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

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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.

Can Billion Dollar Buybacks Boost Stock Prices

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Stock buybacks, also known as share repurchases, have been a hot topic in recent years, as more and more companies are choosing to use this financial strategy as a way to deploy capital.

A stock buyback occurs when a company buys back its shares from the open market, reducing the number of outstanding shares. By doing so, the company is effectively removing some of the supply of its stock, which can drive up demand and increase the stock price.

In addition, reducing the number of outstanding shares can also increase the earnings per share (EPS), as the company's earnings are now spread out over a smaller number of shares.

Billion Dollar Buybacks

According to data from S&P Capital IQ, public companies bought back $675.9 billion of their stock in 2022. A big percentage comes from 15 companies that made up 50% of the dollar value of stock buybacks in 2022, including the top five – Apple Inc. (NASDAQ: AAPL), Alphabet Inc. (NASDAQ: GOOGL), Meta Platforms, Inc. (NASDAQ: META), Microsoft Corporation (NASDAQ :MSFT), and Shell plc (LSE: SHEL).

In January, Chevron Corporation (NYSE: CVX) announced a $75 billion share buyback, which could reduce the number of shares outstanding by as much as 20% and Exxon Mobil Corporation (NYSE: XOM) announced it and authorized another $35 billion stock buyback plan over the next two years.

White House’s Reactions

After these buyback announcements, President Joe Biden criticized the oil companies for not helping to restrain the price of gasoline by investing in oil production and refining. Last summer, he signed into law a new 1% tax on share repurchases that politicians thought might help to reduce buybacks and divert money back to investment into capital goods, research, and employees. In the State of the Union address last night, President Biden called for a quadrupling of the tax to 4% on corporate stock buybacks.

Buyback Benefits and Drawbacks

Buybacks can also be a way for companies to return excess cash to shareholders, as they can provide an alternative to dividends. Instead of paying out cash to shareholders, the company can use the cash to buy back its stock, which can then be sold by the shareholders for a profit.

Buybacks are a more tax-efficient way to return capital to shareholders than dividends because the investor does not incur any tax on the buyback sale process if they do not sell their shares. Tax is only applicable on the actual sale of shares and dividends also are taxable.

While buybacks can have some benefits, they can also be a source of controversy. Some critics argue that buybacks prioritize short-term gains for investors over long-term investments in the company. By using cash to buy back stock, companies are effectively taking money away from potential investments in research and development, capital expenditures, or employee salaries and benefits.

Furthermore, some have argued that buybacks can lead to income inequality, as the majority of stock ownership is concentrated among a small group of wealthy individuals and investment funds. As such, buybacks can serve to further enrich these groups at the expense of ordinary workers.

Despite these criticisms, many companies continue to use buybacks as a financial strategy. One of the main reasons is that they can be an effective way to boost stock prices in the short term, which can have a positive impact on the company's financial performance. Additionally, buybacks can also be a way for companies to signal to the market that they have confidence in their stock, as they are essentially saying that they believe the stock is undervalued and that they are willing to buy it back at current prices.

10 Stocks with the Largest Buybacks in the Last Quarter

For our list of 10 Stocks, we used data from S&P Capital IQ for the company's latest quarter, primarily Q4/2022 financial information.

Company Name	Stock Repurchase in Latest Quarter (US$ B)	Year-over-Year Stock Price Gain
Apple Inc. (NASDAQ:AAPL)	21.79	-9.9%
Alphabet Inc. (NASDAQ:GOOGL)	15.41	-22.7%
Meta Platforms, Inc. (NASDAQ:META)	7.52	-14.8%
Microsoft Corporation (NASDAQ:MSFT)	5.46	-11.1%

Shell plc (LSE:SHEL)	5.02	19.1%
Exxon Mobil Corporation (NYSE:XOM)	4.68	39.5%
Lockheed Martin Corporation (NYSE:LMT)	4.21	19.4%
Lowe's Companies, Inc. (NYSE:LOW)	4.00	-5.4%
Chevron Corporation (NYSE:CVX)	3.80	25.7%
NVIDIA Corporation (NASDAQ:NVDA)	3.78	-10.3%

Source: S&P Capital IQ

Final Thoughts

As an investor, it is important to understand the potential benefits and drawbacks of stock buybacks, as well as the larger implications for the company and the wider economy. When considering whether to invest in a company that is using buybacks, it is important to look at the underlying financial health of the company and to assess whether the buybacks are being used as a way to mask underlying problems, such as weak earnings or a lack of investment in the future of the business.

Here's a thought, buy the recession

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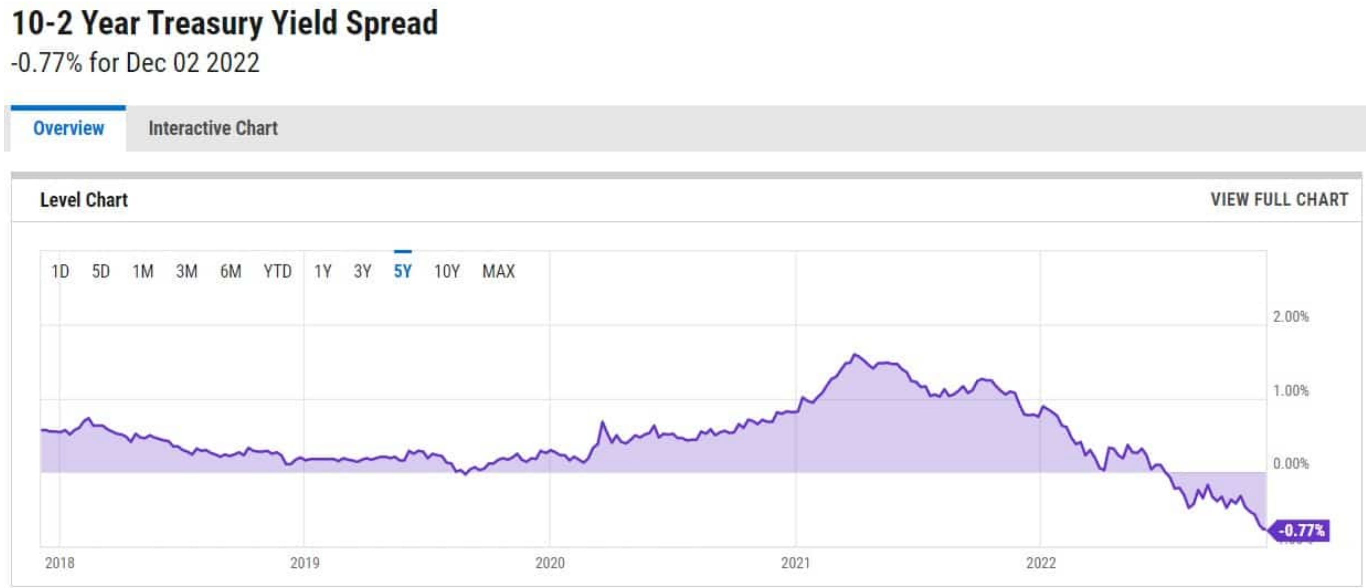
Recession, bear market rally, China zero covid policy, short covering, tax loss selling, Santa Claus rally, crypto nuclear winter, the markets have all the makings of a Netflix series at present. How do we dig through the weeds and figure out what is ahead for investors and will we like it or not? I certainly don’t have all the answers (if any of the answers) but I will make a few comments that may or may not provide some clarity. Generally speaking, it looks like Central Banks (Canada & U.S.) are starting to taper their interest rate hikes. It feels like there is maybe 0.75% to 1.00% left to go, likely spread out over two or three more hikes, and then everyone will wait and see what happens next. The markets have been anxiously awaiting this signal for quite some time, with a few head fakes along the way. This should be good but only if it’s not too late and the actions to date haven’t already taken too much momentum out of the market.

Rising interest rates along with sky-high food inflation already has plenty of news agencies and market “experts” ringing the recession alarm bells. However, all recessions are not created equal. If it’s short and shallow, then the second the statistics give the press all they need to go invoke fear into the hearts and minds of all who will listen, it probably means it’s time to buy. Why would I say that? I’m hearing – moron, nut case, and perhaps a few other comments being muttered under people’s breath (or possibly out loud), but hear me out. The actual data required to call a recession (generally identified as a fall in GDP in two successive quarters) is backward looking and arguably we will have been in a recession for 6+ months by the time it’s official. The market is forward looking, generally considered to be pricing equities based on the coming 6 months (give or take). That suggests at least an entire year between when the recession has officially started and where the market is looking. If inflation is truly coming off the boil and interest rates are close to hitting their near term peak, and may even start moving back down if the Central Banks panic about recession, then it could be the start of the next bull market.

Of course, it’s not that simple. A very important factor on where equities go is earnings. Thus far earnings haven’t been too bad overall, although there have been a few big companies that got soundly thrashed by the markets for misses and disappointments. As long as it is a sound business, with revenue and/or income growth, and modest levels of debt, then as the markets regain confidence, we could see multiple expansion (P/E, EV/EBITDA or whatever metric is most applicable) and all is good again. Another key item that the Central Banks watch is employment, which continues to be quite strong in Canada, albeit slightly weaker in the U.S. but still pretty solid. It’s very difficult to foresee a deep and problematic recession when most key economic stats are progressing relatively smoothly.

However, there is one bogeyman out there and that is the spread between the US 2 year bond yield and the US 10 year bond yield, which when inverted can be a harbinger of tough times. A negative 10-2 yield spread has historically been viewed as a precursor to a recessionary period and is said to have predicted every recession from 1955 to 2018. I’ve also heard that this metric has predicted 12 of the last 5 recessions, so one has to be careful with buying into the doom and gloom that a recession is inevitable. With that said, this measure continues setting new 5 year low (or high) negative spreads.



Despite my cautious optimism, there is still likely to be some volatility ahead. It's entirely possible for the market to retest recent lows before my "buy the recession" theory is plausible. Especially given we aren't actually in a recession yet. However, if there is another test to the downside I'm looking at the 3,600-3,650 level on the S&P 500 as the key technical support level to signal a bottom might be in. If that doesn't hold, next support is 3,400 or possibly even down to 3,200 (which UBS analysts called for in early November). Wherever the S&P 500 finds its bottom, if the media is shouting from the rooftops that we are now truly in a recession, it could well be time to buy.

The IIROC Short Selling Debate

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In this InvestorIntel interview, host Tracy Weslosky brings together Power Nickel Inc.'s (TSXV: PNPN | OTCQB: CMETF) CEO Terry Lynch and Founder of Save Canadian Mining, a movement to stop predatory short selling, along with compliance expert and CBLT Inc.'s (TSXV: CBLT) President, CEO, and Director Peter Clausi to debate about whether the recently released IIROC (the Investment Industry Regulatory Organization of Canada) guidance on short selling has any teeth and will have any effect on short sellers or brokerage houses.

IIROC's August 17, 2022 Guidance Note sets out the rule that a short seller must have a "reasonable expectation" that sufficient shares will be available to settle any resulting trade on settlement date. As Terry Lynch and Peter Clausi point out, this is not a new rule, but a restatement of a current prohibition under UMIR 2.2 – Manipulative and Deceptive Activities.

In the debate, which can also be viewed in full on the InvestorIntel YouTube channel (click here), Terry tells Tracy that the IIROC statement "has the potential to be big news," because "the problem was it wasn't well understood by the major investment banks, and so they didn't adhere to the practices. So now I think IIROC has clarified this once and for all and has clearly moved the liability away from from them and onto the people that don't follow the rules."

Peter and Terry both agree that the recent IIROC guidance has shifted the responsibility for covering short selling from the individual investors to the brokerage houses who have to have a "reasonable expectation" that sufficient shares will be available to settle any resulting trade, but Peter Clausi points out that the IIROC guidance doesn't itself prohibit naked short selling, which is a major problem in the market. He also points out that there is tremendous wiggle room in the words "reasonable expectation" used by IIROC to make enforcement difficult, and in reality protects brokerage houses from prosecution.

To access the full InvestorIntel interview, click here.

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Power Nickel is a Canadian junior exploration company focusing on high-potential copper, gold, and battery metal prospects in Canada and Chile.

Power Nickel is the 100-per-cent owner of five properties comprising over 50,000 acres strategically located in the prolific iron-oxide-copper-gold belt of northern Chile. It also owns a 3-per-cent NSR royalty interest on any future production from the Copaquire copper-molybdenum deposit, recently sold to a subsidiary of Teck resources Inc. Under the terms of the sale agreement, Teck has the right to acquire one-third of the 3-per-cent NSR for $3-million at any time. The Copaquire property borders Teck’s producing Quebrada Blanca copper mine in Chile’s first region.

To learn more about Power Nickel Inc., click here

About CBLT Inc.

CBLT Inc. is a Canadian mineral exploration company with a proven leadership team, targeting lithium, cobalt and gold in reliable mining jurisdictions. CBLT is well-poised to deliver real value to its shareholders.

To learn more about CBLT Inc., click here

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If you have any questions surrounding the content of this interview, please contact us at +1 416 792 8228 and/or email us direct at info@investorintel.com.