The Goldilocks Market is Just Right

As we remember from our nursery rhyme days, Goldilocks entered the house of the Three Bears and began tasting the porridge. The first bowl was "too hot", the second bowl was "too cold", and the third bowl was "just right". But was she really talking about porridge or was she in that Bear's Den to gauge the temperature of the stock market? We'll never know for sure.

Over the last few years, the porridge being "too hot" would represent Inflation. As the economy moved through the supply constraints caused by the Covid lockdowns and massive amounts of monetary stimulus being pumped into the system, inflation heated up and reached a high of 9%. This increase peaked in the latter part of 2022.

The porridge being "too cold" would represent the recession that was looming around every corner. A few letters ago we wrote that the coming recession was like, "Waiting for Godot". Everyone is waiting for Godot to arrive, but he never does. The thought was that as the Federal Reserve rapidly raised interest rates from virtually zero to over 5%, the economy would experience a hard landing and significant recession.

As we look back at last year and begin 2024, we see that the porridge is not too hot or cold but is really "just right". You see, inflation peaked over a year ago and has been moving down ever since. A 9% inflation rate has declined to around 3% today. The job market has remained resilient and employment demand is buoyant yet softening a bit recently. The all-important housing market never crashed when mortgage rates shot up above 8%, mainly because homeowners had refinanced at very low interest rates or had previously paid off their mortgages. Recessionary worries were so prevalent over the last couple of years that corporations did not over-hire and kept their spending in check, which has also added to today's resilient economy.

In our October Letter, we said that the Market was experiencing "Bad Breadth" as very few companies were seeing healthy gains outside of the Super Seven Stocks of Apple, Microsoft, Google, Meta, Tesla, Amazon, and Nvidia. We commented at the time that we expected a broadening out of the rally which would be sparked by the Dollar and interest rates coming down. November and December saw this broadening out go into hyper-drive as the average stock took off at year-end.

We're currently in this sweet spot as the porridge, chair and bed in the Bears' house are just right. Inflation is coming down, interest rates are moderating, mortgages are

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getting more attractive, the Federal Reserve is ready to lower rates and corporate earnings have held up well. As more stocks participate in the market's strength, this sets up a better overall equity environment.

However, as we know from our nursery rhyme, Goldilocks fell asleep in the bed that wasn't too soft or too hard. Everything was just right. But at some point, the Bears came home and chased Goldilocks away. Will our Goldilocks market be chased away by bears? At some point. But, for now, we should enjoy things being "Just Right".

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