Why Are Bear Market Odds on the Rise?

The S&P 500 (SPY) has been up, down and all around this past week thanks to the Fed statement followed by the Government Employment report on Friday. On some levels nothing has changed in the market outlook. However, looking further down the road some important things happened this week that increase the odds of recession and deeper bear market downside. Get the full story in the article below.

Lots of economic fireworks this past week.

Lots of stock price movement day to day.

But unfortunately, not much has really changed for the near term market outlook. Meaning that limbo and trading range remain the base case til a new catalyst arises to put the bull/bear argument to rest once and for all.

However, in the long run I think the odds of the bearish outcome have increased. So be sure to read on below for the full story including our trading plan in this unique environment.

Market Commentary

Before we get into the thick of things today, I wanted to get something on your radar. And that is about the rise of Artificial Intelligence (AI) for investing.

Every day we get more and more emails from customers about how they might use AI and tools like Chat GPT to improve their investing.

Indeed, this is a topic I have thought a lot about since StockNews is part of the Tifin Group; a fintech company specializing in the use of artificial intelligence for the

benefit of investors. Most notably through the AI powered investment website Magnifi.com.

In fact, I recently wrote a long review of the many features and benefits of Magnifi. If this topic of AI driven investing interests you, then please click below to discover the full story:

How AI Improves Your Investing Process

Now back to today's market commentary…

Let's start by rolling out what we learned this week followed by how it effects the market outlook and our corresponding trading plan.

On Monday 5/1 we started the month off with the ISM Manufacturing coming in at 47.1. Sadly that is well below 50 showing that things are contracting. The forward-looking New Orders component was even worse at 45.7. The S&P 500 (SPY) was flat on this news.

Then on Tuesday 5/2 came the 3rd straight monthly drop in the JOLTs report (Job Openings and Labor Turnover). In fact, there are 20% less job openings now than a year ago.

This fits in with the idea that the surprisingly resilient employment market may finally be showing signs of cracking. That is because before you consider laying off employees, you first stop hiring more employees. That is what the JOLT report is starting to convey.

Stocks tanked -1.16% on the day…partially from this news…partially from taking some profits off the table before the Fed announcement that follows.

Indeed, the Fed announcement on Wednesday was the main event of the week. In my book everything went exactly according to plan. That being a quarter point rate hike with language that

there is much more work to do to bring inflation back to their 2% target level.

Bulls will point to the clear change in language that this might be the last rate hike. However, bears can point to the statements that even if there are no more rate hikes, they still expect to maintain this high level at least through end of 2023.

Plus, the weakness in the banks IS having a negative impact on the economy…which is why they may not need to raise rates more. This event is like a rate hike or two on its own.

Most importantly, their base case still calls for a mild recession to unfold before their inflation fight is over. That includes the unemployment rate rising 1% from 3.5% to 4.5%.

Here is the problem with that math. Only one time in history has the unemployment moved that much and no further. Meaning that typically when the Pandoras Box of recession is opened, then the unemployment rate goes much higher. Thus, to predict only a mild recession could be somewhat fanciful. The sum total of this negativity explains why stocks ended lower on Wednesday and Thursday.

Interestingly, the script got flipped on Friday with a better than expected Government Employment report where 253K jobs were added (30% above forecast). Hard to see a recession forming in those details leading to a spike in stock prices.

However, for as sweet as that employment rose smells, it also comes with some serious thorns. That being higher than expected wage inflation at +0.5% month over month. This "sticky" inflation measure computes to 6% annual run rate which is far too hot for the Fed which only bolsters their hawkish resolve…which only bolsters the likelihood of recession.

As things stand now, the market remains in limbo. Which means

trading range that is neither bullish or bearish.

I would say the upper limit is 4,200 which has been serious resistance 2 times over (early Feb and early May before Fed meeting). And the lower end is the 200 day moving average currently at 3,970.

All movement inside the range is meaningless noise and thus no change in strategy. Breaking above will likely be a signal that the new bull market is upon us and get more aggressively Risk On. Whereas a break below would have us considering more Risk Off measures.

However, I think the probability of bearish case rose this week because of some key concepts Powell discussed on Wednesday. That being where they still predict a recession forming as part of the process to rein in inflation.

Here again, they only predict a mild recession with unemployment rising to 4.5%. Yet history proves that is highly unlikely and will be worse. Please consider that the Fed can't say out loud:

"Hey, we are going to crush the economy and many of you will lose your jobs. You're welcome."

Until more investors see this recession forming, then limbo and the aforementioned trading range will be in place. Just want folks out there to appreciate that the odds of recession and deeper bear market are now higher given the fresh information in hand.

What To Do Next?

Discover my balanced portfolio approach for uncertain times. The same approach that has beaten the S&P 500 by a wide margin in recent months.

This strategy was constructed based upon over 40 years of investing experience to appreciate the unique nature of the

current market environment.

Right now, it is neither bullish or bearish. Rather it is confused…volatile…uncertain.

Yet, even in this unattractive setting we can still chart a course to outperformance. Just click the link below to start getting on the right side of the action:

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 $412.63 per share on Friday afternoon, up $7.50 (+1.85%). Year-to-date, SPY has gained 8.31%, 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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