T e c h n i c a l S p e c u l a t o r
MARKETS – BONDS – CURRENCIES

TS Model Portfolios

Short-term pullback-no big deal

Overview: Minor retracement

Recent market weakness should not be surprising to investors. In fact, it should be welcomed.

The stock markets have been on an impressive run since early October.

The S&P 500 is up 16 percent, NASDAQ has roared over 20 percent and Canada's TSX has advanced about 8 percent. All these increases have occurred just in the last four months. Some level of retracement is warranted.

The current weakness can be attributed to a number of factors. (1) The Coronavirus has caused some money managers and private investors to scale back. After the impressive run, a more prudent stance is desired by some. (2) Excessive optimism. Money managers have pushed key indexes to well over fair value. For example, the P/E ratio for the S&P 500 a year ago was 19.95. Today it is at 25.94. Fair value for the index is $172.31 per share or 18.10.

Interestingly, the S&P 500 has not been at "fair value" since early 2014 (**Chart 1**).

Chart 1

The current numbers are even higher for NASDAQ. A year ago, the trailing P/E was 22.05. It is now 29.02.

The P/E for the TSX is closer to fair value. The trailing multiple is 17.96, fair value is about 15.00.

Valuations aside, the markets clearly remain in a positive secular upward trend (**Chart 2**). As we have pointed out in previous TS Portfolio reports, that secular bull markets last on average, about 18 years (see the December 2019 report – page 1). This market advance has only gone 10 years.

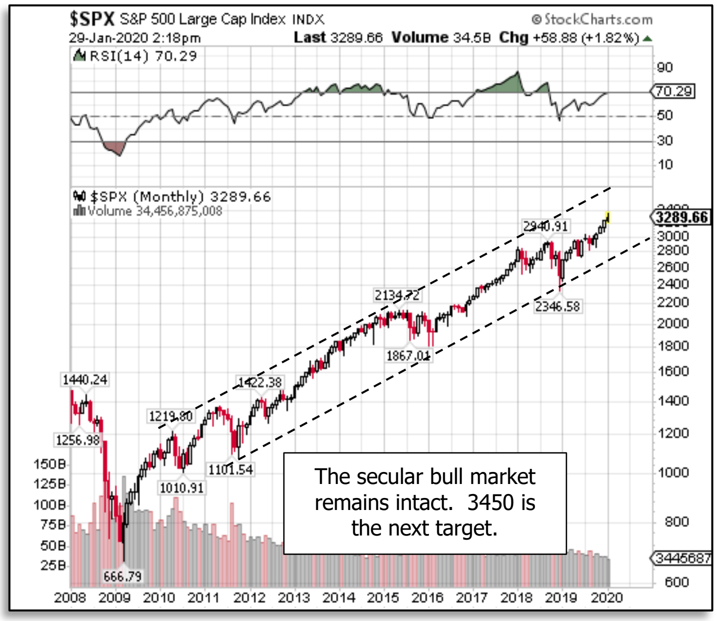

Chart 2

Pullbacks, particularly after a strong advance, give investors an opportunity to add to their portfolios. These retracements should not be feared.

The average percentage decline since 2009 has been about 19 to 20 percent. There has been four.

Outlook still favourable

We believe that the economic expansion in the U.S. and Canada is likely just past a mid-point in the market/business cycle. Leading sectors (technology, banks and industrials) are some of the top performing industries. These groups are still making new highs. Whereas, the late performing sectors such as paper, auto parts and basic materials, are underperforming the general market and have yet failed to move out of multi-year consolidations (**Chart 3 on page 2**). These strengths and weaknesses help to define a position for this market cycle and reinforces our view that there are more years of upside strength for the stock market.