CAPITAL INVESTMENT COUNSEL

# The Columns

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Football has one objective: get the ball across the line. The NFL even has a channel that focuses on plays from the 20-yard line to the goal line: the Redzone. In soccer, goal line technology detects whether the ball crossed the line. No goal if it doesn't cross all the way. Stocks can be similar. Investors use support and resistance to show where stocks potentially stall or bounce depending on the situation.

The Covid Delta variant dominates the headlines. The talk seems nonstop about the economic damage Delta is causing. But for all that negative chatter, something feels a little off. Interest rates usually drop as the economy weakens, but in August, interest rates still haven't crossed the goal line and made a new low. Actually, rates have done the opposite. Early August saw yields on the US Ten-year plummet to 1.13%. Even as growth forecasts darkened, yields have rallied and headed up to 1.3%. If things were getting worse shouldn't rates drop to indicate that? It's feels like the bond market may see a potential bounce for the economy around the corner. It's a small glimmer of hope but I like it.

Big Tech stocks, represented by the NASDAQ index, have acted similarly. Ironically in 2021, big cap tech is considered a market "safety play". When the economy weakened this spring, big tech rallied. However, until this past Monday, the NASDAQ was unable to break above its old high at 14,900. It finally snuck across on Tuesday, August 24th, and hit 15,034 but will tech be able hold it over the line? What happens next for big tech and interest rates may tell us more about 2022. If rates continue higher, money may shift back out of tech into the more economically sensitive names that drove growth earlier this year. We saw that shift begin this past Monday, August 23rd.

The Federal Reserve has done a solid job over the last 18 months getting the economy on track. Anyone remember my analogy of Fed Chair Powell and his super soaker gun filled with stimulus? From November 2020 through March of this year, the more traditional stocks led the market as the economy accelerated out of the recession. Recently, the Delta variant put a brake on some of those sectors like the cyclical (XLI) stocks.

In March, the NASDAQ was actually *down 7%*year to date. As of late August, the NASDAQ has played catchup and is now up 16% for the year. The XLI cyclicals are also up 16% but it's stunning that the NASDAQ staged a 23% turnaround. By the way, since March, the Ten-year treasury yield dropped from 1.7% to 1.3%. As we talked about above, what happens to the NASDAQ if the economy rebounds from the Delta threat and rates head higher?

Here's another glimmer of hope. There's a lot to like about the New South these days but the Covid infection rates aren't one of them. The deeper southern states like Arkansas and Louisiana recently saw spikes in new Covid cases, but former FDA commissioner Scott Gottlieb thinks the worse may be over. He's already seeing a case decrease in some of the hardest hit states and cases appear to be plateauing in others. Gottlieb feels the wave will crest in September and October which could help reignite economic growth.

I'm using England as a possible guide to how the Delta surge may play out. The Delta variant showed up in England in April and peaked in July. The new English Premier League season started last week with full stadiums for the first time in 18 months. Normalcy appears to be returning and new cases are in free fall across the Atlantic. Hopefully, we'll see the same progress in the US.

I feel the Delta scares are providing buying opportunities in a market that may have more room to run. If the potential timeline outlined above works, the markets will potentially rally ahead of any improvement. I encourage you to pick out investments you'd like to buy in the event of a selloff. That way, you're ready to pounce on any opportunity that pops up.

I wrote about Michael Jordan just a few months back, but here we go again. He can't seem to stop making money. Two weeks back, the world's *second*greatest soccer player, Leo Messi, moved teams from Barcelona to Paris St. Germain. He signed a two-year contract worth a cool $1.2 million a week. Jordan doesn't play soccer, but his Air Jordan brand sponsors Messi's new team, PSG. In the first three days after Messi swapped clubs, PSG sold $140 million in team merchandise. Jordan himself pocketed $7 million just for having his Jump man logo on the jersey. That should give him a little spending money for Labor Day. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

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