

*“A compelling narrative fosters an illusion of inevitability.”*

*Daniel Kahneman*

The stock market loves a great narrative and that is what we’ve had since October of 2022. As you recall at that time, inflation had skyrocketed to 9%, interest rates on the 10-year treasury had increased from under 1% to over 4% and the stock market was reeling. But then the market magically bottomed as inflation topped. If rising inflation was hurting stocks and bonds, then investors believed inflation coming down would drive them back up. And with that, a new narrative was born. Though the investment landscape has been shielded by the protective umbrella of lower inflation, it has also helped that the dreaded recession has yet to arrive and that earnings, profit margins, and employment have remained buoyant. Contributing to this are the Infrastructure Bill, the Chips Act, and the massive spending after the introduction of ChatGPT which, collectively, have kept spending robust. The big question now is whether this narrative of lower inflation has run its course.

The last time we had an inflationary period similar to this was in the 1970’s. Back then, inflation moved up sharply until the end of 1974 and then dramatically declined into late 1976. That is very similar to what we are experiencing now as our inflation rate ran up to 9% at the end of 2022 and has declined to roughly the 3% level today. As we look back to 1977, inflation heated up again in a second vicious wave of inflation peaking in the early 1980’s. Will we see inflation bottom over the next few months and then reaccelerate as we saw back then? This is clearly a risk to the current narrative that we are monitoring closely.

In looking at the vibrant returns of this year’s first quarter, we can gather more insight. As we said in our nursery-rhyme themed letter from last quarter, the investment landscape is, “currently in this sweet spot as the porridge, chair, and bed in

the Bears’ house are just right.” That was an understatement as the S&P rocketed to an over 10% gain for the quarter compared to the historical 2.5% average gain it normally sees during this period. In the past when we’ve seen these outsized gains, the next quarter tends to be positive as well. There are also record amounts of money sitting in money market accounts and treasuries providing ample fuel for future positive stock market gains. However, when we’ve seen setups similar to this year, the market tends to not do as well during the second half of the year. We are also mindful of the uncertainties surrounding this year’s Election, the Ukraine War, the Middle East, and Taiwan’s tensions with China. We are mindful of the rising costs to the U.S. of servicing over \$34 Trillion in debt in a higher interest rate environment.

The market loves a good narrative and the “Inflation is coming down” narrative has been quite effective. As we move closer to mid to late summer, further gains may be harder to come by as that narrative runs its course as inflation bottoms. We are still constructive and enjoying this market strength. Many more companies are now participating well beyond the usual few suspects of the Super Seven, which is positive. However, if we continue to see vibrant and outsized market strength over the next few months, the historically high money market funds shifting back into stocks, a further ramp-up of future A.I expectations discounted in the market, and inflation ticks back up, we might become more concerned.

*Ralph Scott*  
*Chief Investment Officer*

*Craig Weston*  
*Senior Managing Director*

*Matthew Nussbaum*  
*Portfolio Manager & Senior Research Analyst*

**DISCLOSURES:**

L&S Advisors, Inc. (“L&S”) is a privately owned corporation headquartered in Los Angeles, CA. L&S was originally founded in 1979 and dissolved in 1996. The two founders, Sy Lippman and Ralph R. Scott, continued managing portfolios together and reformed the corporation in May 2006. The firm registered as an investment adviser with the U.S. Securities and Exchange Commission in June 2006. L&S performance results prior to the reformation of the firm were achieved by the portfolio managers at a prior entity and have been linked to the performance history of L&S. The firm is defined as all accounts exclusively managed by L&S from 10/31/2005, as well as accounts managed in conjunction with other, external advisors via the Wells Fargo DMA investment program for the periods 05/02/2014, through the present time.

L&S claims compliance with the Global Investment Performance Standards (GIPS®). L&S has been independently verified by Ashland Partners & Company LLP for the periods October 31, 2005 through December 31, 2015, and ACA Performance Services for the periods from January 1, 2016 to December 31, 2021. Upon request to Sy Lippman at [slippman@lsadvisors.com](mailto:slippman@lsadvisors.com). L&S can provide the L&S Advisors GIPS Report which provides a GIPS compliant presentation as well as a list of all composite descriptions. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

L&S is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”) and is notice filed in various states. Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that L&S or any person associated with L&S has achieved a certain level of skill or training. L&S may only transact business or render personalized investment advice in those states and international jurisdictions where we are registered, notice filed, or where we qualify for an exemption or exclusion from registration requirements. Information in this newsletter is provided for informational purposes only and should not be construed as a solicitation to effect, or attempt to effect, either transactions in securities or the rendering of personalized investment advice. Any communications with prospective clients residing in states or international jurisdictions where L&S and its advisory affiliates are not registered or licensed shall be limited so as not to trigger registration or licensing requirements. Opinions expressed herein are subject to change without notice. L&S has exercised reasonable professional care in preparing this information, which has been obtained from sources we believe to be reliable; however, L&S has not independently verified, or attested to, the accuracy or authenticity of the information. L&S shall not be liable to customers or anyone else for the inaccuracy or non-authenticity of the information or for any errors of omission in content regardless of the cause of such inaccuracy, non-authenticity, error, or omission, except to the extent arising from the sole gross negligence of L&S. In no event shall L&S be liable for consequential damages.

L&S’ current disclosure statement as set forth in ADV 2 of Form ADV as well as our Privacy Notice is available for your review upon request.