June 25, 2024

Investing Environment Review and Outlook – Volume 83

Conditions for equities like long equity investor positioning and low equity volatility reflect investor optimism. While somewhat of a risk, we are a long way from the speculation evident in 2021 which preceded the 2022 bear market. While technology stocks are overbought after a strong run, they are backed by fundamentals like record cash flow and earnings. This month we look at the Russell 2000 of small capitalization stocks.

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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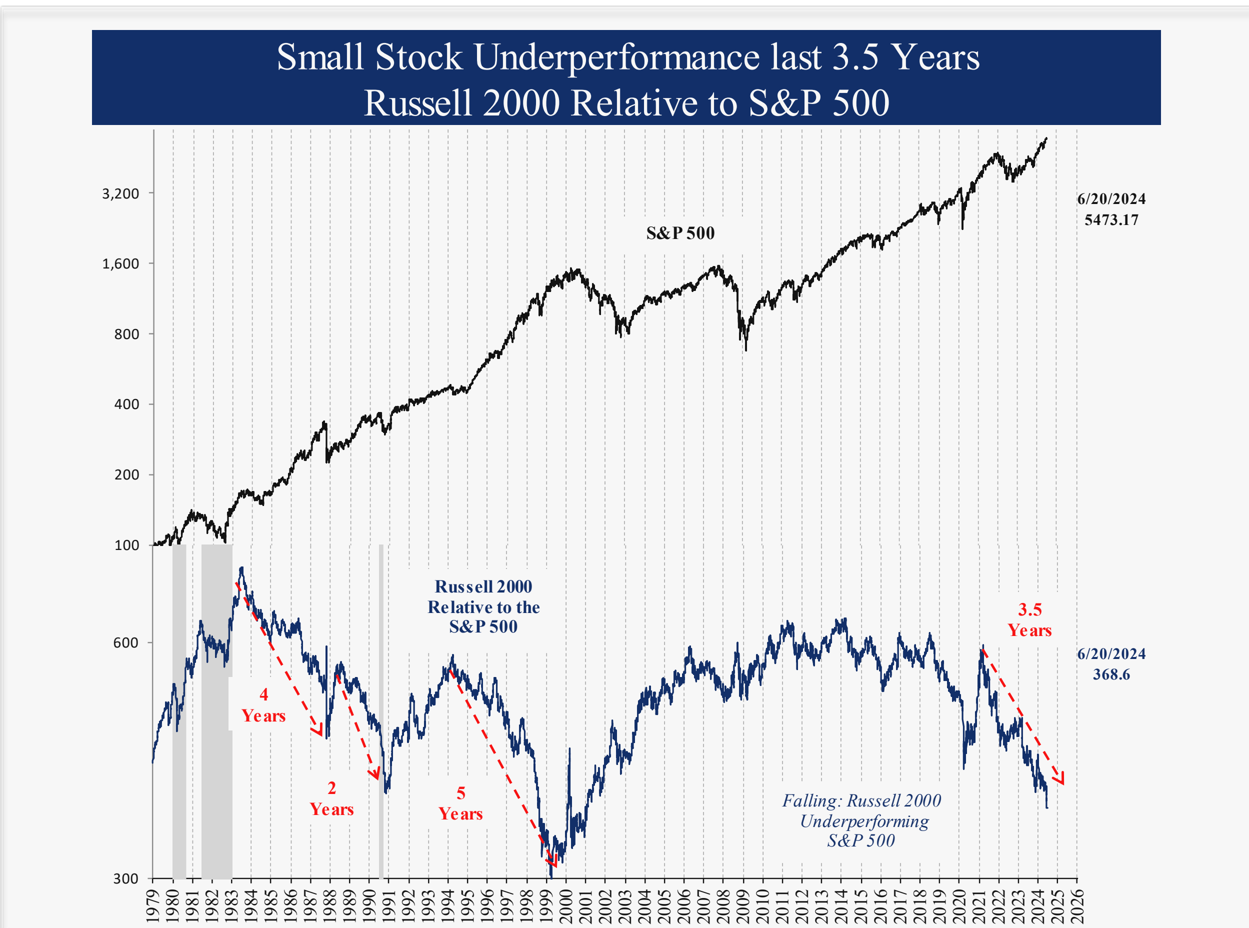
Russell 2000 vs. S&P 500 Divergence

The divergence of the S&P 500 and the Russell 2000 Small Cap Index is one way to quantify the widely quoted "narrow" market this year. For instance, YTD the S&P 500 is up 15% while the Russell 2000 of small cap companies is down 0.5%. Since 1980 there were several periods like this. However, since they persisted for up to 5 years, it was never a practical signal for markets. In the last 3.5 years since 2021, the S&P 500 is up 45% vs. just 2% for the Russell 2000. We have not found this type of divergence to be predictive of the S&P 500 or the economy. Given the extreme move, a reversion to the mean is more likely at some point, as small stocks will likely outperform large stocks. The last big move to the upside for small cap stocks was from 1999 to 2006. Over that 7-year period most investors have probably forgotten that the S&P 500 returned just 15% while the Russell 2000 of small stocks returned 86%.



Conditions for equities remain positive, although the commodities outlook was downgraded based on the neutral economic outlook. We will continue to watch our indicators on a daily basis and shift exposures as needed. Thank you for your support and please contact us with any questions.

Michael Schaus
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