ECONOMY

Markets Fall Do's Not Represent a Trend

THINK STRATEGICALLY:

The 7 Market Indicators of Greed and Fear

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Understanding your fears is the key to emotional intelligence.

As the U.S. stock markets had their worst week in four months, with the Dow Jones being the biggest loser with a loss for the week of 1,189.52 points, most investors have been engulfed by fear. Investors are always driven by two distinct emotions: greed and fear.

On the one hand, when investors get greedy, they will run up market prices to levels higher than their most realistic values. On the other hand, when investors become fearful, they sway markets to way below the levels where they should be.

With so much fear driving down the markets and increased volatility, we thought it prudent to discuss the seven market indicators that will allow us to measure greed and fear.

1. **VIX Index:** It is calculated to result in a reading constant of 30-day anticipated volatility in the stock market, using real-time, mid-quote prices of S&P 500 Index call and put options. Most global markets recognize it as one of the best measures of volatility.

2. **Safe Haven Demand:** A haven is often referred to as those investments that maintain or rise in value during times of market turbulence. Investors seek out safe havens to limit their exposure to losses in the event of market downturns. Some examples include U.S. Treasury Notes, defensive stocks and cash.

3. **S&P 500 Momentum Index:** It uses the S&P 500 versus its 125-day moving average, and currently has a year-to-date return of 6.65 percent, which is up from -6.33 on March 8, 2021, a 95.18 percent increase.

4. **Stock Price Strength:** Measures the overall percentages of stocks hitting 52-week highs and lows on the New York Stock Exchange.

5. **Stock Price Breadth:** Measures the volume of shares trading in stocks on the rise versus those declining.

6. **Put and Call Options:** When using the puts and calls ratio, you compare the total volume of trades of bullish call options and compare it to the trading volume of bearish put options.

7. **Junk Bond Demand:** Uses the spread between yields of investment-grade bonds, or BBB- or higher, and junk bonds, or BB+ or lower. The spread is currently at -2.72 percent, versus the normal historical value of 5 percent.

We utilize each metric to determine how far their movement has been from the stable relative averages.

You usually would measure each on a scale from 0-100; since 50 is considered neutral, look for higher numbers than 50; the higher the number, the greedier the investors have been.

A good example is that when the S&P 500 drastically nosedived during the worst of the great financial crisis on Sept. 17, 2008, the S&P Momentum Index was below 12, today that number is 124 percent.

Since the stock markets have been more volatile than usual and there is fear over inflation, the economic recovery and a coronavirus resurgence, it serves every investor to understand these seven market indicators that allow us to measure greed and fear.

Week in Markets: Fear, fear, fear and the Fed drive markets down, the week in reverse

This past week, the U.S. stock market performed like a ship with a big hole taking water and accelerating fast. Last week, all eyes were on the Federal Reserve's meeting, with most investors dissecting the bank's stance on inflation, economic growth and, lastly, the direction of interest rates. At the Fed's press conference, Chairman Jerome Powell informed that interest rate increases could happen by 2023, or sooner than 2024, which was the bank's position before this meeting. Also, the Fed increased the U.S. Gross Domestic Product forecast for 2021 to 7.0 percent from 6.5 percent in March.

The Fed's position arises from the most recent inflation numbers, which show core consumer prices are rising at their fastest rate in two decades. As a result, the Fed raised its inflation expectations slightly, focusing on the 2023 rate increases.

While the Fed stimulus has been a steady force for the bull market, the high-speed economic recovery produced a global supply disruption stemming from the sharp rise in demand. As we have often said, the global supply chain had prepared for a prolonged recession that never occurred, and most manufacturers reduced their orders, thinking there would not be enough demand for their products. However, when the U.S. produced the biggest stimulus "bazookas" in history, the U.S. economy was able to recover much faster than expected, and demand for all kinds of goods skyrocketed, allowing for across-the-board price increases that, in my view, will prove temporary.

The volatility in the market only rose after the Fed meeting cryptically mentioned rates may increase by 2023. A lot can happen in two years, let us take a breather. Bear in mind that market volatility only rose in response to the Fed, and volatility must be seen as the rule, not a departure from the norm.

— U.S. stock markets are less than 2 percent from their all-time highs.

— The U.S. economy is overpassing the post-WWII era, and corporate earnings are on route to increase by more than 25 percent.

— U.S. Total Nonfarm Payrolls rose to 144.89 million, up from 132.99 million one year ago.

These are all signs of a market absorbing data and that will regroup as the path seems clearer.

Any investor will significantly benefit from the power that a well-diversified portfolio brings, a portfolio consisting of stocks, bonds, mutual funds and other instruments designed to work for you during times like these.

Monthly Market Close Comparison	6/18/2021	6/11/2021	Return	YTD
Dow Jones Industrial Average	33,290.08	34,479.60	-3.45%	8.77%
Standard & Poor's 500	4,166.45	4,247.44	-1.91%	10.93%
Nasdaq Composite	14,030.38	14,069.42	-0.28%	8.86%
Birling Puerto Rico Stock Index	2,416.68	2,614.43	-7.56%	18.17%
U.S. Treasury 10-Year Note	1.45%	1.47%	-1.36%	0.50%
U.S. Treasury 2-Year Note	0.26%	0.16%	62.50%	0.55%

The Final Word: What does all mean for investors and the broader economy?

The economic recovery has been remarkable compared to where we were on March 11, 2020, at the height of the pandemic. Let us look at several economic indicators and note their increases from a year ago.

— U.S. Auto and Other Motor Vehicle Sales rose to 126.38 billion, increasing 36.67 percent from one year ago.

— U.S. Housing Starts rose to 1.572 Million, an increase of 50.29 percent from a year ago.

— U.S. Initial Claims for Unemployment Insurance are at 412,000, a reduction of 73.69 percent from one year ago.

— U.S. Unemployment Rate is at 5.80 percent, compared to 13.30 percent last year.

— U.S. Real GDP quarter-over-quarter is at 6.40 percent, compared to -5.00 percent last year.

Suppose you did not immerse yourself in the markets or only read a headline here and there. In that case, you are probably thinking that the market is close to collapsing, hit by the rise of inflation and by the Fed's new outlook. Yes the markets had a losing week; what does it all mean to me?

Before this week, the past five months had been very subdued and calm markets, with less than 1 percent movements.

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