November 2022

Market Expectations

1st Quarter2023

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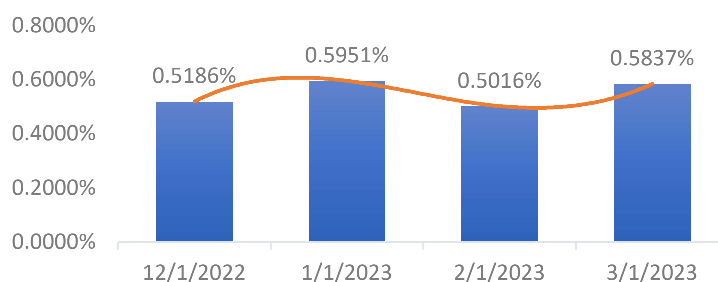
Above all other questions we receive, the most frequent question involves our expectations of the market. Of course, you would have to pry all we know from our cold hands. While we may not always know exactly where the market is headed, we are nearly always very close. Even then, we always know the statistical likelihoods our funds will turn a profit under various constraints. In fact, we know these numbers like the back of our hands. We simply do not tell you. We know the probabilities our assets under management will increase and the probabilities our assets will decrease; and we trade accordingly.

Predicting the market overall is not that difficult, especially in larger data sets over longer runs; the data usually tell the story. It is on short runs in the market—and sometimes on individual stocks—that projections become difficult. Nonetheless, it is in these short run situations that we turn from modeling and forecasting pricing and ROI outcomes to using probability theory to predict the likelihoods of changes in volatility, return, or similar variable. Then again, after you have stared at graphical data and conducted analyses long enough, you begin to see opportunities and problems in all data. For example, consider the graph in the heading above. I see at least two potential issues at first glance; during separate time intervals, price rapidly increased yet volume decreased. Hmmm… odd.

So, what do we expert from the market for 1st Quarter 2020? Well, earlier this year, we were anticipating a clumsy increase of some 8-9 percent, but with more data now in the mix, we are witnessing decreases in our former expectations with our modeled outcome at roughly 6.9 percent for the 2023 year, far less than in previous years. Subsequently, in terms of 1st Quarter 2023, we are projecting the return on the market at a mere 1.7 percent, at most; that is if the current economy holds fast. The market has the potential to explode, but Biden and his administration appear to almost enjoy implementing mandates that harm the economy—and hence, the market.



Projected Market Growth, 1st Quarter S&P 500 Index

In another paper, we previously proved econometrically that inflation has a statistically significant effect on GDP, $F(1,48)=433.4$, $p<.001$; and we proved GDP has a significant effect on the market, $F(1,48)=83.9$, $p<.001$.[1] In fact, we determined that GDP explains 63.6 percent of the variance in the market.[1] But recall, that superfluous government spending destroys our economy; it does not help. Those monies were already in the money supply creating jobs and the like. Hence, we should be furious at Biden for his spending, as these metrics alone prove his handling of the economy is poor.

Nonetheless, today we are forced to trust a leader who has demonstrated he has not even a basic understanding of economics, and worse, one who has proven his no idea how to bring inflation under control? In brief, if the market can manage to hold on to an increase of 1.7 percent in the 1st quarter, let us rejoice. Such can easily occur, but unless there are anomalies in market output in defiance of Biden's poor economic decisions, we will experience a return far less than we have become accustomed.

1. Barber, H. (2022). The Biden effect. Xicon Economics.

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