2nd Quarter Market Outlook from the Investment Policy Committee

Granite Wealth Quarterly

Second Quarter Outlook, 2024

GRANITE WEALTH Management

32 COURT STREET, 2ND FLOOR
PLYMOUTH, MA 02360
508-746-4228

IN THIS ISSUE

FUNDAMENTAL INSIGHTS

CHART BOOK: SHORT- AND LONG-TERM STOCK MARKET INDICATORS

SIDEBAR: WHAT WE GOT RIGHT -- AND WRONG

CONCLUSION

Navigating the Market's Ebbs and Flows

Fundamental Insights

As the second quarter of 2024 has gotten off to a bumpy start, I remain steadfast in my optimism for the stock market's trajectory. Since my "buy" recommendation in October 2022, we've witnessed a robust bull market that has rewarded investors who shared this bullish sentiment. However, the path of growth is rarely a straight line, and as I mentioned in my previous article a month ago, we should brace ourselves for the market's natural pauses and pullbacks.

Interestingly, the pullback I anticipated did not materialize as promptly as I had expected. Yet, as we entered April, the Dow Jones Industrial Average greeted us with three consecutive down days, suggesting that the market may be heeding my earlier caution. So, what's prompting this market hesitation?

The primary culprit appears to be inflation, which has proven to be more tenacious than many had hoped. This stubbornness in price levels has cast doubt on the likelihood of the Federal Reserve cutting interest rates in the near term. Investors, who had been pricing in a more accommodative monetary policy, are now facing the reality of a Fed that will maintain higher interest rates for longer than previously anticipated—a narrative I have been emphasizing for months.

This recalibration has led to a sell-off in stocks, as market participants adjust their expectations. However, it's crucial to interpret these movements within the broader context of the market's overall health. While the pullback may unsettle some, I view it as a natural and healthy market behavior, one that offers a chance to reassess and reposition.

Let's consider why, despite these short-term fluctuations, the bull market's foundation remains intact. First, corporate earnings, while off their peaks, continue to be resilient. Many companies have adapted to the challenges of the past few years, emerging leaner and more efficient. Second, employment remains robust, underpinning consumer spending and, by extension, the economy at large. Lastly, innovation and technological advancements continue to drive productivity and growth across various sectors.

Given these underlying strengths, I believe any pullback we experience should be seen as a buying opportunity for discerning investors. It's an occasion to invest in quality companies at more attractive valuations, particularly those with solid fundamentals and a clear path to growth in a potentially higher interest rate environment.

However, it's essential to approach this opportunity with a strategy. Diversification remains a key tenet of sound investing, and in these times, it's more important than ever to have a well-rounded portfolio that can weather volatility.

Sectors such as technology, healthcare, and green energy, which are at the forefront of long-term trends, may offer compelling prospects. At the same time, traditional defensive sectors like utilities and consumer staples can provide stability.

Against this backdrop, let's throw in the market's favorable historical trends -- don't underestimate this. History shows that markets tend to have very good election year returns. Further, the weight of evidence shows that following a strong November to March run, the market tends to deliver again to the upside for the rest of the year... *after* a mid-year pause. Maybe that will be when the consolidation period arrives, which might sound strange since it feels like we might be starting one due to hot CPI figures.

It matters little. Yes, be on the lookout for a pullback. But keep to the plan.

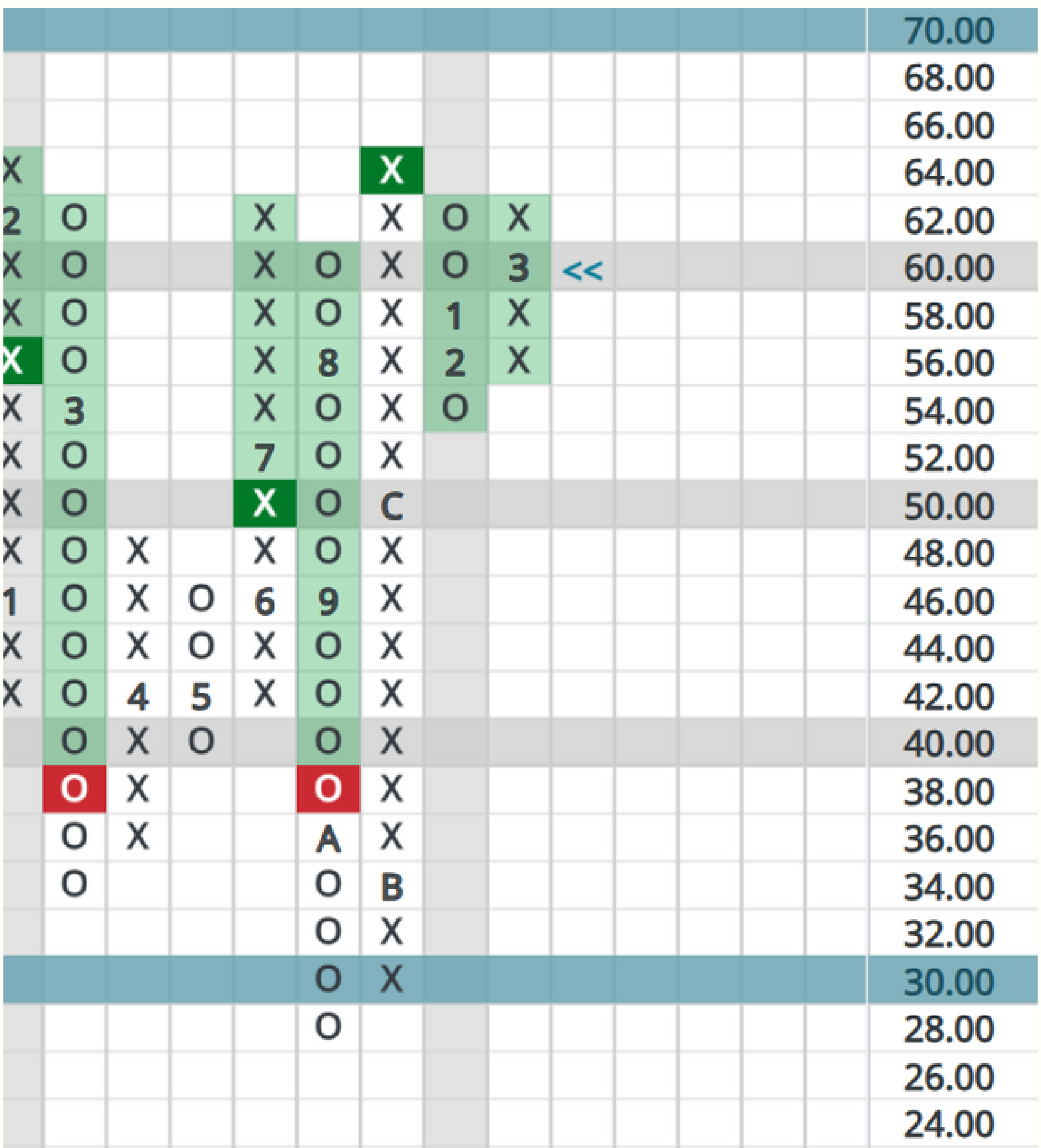
As we navigate the second quarter, I encourage investors to maintain a long-term perspective. Market cycles are part of the investing landscape, and the savvy investor knows to look beyond the immediate horizon. The current pullback does not change the fundamental trajectory of the bull market we're in; rather, it underscores the importance of patience and conviction in one's investment approach.

info@granite-wealth.com 508-746-4228 www.granite-wealth.com

LONG TERM CHARTS OF INTEREST

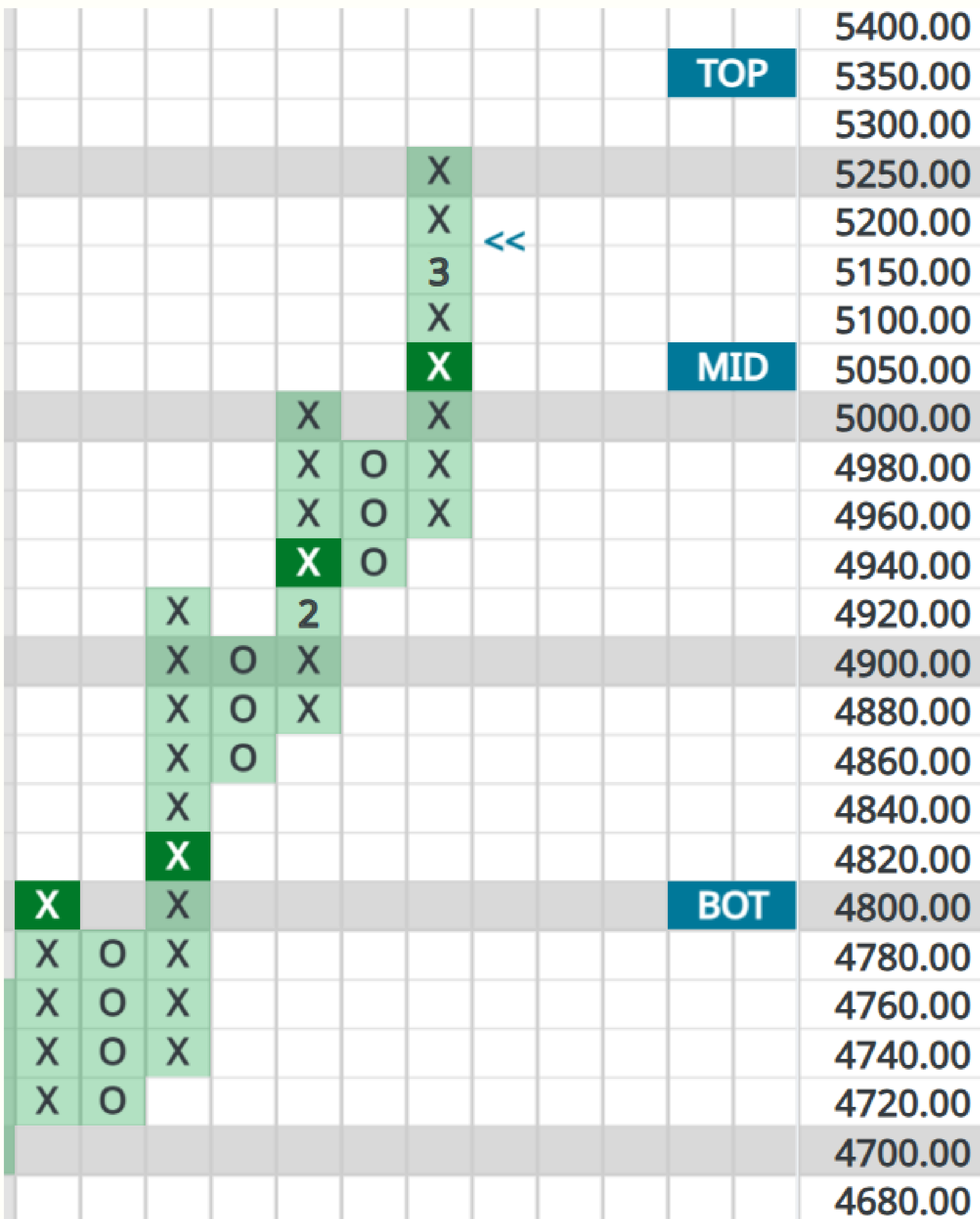
NYSE HiLo Index

After a huge surge that started in October (long column of X's), stocks pulled back in February (last column of O's), then reversed back up. This is normal corrective action and this foundational, long-term indicator remains in a positive trend slightly above midfield. No reason for panic here. Resistance is in the neighborhood of the February 2024 and December 2023 high.



S&P 500 (SPX)

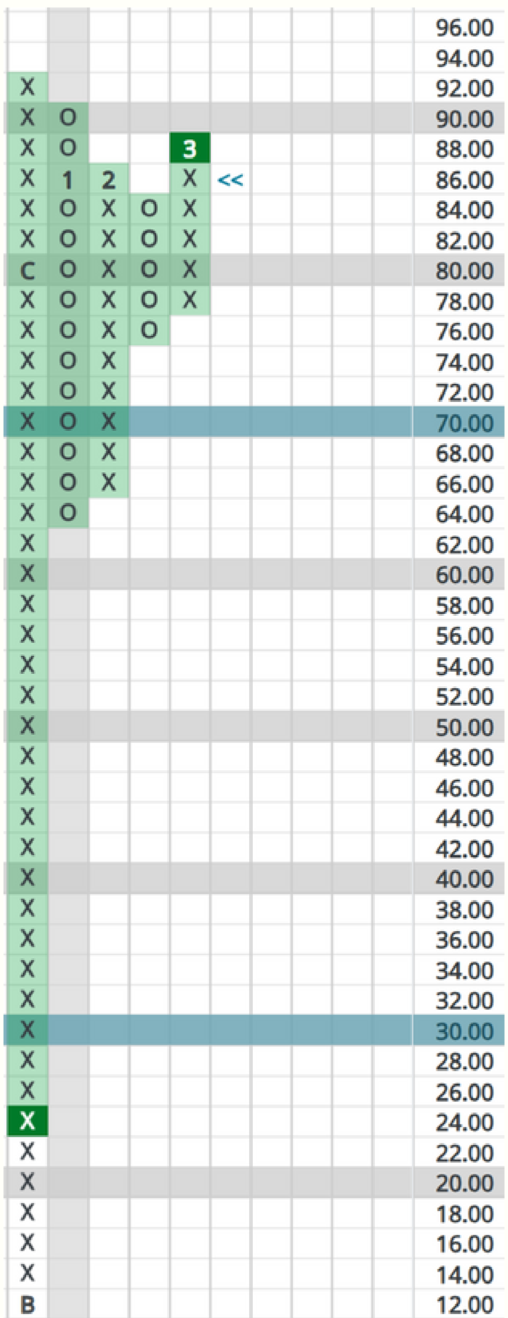
Produced 4 new break outs so far in 2024 as it approaches the top of its trading band. If the market breaks down the S & P will find support at 4920, 4840 and 4700. Orderly uptrend and we would expect an equally orderly retreat to these support levels.



SHORTER-TERM INDICATORS

HiLo Index

This short term indicator can travel coast to coast in a hurry. We do have to worry about reversals down from these high levels. This would dictate defensive moves such as taking partial profits, tightening stops and initiating new positions only as they come to previous breakout levels.



Right/Wrong

A quick peek at some of our recent calls and how they panned out:

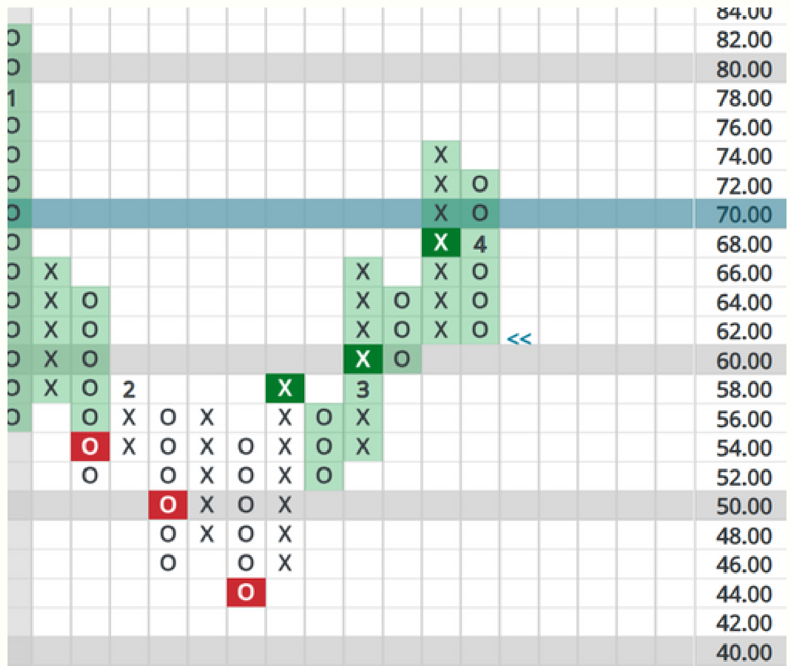
1) January will be up: after predicting a positive first month, the crucial first 5 trading days let us down. Following the strong December, stocks still managed to log a positive January, as predicted.

2) Weak dollar: we thought rate cut expectations would lead to a weaker U.S. dollar. Weakness in foreign currencies has propped it up so this one's a miss (so far).

3) Don't fear extended short-term indicators: despite extended readings early in the year from the HiLo Index and the % of stocks above their 50-day moving averages, we suggested the overall market would remain healthy. Nailed it.

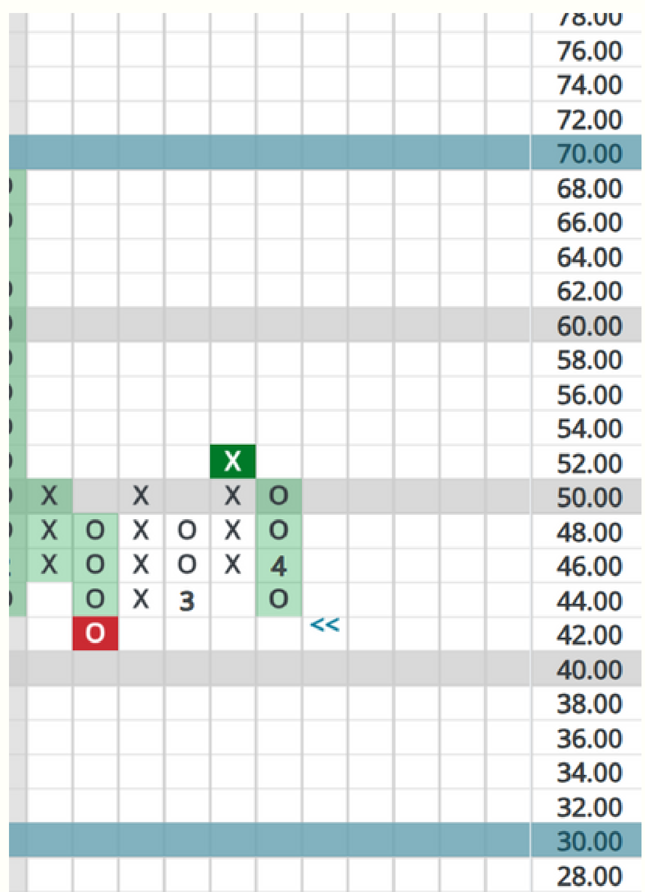
...2 out of 3: not bad?

NYSE Stocks Above 50 Day Moving Average



Also known to chart watchers as the 10-week moving average, this indicator is not quite as extended up the field as the HILO. We would be cautious if this reversed down in tandem with the HILO.

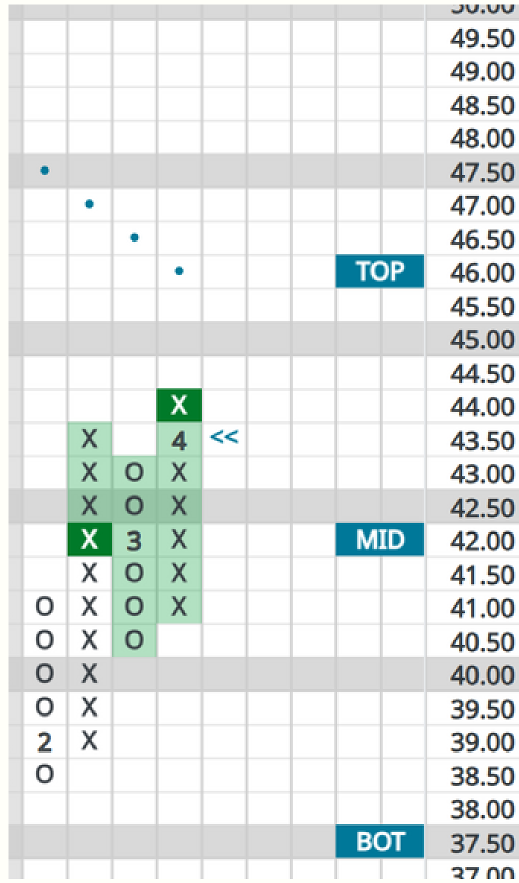
OTC Stocks Above their 50 Day Moving Average



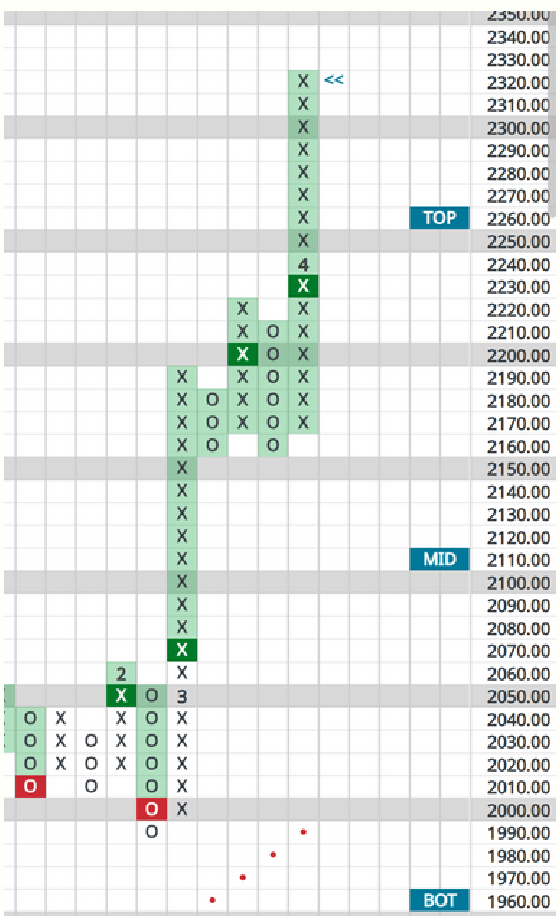
A different picture emerges with the NASDAQ: surprisingly, it’s.not as extended as the NYSE. Could this be to the trigger readiness of investors selling their growth darlings?

OTHER CHARTS OF INTEREST

Ten-Year Treasury (TNX)



Recent spike brought yields back into the 4.50% range. We would get defensive if this pushed through the 4.60 - 4.70 range......potentially leading to a thrust towards 5% and the top of the expected trading range.

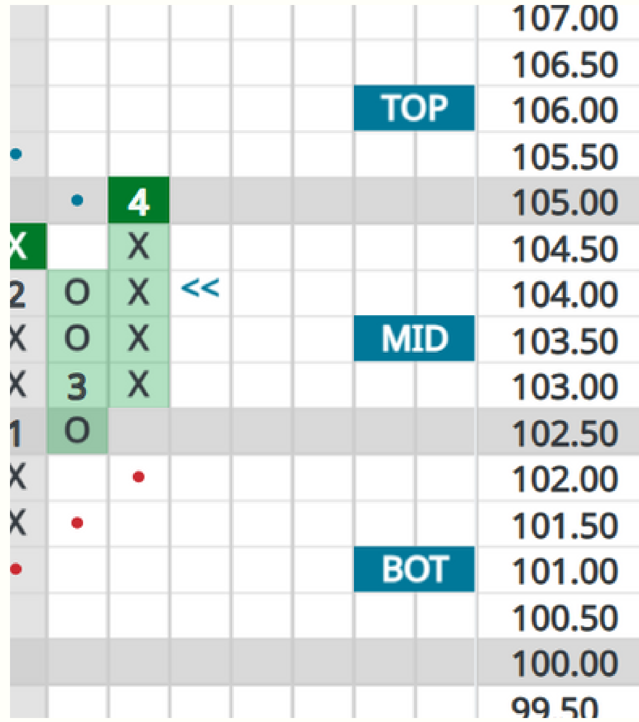


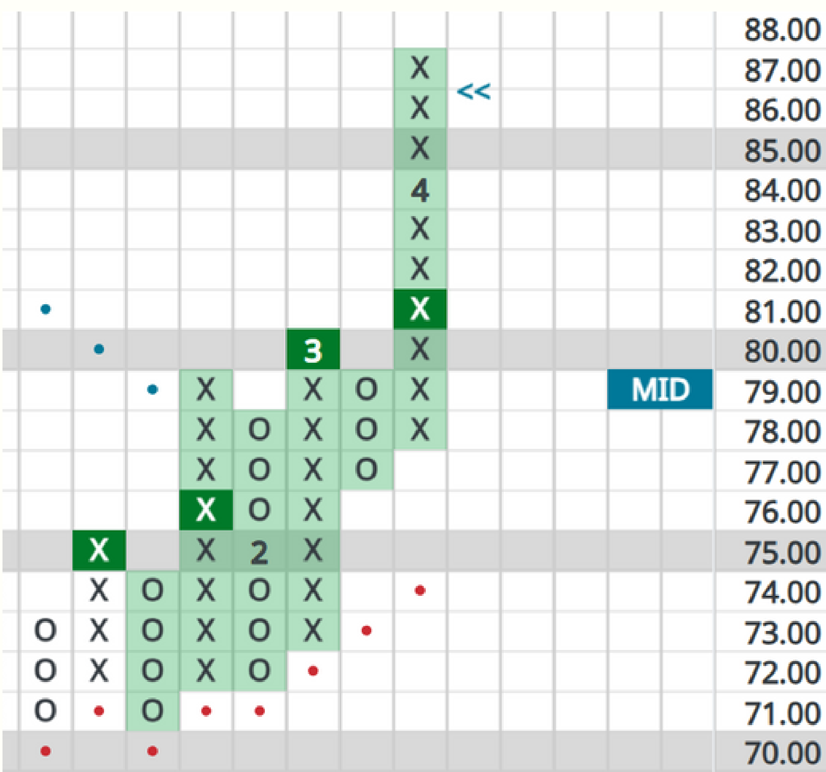
Gold

Solid breakout at $2070, taking all the resistance out back to late last year. Extended now above the top of its trading range, but the bullish price objective is $2600. Let the chart develop further.

Dollar Index

We find ourselves yet again in a quasi strong dollar environment. Currencies do not traditionally move that dramatically, but the move from 101 last year to 105 today qualifies as a trend change to strong dollar status. This is a potential headwind for domestic stocks.



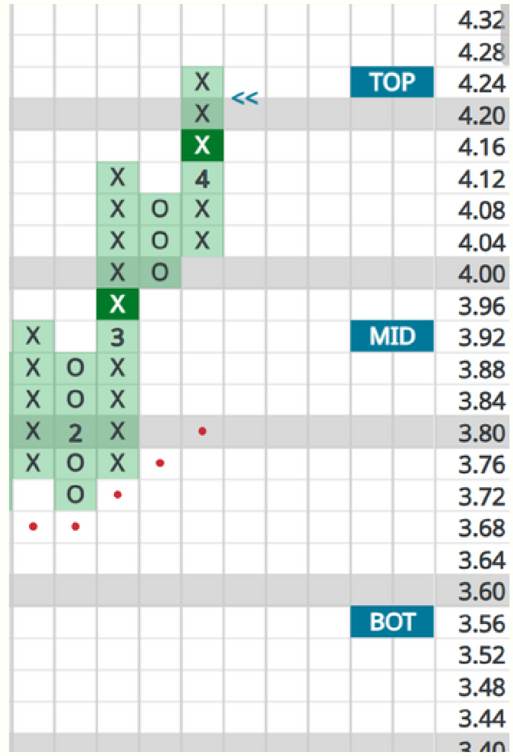


Crude Oil

Can it get to $100 in the context of a strong economy? Maybe but $89 is the top of the trading band, (and minor resistance), quite a bit below the $95 peak of last September.

Copper

Strong break outs have occurred in 2024.
Keep a no questions stop at $3.68.



Conclusion

While the market may be taking a breath, the bull market's heart continues to beat strongly. As your guide through these financial waters, I remain bullish and committed to identifying opportunities that arise from the market's ebb and flow. Let's embrace the pullback as a chance to fortify our portfolios and prepare for the continued journey upward.

Remember, investing is a marathon, not a sprint, and the right mindset coupled with a strategic approach will serve us well as we progress through 2024 and beyond.