Stamper Capital & Investments, Inc.

"Focusing on Upside Potential and Downside Protection Since 1995."

2024 Market Commentary & Forecasts

(Note: Please see our previous Annual Forecasts and our Blogs for considerable background on our forecasts)

We are calling it **The All Everything Super Double Top** – We have reviewed many times how Major Tops are usually round with different stocks and categories putting in tops in a spread out manner, and Major Bottoms are usually a spike downward – everything goes downward at once (diversification fails just when you really want it) in a spike. A good example of a major bottom was the Spike Covid Low in March 2020; another good example was the 2009 Financial Crash Low (although real estate saw its low a few years later). Tops take a lot longer to discuss because they are round – much more diffuse with different asset categories putting in their tops spread out over time. A good example is the Tech Top in 2000 – from memory, most major indices peaked in January 2000 and headed downwards. The NASDAQ also headed downwards along with them but when the markets rebounded to Lower Lows, the NASDAQ rebounded all the way to a New All-Time High in late 2,000 – so time divergence from the other All-Time Tops of something around 10 months.

Very Spread Out Top - The way we see it, the Key with Our Current Top, which we are calling the All Everything Super Double Top, is that it is much much larger – in equities spanning from 2021 to at least now in early 2024 – than other tops we have seen. The Housing Bubble top was arguably from 2005-2007 – that was a large one too, but the current one is now larger. **Bonds** - If you include bonds, the current top is larger still as the U.S. Treasury 30 year and the 3 month Bill topped (saw yield lows) in early 2020 (& they are likely leading equities, real estate, etc.). **Commodities** - Oil (West Texas Intermediate Crude) is down 27% from its high of April 2022 which is part of a Triple top – April 2022, April 2014, and January 2011 – very spread out. While Gold is at its All-Time High, Silver is down 12% from its All-Time High of October 2020. Thus, it is essentially impossible to say one date is The Top. However, if we are correct and the markets head down from here, we would make the case that The Top was the date of the U.S. Treasury Market Top (yield low) in early 2020.

Where We Are Now - For the current All Everything Super Double Top, most equity indices topped in 2021 at various times. Next, most equity indices put in a series of Lower Lows and Lower Highs before the current rebounds started. The current rebounds successively took out successive Lower Highs, depending upon the assets/category. Importantly, the Dow Jones Industrials just put in a New All-Time High in late December 2023 and the S&P 500 just put in a New All-Time High in early January 2024. Since we do not think their ultimate new All-Time Highs will be all that higher than in 2021, we are calling it a "Double Top." **Divergences** - However, we expect that most other asset classes will not make it to New All-Time Highs. Similarly to most tops, there should be a lot of Divergences in the timing of the Tops of various categories. We think many will achieve approximately their previous All-Time Highs (so Double Tops) while many will not. An example of one we don't think will make a new All-Time High, the Russell 2000, is almost at a new rebound high right now, but is still down over 18% from its All-Time High in late 2021. The Dow Jones Transports are still down about 4% from their All-Time High in July 2023 – it may or may not make it – it is close. Internationally, the Heng Seng Index for Hong Kong (proxy ETF: "HSI") is down almost 48% from its All-Time high early 2018 (quarterly basis). Other Divergences we covered fairly recently are in U.S. Housing with the Builders (Construction proxy "ITB" ETF) at or near All-Time Tops but other real estate firms (proxy "IYR" ETF) far below theirs – down 24% from their All-Time Highs of December 2021. Importantly, we expect the Divergences to be resolved, with essentially all of them falling, by the time we get to a large spike low.

Performance - Also important to us, is that if the equity markets (and other markets) were to turn down soon (top right now), based on the previous discussion, they would be, on average, unchanged or down from their previous tops in 2021 – Thus, sideways to down – basically no net progress or no return for the last 3 years.

All Everything &/OR Tight Groups? – Well, most everything is sky high but narrow groups have performed significantly better; thus, pulling up the averages like the Dow Jones Industrials, the S&P 500, the NASDAQ, etc. To us this means, the rest are not doing all that well; thus, bolstering the view of a topping process. At the top it is usual for a thinning out process and we've been having that for years now.

Interest Rates – The U.S. Treasury Yield curve is still very inverted. We still expect the inversion to be reversed mostly by long-end yields rising (prices dropping) rather than the short-end yields dropping. In fact, we wouldn't be surprised if the entire curve shits up as it uninverts. Also, as we are expecting the equity markets to drop, we are expecting a widening of credit quality yield spreads. So, high yield bonds, corporate and/or municipals, etc. would do worse than corresponding duration U.S. Treasuries.

Debt/Leverage - Similar to last year, we are still very concerned about the huge leverage in the markets. Pretty much everything is very highly leveraged/financed. Not only that, interest rates have already gone up a huge amount over the past few years with very little in related asset price declines. Residential real estate is especially astounding they way its prices continue to levitate; however, sales volumes of residential real estate have plunged to below levels seen before the Housing Bubble burst (2005-2009). We have pointed out that sales volumes usually collapse before prices. So, we will see. In a great divergence, commercial real estate prices have been getting hammered – we might say, "commercial real estate is the leader in this cycle."

Possible Downdraft Triggers – At these levels and with the high degree of leverage there are many but we will cover two. **AI** or Artificial Intelligence – much of the current equity rally revolves around AI. It reminds some of the Tech rally before the Tech Wreck from the late 1999 to 2000 Top. We have seen similar things many times, where the enthusiasm for a "new" technology pushes a narrow group of stocks through the roof...and then their prices come back down to reality. In this case, “AI;” however, we note the components of AI have been around for a long time – computer programs tied in with databases, etc. We think the marketing of AI has been brilliant – a new Term for older concepts. Reminds one of an “App” instead of “application program” - it wouldn't have worked nearly as well if they'd been saying, “There's an Application Program for that” - too scary but not the word “App.” However, AI has definitely captured the imagination of many. And, yes, it can add a lot of value but this has already been going on for a long time. Of course, programs and databases and senors all tied together have improved and can improve more, but it seems to us it has been “over done” at this point as far as how high certain stock market prices have climbed. **War** – We have two wars (at least) going on. Either of these could ramp up and dramatically change the markets. I'm sure there are lots of other potential triggers, any of which could be especially problematic with the high valuations and the vast amounts of leverage in the financial systems.

Conclusion - Based on this discussion, we see little upside potential and lots of downside risk – essentially across the board, unfortunately. We think most assets are still all priced at very high levels. Finally, we think the economy could weaken substantially. Yes, we think we can have rising interest rates with a weakening economy; in fact, rising interest rates would likely be causing the economy to weaken and prices to fall. Accordingly, we are forecasting major drops in the prices of most assets - stocks, real estate, junk bonds, high yield municipal bonds, high grade bonds and commodities, both industrial and financial with interest rates rising across the board in a stair stepped fashion. Basically, at the simplest: the cost of financing up, on top of a weakening economy = prices of everything financed dropping. A caveat would be if we have a huge inflation, which we deem unlikely; but, in that case hard assets would almost certainly be the place to be.

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Please review our previous Annual Forecasts and Blogs if you want to get considerable background information why we are making these forecasts.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

Thank you for your patronage,
Stamper Capital & Investments, Inc.

“'Safety' was our Watchword” starting in 2001, at the beginning of “The Tech Wreck” down into 2003/2004 bottom. Then again for the Housing Bubble to the Financial Crash “Safety was our Watchword.” And, unfortunately, “'Safety' is our Watchword” yet again for this Super Bubble Top, until we get to the final bottom, which we believe is much much lower.

(Posted 1-30-2024)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:
Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite's monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite's quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client's returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:
Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:
Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:
For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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