Synovus Market Update

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A Bull Market … Technically

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With the back end of summer upon us, we experienced a recent heat wave that spread across the U.S. You could say the same about the U.S. equity markets catching a similar heat wave over the past few months. Expanding market breadth and upward trends in the broad U.S. equity markets (i.e., S&P 500, Dow Jones and NASDAQ) — coupled with low unemployment, better-than-expected corporate earnings and a resilient U.S. consumer (consumption represents approximately 70% of Gross Domestic Product (GDP)) — have many investors and market prognosticators hoping for a soft landing for the U.S. economy in the second half of 2023 through 2024's first half. In July's Market Update, I had addressed the widening participation of U.S. stocks beyond the "Magnificent Seven" and a broadening stock participation in this year's rally would provide a healthier and more sustainable bull market for 2023. As of July 28, the year-to-date (YTD) return of the S&P 500 is up 19%, the NASDAQ improved by 36% and the Dow Jones Industrial Average (INDU) is also up 7%.

In this month's market update, there have been some technical aspects of the U.S. equity markets that have signaled a possible continuation for the bull rally throughout the remainder of the year. One of the oldest and still widely used technical indicators recently displayed a confirming bullish signal for INDU and the Dow Jones Transportation Average (TRAN).

What is Dow Theory?

Dow Theory, developed by Charles Dow, is one of the oldest and most influential market theories in technical analysis. Dow, also known as the co-founder of Dow Jones & Company in 1882 and the Wall Street Journal in 1889, theorized that market trends followed certain tenets and operated in three phases: 1. Accumulation Phase; 2. Public Participation Phase; and 3. the Excess Phase. Dow's writings have been used to help investors make informed decisions on stock prices and price trends for more than 100 years.

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Source: StockCharts.com

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‘Dot.com Bubble’ vs. AI rally

Daniel Morgan, Senior Trust Portfolio Manager

With the recent surge in the Tech Sector due to exuberance surrounding AI, how can Investors compare this to the “Dot. Com Bubble” in 2000? It appears funds are flowing back into high multiple Tech growth stocks and away from defensive names. Technology stocks seem to rally on any news of a new AI initiative. But, despite today’s “Tech AI Rally” appearing extremely similar to the “Dot.com Bubble,” there are many important broader Tech Industry Indicators that are much different that point to a positive outlook for the sector going into FY 2024.

Before the “Dot.com Bubble” burst, the Internet IPO craze was launched with the Netscape Communications Corp. that went public in August 1995, the first user-friendly web browser that opened the World Wide Web to regular consumers. Sixteen months after it was founded, the company’s successful IPO helped ignite the internet gold rush, during which many businesses took advantage of what became a huge public obsession with the emerging technology. Many of these startups were bleeding RED and ended up failing — like Pets. com and eToys.com. But they were ahead of their time and helped set the stage for some of today’s still-extant tech stalwarts, like Amazon and eBay Inc. Amazon (going public in May 1997) and Netscape were “good-quality IPOs when they went public.” However, in the late ’90s it deteriorated to more speculative companies going public. This phenomenon also occurred after the COVID market bounce back. This time around, the risky trends in 2020 and 2021 were the special purpose acquisition companies (SPAC) that had blank checks with no profits and untested business models.

The “Dot.com Bubble” was characterized by the end of a massive spending boom to convert all software to be Year 2000 (Y2K) compliant and the tail end of a huge buildout by Corporate America to create an Internet presence. When IT spending started to dry up after 2000, followed by the 9/11 attacks the following year, it resulted in a massive devaluation of the Technology Sector.

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We’re here if you have questions.

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