



Rodney's Take

September 13, 2021

The Fred G. Sanford Market

Like most Americans my age, I watched the television sitcom Sanford and Son in my childhood. It's easy to recall Redd Foxx as Fred Sanford, strutting around his cluttered home, calling his son Lamont a "big dummy," drinking Ripple, and generally acting cantankerous. But the most memorable schtick is how Fred reacted when surprised or when something didn't go his way. He would put one hand on his heart while reaching up to the sky with the other and, invoking the spirit of his departed wife, cry out some version of, "Elizabeth! This is it! This is the big one! I'm coming to join you!" Not surprisingly, Sanford always survived.

The equity markets have been acting like Fred Sanford for months. Since May, the markets have swooned for a day or two around mid-month, only to stage a blistering recovery that erased all of the losses and then some.

The Skew Index jumped to extreme readings in May as investors prepared for a big drop, but then nothing happened. The Dow Jones Transportation Average Index have been flashing "selloff" for months, but the broader markets refuse to follow. We've shaken off good economic news that might lead to reduced Fed buying, and shaken off bad news that might suggest the economy is weakening. While looking for what card, if pulled, could make this entire house of cards fall, we've also added additional stories to the structure. The S&P 500 has marked more than 50 record highs this

year, during a pandemic, with inflation more than double what it was in early 2020 and with decelerating GDP growth. This makes sense only if we're watching flow, not levels, and even that's a stretch.

We just got word that at its September meeting, Fed officials will lay the groundwork for discussing plans to taper bond purchases at its November meeting. The news didn't come from an official source but from the *Wall Street Journal*, which has acted as the Fed's go-to leak factory since 2008. I'm not sure why Fed officials don't issue press releases or say things clearly. Their words move the markets, but so does their silence and their conflicting remarks in various speeches.

With the *Wall Street Journal* giving us a heads-up about more taper talk, we're left to speculate on the pace of tapering until we get more information. If we're disappointed by what we learn after the Fed's meeting next week, we'll be speculating about the pace of tapering through the fall. Once again, good news will be bad, as it might lead to faster tapering and less money flowing into the financial system, and bad news will be good, as it might encourage the Fed to keep the \$120 billion per month bond buying program on track.

It's enough to give investors a heart condition.

I've been cautious over the summer, and for the most part that approach hasn't worked. While the S&P 500 ended slightly lower on Friday than in mid-August, the trend since May has been higher. Even with Fred Sanford's cries for Elizabeth ringing in our ears, recent market action suggests that this latest market swoon could end with a quick reversal, as investors pile in to buy the slightest dip. But there's still that bit of worry that keeps me from sounding an "all clear." We're not in the clear. The skew remains elevated, transports are pointing lower, and we're sitting at nose-bleed levels even as inflation soars and GDP decelerates. Those factors must mean something.

For now, I'll stick with special situations and a higher-than-normal cash allocation. This could be another head fake as we wait on more guidance from the Fed, but at these levels, I'd rather be cautious than cavalier.

On an interesting side note, Redd Foxx's given name was John Elroy Sanford. His fictional character on Sanford and Son was named for his brother, Fred Glenn Sanford, Jr., who died several years before the show premiered.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.