Ropes Wealth Reacts to the Pitches the Market is Throwing

In the last week I have had the opportunity to catch a couple of Red Sox games with my kids. It wasn't pretty. For those of you not following, the BoSox are dead last in the American League East, with 10 wins and 10 losses. They are underperforming, unlucky, and underfunded, and it shows. Yes, I am the quintessential Boston sports fan, already complaining three weeks into the season. It is especially egregious for me to do so when the Boston Celtics and the Boston Bruins are contenders for a title. How can I be so greedy?

It is not unlike being an investor in the stock market right now. Even after 2023's outstanding results, and in consideration of a decade of high returns interrupted only by a few tough stretches (2022 was certainly one of them), investors want more. But Mr. Market is wobbling a bit here, with valuations in some pockets stretched and anxiety building about risks. Since the end of the quarter, the S&P 500 year-to-date return has been cut in half, from an advance of 10% to one just over 5%. Most of the market action has reflected profit-taking with a side of anxiety. Highlighted by some of the more stretched technology names with Taiwan Semiconductor and ASML taking bigger hits this week, Tesla still spiraling, and Netflix saying business is slowing.

Economic numbers this week gave off mixed signals, conveying continued strength in retail sales and manufacturing, while the housing market faltered a bit, and leading indicators of activity softened. Starting with the less rosy, the Conference Board's March Leading Economic Index (LEI) fell -0.3% in March, a pullback from the 0.2% advance posted in February. Weakness in building permits, new orders, and consumers' outlooks for business conditions contributed to the LEI drop, according to Conference Board economist Justyna Zabinska-La Monica. The Board expects GDP growth to slow this year from the rapid expansion in the second half of 2023 as consumer spending slows in the face of rising consumer debt, elevated interest rates, and persistent inflation pressures.

Housing starts dropped -14.7% in March, pulling the annual pace down from 1.55M to 1.32M, a seven-month low. Single-family starts fell -12.4%, and multi-family starts plunged -21.7%. Year-over-year, housing starts fell -4.3% in March, the largest annual drop since September. Building permits, meanwhile, fell -4.3% in March, pulling the annual pace down from 1.52M to 1.46M, an eight-month low. Building permits were expected to fall -0.9% in March.

Existing home sales declined -4.3% in March from 4.38M to a 4.19M unit pace, a two-month low. Year-over-year, existing home sales fell -3.7% in March, the weakest annual pace since December and marking the 32nd consecutive month of decline. The months' supply of existing homes is averaging a very low 3.0 months, and the median cost of a previously owned home climbed 4.8% in March from a year earlier to $394k, a seven-month high.

This weaker-than-expected homebuilding and housing data supports the notion of reduced construction and sales activity amid the prospects of ongoing elevated – or potentially higher – rates, which will continue to complicate demand.

On a brighter note, the latest look at the American consumer showed ongoing strength for the second consecutive month after a dip in January. Retail sales rose 0.7% in March, and year-over-year are up 4.0%, the most in three months. Robust retail spending in February and March reinforces the thesis of an ongoing resilient consumer, though rising prices at the pump could crimp our style if they continue.

Finally, the Philadelphia Fed index offered an upbeat assessment of manufacturing activity, with a huge jump in activity on the strength of new orders and shipments of finished goods. However, renewed input cost pressures were noted in the commentary which could reinforce hesitation among Federal Reserve officials to pivot toward interest rate cuts.

On that point, the market's April jitters are as much about profit-taking and valuation concerns as well as shifting expectations of Fed interest rate cuts. Fed speakers across the board continue to reiterate a cooling stance toward an imminent cut in the benchmark interest rate, and markets are starting to hear that message and calibrate.

As you know, I take seriously the advice of legendary investor Warren Buffett and always enjoyed his version of the baseball and investing analogy:

"I call investing the greatest business in the world because you never have to swing. You stand at the plate, the pitcher throws you General Motors at 47! U.S. Steel at 39! and nobody calls a strike on you. There's no penalty except opportunity lost. All day you wait for the pitch you like, then when the fielders are asleep, you step up and hit it."

We must be mindful of the daily twists and turns of economic data and quarterly reports of earnings but always remember, like Warren, we are playing the long game. We don't have to swing at every pitch. We aim to have a plan and a purpose, with the discipline to make our moves when ready or when our own goals call for it, not because external pressures force us into it.

I still want the Red Sox to take a few more swings, but that's another commentary.

As we enter this weekend with news of more unrest in the Middle East, please join me in praying for peace in our world and safety for the innocent.

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