Assessing the S&P 500 Market Trend and what it means for Investors

written by Dean Bristow | March 3, 2023

Every so often, I like to take a step back from the day-to-day gyrations of the market and have a look at what might be the overall market trend. It can be hard to swim against the current, so if the market is trending lower, then perhaps now isn't the time to be stepping into a longer-term story. However, if the market is trending higher, then you might be able to load up on a basket of more speculative names and not have to worry as much about whether they pan out right away or not.

At present, it appears there are four key focus points for investors – inflation, employment, interest rates, and earnings. It might be a little more complicated than that but you'll note I didn't include a recession. My observation is that a recession is somewhat irrelevant to the overall market performance right now. I suspect that could be due to continued strong employment numbers on both sides of the border, the market doesn't perceive that there will be a meaningful or severe recession in light of that. I'm sure the press will be happy to push the panic button if or when the economy slides into a recession but as I've discussed previously, by the time you can actually declare there is a recession, a forward-looking market could be starting a bull run and perhaps we already have.

Turning back to the key points I started with, they are all somewhat interrelated. Starting with inflation, it appears to be cooling marginally but not as much as I think the market, or more importantly the U.S. Federal Reserve, was expecting. Additionally, employment numbers continue to surprise to the strong side. This sticky inflation and strong employment lead to the potential for interest rates to stay where they are (or possibly even see another small increase or two) for a longer period of time, or until inflation gets back down closer to 3% (I know the Fed target is 2% but I think they’ll blink before then). Higher interest rates for a longer period of time flow through to the cost of debt, and discount rates that are used to value companies, especially high-growth tech names which led the market for so long. The one piece of good news, about the four points, is that this latest earnings season was OK. Not great but also not terrible.

1-Year Chart – $SPX – S&P 500 Large Cap Index

Source: StockCharts.com

So where does this leave us? I think it means we see a market that is floundering without direction. January saw a nice little rally, February saw us give up most of those gains and the lack of conviction continues. The market is reacting here and there on specific news items but it doesn’t necessarily lead to a broad-based move. For example, early in the week, there was some positive economic news out of China and the copper stocks all caught a pretty good bid. But that was short-lived as everyone waits for the next data point. Yesterday, one of the more hawkish members of the U.S. Federal Reserve made comments that the market interpreted very differently than I did, and we saw a mid-day rally. But again, it has little to no sustainable influence on the overall market trend.

Looking at the one-year chart for the S&P 500, the market has entered a bit of a sideways pattern. We might be in a slight uptrend that started last October with higher highs and higher lows. However, the current dip has to bottom out at the 3,850 level or higher. If it dips to 3,800 or lower then I would say we are likely rangebound between 3,650 and 4,150. Yesterday we bounced off one key support level and that’s the 200-day moving average (3,940). This could signal a continuation of the uptrend but we won’t know that until it goes back to test the 4,200 mark.

What lies ahead is anyone’s guess at this point. If I had to make a call, I would guess we’ll see stocks trade in a sideways pattern or range until something “gives”. What do I mean by “gives”? Either inflation starts to noticeably move lower, sentiment towards “higher for longer” interest rates get ingrained and the market decides to get on with life instead of overanalyzing every data point that comes out, or other macro events occur that attract the attention of investors. Unfortunately, that doesn’t help us determine if the next move for the market is up or down. But the next few days and the 3,940 level on the S&P 500 may go a long way toward helping us decide.