

When Will Stocks Rise Again?

Written by Rob Copeland
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Remember when the stock market seemed like it would go up forever?

Between March 20 of last year and May 7 of this year, the S&P 500 index gained 84%, driven by factors like government stimulus spending, the rise of work-from-home companies like Zoom and Amazon, and more recently, the distribution of highly effective vaccines. But since early May, the market's momentum has stalled out: After hitting a record high of 4,233, the S&P index has bounced around, mostly lower, for more than a month.

The market won't stagnate forever—over the past 20 years, its annual return has averaged 11.6%. Every substantial rise in stocks has been created by a catalyst, from falling interest rates to technological advances to stock prices declining to cheap levels. Right now most stocks, especially technology stocks, aren't cheap, and interest rates are more likely to rise than fall. So what could spark the next leg up for stock prices? I see a few possibilities:

Falling unemployment. Businesses are opening back up, but they're struggling to find workers. The Labor Department reported a record 9.3 million job openings in April, a million more than in March. And nearly 4 million people quit their jobs in April, twice as many as in the same month a year earlier.

Employers' efforts to fill jobs are being hampered by people retiring early, being unable to work because they lack childcare, being fearful to return to work because of the virus, and not needing to rush back to work because of unemployment benefits. Economists say unemployment could start to drop in the fall. And the added manpower could make companies more productive and profitable, which could drive stock prices up.

Infrastructure spending. President Biden wants to spend \$2.3 trillion on infrastructure, from roads and bridges to broadband to elder care. His administration is negotiating with Republicans, who want to spend less, but one way or the other, Biden wants to sign a bill this summer. Trillions of dollars coursing through the economy would obviously drive profits and lift stocks. A combination of rising employment and infrastructure spending could create an even stronger tailwind for stocks.

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A leg down. Stocks could fall significantly before rising again. Inflation, the spread of a Covid-19 variant, or any number of factors could cause a big reversal, lowering stock prices and creating good bargains for investors with cash to put to work.

I do expect stocks to remain volatile over the summer, and probably not rise significantly. But within three to six months, we could see the next catalyst or catalysts to spark the market's next leg higher. Until then, resist the urge to put cash to work if there's nothing promising to buy. Generally speaking, stocks aren't known for making significant gains during the summer months; if anything, they are more likely to fall.

There will be more good opportunities down the road, but for now, patience is a virtue. Don't hesitate to get in touch with us if you'd like to discuss your investments.