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Market Outlook:

Are we there yet?

Even as we finish the first two weeks of this new year, there are those who are attempting to draw instantaneous conclusions about the market's overall direction for 2023…kind of like kids in the backseat of a car opining*, "are we there yet, Mommy?"*

As ludicrous as it looks when pen is put to paper, a host of opinions are already being formed about whether this year is, or will be, a recovery, a failure, or something in-between.

Let me offer this premise regarding statistical sciences: data analysis is *calendar agnostic*. Yes, one can look at year-over-year comparisons and annualized integers. But know this…trends don't know Christmas from Labor Day; July 4th from Halloween. Trends begin capriciously and precipitously. While quantitative method attempts to calibrate the magnitude and amplitude of certain phenomena and the likelihood (probability) of their duration, there is no date specific determinant to these events one any more than any other. We know that trends originate, over time, and that they terminate, similarly over time. Therefore, while it makes for good debate or literary alliteration, there is no scientific calculation such as "2023", "New Year's", or even "the first two weeks of the calendar". Similarly, markets don't care about our feelings or our opinions. Portfolio construction should be predicated upon data and cycle phase analysis.

Get in or get out?

At its core, the irregularities and vagaries of the markets make prudent scientific method all the more significant. Exposure to stocks and bonds in the past few weeks validates that holding cash and short-term time deposits is not a *default* decision, but rather an active hedge against valuation erosion. The trends we observe today are a continuation of events which preceded them and, in fact, more easily understood in the context of the previous time sequence and those which will follow. "Are we there yet?' Let's just say that we are further along, for good or bad, than we were when the current curve began. If, in fact, there is a final reckoning to be had…. i.e., more sell-offs or quick pivot rallies….it is vital to be in a position to mitigate against any surprises.

As such, we still conclude that *the economy is stagnating because of events set in motion during the pandemic and responded to with fiscal and monetary stimulus which attempted to restore a sense of normalcy, equilibrium, and high demand.* Unfortunately, none except for the latter was the outcome we reaped, hence the markets are as uncertain and disjointed as is the economy overall.

Certainly, there are pockets of strength in the global marketplace that we believe can be mined effectively for capital gains. One must drill down below the "noise" to uncover phases and groups which typify high margin returns. To wit, we see many Industrials as the beneficiary of demand for infrastructure reform and commercial transportation inefficiencies. We are also searching not only for *obvious* opportunity but for those which have *elusive* confirmation indices coming in the next few quarters. There is no doubt that secular (generational) revolution is here in areas such as agriculture, alternative energy, biotechnology and pharmaceuticals, healthcare, defense, and climate/ecology. We would overweight these categories in most equity accounts.

We are optimistically encouraged by base-building we see occurring in those specific industries identified above, but feel that it is too early to magnify equity risk-taking aggressively at this time.

No….not quite "there yet".