I Love Everybody

Weekender

October 19, 2024

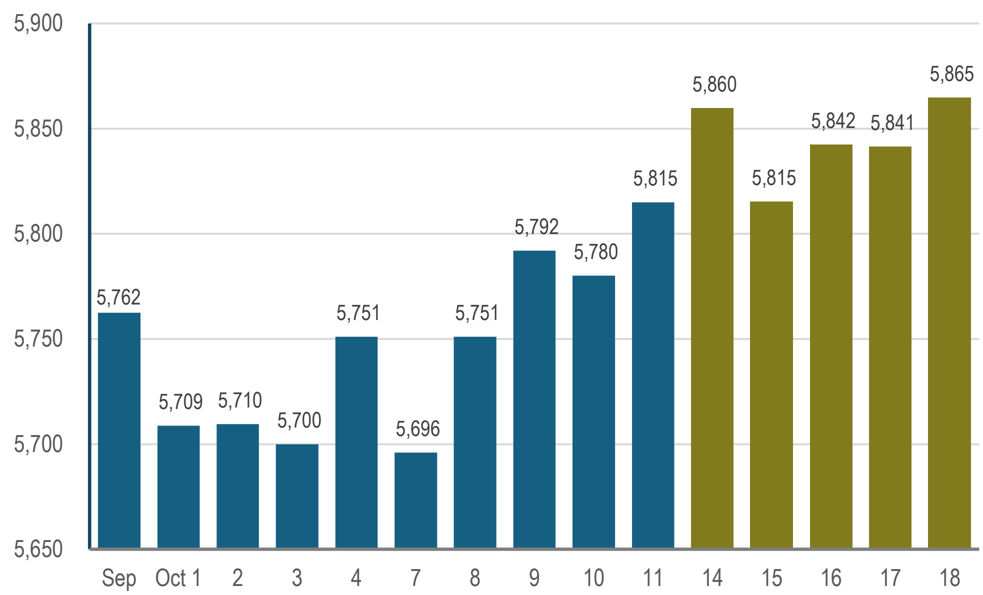
Now I must tell you that my whole life has been happiness. Through all of the misfortunes, etc, I did not plan anything. Life was there for me, and I accepted it. And life, whatever came out, has been beautiful to me, and I love everybody.

Louie Armstrong

Good morning and welcome to the *Weekender* for Saturday, October 19, 2024. As measured by the S&P 500, US equities were higher by slightly less than a full percent at 0.9%. The index has been higher for six straight weeks, the longest string of weeks in 2024. Despite the constant drubbing of political sound bites that dominate almost every form of media, markets don't seem to be paying much attention.

S&P 500 Index Levels

(Source: Bloomberg)



Data doldrums are upon us. Recent economic releases have been benign, and earnings season for the third quarter has just begun. However, companies will report earnings over the next two weeks, providing some direction for markets. Artificial Intelligence, as a near-term investment theme, is starting to quieten in the face of implementation realities. Bitcoin is taking another run at $70,000 in the quiet of the unremarkable. We are not anticipating any surprising economic or financial data through the end of the year but expect typical year-end behavior for most financial markets.

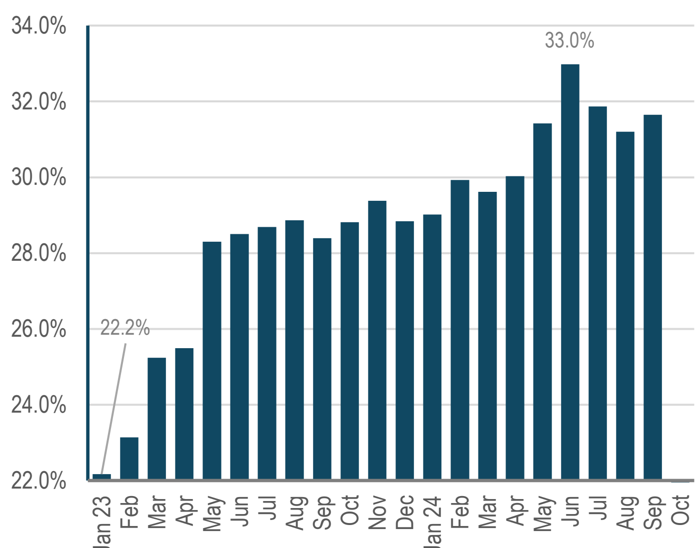
This is a shortened *Weekender* as we prepare to shift our publishing to a slightly different, hopefully more helpful direction. Before making any financial decisions, be sure to consult a qualified financial advisor.

Equity markets began broadening in mid-summer after suffering eighteen months of AI-driven hallucinations. Even so, the aggregate market value of the Magnificent Seven (Apple, Google, Microsoft, Amazon, Nvidia, Tesla, and Meta) remains more than 31.6% of the combined members of the S&P 500, of which each is a member. The S&P 500 has historically given investors diversified exposure to many facets of the US economy. Not anymore. Now, it's a very focused, non-diversified tool for stock picking. Markets remain far from the pre-pandemic state of mind.

Magnificent Seven Percent of S&P 500 Market Value

October 18, 2024

(Source: Bloomberg)



Magnificent Seven overweighing the S&P 500 is an issue to be tackled in the future, making relying on passive management for diversified returns particularly difficult. In a recent study by David Cohne of Bloomberg, he found that the average percentage of small-capitalization stocks in an actively managed small-capitalization mutual fund is only 16.4%, compared to 52.3% in 2014. Active managers try to goose their returns by leaning into prominent momentum names like the Magnificent Seven. A similar phenomenon occurs throughout the mutual fund business and is beginning to be felt in the passive investment world of exchange-traded funds.

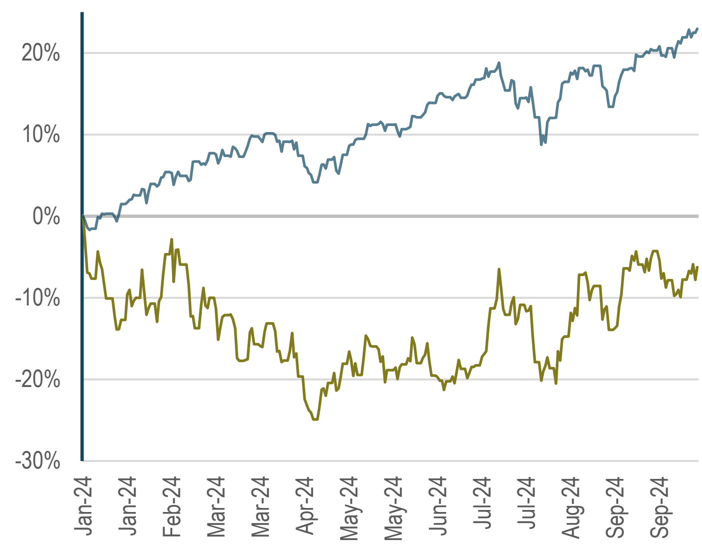
We did a quick, non-scientific analysis of value funds and found the two most extensive holdings were Nvidia and Tesla. Neither are anything close to being value stocks. A reckoning is undoubtedly coming. Investors believe they are getting one thing and are, in reality, getting something completely different. It's becoming increasingly challenging to use funds of any variety to provide investors with a legitimately and appropriately diversified basket of stocks.

Before the pandemic, money-losing companies tended to track alongside the S&P 500. Backed by free money stimulus in the hands of budding investors, money-losing story stocks took off. Since the beginning of this year, they have been essentially flat, while the S&P 500 is higher by 23.1% and the Nasdaq is up by 23.2%.

Cumulative Return of Money Losing Tech (Gold) and the S&P 500 (Blue)

January 2 - August 18, 2024

(Source: Bloomberg)



As is typical, the first companies to report earnings were financial firms—specifically the largest banks, investment banks, and American Express. The results were strong and better than expected. American Express, while optimistic about its prospects, is starting to see a slowdown in the consumer. As part of their comments, the company stressed they are still targeting 10.0% revenue growth even though their results were slightly lower. While financial analysts may have been disappointed, we are happy with a dime in revenue growth going forward. Lower-income consumers continue to feel stretched, but in general, consumers are employed, wages are rising, and inflation and interest rates are falling.

We believe the US economy is taut and that the labor market will gate any prospect of economic recession. If labor remains robust, the economy will avoid recession. A general slowdown in spending is likely as the economy finds its post-pandemic equilibrium. However, short of an unexpected exogenous event, we anticipate continued, although slower, economic growth.

Last week's economic data manifest a continued reduction in price pressures. This labor market was solid and steady but not overanxious; retail sales suggested consumers are willing and able to spend, and residential real estate data show a market that continues to be hyper-sensitive to changes in mortgage rates, which bodes well in a declining rate environment. Demand for services continues to be strong while manufacturing remains in a solid contraction. Goldilocks remains the talisman of today's markets, but potential wolves are visible. Consumers are heavily indebted, and any labor market dislocation could start a quick and powerful domino effect on consumer spending.

Recent corporate announcements suggest the halcyon predictions of perpetual bliss brought to you by artificial intelligence are being reeled in, which may take some extreme valuation premiums out of equities. Geopolitically, dry tinder continues to burn in the Middle East and Ukraine. These wars could certainly expand or spill over into regional conflicts. Meanwhile, China's economy continues to sputter despite gigantic stimulus. Europe, especially the continent, is in deep doo-doo.

Citi US Economic Surprise Index

October 18, 2024

(Source: Bloomberg)

The Citi US Economic Surprise index is no longer in negative territory. Economic data is now more positive than predicted, and we expect this to continue as economic performance outstrips pessimistic views.

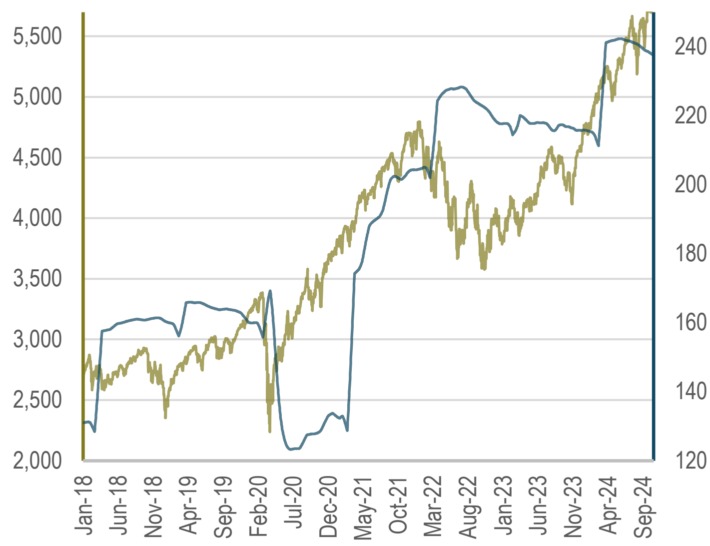
Earnings

Over the last twelve months, equity analysts have been readjusting their earnings expectations for the third quarter. By most indications, corporate profits for the year's first half have been stellar. But economists and analysts expected the economy to begin faltering in the second half. Most economic data suggest things were just fine, thank you very much. It also follows that earnings may exceed reduced expectations as well. So far, only 4.7% of US companies have released earnings. Consequently, little can be generalized about the broader market. Many large US banks have reported, and their profits universally beat expectations. On average, sales were only marginally higher by less than inflation at 1.1%, while profits were higher by 6.29%. Earnings estimates for the year-end are falling, the blue line, despite equity markets hitting new record highs.

S&P 500 Daily Levels (Gold) and Earnings per Share (Blue)

October 18, 2024

(Source: Bloomberg)



One More Thing

One more thing. One of many, he was born in the ranks of grinding poverty and discrimination in 1900s New Orleans, Louisiana. His mother was sixteen on the day of his birth. His father quickly abandoned the young family, leaving them to scrape out a meager existence in the southern section of Rampart Street, a tough neighborhood called The Battlefield. He didn't last long with his teen mother, choosing instead to live with his grandmother until he was five. At seven, he dropped out of school to earn money for his family and met Morris and Alex, two similarly poor Karnoffsky children. He helped them collect junk and deliver coal. The Karnoffsky family soon started feeding him hot meals and gave him a warm bed to sleep in. They taught him how to sing Russian lullabies, and he credited the family for teaching him to "sing from the heart." The family lent him the money to buy his first musical instrument, a cornet.

While he was undoubtedly well acquainted with the evils of discrimination, from the Karnoffskys, he learned how to rise above it. The Karnoffskys were Lithuanian Jews. He said, "I was only seven years old, but I could easily see the ungodly treatment that the white folks were handing the poor Jewish family." He learned that discrimination wasn't about color, inferiority, or race. It was about ignorance. For the rest of his life, he fought against discrimination wherever he found it.

Classified as a "dangerous and suspicious character," he was arrested and sent to the Colored Waif's Home for Boys, where he learned about music. By the time he was thirteen, he led the group's band, and by the time he graduated, he was booking gigs in town. He refined his musical craft by playing on riverboats, dives, brothels, and dance halls, preparing him to play in front of thousands and to impact Jazz more than any other performer of his or any other era.
He was married four times. With his first wife, he adopted Clarence, who was mentally disabled due to a childhood injury. Despite a relatively quick divorce from his first wife, he cared for Clarence for the rest of his life. He was always proud of his heritage and was an African American from a poor New Orleans neighborhood. Generally soft-spoken and private, he wasn't afraid to call out anyone and anywhere when he witnessed discrimination.

Toward the end of his life, he wrote an autobiography entitled *Louis Armstrong + The Jewish Family in New Orleans.* In a show of respect for the Karnoffsky family, he wore a Star of David, given to him by his Jewish manager Joe Glaser, for the rest of his life." From them, he learned "how to live—real life and determination."

What a Wonderful World
Louis Armstrong

I see trees of green, red roses too
I see them bloom for me and you
And I think to myself
What a wonderful world

I see skies of blue and clouds of white
The bright blessed days, the dark sacred nights
And I think to myself
What a wonderful world

The colors of the rainbow
So pretty in the sky
Are also on the faces
Of people going by
I see friends shaking hands, saying, "How do you do?"
They're really saying, "I love you"

I hear babies cry, I watch them grow
They'll learn much more
Than I'll ever know
And I think to myself
What a wonderful world
Yes, I think to myself
What a wonderful world

Conclusion

That's it for this *Weekender.* Have a wonderful week.

Disclosure Statement