What Data Should Investors Focus on Now?

The S&P 500 (SPY) is up nearly 50% from the bear market lows. That is a sign the easy money has been made. The next likely catalyst for stocks will probably be the first Fed rate cut…but maybe that is really the final push before a long overdue sell off? Tune in to discover what investment veteran Steve Reitmeister has to say about the market outlook along with his trading plan and top picks to stay ahead of the pack. Read on below for more.

It is clear that the Fed decision to lower rates is the main catalyst everyone is waiting for. The next chance that could happen is on Wednesday May 1st.

Since the Fed is "*data dependent*" (as they repeat like a skipped record) then we are best served focusing on the calendar of upcoming data…and what that tells us about the rate cut decision and market outlook. Read on below for the full story…

Market Commentary

The backdrop is simple. The Fed seems to be successfully guiding the economy towards a soft landing while at the same time easing inflation back towards the 2% target.

As Powell detailed at the last meeting, the Fed can indeed start lowering rates before they arrive at the 2% target because rates would still be restrictive after the first cut. Secondly, there are delayed effects of raised rates and if you waited til you got to precisely 2% you may actually risk doing unnecessary damage to jobs market (which is the other half of their dual mandate of maintaining steady prices and maximum employment).

Right now, virtually no one expects that rate cut to take place at the May 1st meeting as the last round of inflation data was a tad too hot. Thus, just one more serving of monthly inflation data in April would not be enough to get these academics to vote confidently in a rate cut.

Instead, the focus is on whether June 12th will be the starting line for rate cuts. Presently the CME calculates that as a 65% probability. But again, that is data dependent on the roll call of reports taking place in coming weeks…and what Powell shares with the market on his May 1st press conference.

Here are the key economic reports along with some notes to put them into perspective:

3/28 Core PCE- This is the Fed's preferred measure of inflation which has been at 2.0% the past two quarters. Even better is the non-core reading for Q4 of 1.8% which is down considerably from the 2.6% showing in Q3. This data should go a long way towards a June rate cut.

4/5 Government Employment Situation: What will be even more important than the number of jobs added will be the reading on Wage Inflation. That was too hot last month at +4.3% year over year. Need to keep seeing this sticky form of inflation become unstuck at this high level. The month over month reading will be helpful in appreciating the pace of decline. Anything over 0.2% monthly increase would point to unwanted inflationary pressures from wages.

4/10 Consumer Price Index (CPI): This has been nicely on the decline over the past year, but last month was a tad higher than expected at 3.8% core inflation with 0.4% monthly increase. This needs to start moving under 3% in coming months to improve odds of a cut on the way.

4/10 FOMC Minutes: Its hard to imagine more details emerging

than the voluminous comments that Powell made at the March 20th press conference. Yet you can imagine that investors will pick over every word to find any clue that would point to a likely starting line for rate cuts.

4/11 Producer Price Index (PPI): The least followed of the 3 main inflation reports, but what many economists appreciate as the leading indicator of where the other reports will trend in time. Note that this is already on target at 2% and portends well for the continued reduction in PCE and CPI towards that desired level.

5/1 Fed Meeting: 2pm ET is when the press release comes out. And 2:30pm is the even more important press conference with Powell where we get a lot more color commentary. Given the facts in hand investors are right to highly doubt the rate cut is happening at this time. The real key is if they showed improved language that June is in play.

Trading Plan

We are in a bull market. This is a shock to no one.

What is unclear is the pace of forthcoming gains when we are already up 50% in just 1.5 years time. Please remember that closer to 8% annual gains is the expected normal return.

I suspect 5,500 is the top of the S&P 500 (SPY) this year. Meaning that the catalyst for stocks from a rate hike is pretty much already baked into the cake.

This led me to write my previous article, Investor Alert: “Buy the Rumor, Sell the News!”

The short version is that I would not be surprised with stocks rallying into the rate cut announcement followed by a well deserved round of profit taking. Unfortunately, right around the corner form that sell off…is likely another selloff that coincides with the Presidential election pattern.

As stated before, this is not a reason to get bearish or conservative. Best to assume bull market and general upside til proven otherwise. The key is WHAT stocks will see the most gains.

We know that growth stocks generally lead the parade in the early stages of a new bull market. This is especially clear from where gains rolled in back in 2023.

What happens after a growth oriented phase is a return to value. This makes investors work a little harder to find attractive opportunities. This is where the thorough 118 factor review of our POWR Ratings model comes in quite handy.

The model does the heavy lifting by doing this deep dive into the fundamental attractiveness of the firms. The top 5% are A rated which explains why it has produced a +28.56% average annual return going back to 1999 (nearly 4X better than the S&P 500).

That top 5% is the starting point for our stock selection…then continue to drill down from there to find stocks with the most appealing upside potential.

What top stocks are we recommending now?

Read on below for the answers…

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This includes 5 under the radar small caps recently added with tremendous upside potential.

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This is all based on my 43 years of investing experience seeing bull markets…bear markets…and everything between.

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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 $523.36 per share on Thursday afternoon, up $0.19 (+0.04%). Year-to-date, SPY has gained 10.45%, 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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