ZANETTI FINANCIAL, LLC

Zanetti Monday Missive 2022.05.23
Have We Hit The Bottom Yet?

“The smart ones ask when they don't know. And, sometimes, when they do.”
~ Malcolm Forbes

“'Why' and 'how' are words so important that they cannot be used too often.”
~ Napoleon Bonaparte

The S&P 500 almost entered “Bear Territory” at the end of last week. What is Bear Territory? Or a Bear Market? It’s when an index falls 20% below it’s recent high point.

We’ve already seen the NASDAQ fall below 20%. The NASDAQ was the index that made the highest gains last year. It’s now below 25%.

The S&P 500 is a different animal though. It’s not full of high flying tech stocks that may or may not make a profit (and tech shareholders may be ok with either situation). The S&P is an index of 500 of the largest businesses in the US.

On Friday, it fell to its lowest level since it's high point on December 27, 2021. After another down week, it has fallen just over 18%. So, almost in Bear Territory.

One question I've been hearing lately is, when are we going to see a bottom? And when will it be time to jump in?

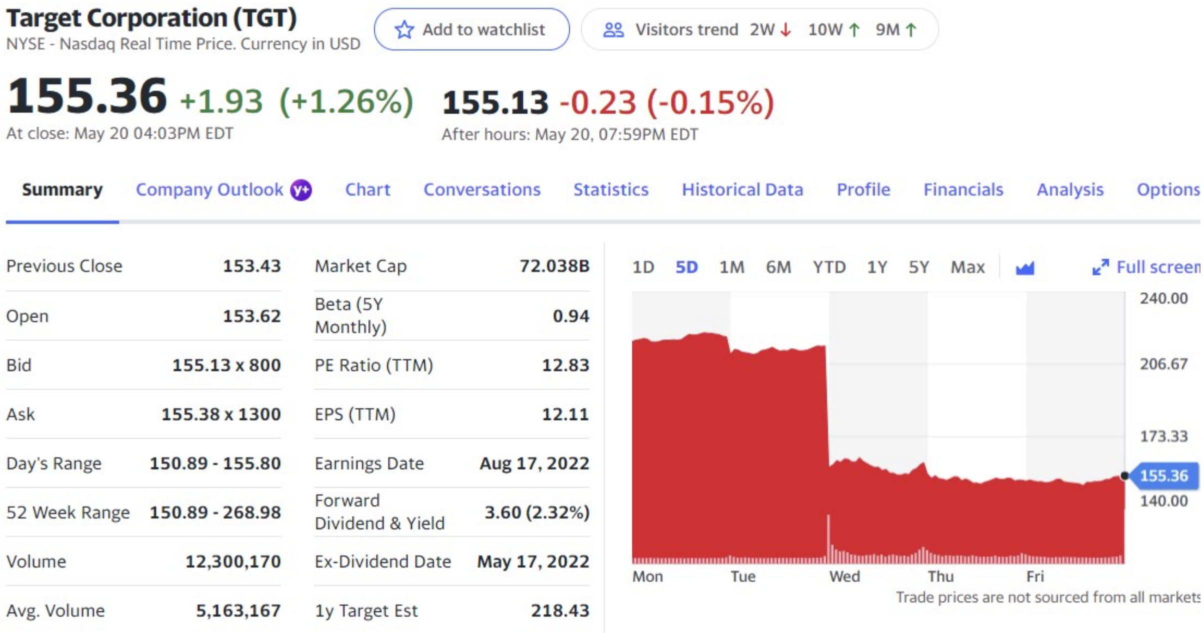
As investors, we want to buy low and sell high. So, it's reasonable to ask if these lows we are seeing make it a good time to buy low. If we thought the future of the market was going to go higher, then yes, this would be a good time to buy. So, what do we think?

Well, let's look at some factors that might signal what the future holds.

EARNINGS...

TARGET

Target Corporation (Yes, that Target!) reported lower than expected earnings and their stock fell 25% on Wednesday! That's a steep 1-day fall for a boring ol' company like Target!



Why were the earnings lower when everything on Target's shelves is more expensive? Because Target is paying more for what they put on their shelves? Paying more at a higher percentage than how much they've raised prices gives them smaller profits.

That's not a good sign for future earnings. But, do we think Target might be able to pay less in the future for what they put on their shelves?

I'm glad you asked!

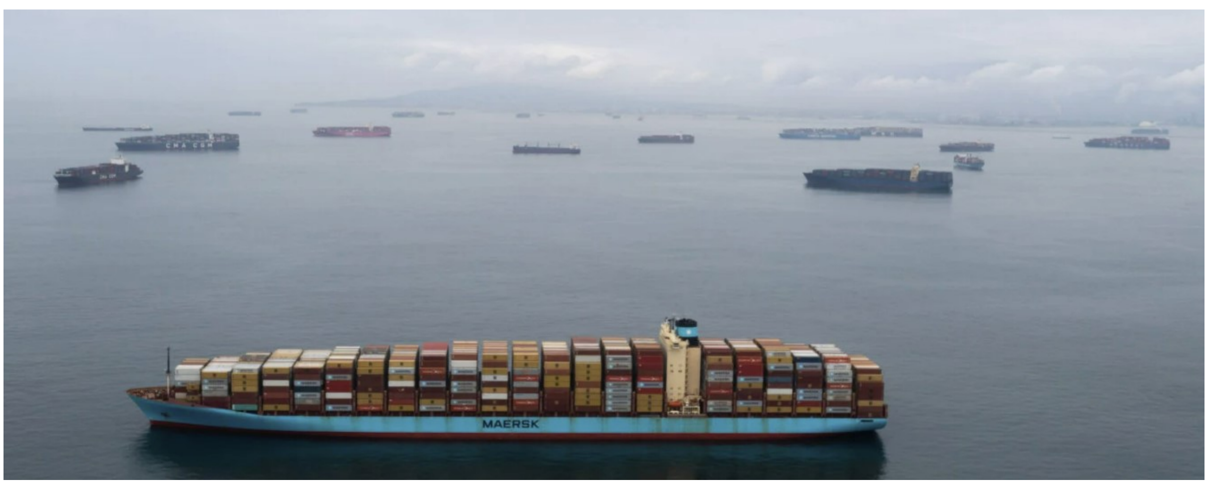
No.

Why? Well, there's many reasons, but one of the bigger ones is that China is starting to ease their Covid restrictions. Now, you might think that should help ease supply strain, but not so fast. Yes, China easing up on their Covid lock downs will help increase products – increasing volume in the supply chain. But it's the plumbing we're concerned about.

When our ports got clogged during our own Covid lockdown and everyday essentials became highly sought after (remember paper towels and toilet paper?), one of the reasons was because our ports were operating at partial capacity as the dock workers stayed home.

The plumbing was severely backed up! But then China shut down their supply chain, which eased the volume that had to get processed through our plumbing. Then the Ports started to process their backlog and things “kinda” returned to smooth flow.

But the pipes in our plumbing haven’t gotten bigger or smoother in how they flow (dock workers are still in high demand), so if we increase the volume again, we are bound to get backed up again. That’s one of the reasons I think our supply chains won’t have a positive impact on supply and demand for a while. And that will keep costs high.



If our workforce were to return to pre-pandemic levels, then maybe our plumbing would cease to be one of the many issues plaguing our economy right now.

And here’s another factor. I was reading this past week that credit card balances have returned to pre-pandemic levels. And, moreover, credit card defaults have started climbing back to levels approaching pre-pandemic levels. That means people have spent their “free” stimulus money and are returning to relying on credit cards.

And with gas prices continuing to climb and grocery prices still at high levels, people are now going to slow down on their consumption, which will not help the stock market turn around anytime soon.

So, to answer my original question… no, it’s still not a good time to get back into the stock market. I don’t think we’ve hit a bottom yet.

Your My-Car-Must-Be-Electric-Because-I-Get-Shocked-Everytime-I-Fill-It-Up Financial Advisor,

Walt

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