Midday Market Intelligence: ex-Tech

Chris Hussey
+1(212)902-7564 | chris.hussey@gs.com
Goldman Sachs & Co. LLC

Sarah Herr
+1(212)357-0094 | sarah.herr@gs.com
Goldman Sachs & Co. LLC

Kshitij Garg
+1(212)934-7434 | kshitij.garg@gs.com
Goldman Sachs India SPL

Ujjwal Mahajan
+1(332)245-7708 |
ujjwal.mahajan@gs.com
Goldman Sachs India SPL

US stocks are trading lower Tuesday with the 'Magnificient 7' Mega-cap Tech stocks, in particular, dragging down the index as investors continue to ponder the endurance of the AI trade, market concentration, and valuation, on top of broader economic concerns.

risk pricing

The willingness to stomach growing market concentration in the S&P 500 may have reached a limit in 2025 as David Kostin discussed in a Mar-11 note, "US Equity Views: Lowering our S&P 500 EPS and valuation forecasts as the 'Maleficent 7' pushes the index to the brink of correction"). The largest Tech stocks in the US were able to justify their growing valuation multiples by delivering superior earnings growth for what seems like decades.

Many of the stocks were born out of the PC wave of the early 1980s and then the internet bubble of the late 1990s. And these companies only grew larger with the mobility trade that stemmed from the introduction of the iPhone in 2007, and then again from the dawn of Cloud computing, data centers, and hyperscalers that spurred a wave of decentralized data storage and compute power. And in 2024, of course, the Cloud era morphed into the AI era which brought with it a voracious need for compute power, ever larger data centers, more powerful semiconductor chips, and the accompanying need for a torrent of electricity to run it all.

But with the revelation from DeepSeek in late January that it may be able to develop AI models with less compute power than some thought possible, the AI trade has hit its first significant road-bump (see Kostin's note above as well as Peter Oppenheimer's Jan-29 note, "Concentration & Correction – what to do next", Joseph Briggs' Jan-30 note, "DeepSeek Raises Micro Risks, Macro Upside" and Kash Rangan and team's "Generative AI Part X: Examining the Landscape in the Face of Open-Sourced Model Performance"). Investors may be questioning the durability of earnings growth superiority of the US Mega-cap Tech complex in a world where the compute power infrastructure build-out may have reached its peak growth rate.

None of the companies that are building the infrastructure have materially backed off capex and investment plans yet as Rangan discussed in a Feb-24 note, "MSFT: Adjustments to CapEx allocation reaffirms our conviction in Microsoft's prudent AI investment approach" (see also Brian Singer's Mar-12 SUSTAIN note, "Hyperscaler reinvestment and data center power demand: Capex, cash flow, returns, AI training vs. inference"). But the recent underperformance of the Mega-cap Tech complex suggests that investors may not be eager to wait to see an actual slowdown in AI investment should one materialize.

Similarly, investors are a bit hesitant to wait for an actual slowdown in the US economy should one materialize. Our economists have lowered our 2025 GDP growth forecast by 70bp already this year to 1.5% amidst uncertain policy initiatives from the new administration (see Jan Hatzius' Mar-10 Global Views note, "From Above to Below"). And consumer sentiment and business sentiment readings are pointing to a concerned consumer and executive.

But even today, the economic data that came in does not definitively point to a struggling economy. Import prices rose 0.4% in February, and the airfares component that feeds into core PCE rose 2% — not good signs for inflation (see "USA: Core Import Prices, Housing Starts, and Industrial Production Above Expectations; Estimating 0.34% for February Core PCE"). And we now estimate that the Core PCE price index rose 0.34% in February, corresponding to a year-over-year rate of +2.75%. But outside of trade, the news was better. Housing starts increased well above expectations, and industrial production was strong last month.

Looking ahead, the FOMC meets tomorrow, where we expect it to say that it intends to remain on the sidelines until policy changes become less volatile (see David Mericle's Mar-16 "March FOMC Preview: On the Sidelines"). We also look for the median economic projection to show a 0.3pp upward revision to 2025 core PCE inflation forecasts to 2.8% and a 0.3pp downgrade to its 2025 GDP growth forecast to 1.8%.

Tracking the Trackers

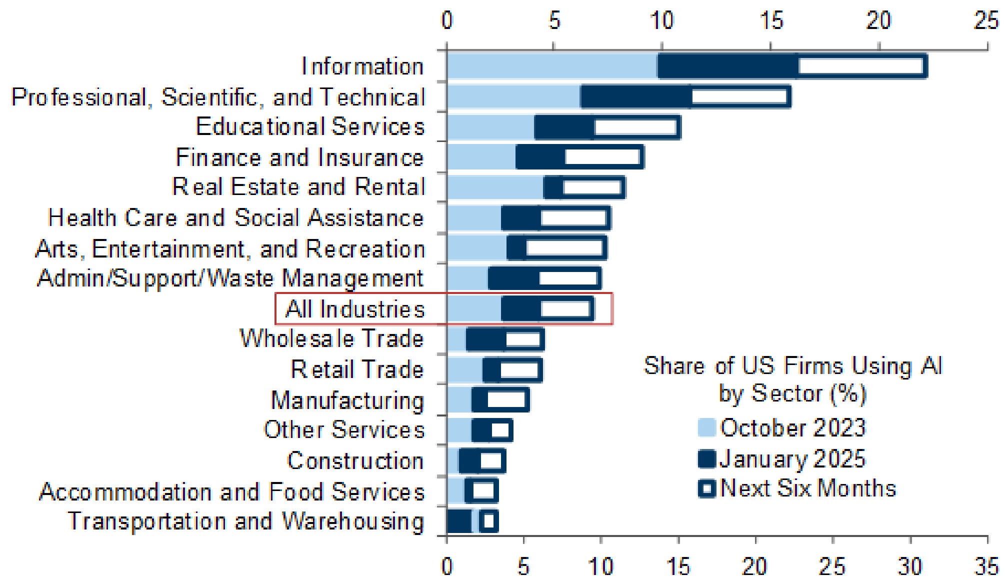
- **Housing.** The GS Housing Market Activity Scale held at 4 for the week of March 9, up 5% sequentially but down 9% year over year, bringing it 12% below the long-term average writes Sue Maklari in "GS Housing Market Activity Scale: Week of March 9: Scale Up Another 5%, Suggesting Improving Housing Backdrop into Spring." In turn, the latest move puts the scale 16% higher over the last 2 weeks, suggesting a broader lift in activity following a choppy start to the selling season. We continue to believe new construction will maintain a relative advantage vs R&R and see building product companies with greater exposure to this end-market among those best positioned. Favor: Buy-rated IBP and BLD along with spec-focused homebuilders MTH (on CL) and DHI.
- **Supply Chain.** Our weekly bottleneck scale remained at '2' this week as the absolute level of the congestion index was largely unchanged on a sequential basis (index -0.9% w/w) writes Jordan Alliger in " Tracking U.S. Supply Chain Congestion: GS Supply Chain Congestion Scale: Mar 17th; Weekly Scale Unchanged at '2'." West Coast rail intermodal traffic growth decelerated on average versus last week (up ~9% YoY), while rail service metrics were broadly improved. Chassis dwell times were mixed on average at US ports this week while ocean container shipping rates (China to US West Coast) stood at -39% YoY versus last week's -29% level.

- **Transportation.** Total traffic results for US Class I rails under coverage imply carload growth at +4.1% YoY in week 11, a slight deceleration versus +5.2% YoY in week 10 writes Jordan Alliger in "Railroads: Weekly Rail Carload Snapshot — Week 11." This past week's U.S. intermodal volume growth of +7.2% YoY was down slightly versus +8.0% last week, while ex-intermodal volume growth of +1.2% was down from +2.4%. UNP had the best U.S. intermodal traffic growth at +14% YoY whereas NSC had the highest ex-intermodal traffic growth at +2.8% YoY.
- **Restaurants.** Restaurant stocks (-10%) have performed worse than the S&P 500 (-7%) on average in the last month with the majority of our stocks down MoM following broad-based signs of weaker consumer sentiment, weather/calendar impact, and uncertainty around tariff policies write Christine Cho in "GS Restaurant Monthly Dashboard: Broad-based deceleration in February; DRI showing some sequential improvement Jan-Feb vs. CY4Q." EAT, SG and SHAK were the only brands that saw positive YoY traffic in February. Based on placer data, she believes traffic across all restaurant sectors decelerated MoM partly due to the weather impact across much of the country.
- **Gaming.** Ben Andrews updated our US online sports betting (OSB) and iGaming GGR trackers and highlight most topical debates in the gaming coverage in "Gaming: What the latest state data tells us about US gaming". In January, same-state OSB GGR growth was c.+8% yoy (based on 26 out of 28 states that have reported January data so far), against tough prior year comps (with notably operator-friendly sports results in Jan'24). January iGaming same-state GGR growth of +33% yoy continued to track ahead of the 2024 average of +28% yoy.

chart of the day - AI's pain may be the economy's gain

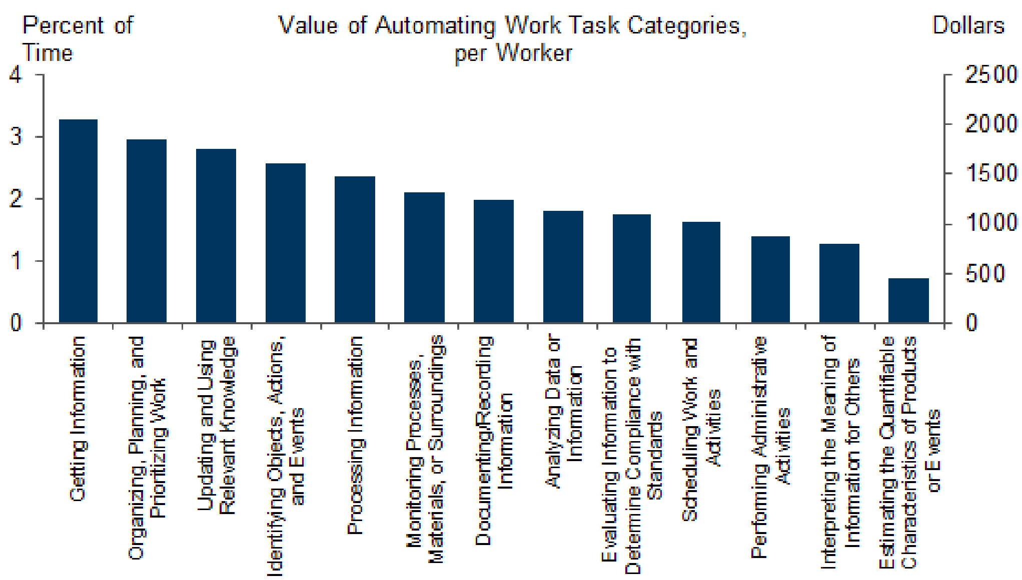
The flip side of the end of the AI infrastructure investment trade may be the beginning of an affordable applications phase for AI that boosts adoption and improves productivity throughout the economy as Joseph Briggs' discussed back in the Jan-30 note, "DeepSeek Raises Micro Risks, Macro Upside" (see charts below for an illustration of the opportunity).

Exhibit 1: Adoption Rates Remain Low...



Source: US Census Bureau, Goldman Sachs Global Investment Research

Exhibit 2: … Even Though Automation of Work Tasks Would Unlock Significant Economic Value



Source: O*NET, US Bureau of Labor Statistics, Goldman Sachs Global Investment Research

What to watch for

We should get a statement from the FOMC on Wednesday afternoon plus GIS is scheduled to report ahead of the open tomorrow.

Today's market performance - March 18, 2025, 1:35 PM

% change	Today	WTD	YTD	LTM
S&P 500	(1.1)	(0.5)	(4.6)	9.0
DJIA	(0.7)	0.2	(2.3)	7.1
NASDAQ	(1.7)	(1.4)	(9.4)	8.7
Russell 2000	(0.9)	0.3	(8.1)	1.3

Source: FactSet

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