Resilient Investors

This week, the U.S. inflation rate for February was released at 3.2%, slightly higher than the market’s expected 3.1%. While this could imply the possibility of higher interest rates for longer, investors in the equity market took it in their stride, pushing the broad S&P500 to new highs.

A succinct comment that I came across aptly captures the **current market sentiment:**

I) “Inflation is LOWER than expected: "**Buy stocks**, a Fed pivot is on the way.

II) Inflation is AS expected: "**Buy stocks**, a soft landing is on the way."

III) Inflation is HIGHER than expected: "**Buy stocks**, AI is changing the world."

Indeed, with the S&P500 gaining a massive 36% over the last year and averaging 15% per annum over the last five years, company valuations appear expensive. **Investors are right to be cautious.**

However, besides valuation, there are many other factors which impact share prices, including:

1) Economic Outlook: The US economy has shown resilience, with GDP growing by 3.1% last year and an expected annualised 3% for the first quarter of 2024.

2) Financial conditions: This refers to the availability and cost of financing for real economic activity. While the monetary authorities have maintained high interest rates (tight monetary policy) to cool inflation, elevated government debt and spending (fiscal policy), potentially have an offsetting effect.

3) Sentiment: The mood / psychology of investors remains bullish for now, evident in the relatively Low Volatility Index (VIX), which indicates investor confidence.

In conclusion, market prices are influenced by a range of factors that can change quickly. We continually believe that setting an **appropriate position size** and focusing on the **long term** is the correct approach.

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