Market Whispers – Feb 23 2024

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Welcome, welcome, welcome and thank you for joining me for this episode of the Market Whispers podcast.
I am your host Beachman and I am super excited to have you here today.
Today is Friday, February 23rd.
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 three lattes a 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.
This week, in fact, I wrote to my paid subscribers about the AI boom and bust lifecycle.
I mapped out the next three to five years in terms of what's happening in the AI arena.
I laid out the various phases in this timeline.
There are a lot of current activities happening.
There are some new activities that are going to start up sometime next year.
And then we also took a look at a very brief look at what's happening or what's going to happen more on a long-term basis.
And then based on this AI timeline, I laid out a very specific investing action plan for myself and I shared this with my paid subscribers.
And then coming up in my paid content section, I'm going to introduce what I call Beachman's AI tracker that I'm using to identify very specific AI investment opportunities.
I've been paying close attention to who's actually making money in AI and who is not.
And you would be surprised given how many companies are deliberately repeating the phrase AI in their earnings reports and earnings calls.
Many of them are not actually making any revenue from AI today, and some of them are not expected to make any AI-specific revenue in the future too.
So through this AI tracker, I'm going to separate the wheat from the chaff in the whole AI arena.
So please consider becoming a paid subscriber, tell your friends and family, and I'd love to have them and you join the growing Beachman community.
And by the way, downloads for this podcast have just doubled in about the six weeks since I started publishing these podcasts.
I'm doing them now in podcast form.
You're listening to it right now.
I'm playing around with how I can create and publish them in a more sophisticated manner on YouTube.
If you go onto YouTube and search for Invest with Beachman, you should be able to find my YouTube channel.
Now onto the meat of this episode.
So what's happening in the markets?
Well, unless you've been living under a rock, you probably heard that NVIDIA, the AI darling, reported their Q4 earnings report this week, and that took markets way up, way up yesterday.
In fact, the S&P 500 and the Dow Jones Index hit all-time new highs yesterday on Thursday, Feb 22nd.
The NASDAQ was just about 1% away from its all-time high, which it recorded in November 2021, about three years ago.
This rally has definitely been fueled by the AI stocks
NVIDIA providing the kind of the kindle to the fire behind these AI stocks.
In their blockbuster report, NVIDIA talked about what's not only happening within their own business in terms of their demand pipeline, their order backlog, et cetera, but they also provided some really cool insight into what's happening in AI, what's going to happen in AI next and how they're going to be providing some of the key infrastructure, the picks and shovels technology

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to enable that.
So as markets stay elevated, I continue to remain cautious.
I do have a certain cash position on the side because I want to wait for that fat pitch to invest in some of my preferred stocks.
4900 to me seems to be the key level that the S&P 500 has to defend.
And if it drops below 4900, then I think it has to hold 4700.
Otherwise, markets are going to go lower.
NVIDIA just passed $2 trillion in market cap this morning.
It is the third company in US history to do so.
Apple and Microsoft are the other two US companies that have a market cap of more than $2 trillion.
Now just to give you some stats, NVIDIA now is about 4.5% of the S&P 500 index.
and about 5.6% of the NASDAQ.
So it does represent a pretty significant chunk of these market indexes.
And as long as Nvidia keeps climbing up, these indexes are going to continue to climb up.
Apple in comparison, Apple is about 6.3% of the S&P 500 and Apple is about 8% of the NASDAQ.
So Apple and Nvidia are, as well as Microsoft by the way, these three stocks are very, very important to the health of the stock market, the US stock market going forward.
Now let's shift gears and talk about some macro updates we got this week.
The conference board reported their leading economic index report.
They dropped that report a couple of days ago.
The LEI index dropped 0.4% in January.
This was following another 0.2% decline in December.
This was the 22nd consecutive month in which the LEI index dropped.
Typically, these declines have been used to forecast an economic recession within the US, but this LEI index has been dropping now for 22 months and we've not had a recession.
So I believe that this index, I think I've mentioned this before, I believe that the LEI index is broken and needs to be redesigned.
The reason this LEI index is broken is because it hasn't been designed to handle a global pandemic like the one we had about three years ago.
This pandemic, if you remember, I'm sure everybody remembers, led to a global shutdown, a global economic shutdown.
And over the last two to three years, we've been recovering from that shutdown as a population, as a global population, as economies around the world, as well as businesses that some of them had boom times during that pandemic and some of them had bust times.
And so everybody's trying to recover from the pandemic.
And the LEI index is not really handling these different economic conditions, the mean reversion that's happening across the U.S.
economy.
Over the last six months, though, the LEI index has contracted about 3%, and that is a slight improvement from the previous six months.
So maybe it is showing some sort of mean reversion, but it still is one of those macro indicators that I like to look at when it's published, but I don't really take anything away from it in terms of an investor action or investor action plan.
U.S.
labor, we got an updated jobs claims report a couple days ago and surprisingly it had a 5% drop.
This was 5% lower than forecasted.
So what it's denoting is that the U.S.
labor market is still very strong.
Our unemployment rate for January was about 3.7%.
In January, the U.S.
economy created over 350,000 jobs.
This was a record new high.
And jobs grew in several industries, business and professional services, healthcare, and even retail.
And even the hourly earnings for U.S.
employees, for U.S.
workers, rose 0.6% in January.

And that's up almost 5% year over year.
So, the U.S.
labor market is very, very strong and the better than expected jobs claims number is probably a reflection of that strength.
We currently have about 9 million open jobs, 9 million job openings in the US.
And we have about 6.1 million unemployed people.
So there are about 1.5 jobs per unemployed person in the US.
And this is what's keeping the unemployment rate very low in the US.
I do expect that the unemployment rate will start drifting higher in starting in late Q1 into Q2 and possibly even into Q3.
I think the reason this will happen and I laid out this in my my US macro update a couple weeks ago I think in this podcast so if you haven't listened to that go back and listen to that episode I do believe that the unemployment rate will start drifting higher
Over the next couple of quarters.
And the reason this will happen is due to higher interest rates, which even though the markets are expecting rates to be cut in the March timeframe by the US Feds, I don't think they're going to cut in March.
I think we will get interest rate cuts probably in June or July.
And the reason we'll get interest rate cuts is because unemployment will start creeping up.
You know, all of these things will kind of come together.
Higher interest rates, tighter business conditions, slightly elevated unemployment rate, more loss of jobs and layoffs, and all of this will kind of come together in terms of data that the US Feds will use to figure out whether they need to cut interest rates or not.
Talking about reasons why they may not cut interest rates is possibly higher inflation.
The question on everybody's mind is, are we setting up for slightly elevated or higher inflation?
Are we setting up for another supply chain shock coming up in the first or second quarter of this year?
Now, Richard Excell from Stay Vigilant.
I think I've mentioned Richard Excell before.
He writes a very, very interesting and informative Substack called Stay Vigilant.
In one of his recent episodes, Richard was talking about the collapsing volumes of shipping going through the Panama Canal due to the drought in South America.
Richard told us how the time to get through the canal has lengthened from five days to three weeks.
The volume of shipping throughput through the canal has collapsed.
Now 40% of cargo coming to North America goes through the Panama Canal.
And if the shipping times through that canal has lengthened almost 6x of what it used to be, that's going to have a pretty serious impact or delays in the supply chain of goods coming into the U.S.
through the Panama Canal.
Even the Suez Canal has its own problems.
This one is caused by the Houthis that are launching missiles at cargo ships and oil tankers that are passing through the Suez Canal.
So ships have started avoiding the Suez Canal and they're going around the Cape of Good Hope, going around South Africa.
And that's adding almost 10 days, 9 to 10 days to that journey.
That's also setting us up for a possible supply chain shock for any goods coming or traveling through that part of the world.
So it's possible that we're going to have some sort of supply chain issue coming up over the next, it's going to probably hit the US economy over the next few weeks.
These two shipping issues have been happening for weeks and sometimes it takes time for these things to work through the economic supply chain to hit consumers here in the US.
If you remember what happened during the pandemic, we had a similar supply chain shock.
Everybody was double ordering everything that they wanted.
And this led to delays in getting anything that we needed.
And this finally drove inflation higher.
Currently, shipping rates are about 150% higher than what they used to be.
And as these shipping rates move higher, inflation moves higher as well.

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So if inflation does move higher, this is going to prompt the US Feds to not cut interest rates as the market is expecting.
So we'll have to see what happens over the next few weeks.
Let's talk about Q4 earnings.
I mentioned that NVIDIA had a blockbuster Q4 earnings report.
At this stage in the earnings season, about 80% of companies in the S&P 500 have reported their results for Q4 2023.
And of these companies, 75% of them have reported earnings above estimates, but this is still below the long-term averages for similar companies within similar reporting periods.
In aggregate, companies are reporting earnings that are about 3.9% above estimates.
This also is below the long-term, the five-year long-term average of 8-9% beats.
Now on a positive note, if the actual revenue growth for the S&P 500 as a whole, if the actual revenue growth is about 4% in Q4 2023, it will mark the 13th consecutive quarter of revenue growth for the index.
This would mark the second longest period of consecutive quarters of year-over-year revenue growth for the S&P 500 index.
And this is since FactSet, which is where we get this data from, this is since FactSet started tracking this metric in 2008.
The current record for this kind of consecutive growth is 15 straight quarters of revenue growth.
This happened between 2016 and 2020.
So we are close to hitting another all-time record for consecutive growth, consecutive revenue growth within the S&P 500 index.
This actually tells me, and this has always been my opinion, and a lot of analysts also say this, the S&P 500 is arguably the best index, the best 500 companies in the world.
I don't think any other global index, any other global stock index can boast of a growth record, a growth track record similar to or better than the S&P 500 index.
Now, one of the things I wanted to cover today in this podcast was this concept of nearshoring.
Now, we're hearing this word more and more these days, nearshoring.
So what does nearshoring actually mean?
Well, according to the New York Times and figures released by the U.S.
Department of Commerce last week,
What they showed was that for the first time in more than two decades, Mexico has surpassed China as the leading source of goods imported to the U.S.
Specifically, the value of goods imported to the U.S.
from Mexico has risen about 5% year-over-year since 2002.
And currently it stands at more than $475 billion worth of goods coming in from Mexico into the U.S.
Now at the same time, our Chinese imports have tumbled about 20% down to just over $420 billion.
So you got Mexico at almost $475 billion and China is down all the way to $427 billion.
Now the last time the Mexico goods imported exceeded Chinese imports was all the way in 2002.
So it took Mexico about 20 years to kind of recover back and become the leading importer into the U.S.
Major products that are now produced in Mexico and imported into the US include automobiles, automobile parts, medical equipment, electrical equipment, appliances, machinery, and all sorts of metallurgical products.
So a lot of hard goods and equipment that's manufactured in Mexico and imported into the US.
Now we still have import tariffs in place on all Chinese imports.
Now these Chinese tariffs have been in place since about the global pandemic, somewhere around 2020.
Since then, there's been a push by companies to seek suppliers in allied countries, countries that we call friends or allies.
This is referred to as friendshoring, and when it happens in a country that's right next to our border, it's referred to as nearshoring.
So any kind of manufacturing activity that's moved from all the way from another part of the world to either Canada or Mexico is called nearshoring.
When that manufacturing is returned back to the United States, it's called reshoring.
So these are these new phrases that we're learning about.
Friendshoring, where we move manufacturing to an allied country, let's say in Europe or even Southeast Asia, a country that's an ally of the U.S.
Nearshoring is when manufacturing is moved to Canada or Mexico.

And reshoring or onshoring is when manufacturing is moved back to the U.S.
Now we also have a lot of legislation, a lot of trade legislation in place that provides incentives and tax breaks to manufacturers that bring their manufacturing either back to the U.S.
or to Mexico and Canada.
And this is attracting more and more reshoring and nearshoring activity back to these border countries.
According to a survey conducted by Gartner last year, small to medium-sized businesses, about 88% of them plan to bring some of their manufacturing activity
Back to the U.S.
or back to Mexico or Canada?
45% plan to switch all of their manufacturing back to the U.S.
or back to Canada or Mexico.
And the reasons that they cited were supply chain optimization, so this leads to shorter supply chains,
They also like the tax breaks from these trade packs that we have in these countries.
They like the lower labor costs in Mexico.
And they're also bullish about the North American transportation infrastructure that is in place to support the movement of these goods from these manufacturing hubs to their markets where they sell these products in the United States.
So who benefits from this nearshoring effect, this reshoring effect?
One of the primary beneficiaries of this nearshoring and reshoring effect is the transportation and supply chain industry in the US.
These companies represent almost 2% of the S&P 500 market cap.
Now, according to the US Department of Transportation, these transportation companies move an average of 55 million tons of freight every day.
This freight is valued at more than $54 billion.
Excluding materials moved by pipeline, the estimated annual freight moved by these companies is about 16.4 billion tons.
That's a lot of stuff being moved on a daily basis and on an annual basis.
Now, majority of this stuff is moved by truck.
Trucking companies handle about 75% of total freight load in the United States.
And the reason they can do this so efficiently is because we've got this wonderful U.S.
national highway system here.
I know many other countries, including India, are trying to emulate the U.S.
national highway system because they want to create these kinds of transportation opportunities within their economies as well.
About 6% of total U.S.
goods is moved by water and railroads.
And air freight moves less than 1% of goods, obviously, because it's the most expensive.
So transportation is one of the lifebloods of the U.S.
economy.
The largest 20 companies by market cap in the S&P 500 generate revenues of almost $400 billion on an annual basis.
These companies employ more than 8 million workers with about 26% working in the truck transportation industry.
So transportation is one of the key elements of the U.S.
economy.
And if we want to, and one of the reasons why we're talking about it today, is if we want to track how the U.S.
economy is doing, or if we want to forecast how the U.S.
economy might be doing in the future,
Taking a look at how transportation companies, trucking companies and railroad companies and what's happening in their supply chain.
What's their order book looking like?
What are their shipping rates looking like?
What's their backlog looking like?
Taking a look at some of these macro indicators for this industry will help us identify whether the U.S. economy is heading towards some sort of economic slowdown or recessionary period.

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And so far, it seems to be all clear.
The other thing I wanted to talk about today was tech stocks.
We talked a little bit about how the markets are buoyant today based on the AI trend and Nvidia's blockbuster report.
Seems like there's no end to how high tech stocks can go and how high they can pull these indexes along.
Well, Drew Dixon at Albert Bridge Capital did some research on this question about, are tech stocks getting ahead of themselves?
It turns out that the prices of these stocks are merely representing the earnings growth that these companies have delivered over the last several years.
Let's take a look at a few examples.
So he looked at Nvidia.
Drew looked at NVIDIA.
Over the last five years, NVIDIA, the stock NVIDIA, is up about 1,700%.
Okay, that's 1,700%.
Well, NVIDIA's earnings are also up about 1,700% over that last five-year period.
If we look at Facebook or Meta, over the last seven years, Facebook stock has generated returns of 260%.
Well, their earnings have also risen by 280% over that same timeframe.
Google stock has been up 980% over the last 14 years, and their earnings are up 885%, almost tracking to the stock price over that same time period.
Amazon over the last 14 years, earnings up 2500%, stock up 2800%.
Microsoft over the last 22 years, earnings up 1,150%, stock up 1,200%.
Again, almost tracking to how their earnings have grown.
And then finally, the last example, Netflix.
Netflix over the last 18 years, earnings have increased almost 15,000% and the stock also is up about 15,000%.
So I also got some other interesting data regarding whether we are in a bubble or not.
As per data track research, the NASDAQ on a rolling two-year basis returns an average of 26%.
So if you take a look at any two-year period, on average, the NASDAQ returns about 26%.
And if we look at the NASDAQ over the last two years, it's only up about 14%.
So it still has a little bit of a ways to go to return to its long-term average.
Now, I'm not saying that we just have to look at this data and decide, yep, stocks are not overvalued at this time.
I do believe that many of these tech stocks are overvalued.
I use different metrics to decide whether a stock is overvalued or not.
I look at the next 12 months revenue.
I look at the gross profits that they're going to generate over those next 12 months.
And then I look at the forward growth rate for the company over that next 12-month period.
And I have certain metrics that I use, certain limits or guardrails that I use, using that data to figure out whether a stock is overvalued or not.
So I think stocks are generally overvalued at this point.
Most tech stocks are.
But there are pockets of good valuation that we can find even within the AI universe.
So what's coming up next week?
We've got some leading macro indicator reports that are going to be delivered next week.
On Thursday, February 29th, we will get the PCE and Core PCE inflation report for the month of January.
This PCE and Core PCE, these inflation indexes are very closely watched by the US Feds.
In fact, it is said to be their preferred inflation index.
So we'll be taking a look at that inflation report next week on Thursday, February 29th.
On March 1st, we will get the ISM Manufacturing Index for February.
If you remember, we talked about this a few episodes ago.
This manufacturing index over the previous month showed a very encouraging uptick in not only the overall index, but also an uptick in new orders for goods manufacturers.
So that was interesting.
So we'll see whether this upward trend continues or continued for the month of February.

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And then that Friday, next week Friday, we also get the University of Michigan Consumer Sentiment Report.
This is a very widely followed barometer of consumer confidence.
And if the consumer is confident about their future, they tend to spend more, they tend to spend more freely, and the U.S.
economy stays healthy.
So that's why this Consumer Sentiment Report is very interesting and important.
So that's all I have for this episode of Market Whispers on February 23rd.
Drop me a comment or question anytime.
I always love to hear from you readers and listeners.
Until we chat again, good luck in the markets, stay safe, stay healthy, 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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