Written by Rob Copeland
Monday, 08 May 2023 09:34 -

There's an old saying that investors should "sell in May and go away," the idea being that stock returns are historically poor during the summer months. The idea is factually dubious. But right now, many investors are staying out of the market anyway--because they're worried about a recession, a bank crisis and inflation. I believe that's a big mistake.

In the current environment, perception and reality are at odds with each other. If you look through all the gloom and doom about those aforementioned market headwinds, what you'll see are really good corporate earnings. A few recent examples of great first-quarter earnings are Ford Motor, Alphabet and Meta.

Inflation may have been a problem for many companies a year ago, when it really started to spike. But if you've bought anything at all since then, you know that companies have jacked up their prices and then some. And while businesses' costs—for things like raw materials and labor—have started coming down, they're not passing those savings on to customers. Consumer spending is still strong, so why should they? This dynamic explains why corporate revenues and profits are doing so well.

Yet the S&P 500 has bounced around all year, and is still down 13% since start of 2022. Investors are gloomy because of endless headlines about a likely recession, about inflation, about the possibility of another bank crisis. But what if everything isn't terrible? A recession is far from a sure thing, as evidenced by the surprising news that employers added 253,000 jobs in April, bringing the unemployment to 3.4%. We've already talked about how inflation has actually helped businesses.

The possibility of a bank crisis still looms. And while it's hard to say what will happen, the Federal Reserve and U.S. government have proven again and again that they will step in to protect the economy should a major crisis erupt. What's more, the Fed is signaling that its cycle of interest-rate increases is likely over. That would mean a major economic headwind is about to disappear.

The gap between perception and reality is an opportunity for investors. Right now, many great companies' stocks are bargains, thanks to irrational market behavior. I'm buying selectively on market pullbacks. I believe that even if companies' stock prices stay unfairly suppressed, that certain ones will pass their strong earnings along to shareholders through dividends or stock buybacks. And then appreciation will happen in the long run.

If you're too nervous to commit to stocks, you should note the attractive yields are available on safe investments. Six-month Treasuries, for example, were recently yielding more than 5%, their highest level in many years. Stocks have historically provided more growth over the long run than bonds. But owning bonds is far superior to having your cash on the sidelines, being eaten away by inflation. Sell in May and go away? It rhymes, but it's wrong. Don't hesitate to give us a call if you'd like to talk about your investments.