

IT'S A BULL MARKET YOU KNOW?

By William H. Gross | October 9, 2024



There was a reminder recently by Josh Brown, the excellent market strategist on CNBC, of a phrase in Jesse Livermore's "Reminiscences of a Stock Operator" which told of an old sage called the "Turkey" who when asked about the stock market's future characteristically proclaimed "it's a bull market you know." In the past few years it certainly has been. No wonder. Massive annual fiscal deficits of 2 trillion dollars leading to accelerating inflation beginning in 2021 in effect created monetary ease despite a Federal Reserve supposedly tightening credit as it raised Fed Funds to 5¼% in mid 2023. Ease? It wasn't really a tight policy until mid 2023 — just a year ago, that an unbiased observer could claim that the cost of money was anywhere close to restrictive.

That and an obvious burst of AI investment spending, accompanied by a continuing GDP fiscal deficit of 7-8% have provided fuel for the Turkey's mantra. It has been a bull market post Covid. But now?

I've put together a list of positives and negatives that may help investors:

Bull Market Positives

1. Job growth slowing but within normal historical ranges.
2. China fiscal and monetary thrust.
3. AI investment spending and potential productivity boost.
4. Lower inflation close to Fed target.
5. War ↑ spending.
6. Momentum (It's a bull market you know).
7. Treasury 5–10-year yields lower by 125 basis since April 2024 peak.

Bull Market Negatives

1. Valuations — Shiller CAPE and forward P/E's at significantly overbought levels.
2. Buffett's high cash position warns of bumpy road ahead.
3. Election — Harris election augurs for possible congressional majorities and higher corporate taxes.
4. War ↓ — Geopolitical tensions may stunt global growth.
5. Deficits “forever” may eventually require spending slowdown.
6. Momentum (It's a bull market you know).

Gross Versus Turkey Forecast?

I think stock investors should continue to be at average personal % levels but in defensive, higher-yielding stocks and low levels of bonds. My favorite stocks? ALE, a utility buyout with 10% potential return next 12 months; MLP pipelines (8% tax-deferred yields); NLY (high-yielding mortgage REIT with stable price moves in a subdued Treasury yield environment); KTF (a muni closed end fund example yielding 7% plus tax free. There are 20-30 of these. 7% may not last forever, but for now these funds trade at 6-8% discounts and show no sign of lowering dividends).

Turkey versus Gross forecast augurs for low but positive investment returns over balance of 2024. No bear market but it's not the same bull market anymore you know.