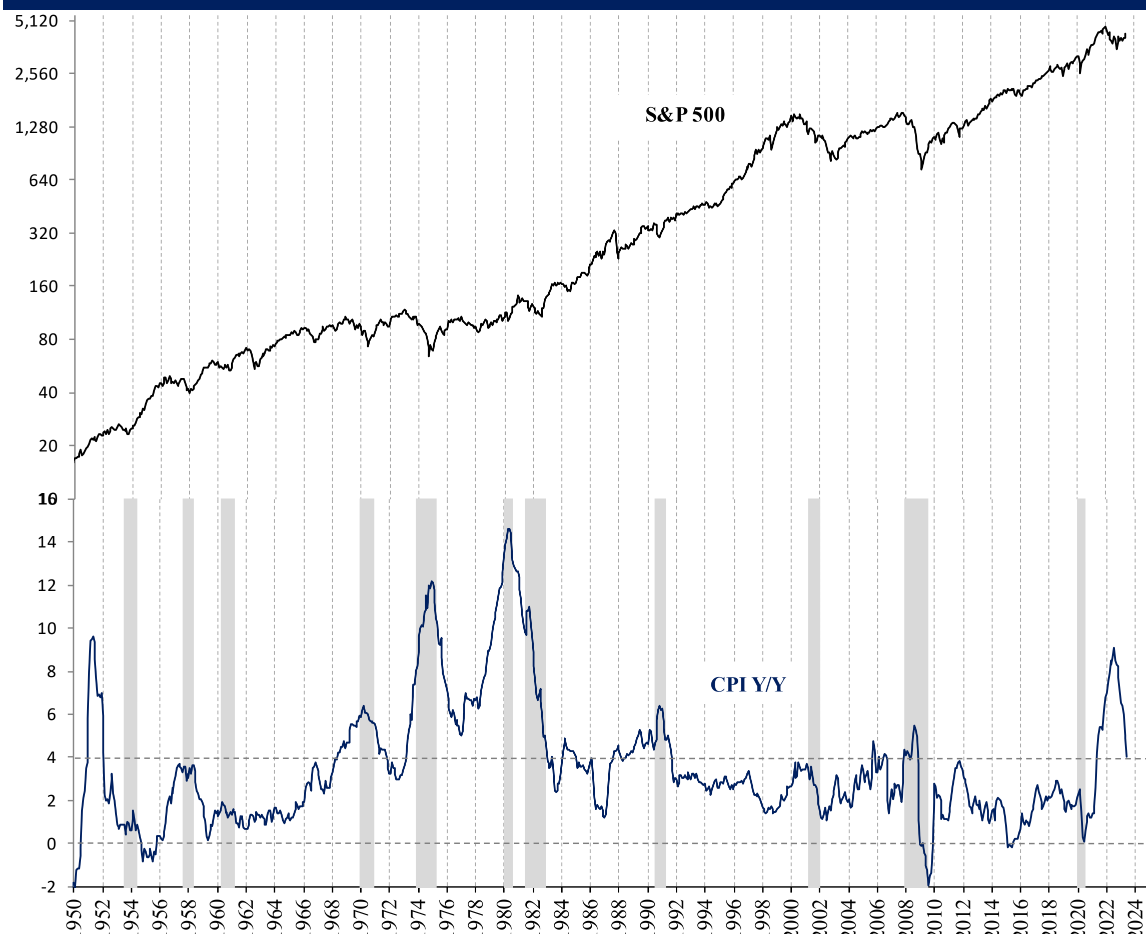
CPI Inflation 0-4% and Falling: Bullish for S&P 500

Headline CPI inflation reached 4% Y/Y in May, down from the 9.1% peak a year ago. The media and Fed focus on the higher core rate ex food and energy at 5.3% is misdirected, since historically core has been a valuable less volatile, but lagging inflation indicator. Our inflation outlook model has been an effective leading inflation indicator and continues to show a low reading of 38.1 for May, indicating lower inflation ahead. More importantly, CPI at 4% and falling was bullish for the S&P 500 consistently back to 1950, with a return of 18.8% vs. -1.2% when CPI was over 4% and rising as we saw in the first half of 2022 during the S&P 500 bear market. By focusing on the 2% inflation target level, investors are missing a much more simple, yet effective signal for equity returns.

CPI Inflation 4% and Falling: Bullish for S&P 500



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Summary

This month we discussed the commodity rating uptick based on a number of conditions like oversold crude oil, the weak dollar, the weak economy as measured by the ISM Manufacturing Index, and the recent turn in natural gas prices. Our economic outlook indicators remain neutral, but the recent 9-point improvement means a chance the economy is finally firming after a long post-Covid normalization. Equity indicators remain positive particularly with inflation now at 4% and falling, but conditions like seasonality and investor positioning are early signs downside risk is rising after the 8 month rally off the October low. We will continue to watch our indicators on a daily basis for changes. Thank you for your support and please contact us with any questions.

Michael Schaus
Director of Market Research