

Surprise Reason Behind Stock Breakout?

Why is the S&P 500 (SPY) making new highs? And what is the outlook for stocks coming into the quite important 1/31 Fed meeting? Investment pro Steve Reitmeister shares his views along with a preview of his top 13 trades to excel in weeks and months ahead. Read on below for more.

I am a tad bit surprised by the recent surge to new highs. Not that it wouldn't take place this year. That was a given.

Rather why it took place now with such mixed economic and inflation data calling into greater question WHEN the Fed will start lowering rates.

Yet as we all know timing the market can often be a "*fool's errand*". Gladly our bullish outlook for the year ahead had us fully invested and enjoying in the upside as it rolled in.

Let's use our time today to discuss the results from earnings season so far. And preparing for the next Fed meeting on January 31st.

Market Commentary

Tuesday marks the 3rd straight close above 4,800 for the S&P 500 (SPY) helping to solidify that indeed we have a solid breakout to new all time highs. Certainly, that is something to celebrate helping to erase most of the painful memories of the 2022 bear market.

Helping the cause are the better than expected early results for Q4 earnings season. Here are insights from my friend Nick Raich at EarningsScout.com

- 67 companies in the S&P 500 (13%) have released Q4

results.

- Good news first! 56 companies, or 84%, have topped their EPS expectations, on average by +6.92%.
- Furthermore, 4Q 2023 EPS growth is up +6.37% from 4Q 2022 for the companies that have reported so far, which is an accelerated rate from last earnings season when their collective 3Q 2023 vs 3Q 2022 EPS growth rate was +4.42%.
- Now, the bad news. And to be honest, it is not all that bad. Only 67% of companies are topping their sales expectations, which is below the 72% three-year average sales beat rate.
- While 4Q 2023 sales are up +4.98% from 4Q 2022 for the 67 companies that have reported, this is a slowdown in the rate of growth from last quarter when their 3Q 2023 sales were up +6.01%.
- Underlying S&P 500 EPS expectation trend is improving, on a rate of change basis, for the first 67 co's in the index on the 4Q 2023 clock and this is bullish for stocks.

The above may be a bit too much in the weeds for some investors. So let me simplify.

Earnings so far are better than expected. And estimate revisions for future earnings are also positive. Net-net this is good news and no doubt one of the catalysts behind the recent stock breakout to new highs.

These positive earnings announcements should not come as much of a shock given the resilience of the US economy. The GDPNow model is now pointing to +2.4% growth for Q4 which is far better than earlier predictions closer to a paltry 1%.

The welcome strength of the US economy, coupled with still moderating inflation figures, creates an interesting riddle for the Fed to solve as to when they can comfortably start lowering rates. That is highly unlikely at their 1/31 meeting

where the CME's FedWatch model points to less than 3% chance of a rate cut on the way.

The March 20th Fed meeting was considered the most likely launching point for these rate cuts with odds at nearly 90% just a month ago. That is now down to only 43% probability at this time.

This change of heart stems from the slightly higher than expected CPI report on January 11th where core is currently at 3.4% year over year. Along with that the monthly jobs report showed job gains hotter than expected bringing with it stubborn wage inflation that is not abating as fast as some had hoped.

Long story short, we are still a good way off the Fed's 2% inflation target thus delaying when the economic catalyst of rate cuts will finally be on the way. Now folks believe that May 1st Fed meeting is the more likely start to this rate cutting process (currently 86% likelihood).

Yes, with what I just shared I am a tad surprised that stocks had the energy to break to new highs at this time. I thought that would be on hold til there was greater certainty of when rate cuts would be delivered as that timeline keeps getting pushed further back.

However, it is not hard to see the economy is doing just fine without the rate cuts. So its not like we need them on the books to keep the stock market humming along. It would just provide a bit more oomph to earnings growth which further lifts share price valuation.

The point is that when the primary trend is bullish, then there is no benefit in trying to time the minor pullbacks and bounces. Like I said up top, that is a *"fool's errand"*.

It is better just to stay 100% invested in the best stocks and

ETFs to enjoy those rallies whenever they arrive.

As for what are the best stocks and ETFs to own now, we will tackle that in the section that follows...

What To Do Next?

Discover my current portfolio of 11 stocks packed to the brim with the outperforming benefits found in our exclusive POWR Ratings model.

Yes, that same POWR Ratings model generating nearly 4X better than the S&P 500 going back to 1999.

Plus I have selected 2 special ETFs that are all in sectors well positioned to outpace the market in the weeks and months ahead.

These 13 top trades are based on my 43 years of investing experience seeing bull markets...bear markets...and everything between.

If you are curious to learn more, and want to see these lucky 13 hand selected trades, then please click the link below to get started now.

Steve Reitmeister's Trading Plan & Top Picks >

Wishing you a world of investment success!

Steve Reitmeister...*but everyone calls me Reity (pronounced "Righty")*

CEO, StockNews.com and Editor, Reitmeister Total Return

SPY shares were trading at \$484.86 per share on Tuesday afternoon, up \$1.41 (+0.29%). Year-to-date, SPY has gained

2.01%, versus a % rise in the benchmark S&P 500 index during the same period.

About the Author: Steve Reitmeister

Steve is better known to the StockNews audience as “Reity”. Not only is he the CEO of the firm, but he also shares his 40 years of investment experience in the Reitmeister Total Return portfolio. Learn more about Reity’s background, along with links to his most recent articles and stock picks.

More...

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