Why are the Bulls Dancing in the Street?

I had to double and triple check my numbers today because this seems so contrary to the narrative.

The S&P 500 was up less than 1% in May and futures are indicating some downward pressure this morning. I don't follow the Dow at all, but it is down over 3%. The Russell 2000 is also down a smidge. Yes, the Nasdaq 100 is up an impressive 8% this month, but when did the Nasdaq 100 completely replace the S&P 500 as the main benchmark of U.S. equities?

Does everyone really have to "performance" chase?

I've been a -4 on a scale of -10 to 10 on equities for the past month. Not my best month, but by no means a disaster (despite what the headlines say).

The pressure to get long on risk seems to be as high as I can remember in recent history!

Yes, the **AI** story is compelling in many ways, but there are risks (see Monday's Skynet Becomes Self-Aware report).

The **debt ceiling** deal will likely be approved, but away from people looking to take advantage of the "cheapest to deliver" options in U.S. CDS and front-end T-bills, the risk of default never really got priced in, so why did we get the rally?

China and U.S. relations remain tense and the "China re-opening narrative" seems to be shriveling if not already dead.

Now we get three days of **jobs** data. Literally, away from entry level/largely service jobs, I am coming across more and more negative stories and experiences than good ones. Maybe jobs surprise again, but if they are weak, I'm not sure that "bad news" would be "good news" for stocks.

Crude and copper are telling us a bleak story (-12% and -5.5% on the month).

I'm staying at -4 (yes, like a broken record) on equities, though if anything, I'm getting more bearish.

Look for concerns about CRE (especially in major cities like San Francisco, LA, Chicago, and even NYC) to rise to the surface again. The abject fear that was prevalent in the market a month or so ago was overdone, but there are risks and they haven't gone away.

Neutral to maybe a tiny bit bearish on credit.

- Since (at this stage) my equity bearishness is more valuation based (as opposed to being based on deep recession fears), credit shouldn't widen much and the IG new issue calendar seems set to slow. With May 2023 coming in at almost a whopping $160 billion compared to $95 billion last May, it should slow (a lot of issuers, rightfully so, wanted to get ahead of the debt ceiling risk). June 2022 was only about $75 billion, so the pace of IG new issuance could slow dramatically. That will help support IG.
- HY could see new issuances as the bond market seems to be more open than the loan market for new deals, but HY will face more pressure under any sort of recession risk story.

On rates, can we get back to -100 on 2s vs 10s?

While the Fed is data dependent, it will take a LOT of CONSISTENTLY weak data to put cuts on the table in a meaningful way. Conversely, it wouldn't take many higher than expected inflation prints to keep a potential June/July hike on the table, even if other parts of the economy are slowing.

10s at 3.65% seem “cheap” if recession risks start showing up in the data (especially with a hawkish Fed). So, I’m bullish on Treasuries further out on the curve (call it a 4 on the -10 to 10 scale).

I’m concerned that recession risk is becoming consensus (consensus isn’t always wrong) and I’m worried that I’m underestimating the AI narrative, especially for the broader market. However, feedback from the weekend piece has me believing that “too much good news” is already priced in.

Back to the question that started this whole report. I understand why the bulls are somewhat happy, but the dancing in the street/giddiness seems unwarranted and makes me wonder why positioning doesn’t match the recession consensus calls.