

Much Ado About Nothing

Weekender

August 17, 2024

It has been a wonderful experience to compete in the Olympic Games and to bring home a gold medal. But since I have been a young lad, I have had my eyes on a different prize. You see, each one of us is in a greater race than any I have run in Paris, and this race ends when God gives out the medals.

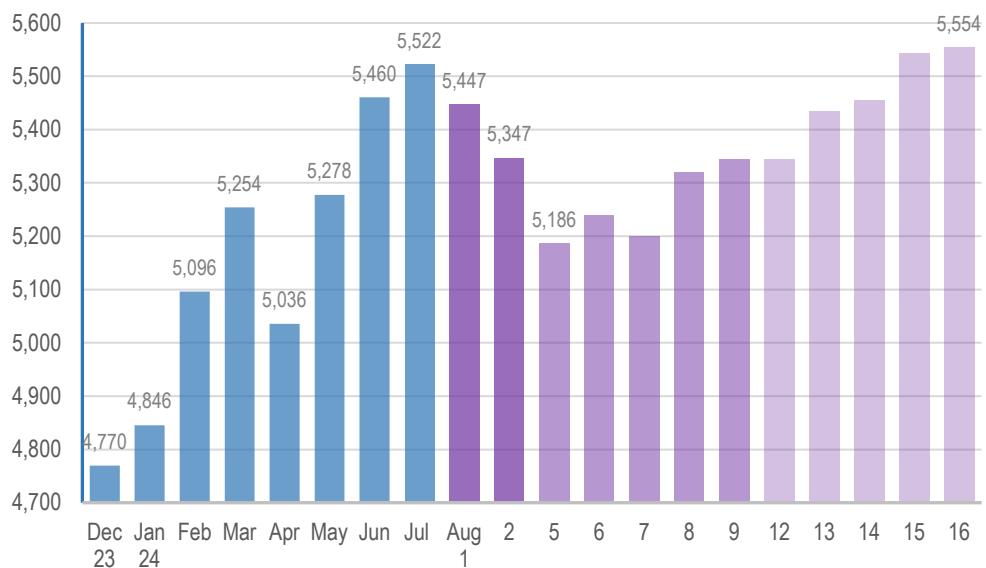
No man who really is a man ever cared for the easy task. There is no enjoyment in the game that is easily won. It is that in which you have to strain every muscle and sinew to achieve victory that provides real joy

Eric Liddell
Olympic Champion, 1924 Paris Games

Good morning, and welcome to the Weekender for Saturday, August 17, 2024. As measured by the S&P 500, the United States equity markets rose 3.9% last week. It was the best weekly gain of 2024. The index is now only 2.0% below its all-time high of 5,667.20, printed on July 16, 2024. This Weekender, and the next, will be very short. Beginning August 30, 2024, we will change the publication structure.

S&P 500 Index Levels

(Source: Bloomberg)



Since US equities bottomed out on August 5 this year, they have been climbing relentlessly. Markets took a leg down into early August on recession fears. As those concerns abated with vital economic and corporate earnings data, the bulls pushed markets back within a whisker of their all-time peaks.

S&P 500 Daily Levels

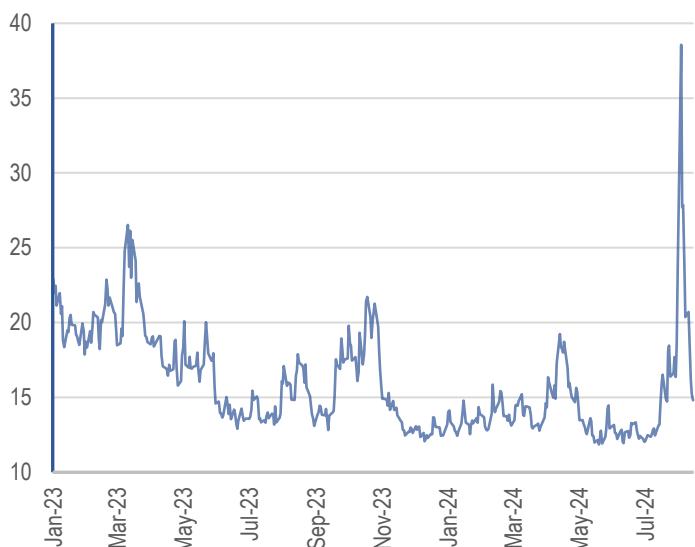
January 2 - August 16, 2024
(Source: Bloomberg)



As the graph below implies, it's been a pretty volatile fortnight. Many market watchers use the VIX Index to measure volatility, which testifies to the remarkable price action we have witnessed. Over the past two weeks, several clients were buffeted by the

VIX Index Daily Levels

January 2, 2023 - August 16, 2024
(Source: Bloomberg)



prevailing winds. Without exception, we advised them to hold fast. This continues to be our counsel. However, we anticipate that this will change at some point over the next year as the consumer is exhausted and labor markets deteriorate.

AI darling and a primary holding in our aggressive growth portfolio, Nvidia, fell to \$ 98.91 per share on August 7. On Friday, it closed at \$124.58, a gain of 26.0% from its August 7 low. While Nvidia is a unique company and a bellwether stock for the tech crowd, its remarkable snapback was well reflected in the broader market.

Nvidia (NYSE: NVDA) Daily Levels

January 2 - August 16, 2024
(Source: Bloomberg)



It hasn't been just a quick snapback for Nvidia. The whole equity market has been whipsawed. On Monday, August 5, 2024, the S&P 500 hit bottom after falling -8.5% from its all-time high. Market pundits were aghast, calling for an emergency meeting of the Federal Reserve to lower interest rates. Looking back, pundit demands seem like nothing more than the tantrums of a spoiled child.

Meanwhile, the Magnificent Seven have begun to take control of the equity markets once again, forcing the rotation into small companies to stall.

Recent economic and earnings data support an economy amid a gradual post-COVID search for normal. To suggest the economy has been resilient in this process would be a dramatic understatement. Labor markets remain robust, consumer spending is strong, albeit on the back of increased credit, and inflation is coming down to the range of the Federal Reserve's hopes. Corporate profits for the second quarter are coming in stronger than expected. To be sure, the economy is slowing, and the cadence of slowdown is likely to increase in the months ahead. But fat pitch investment opportunities abound. Ignore the presidential theater. The sky is not falling.

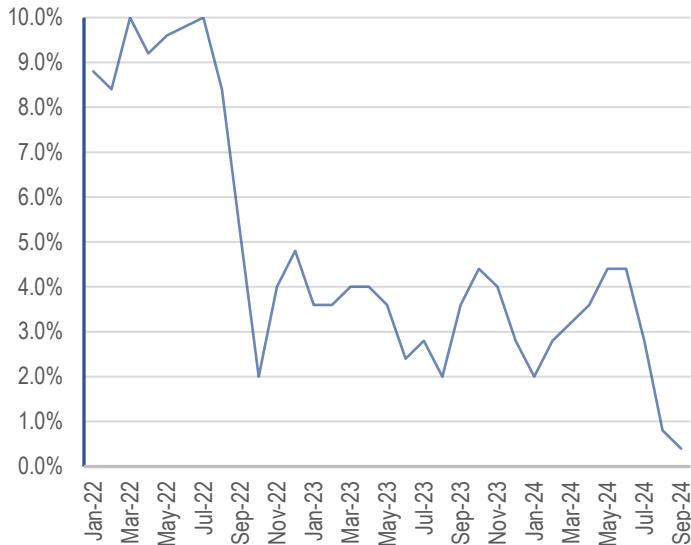
Single-family housing starts and permits fell to their lowest levels since mid-2020. This was a big miss compared to expectations. Poor housing inventory has been a primary catalyst behind rising housing prices, although inventory has increased by almost 25% from its bottom. Some weather events likely impacted starts and permits. Interest rates have been falling, but that happened at the end of July and early August, so they could not positively impact housing starts and permits. Even so, builders are seeing remarkable absorption due to a lack of inventory, and buyers are unlikely to see any improvement in home affordability.

Producer and consumer inflation both came in benign. Producer prices, which tend to lead consumer prices, came in well below expectations, and consumer inflation showed a taming of the shrew. The most important considerations for consumer inflation are

Annualized Monthly CPI

January 2022 - July 2024

(Source: Bloomberg)



direction, which is down, and steepening trend. The Consumer Price Index came in at 2.9%, well off its June 2022 peak of 9.1% but still not close enough to the Federal Reserve's target rate of 2.0%.

To get a better sense of the directionality of the consumer price index, we have taken the month-over-month readings for the last three months, averaged them, and annualized them. Doing that, the consumer price inflation sits at 0.4%, well below the Federal Reserve's target.

One More Thing

One more thing. Last week's closing ceremonies put a bookend on the Olympic Games. They were remarkable in a way that only Paris could have accomplished. In many ways, the Olympics provide a Rorschach Inkblot Test for the human condition. With few exceptions, perhaps breakdancing, the games showed the human machine at its pinnacle of performance and achievement. However, the other side of the same coin portrayed the stagnation of the society surrounding the XXXIII Olympiad.

One hundred years ago, at the 1924 Paris Olympics, a Scot known more for his prowess in rugby than running won the 400-meter dash and set a new world record at 47.6 seconds. It was an odd race for many reasons. For the winner, Eric Liddell, it was the first time he ran the distance competitively. Instead, he was contented for the 100 and 200-meter races. However, the qualifying heats for the 100-meter were scheduled for Sunday, and Liddell felt running on the Sabbath would violate God's will. Putting him in the quarter mile was a consolation, enabling France and the United Kingdom to avoid embarrassment.

A slightly sensationalized version of this story was made into a movie in 1981, *Chariots of Fire*. It's a remarkable movie, although it is mainly unknown to the current generation. Liddle was a man of principle, not influenced by the transient silliness of fame heaped upon him either before the games or after his victory. He originally intended to run the 100 meters but pulled himself out of the stated Sunday qualifying race because of his commitment to God. He was roundly criticized at home for putting God before the King by his home press in the United Kingdom. But

Liddell was driven by deep-seated principles that were immovable.

Shortly after his success in Paris, he signed up for missionary duty in China, following in his parents' footsteps. He was returning home, having been born in China while his parents were missionaries there before him. Liddell was a remarkable athlete; most of us could never emulate his prowess on the track. We can aspire to emulate his life and example as a believer, missionary, and fellow traveler. He dedicated his life to the Chinese people he loved. He died in a Japanese internment camp in occupied China days before the end of World War II.

Conclusion

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

Disclosure Statement

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