Market Whispers – Mar 1 2024

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Welcome, welcome, welcome and thank you for joining me for this weekly episode of the Market Whispers podcast.
I am your host Beachman and I am super excited to have you here today.
Today is Friday, March 1st.
Now right off the bat I must clarify that I am not a financial planner and anything that you hear or read in this podcast is not financial advice.
So please do your own due diligence and consult a licensed financial planner.
And before I forget, please do me a favor and spread the word about this podcast and my newsletter.
I keep the cost for my paid content very reasonable.
It costs less than 3 Lattes per month.
My paid subscribers know the value that they get from my research, from my writings, from my market analysis, from the active chat line during market hours, and from this podcast.
Just this week, I wrote to my paid subscribers about an underrated fintech stock that I added to my portfolio.
Now, I've been wanting to add a fintech stock to my portfolio for quite a while.
I took about six months to research a variety of stocks and I recently added two such fintech stocks that I like.
in a sort of fintech basket.
One of them is a small cap international stock and the other one is a large cap US stock.
And coming up, I'm going to launch what I'm calling Beachman's AI Tracker.
I think I mentioned this before.
I'm trying to identify interesting, good investment opportunities in the AI space.
I want to separate the wheat from the chaff.
I'm looking for companies that are actually generating AI revenues and not just talking about AI in their earnings call and in their investor presentations trying to bump up their stock price.
So please consider becoming a paid subscriber.
Please tell your friends and family.
I'd love to have them and you join the growing Beachman community.
And by the way, this podcast is also available in YouTube format.
I've been playing around with that platform for the last few weeks.
And if you search for Invest with Beachman on YouTube, you'll likely find my investing channel there.
And you can watch these videos, this podcast in a video format, probably a few hours or sometimes it takes about 24 hours after the audio podcast gets posted on Substack.
Now onto the meat of this episode.
So what's happening in the markets today, this week?
Markets actually wrapped up their fourth winning month, all driven by the artificial AI boom and hope for rate cuts coming up later this year.

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The Nasdaq was the best performer in February with a 6.1% gain.
The S&P 500 gained 5.2%.
This was the fourth straight higher month for the S&P 500 index, fourth straight higher month in a row.
And the Dow Jones was lagging a little bit, but it still added 2.2% for their first four-month winning streak since May of 2021.
So the Dow Jones is trying to catch up with the rest of the indexes.
Now the S&P 500 has not had a minus 2% pullback on a daily basis since its October low, October 2023 low.
That's about 83 trading days since it has had a negative 2% pullback on a daily basis.
Since that time, since October 23, the S&P 500 has gained almost 24%.
Now, it's been 83 trading days since that October low, but the record is 149 trading days of a consistently higher move in the S&P 500.
And that record was set in 2006.
Now, one of the things I'm trying to look at as I look at these charts for the indexes is whether we're in a consistent viable uptrend or whether there's a risk of a possible downtrend or a reversal and one of the technical signals is called the golden cross it's a timing tool or a trading signal that many traders use
And every long-term rally in an index or a stock typically starts with a golden cross.
A golden cross is when the 50-day daily moving average, the 50-day DMA for a stock or an index, crosses above the 200-day moving average.
And currently, 73% of S&P 500 stocks are currently showing a golden cross signal.
So 73% of these stocks have their 50-day moving average higher than their 200-day moving average.
And this is a very bullish signal.
This is the highest percentage of S&P 500 stocks with a golden cross signal since October 2021.
So this is the most bullish that the underlying stocks in the index have shown since the highs of 2021.
So anyone saying that the market cannot go higher just because they believe that most of the move up is driven by the Mag 7 or the Mega Cap stocks is probably not looking at the broader picture.
If 73% of the stocks are in a Golden Cross signal, that tells you that the market rally is probably broader than just the Mega Cap or the Mag 7 stocks.
But let's look at the MAG7 stocks.
Let's look more closely at them.
If I look at the top five components of the S&P 500, that's Microsoft, Apple, Nvidia, Amazon, and Meta.
These five stocks collectively represent about 24% of the S&P 500 index.
Now, I looked at the charts for each of these stocks last weekend.
I looked at each chart for topping signals as well as price support levels.
And putting all of them together, putting my analysis together, I don't see the S&P 500 dropping down or retracing more than 8% to 10%.
Maybe 12%.
Okay.

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So if we do get a negative 10% drop in the index, that would take us back to 4580 or right about there.
Now we were there about two months ago in early December.
How time flies, right?
So if the S&P 500 index is going to drop, I believe that it might drop, let's say a max of about 10%.
It takes us back to about early December when stocks were rising in a very bullish mode.
I see strong price supports in the index at about 4,800 and even further support at about 4,650.
So the chances of us going back down to the 4500s are quite low in my mind.
I looked at some other data to validate or invalidate my analysis.
As per research from BNP Paribas and Macrobond, financial conditions in the market have been easing since October last year.
Easing to the extent that it's equivalent to about 100 basis points or 1% of rate cuts.
Which, by the way, the US Feds have not yet cut interest rates, but these easing financial conditions are equivalent to as if they have cut rates by about 1%.
All this stealth easing, and most of it is pumping up financial asset prices, all this stealth easing is helping the economy stay healthy.
It's helping economic growth.
It's helping businesses deliver better and better results.
Now, there is excess liquidity in the markets, in my opinion.
And that's why you see speculative assets like cryptocurrencies pumping.
You see a lot of pumping and froth in AI stocks, or what are perceived to be AI stocks.
So I think the Feds would be hesitant to cut rates under these easing financial conditions.
If we look at stock buyback data, as of February 9th, buyback authorizations by US companies are only 20% shy of breaking the 2023 record.
In 2023, US companies bought back more than $207 billion worth of their stocks.
In 2024, these same companies have announced that they will buy back about $165 billion worth of their stocks.
And we are just completing the month of February, so we've got some ways to go before we get the final number for 2024.
So large caps with better balance sheets can withstand higher interest rates for longer.
And they are using their cash, they're putting their cash to good use.
They're actually making money on their investments on their cash balances by investing that money in two places.
One,
in treasuries that give them a 5% interest rate return, and two, by buying back their stocks at record rates as we've seen in 2022, in 2023, and thus far it's shaping up to be another record year for stock buybacks in 2024.
Now, even though markets seem to be in a bullish mode, we have to give credence to the fact that there are some risky signs showing up in today's markets.
There is some froth in FOMO, and one of the ways to try to quantify that is to look at options trading volume.

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I looked at some options trading data for the past week and it seems that Nvidia trades about 20 billion dollars worth of options per week.
This is by far the highest by any stock in the history of the options market.
2nd in place is SMCI, Super Micro Computer.
Their options volume is only about $5 billion per week, so about 25% of that of Nvidia.
And Tesla, taking a look at Tesla.
Tesla used to be the options trading monster, but Tesla today in terms of options volume is only at about $3 billion per week.
So that's about one tenth of what Nvidia options are trading at in terms of volume.
So we can see that AI stocks have taken the lead in terms of their preference among options traders.
Options traders are way more bullish on AI stocks today than stocks like Tesla.
So if we look at just Nvidia's options trading volume, for example, $20 billion per week of mostly call options.
On the other side of that trade are market makers who are in a bearish position against Nvidia.
But in order to hedge their position, they have to buy Nvidia's stock.
So the call options trader as well as the market maker are both pumping up the stock of Nvidia to higher and higher levels as long as this kind of frothy and FOMO-ish and bullish options trading happens in these stocks.
And then we come to what's probably the ultimate sign of excess in the market, a bullish magazine cover.
So The Economist, which is a widely read financial publication, literally printed a magazine cover that shows a stock market bull that's tied to a bunch of balloons that has taken this bull higher and higher, floating higher and higher.
Now there's an old trader joke about this bullish magazine cover.
When you see a bullish magazine cover like this, it's time to get cautious.
So we remain cautious in the market.
We remain cautiously bullish.
I remain, Beachman remains cautiously bullish.
I am looking for the markets to dip probably a max of about 10% over the next few weeks.
Maybe it'll come down to 4900.
Maybe it'll come to 48, but there's a lot of support at 4600.
Now let's turn our attention to some macro updates that we got this week.
We got an all-important PCE inflation report.
The PCE report is seen as the most important inflation report because the US Federal Reserve or the FOMC uses it as they decide whether they want to raise or cut interest rates.
It is the Federal Reserve's favorite inflation indicator.
Now, the PCE differs from the better-known CPI inflation index based on its composition.
The underlying composition of the PCE inflation index is changed more frequently to bring it up to date with the times, to bring it up to date with economic conditions and consumer behavior.

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and therefore it is seen to more quickly reflect the impact of real-time underlying pricing fluctuations.
Now the PCE index for the month of January increased 0.3% on a monthly basis and that translated to about a 2.4% year-over-year increase.
This was in line with estimates.
The core PCE index, which excludes the more volatile food and energy costs, increased 0.4% for the month, and that translated to a 2.8% year-over-year increase.
Again, this was in line with consensus estimates.
So overall the inflation trend continues to go lower.
The PCE Index report this week confirmed that and markets took that as a positive sign and they continue to stay buoyant all this week leading into the close probably by Friday today.
Now we did get a few surprises inside that PCE inflation report.
One of the surprises was that personal income in the month of January rose by 1%.
This was more than three times the forecast.
Spending, consumer spending decreased by 0.1%.
The forecast was expecting a slightly better increase.
So we're seeing increasing signs that one, the job market is strong.
Consumers are earning more.
Now they are taking a breather from their spending from the holidays, as I expected.
So consumer spending has slowed down a little bit.
And maybe consumers are replenishing their savings and paying off some of the debt that they've gathered over the holidays.
My personal experience is I'm actually seeing less and less people in restaurants and stores when I go out on the weekend.
Now let's shift gears and talk about the Q4 earnings season.
Profits are key to whether the US economy re-accelerates from here.
And as we survey the Q4 earnings results, we're finding a small pickup in earnings last year, in Q4 last year.
But this pickup is more unevenly distributed.
Most of the gains are concentrated in a handful of big technology companies.
and most of the other 493 stocks in the S&P 500 are reporting declines in earnings.
So the big tech companies have cut costs aggressively since 2022 when their stock prices bottomed.
They had massive scope to cut costs and this was further helped by the boom in artificial intelligence technology.
So the big tech companies were able to cut costs and increase their earnings, and that's what they're reporting so far in Q4 of last year.
Q4 earnings are on track to grow at about 4%.
This is the second consecutive quarter of year-over-year growth, so this is quite a pivot.
We've had three quarters of declining year-over-year earnings growth in 2023, and then we had two quarters of increasing year-over-year consecutive growth.
73% of companies that have reported so far have exceeding earnings estimates but well below the average of beats.
73% of the companies have issued negative forward earnings guidance.

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So while earnings have increased two quarters in a row, 73% of companies are issuing negative forward earnings guidance.
So it is time to get a little cautious as we look at the rest of 2024.
Now talking about 2024, there's a lot of talk about whether we're going to get a soft landing in the US economy.
I've been looking at this question, I've been researching this question for a while now.
Now, according to the Bank of America research, the Federal Reserve is trying to achieve what they call a soft landing.
Now, a soft landing is defined as economic growth that is below trend.
OK, so the U.S.
typically grows at about 2% on an annual basis.
The GDP grows at around 2%.
So a soft landing is defined as economic growth that is below this 2% long-term trend, yet above 0%.
So Soft Landing is looking for slowing growth that is not yet negative.
Now let's go back in time about three to four years ago.
We had a global pandemic.
We had a global shutdown.
We had massive direct government support to consumers and businesses.
In the first year of the pandemic, the U.S.
Congress doled out almost $5 trillion.
I was reading a very interesting article on this topic by Claudia Sum.
She is an economist that I closely follow, and she publishes her thoughts on Substack.
And she talked about this congressional fiscal stimulus that was about $5 trillion, or about 25% of GDP.
Now, this stimulus allowed businesses and families to stay afloat.
And during the pandemic and even until early 2022, the US feds maintained a very loose zero interest rate pandemic policy.
So you have the combination of very large government stimulus as well as the loose zero interest rate policy by the US feds.
And both of this helped keep the US economy afloat.
It helped keep us almost fully employed.
And then the US Fed started raising interest rates in March of 2022.
And they continued to raise interest rates all the way till the middle of last year, 2023.
So what happened when we suddenly pivoted to a higher interest rate regime?
Well, we talked about the fact that large companies, companies with healthier balance sheets, with healthy cash reserves on their balance sheets, really didn't get hurt by these higher interest rates.
In fact, they started earning more interest income by using their cash reserves to buy U.S.
treasuries.
Today, some of these companies are earning 5% on their cash balances just by investing that money rather than having it sit on their balance sheet doing nothing.
Smaller companies, of course, got hurt.
Those that had cash flow issues started to hurt because of these higher interest rates.
And then what happened with households and consumers?

Well, according to the U.S.
Federal Reserve Board, the household debt to asset ratio, so this is the ratio of debt in a household, typical debt, versus the assets that that household owns.
So the debt to asset ratio actually fell in Q3 last year to its lowest level since the early 1980s, since 1983.
How did this happen?
How did US households suddenly become better positioned financially even though we have record high interest rates?
The reason for this is that mortgages account for most of U.S.
household debt today, and consumers were able to lock in rock-bottom mortgage rates well before we had the onset of the global pandemic.
Today, about 93% of U.S.
homeowners either typically own their house outright or have locked in a super low 3-4% mortgage rate.
So the U.S.
consumer is in much better shape because of all this.
And this more positive financial situation for U.S.
consumers also applies if we take into account their automobile payments, rent payments , homeowners insurance, and property tax payments.
And the job market is still very strong.
We've talked about this before.
Unemployment in the U.S.
is 3.7% today.
So low financial obligations or debt obligations combined with higher personal income gains and skyrocketing net worth have all led to the consumer feeling slightly better about their financial conditions today.
This boosted consumer spending last year.
It allowed businesses to improve their profit margins.
So they were cutting costs internally and they were also pricing their products and services slightly higher externally.
This allowed them to boost their profit margins.
And this kept the economy in much better shape than was expected early in 2023.
If you remember, at this time in 2023, there was a lot of talk about a possible recession coming up in the year.
Even I was a bit hesitant to put all of my money to work at that time because I thought we had a recession coming up.
So in 2023, economic growth in the US surprised all of us to the upside.
GDP growth was particularly strong in the second half of 2023.
Growth was led by exceptional consumer spending strength in November and December.
Consumer spending grew by an annualized 6% month over month in November and December.
Even the third-year mortgage rate dropped from 8% in October to 7% in December, and today it's hovering at around 6%.
We talked earlier in this podcast about easing financial conditions in the market.

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Even when bankers were surveyed recently, they have started offering more and more credit to businesses.
Credit standards are loosening, not tightening.
Now again, all of this sounds a bit rosy, but there could be some sort of slowdown and that's exactly the soft landing that the US Feds are trying to engineer this year in 2024.
If hiring and wages slow down just a little bit, and if consumer spending slows down just a little bit, just enough to keep GDP growth on the positive side, the economic outlook for the US could be on slightly surer footing for 2024, such that we do get that soft landing that we're all looking for.
Now again, according to Bank of America research, the Feds are not interested in hiking interest rates anymore.
They're done hiking.
We know that.
Markets know that.
The Feds used to think that they need to curtail economic growth in order to execute the soft landing.
They used to believe that they needed to raise unemployment just a little bit in order to get that soft landing.
But according to Bank of America, the Feds don't think this anymore.
They think that they can execute the soft landing without curtailing growth and without increasing unemployment.
In fact, right now, the US Feds want higher growth.
They're trying to find the right balance between maintaining interest rates at a decently high or restrictive level versus encouraging economic growth such that they get the soft landing that they're looking for.
And the markets are factoring this in.
Markets are actually factoring about four interest rate cuts this year.
Markets used to think that we were going to get six to seven earlier in the year.
My expectations have always been for three interest cut rates this year.
And according to data track research, the US economy is in the middle of this growth cycle, this new growth cycle post the pandemic.
According to data track research, this mid-cycle growth cycle
Can last for a few more years.
As we saw, Q4 earnings are better than expected, even though forward guidance is a little weak.
We know that U.S.
large cap stocks can continue to work.
Those stock prices can continue to stay healthy, even though interest rates are high.
The U.S.
dollar is strong and interest rates as a whole are kind of stagnant.
They're ranging at their current levels.
U.S.
large caps are performing better today than all of the international markets put together.
U.S.
large caps are performing better today than U.S.
small caps.

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And some of the sectors that can do well in this potentially soft landing environment are technology, healthcare, and financials.
So we will continue to monitor these economic conditions on this podcast.
We'll continue to see whether we are truly heading towards that soft landing that we want.
Now let's pivot again and talk about earnings growth among the tech companies that have reported their Q4 earnings thus far.
There's a very interesting phenomenon that is playing out in these earnings reports.
Tech companies have reported that they are extending what they call the useful life of their data center servers.
They are typically extending the useful life of these servers from four years or five years to six years.
And as they do this, as they make this accounting change, they are claiming lower depreciation expenses on these assets in their earnings reports.
And so what happens is when they claim lower depreciation expenses,
Their earnings per share increases during the timeframe for which they are reporting.
So let's dive into this a little bit more.
Now, Google extended the useful life of their servers twice over the last two years, in January 2021 and again in January 2023.
I was recently reading what Stephen Clapham from behind the balance sheet wrote about this phenomenon.
Stephen pointed out that this accounting change is not isolated to just Google or Alphabet.
All of the mega cap companies are doing this.
Stephen pointed out how Amazon did this thrice in 2020, 2021 and 2023.
This led to higher and higher earnings growth within Amazon's earnings reports for those timeframes.
Meta has done it twice in 2022.
And Microsoft has also done it twice, once in 2020 and once in 2022.
So it's not like the technology behind these data center servers has suddenly improved while they are in use within their data centers.
It's because these companies have figured out that by extending what is called the accounting useful life of their servers, they can boost their profits just a little bit more
When they do this, and this could help them report better and better earnings to their shareholders.
So lower depreciation costs per year, their depreciation costs is spread over more and more years, typically from four years to six years.
So that brings their depreciation costs down by about 25%, I think, right, on a quarterly basis.
And this leads to higher income, higher earnings and higher profitability.
Now, this is not to say that this is cheating.
This is not cheating or this is not a bad thing.
I'm just merely pointing out this accounting change that recently has become a more and more frequent phenomenon amongst these mega cap companies.
So talking about markets, let's take a look at what's coming up over the next week or so.

We have on Tuesday, March 5th, we have the ISM Services Index Report for the month of February.
So we will cover next week, we'll cover the ISM Manufacturing Report as well as the Services Index Report for the month of February.
On Wednesday, March 6th, Chair Powell is providing testimony to the U.S. Congress.
So we'll tune in to see what he says about the state of the markets as well as their monetary policy at that time.
On March 8th, Friday, March 8th, we get the US jobs report for February.
So we will tune into that as well.
And then coming up March 12th, we get the CPI inflation report for February.
March 14th is the PPI inflation report for February.
And March 18th is the next US Federal Reserve meeting.
So we've got a lot of stuff coming up in the month of March.
We also have options expiration, monthly options expiration coming up on March 15th. and then the Quad Witch or the quarterly, the major quarterly options expiration coming up on March 28th.
So we're going to be very, very busy in the month of March tracking all these market developments and I will bring updates to you on all of these developments in this weekly Market Whispers podcast.
So that's all I have for today.
That's all I have for this edition of the Market Whispers podcast.
Drop me a question or comment anytime.
I always love to hear from you readers.
Until we chat again, good luck in the markets, stay healthy, stay safe, be kind to others and take some time to do something you enjoy.
After all, that's why we invest.
For life, for love, and for happiness.
This is Beachman, signing off.
Thank you and goodbye.

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