

Clues

Investors always are searching for clues as to data and trends ahead that would influence market outcomes. There is no shortage of prognosticators, forecasters, pollsters and seers. The farther into the future and the more complex the subject, the more uncertain the guidance provided. The most recent U.S. jobs report was a case in point. 467,000 jobs were created in January, far exceeding the consensus forecast of 150,000. Not far into the future and seemingly not complex. The pandemic struck again. Forecasts were based on the sharp rise in omicron virus cases, suggesting that employment gains would be derailed. Not so. A review of some recent clues can provide perspective for investing yet ahead.

Q PERSPECTIVE

The National Federation of Independent Business (“NFIB”) conducts surveys of its members and publishes a monthly “Small Business Optimism Index”. It includes 10 key factors affecting business decisions and activities. It is closely watched as small businesses regularly create a significant number of jobs in the U.S. economy. **Chart I** shows recent trends for the index. A general uptrend in optimism began at the end of the Great Recession and continued into 2018. The index pulled back but remained positive until the onset of the pandemic. Ever since, index changes have been quite erratic, and the latest level is just average. Higher inflation is a rising concern as well as a general uncertainty over future economic activity.

Economic policies around the world have been in sharp focus since the start of the pandemic. Both fiscal and monetary policies played important roles in offsetting health policies taken to mitigate the impact of the coronavirus. The Global Economic Policy Uncertainty Index shown in **Chart II** was developed and is maintained by a collaboration of noted faculty from three prestigious U.S. universities. This index measures daily data for 22 countries weighted by GDP. As a result, larger economies such as the U.S. have more impact. A general trend to higher uncertainty was in place for several years, spiking with the pandemic. The uncertainty level has fallen sharply since but remains well above average.

Of the many measures available, the investor sentiment survey conducted weekly by the American Association of Individual Investors is followed widely. The levels of investor bullish sentiment and bearish sentiment are measured separately, but their differential is shown in **Chart III**. When related to stock market trends, this sentiment measure tends to be a contrarian indicator. Higher positive values are associated with market peaks and lower negative values with market bottoms. The latest weekly value of -30% is well below average and comes as many stock market indexes have corrected to levels of -10% or more from prior peaks.

INVESTMENT IMPLICATIONS

Tracking a wide range of meaningful indicators is a good discipline for finding clues to future market trends. For an indicator to be meaningful, it must have fundamental relevance to the subject at hand. Assessing a wide range of indicators is protection against the erroneous clue that can arise from any one indicator at any time. From indicators to portfolios, the same discipline applies. In a world uncertain at all times, investors are best served by portfolios that are diversified appropriately for the return opportunities and risk challenges ahead.

CHART I



CHART II

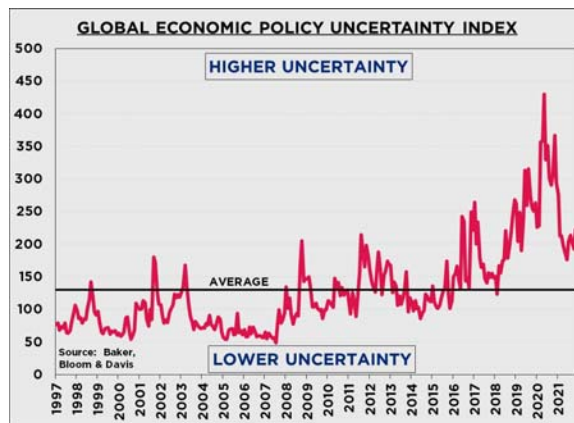


CHART III

