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No Capitulation

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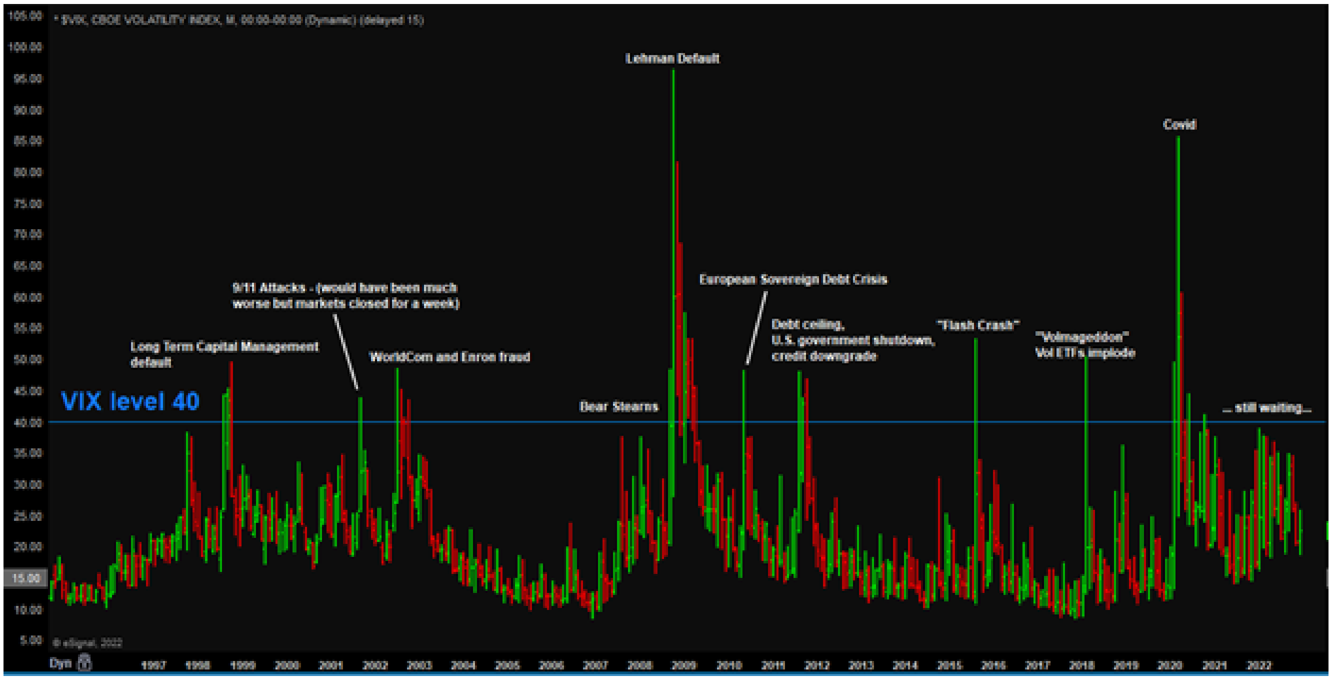
In our experience with bear markets, which is more extensive than I would like to admit, markets usually have a way of finally finding an ultimate bottom in an atmosphere of despair. At that point, market rallies are greeted with broad skepticism from investors as they have been wounded from prior failed attempts higher. Oftentimes the final decline is fairly spectacular (post Enron – 2002, post Lehman – 2008, mid Covid – 2020), marked by broad based selling as fund managers are forced to sell anything remotely liquid to meet redemptions. During these capitulation events, stocks trade at cycle low valuations, credit spreads (premiums paid for riskier loans) widen dramatically and the VIX index ("Fear gauge" measuring S&P 500 option volatility) spikes over 40 (see chart below). None of these things have happened this time around.



CBOE Volatility Index
(Source: FactSet)

There is no rule that capitulation must occur, and this time it very well may not. In fact, maybe it is a bullish factor that the markets have been so robust that they have not capitulated. After all, we had the fastest bear market ever during Covid, the biggest stimulus ever, the quickest recovery ever, the fastest onslaught of inflation ever, and the fastest Fed rate tightening cycle ever. Why stop now, and usher in the fastest breaking of inflation ever along with the soonest Fed pivot to cutting rates ever?