DOUBLE EAGLE
PARTNERS

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Wall Street idioms, sometimes known as “Claire-isms”

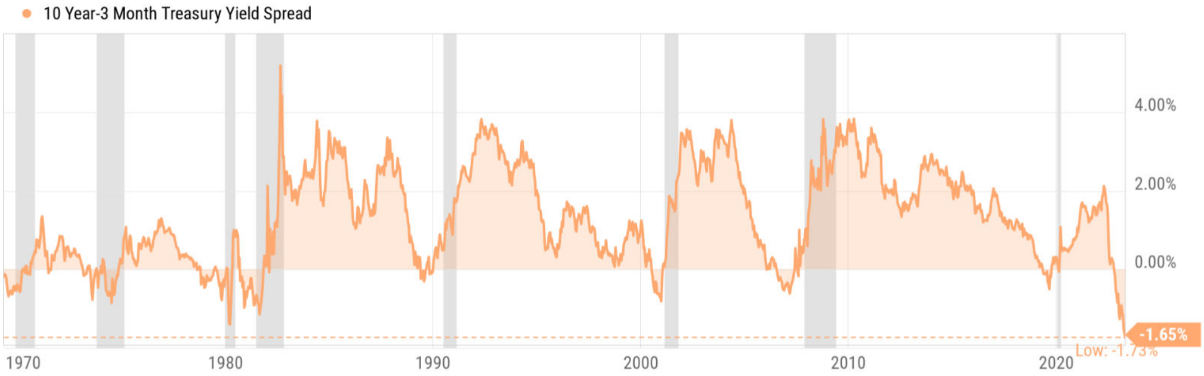
After almost 37 years of working on Wall Street, I’ve heard a lot of jargon and idioms to reference the markets. “Buy the rumor sell the fact,” “Never try and catch a falling knife,” and “Don’t fight the Fed.” I also used to blurt out my own “Claire-isms” on the trading desk (a term coined by my colleague Greg Jones in the late ‘90s!) such as “the market is as nervous as a long-tailed cat in a room full of rocking chairs,” which would describe the current state of investor sentiment. But the one idiom that portends the current market environment is “FOMO” – fear of missing out. This is the only explanation that I can provide as to why the market has performed the way it has in 2023 considering all the headwinds against it.

- Inflation, while increasing at a slower rate, is still increasing (latest Consumer Price Index [CPI]) came in at 5.6%.
- Bankruptcies are happening across the US economy at a frightening pace, with more than 70 listed companies filing just this year (Bed, Bath & Beyond, David’s Bridal).
- Three of the four largest bank failures of all time have happened in just the last two months (First Republic joining the likes of Silicon Valley Bank).
- The Federal Reserve continues to raise short term interest rates as it tries to tame inflation, only to drive the US economy into a probable recession in the very near future.

That’s a lot of headwinds, or as another Claire-ism would posit; “this economy has more problems than a centipede with fallen arches!”

What is driving the market to continue higher despite these headwinds? Simply, “FOMO”. First quarter earnings season is almost over, and the majority of companies reporting have beat their earnings estimates; that should be good for stocks. However, the broader stock market does not necessarily feel that way. Investors have been loading up on the biggest and safest of stocks after last year’s meltdown (Apple +27%, Microsoft +27%, Facebook +94% ytd), but the broader market (as referenced by the S&P 500) is only up 6.35% on a year-to-date basis. If we just used the returns on the other 497 stocks in the S&P 500 index, the S&P would be **DOWN** for the year. That makes more sense given the headwinds in the economy.

As a career bond trader, I have been conditioned to be conservative with regards to FOMO, and I believe that the bond markets are a better indicator of what is really happening in the economy. Short term interest rates (as expressed by the current three-month Treasury Bill) are above 5% while ten year Treasury notes are yielding just 3.35%, an inversion to a normal shaped yield curve of -165 basis points, a record in my lifetime. While every inverted yield curve does not necessarily predict an impending recession, every recession has been preceded by an inverted yield curve. This is another classic Wall Street idiom. The gray areas in the chart below are periods of recession, and you can easily see that they have always coincided with inverted yield curves like we have currently.



Date Range: 04/30/1969 - 04/27/2023

Gray = US Recessions

May 01 2023, 1:37PM EDT. Powered by YCHARTS

The bond markets are usually correct, and I will trust the reading of the current tea leaves coming from the bond market that a recession is looming. Therefore, I remain cautious and we will continue to build up our cash positions in our portfolios, as well as maintaining exposure to gold (GLD and gold miners). We also like short dated bond funds and T-bills yielding 5% as a great place to wait out this current uncertainty in the economy. Factoid, the stock market corrects -24% on average during a recession, and I would like to avoid such a fate when the red flags are everywhere. There is no reason to give in to the FOMO this time, because as my former colleague Greg Jones memorialized as his favorite Claire-ism years ago – **“The Bear Loves a Full Elevator”!**

-Jim Claire