Market Whispers – Mar 8 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, March 8th.
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.
Now, before I forget, please do me a favor and spread the word about this podcast and my newsletter.
I keep the cost of my newsletter 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, and from the active chat line during market hours, as well as from this podcast.
Just this week, in fact, we took a closer look at Nvidia's Q4 earnings report.
Now, we didn't just look at the numbers in the report.
I mean, any monkey or AI bot can do that.
We took a closer look at the trends, both past and future trends, in terms of NVIDIA's business performance, and we extrapolated their forward revenue growth rate.
And more importantly, as we did that, we tried to identify when that growth could taper off and when it might be a good time to look for the next winners in the AI space.
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.
I also wanted to give you a heads up that I will be on vacation from March 10th to March 20th.
And we won't have a Market Whispers episode next week on Friday.
In fact, even the following Friday, March 22nd, the episode could be delayed if I'm working through some post-vacation catch-up work or even dealing with jet lag.
I will for sure, Market Whispers will for sure be back on Friday, March 29th.
And by the way, this podcast is also available in YouTube format.
I've been playing around with the YouTube platform for a few weeks.
If you search for Invest with Beachman on YouTube, you should be able to find my YouTube channel and you'll be able to find this podcast episode on there about 24 hours after I posted on Substack.
Now let's get into the meat of this episode.
Let's start by talking about the current state of the markets.
Markets are heading for another winning week.
In fact, it seems like I keep saying this every week now and I've been doing that for several weeks.
As of mid-morning today, Friday, the S&P 500 is heading for a 0.5% gain for the week.
The NASDAQ seems to be also clocking a 0.5% gain for the week, whereas the Dow Jones is heading towards a possible 0.7 or 0.5% drop for the week.

Now, we got several important macro updates over the last seven days or so, and I'd like to spend some time on that this week.
So just this morning, we got the U.S.
jobs report for the month of February.
The U.S.
economy added 275,000 jobs in the month of February.
This was almost 40% higher than the consensus estimate of about 198,000 jobs.
Now, the unemployment rate unexpectedly ticked lower to 3.9%, so it dropped from 3.7% to 3.9%.
And wage growth for the month of February was also lighter than consensus estimates.
Even January jobs growth number, even the number of jobs that we thought we generated in the month of January, that was revised lower in this report.
So while this jobs report gave us a very nice headline number of 275,000 jobs created,
And while we continue to create more than 200,000 jobs a month, and the U.S. economy has been doing this for several months now, starting in this report, we're starting to see some signs, some troubling signs of things cracking under the surface.
Now, if you are a market bull, you like some things in this report.
If you are a bear, you can find things to like in this report.
If you think we're heading towards a hard landing, yep, you like this report.
If you're a disciple of the soft landing thesis, then you'll like this report as well.
So this report continues to give us confusing or conflicting signs on both sides of the spectrum.
And we continue to monitor things and try to understand how things are actually playing out in the US economy.
Now let's talk about a couple of leading macro indicators that I like to look at.
We received updates for the month of February over the last seven days for both these indicators, and I'm talking about the ISM Manufacturing Index and the ISM Services Index.
So the ISM manufacturing index, if you remember in January, it ticked higher and we were wondering if we were on an upswing trend.
Well, unfortunately for the month of February, that same index dropped two points and headed down to 47.8 points, much lower than expected as well.
So as part of that report, we also found out that employment in the manufacturing sector also slipped back.
It slipped back to its second lowest print since the pandemic.
New orders climbed up.
New orders was a little bit of a positive sign in the report.
But overall, manufacturing activity seems to have shrunk in the month of February.
If we look at the ISM Services report, that also fell to 52.6 points in February.
This was 1.5% lower than last month and 4.5% lower than a year ago.
So both ISM Manufacturing and ISM Services as a whole are denoting an economic slowdown in Q1, and this is in line with what I was expecting in the first quarter of the year.
We also got the latest update on the University of Michigan Consumer Sentiment Report.
This is a very widely followed Consumer Sentiment Report because of its accuracy.

So the Consumer Sentiment Report for the month of February was revised lower to 76.9%.
This was lower than expected.
Again, this lines up with what I was expecting in Q1.
I was expecting consumers to take a little bit of a breather in terms of their retail activity, their spending, etc.
And I think we're starting to see this in the consumer sentiment activity or reading that we got from the University of Michigan.
When consumers were surveyed about their expectations for inflation, consumers continue to expect inflation to not be high, but they're continuing to expect about a 3% inflation to be steadily around in the economy and in their lives going forward.
So consumers are getting used to the fact that we will never get down to zero or one percent inflation rates that we've enjoyed over the last decade.
They continue to expect some sort of inflation going forward.
This past week on Wednesday, March 6th, Chairman Jay Powell of the US Feds, he provided testimony in front of Congress.
And during his testimony on Capitol Hill, he said that they might be closer to cutting interest rates versus not being closer.
He said that they will have the confidence to cut interest rates when they feel that inflation is on track to get to their 2% target.
He clarified that they don't have to wait for inflation to get to, to actually hit 2%.
They might even be open to cutting interest rates before inflation hits the 2% target.
They just need to develop a certain level of confidence that the trend is getting towards their 2% target.
And he also confirmed that the central bank was not that far away from being able to cut interest rates in the near term.
He did also say, Chair Powell also said, that he believed that interest rates were far above levels that are conducive to economic growth and mild inflation.
So overall, Chair Powell had some very positive dovish comments in his testimony to Congress this week.
And markets took note of that.
As soon as his testimony was over, markets took off and continued to stay strong for the rest of the week.
Even long-term interest rates started dropping lower after his testimony, and that trend has continued all the way through this morning, in fact.
Now let's talk about the Q4 earnings season.
We're almost to the close of the Q4 earnings reporting season.
So far, the earnings that have been reported have been less rosier than expected for many, many stocks, especially in terms of forward guidance.
Many stocks are giving lower forward guidance or lower outlooks for the year 2024, and stocks that do provide lower forward guidance are being punished in terms of their stock price.
Now, that being said, tech stocks have been leading the way in terms of revenue growth and earnings growth.
Now, this tech rally, the rally in tech stocks began in earnest in Q4 2022, when the market realized that there were three to four upcoming quarters of massive uptrend in

tech earnings, three to four quarters of immense growth in earnings potential among the tech stock community.
So as markets were looking forward, markets are a forward
Markets are a voting machine on the future of the economy.
Markets are looking forward typically 9 to 12 months.
So as markets look forward and they realized that earnings among tech companies are going to grow for the next three to four quarters, they started bidding out these tech stocks and we started taking off around October, November, December 2022.
According to Goldman Sachs, the magnificent seven stocks, as they are comprised today, represent about 29-30% of the S&P 500 index, and they also represent about 22% of the earnings power within that index.
So just seven stocks, seven companies represent 22% of all of the earnings within the S&P 500, 500 companies.
If we look at forward revenue growth consensus estimates, just for the Magnificent Seven, the Magnificent Seven are expected to grow their sales 4x the rate of the remaining 493 S&P 500 companies all the way through 2025.
So these seven stocks continue to lead the S&P 500 in terms of earnings power as well as revenue growth.
And this is one of the main reasons why these seven stocks have been rewarded at much higher, rewarded with much higher stock prices as compared to the rest of the 493 S&P 500 companies.
The forward PE of the Magnificent Seven today stands at 30.
So price per earnings ratio for these seven stocks stands at about 30.
This same multiple, the price per earnings ratio for the rest of the 493 stocks is only 18.
So these stocks are being bid up at a 1.5 times rate as compared to the rest of the index.
So given all this information and just looking at the rampant growth in market indexes over the last, what, six to nine months, we have to ask ourselves the question, are we in a bubble today?
Are markets overheated?
Is there really froth and FOMO in today's markets?
Ray Dalio is a famous hedge fund manager.
Ray Dalio recently wrote a post on LinkedIn on this topic and he tried to answer the question, are we in a bubble?
Are markets overheated?
Ray defines a bubble market as one that has a combination of the following four conditions.
One, prices of stocks are higher relative to the traditional measures of value, meaning if you look at their traditional price per earnings or price per sales indicators, if you think that their stock prices are higher on a historical basis as compared to these traditional measures of value, then stocks might be in a bubble.
Ray's second indicator is if he thinks that there are many new and naive buyers that are just coming into the market because they believe the market has gone up a lot and they perceive the market to be a hot market, that might even be another indicator that markets are overvalued.

If we see a high percentage of purchases or stock purchases being financed not by cash but by debt or on margin, that could be an indicator that the stock market is in a bubble.
And the fourth condition, as Ray defines it, is if we see a lot of speculative purchases or if we see prices of speculative assets jump higher and higher,
Just based on more and more people chasing the froth and the FOMO in those speculative assets, that could also be a sign that we're in a speculative or bubble market.
Now when Ray looked at the US market using these four criteria, it doesn't seem to him that markets are in a bubble condition.
In fact, Ray believes that markets as a whole are somewhere in the mid-range or the mid-cycle, around the 52nd percentile of bubble condition levels.
So when we talk about a mid-cycle in the market, in the economy, what are we talking about?
Mid-cycle refers to the period between the early part of a bull run when the economy is just coming out of the depths of a recession and the late part of a bull run or the late part of the economic cycle where the economy is close to heading towards a slowdown.
So Ray believes that markets are right about the 52nd percentile in between these two, the left-hand side and the right-hand side of the economic tail.
Ray also believes that the Mag 7, yeah, they might be a bit frothy, but they're also not in bubble territory.
Now, we could argue that individually, some of these stocks seem stretched in valuation.
They seem overbought, overvalued.
But Ray believes that that's not really the case.
He does consider Alphabet and Meta to be somewhat cheaper than the rest of the five stocks.
And he believes that Tesla is somewhat expensive as compared to the rest of the Mega Cap 7.
Now, he also looked, Ray also looked at Nvidia specifically, right?
Nvidia has been the darling of this bull market this year.
Nvidia continues to rise higher and higher every day.
Now, he also looked at Nvidia and he compared Nvidia to Cisco.
Now these two stocks are very much compared these days in the financial media and on Fintwit.
Cisco had a fabulous bull run very similar to Nvidia today.
Cisco had a fabulous bull run during the internet bubble market.
During the early part of that bubble market.
And Nvidia seems to be having a very similar run.
So Ray looked at both these stocks, he compared both these stocks, and he found that both of them have a very similar share price trajectory as of this point in time.
However, the path of cash flows across both these companies has been very, very different.
And herein lies the case as to why Nvidia is not another Cisco of the yesteryears.

Now, NVIDIA's two-year forward PE is around 27 today, and that reflects the fact that the market cap for the company, for the stock, has grown about 10x over the last several months.
But earnings have also grown significantly over that same timeframe.
We expect NVIDIA's earnings to continue to grow over the next year or two because of actual orders that we can validate, actual orders in NVIDIA's booking pipeline.
During the tech bubble, Cisco's two-year forward PE hit 100 points.
So their price-to-earnings ratio was all the way up to 100.
The two-year forward price-to-earnings ratio was almost four times what Nvidia is sporting today.
And at that time, the market was pricing in far more speculative long-term growth in Cisco stock.
But that growth was not verifiable based on an actual bookings pipeline or an incoming business or contract pipeline.
This is a very different case from what we see in NVIDIA today in terms of their contract pipeline.
So taking a look at public markets, Ray Dalio believes that public markets are not in bubble territory today.
Now, I always take what these large investors say with a pinch of salt.
The saying is that large investors or hedge fund managers are always talking their book.
As in what they say publicly may not always align with where they are investing their money or what kind of trades or hedges they have put in their funds.
But let's continue investigating this proposition or this question as to our markets frothy or in bubble territory today.
One of the ways we can answer that question is by looking at what's happening in the venture space or the private markets.
Now, Jamin Ball, who writes the Clouded Judgements Substack, I highly recommend that you subscribe to his weekly newsletter.
Jamin wrote about what he's seeing in the private or venture markets.
Jamin is seeing shades of 2021.
He's seeing shades of the froth of 21 in private and venture markets today.
Jarman believes that private markets are really heating up.
Anything AI-related is getting tons of money thrown at it.
Anything AI-related has always been hot in the venture markets, but what he's seeing is that it has really hit a fever pitch in the last few months.
And what he finds most interesting is a lot of the AI darling stocks, the darling AI companies from last year, have really slowed down in terms of their business performance and their business activity.
But everybody seems to have forgotten this and is ready to find that next big thing, that next big AI thing that they can invest their money in.
They are seeing many investing rounds with significant valuations in startup AI companies.
Valuations as high as 100 times current ARR and ARR projections.
Now, typically, venture investors or private investors target investing in a company at a multiple of ARR and they look to exit at a 10x of that ARR when 10x of that ARR is achieved.

But if you start investing in a startup company at 100x ARR, it's really difficult to exit at a profitable level at just 10x ARR.
Now, Jarman is also seeing signs of froth and FOMO from the company side or the startup side as it relates to private market investing.
What he's seeing is that many more AI companies are doing larger and more frequent secondary stock offerings.
Now the reason these companies are doing more and more and larger secondary offerings is not because they need the cash.
It's not always because they need the cash.
Quite often it's because they just want to get some attention.
They want to make the news.
They don't want to lose relevance.
You know, losing relevance is really important to these startup companies as it relates to private investors.
And by just putting a secondary offering out there, they get on the offering listing of these private markets, they get some press attention, they get to go do roadshows in front of groups of investors.
They get to publish or talk about the work that they're doing in the AI space and they stay in front and top of mind of these private markets.
So that's another sign of froth informal that Jarman seems to be seeing in the private markets as compared to what he was seeing in 2021.
Now, AI is a major platform or technology shift, and it could change the world.
But as far as the private markets is concerned, there seems to be growing signs of FOMO and fraud in terms of investor activity, as well as in terms of startup activity.
Now one of the reasons why this might be happening is because these private funds, these venture funds have gotten quite large over the last two to three years.
Now markets dipped significantly in 22 and they were just recovering in 23.
I think last year we probably had just one or two IPOs in the public markets.
So over the last two years, these funds have not really been deploying a lot of their money.
So there's a lot of dry powder or cash sitting on the sidelines, and these funds are desperate to deploy their investing capital.
And lo and behold, here comes the AI tailwind, the AI trend, as well as the proliferation of small startup AI companies that are just looking to get invested in, looking for these venture dollars.
So many of these venture firms have been deploying their dollars behind AI companies or into AI startup companies.
The frenzy has gotten to such an extent that these firms have started measuring their performance differently now as they deploy their capital in AI startups.
Now, typically you would expect a venture firm to measure its performance based on the return on the investment that they put into a company.
Well, some firms have started measuring their performance in terms of dollars that they deploy into the AI sector.
Now, that's a difference, right?
You're measuring your performance based on how much you invest, not on how much you get as a return on that investment.

I mean, that just sounds totally lopsided to me, totally crazy to me.
It reminds me of the dot-com bubble time, right?
When we had a lot of these fledgling internet companies that were also looking for seed capital and all sorts of venture funding, and they were given valuations, you know, they were invested in based on valuations, based on clicks, based on internet user clicks, not on revenue, not on earnings.
So today in the private markets you're either dubbed as an AI winner and you've got millions and in fact even sometimes billions of dollars thrown at you or you're not an AI company and it's really hard for you to raise capital at all.
Let's shift gears now.
Let's talk about the US and China.
Now we covered this topic a little bit a few podcasts ago, a few episodes ago.
And much has been made of America's declining imports from China.
Since hitting a peak of 22% in 2017, the China share of total U.S.
imports has fallen to just about 14% last year.
So they dropped from 22% of all imports down to 14%, a 50% drop.
Today, Mexico is the U.S.'
's largest trade partner.
Mexico is our number one supplier in terms of imports coming into this country.
So yes, we can say that there's been an overall decline of U.S.
imports from China.
But this hides the fact that in certain very important and critical areas, the U.S.
is more dependent on China today than what it was a few years ago.
Recently, we got some new data from the U.S.
Census Bureau.
And what they reported was that previously Chinese imports into the U.S.
were what they call the old three, furniture, clothing, and appliances.
Those were the old three largest categories of imports that we used to bring in from China, furniture, clothing, and appliances.
And these imports have declined for sure over the last couple of years.
but now our imports of certain other more critical or what is called the new three category has significantly increased and these new three categories are electric vehicles lithium-ion batteries and renewable energy components or appliances these are the new three EVs lithium-ion batteries and renewables let's take a look at EVs for example
Now graphite accounts for about 30% of an electric vehicle's weight.
And in 2023, 70% of U.S.
graphite was imported from China.
This is versus 39% in 2018.
So between 2018 and 2023, the U.S.'
's imports of graphite from China have almost doubled.
Let's talk about lithium-ion batteries.
Those imports have also risen from 2018 to 2030.
Those imports have also risen from 47% all the way up to 70% today.
So while the U.S.

has weaned itself off of T-shirts and couches and washing machines that we would have imported from China, and we're getting all of that stuff now from Mexico, while we weaned ourselves from those kind of imports from China, we are much more dependent on China in critical categories that will define the possible future of our economy.
It's easier for the US to shift production of clothing from China to, say, Vietnam or Mexico, but it's much, much harder to shift to find other sources of, say, graphite or lithium-ion battery components or renewable energy components as compared to China.
Today, China has become the all-important global factory of these very strategically optimized technologies of the future.
Now let's talk about Apple.
Very recently, we learned that Apple shut down their Apple Car project.
This project was known internally as Project Titan.
And as per Bloomberg, Apple spent more than 10 years and an estimated more than $10 billion on this project, trying to develop the Apple Car, or maybe they were going to call it the iCar.
What they were trying to do was develop a self-driving electric vehicle with the Apple branded high quality consumer experience that we have come to expect from Apple products.
If this project was successful, if this product actually launched and went to market, it was expected to increase Apple's revenue growth by at least 5-15% plus on an annualized basis.
If they had captured even 10% of the auto market, they could have added an annual revenue run rate of more than $250 billion per year.
If Apple had actually developed this car, they would be generating incremental revenues of more than $250 billion per year.
So the cancellation of this Apple car project was a huge development in terms of the future of the company.
Now, this was a positive for Tesla because Tesla is the world's leading self-driving EV manufacturer today.
An Apple car would certainly have been tough competition for Tesla.
Now, all of this $10 billion investment is not down the drain.
As per the New York Times, Project Titan developed several tens of new patents and some very interesting technologies that will be useful in future Apple products.
For example, they developed various advanced glass and screen technologies that they were going to use for the windows and the windshields in the car.
They developed several very complex and advanced large language models or AI models for self-driving.
Apple also developed an advanced solar sunroof that might be useful at some point in their future products.
They also developed projection technology where they were projecting onto the windshield instead of having a dashboard within the car.
So we will learn more and more about these new patents and these new technologies that they developed as Apple starts integrating them into their new product line.
But for now, Project Titan is dead.

Those technologies and those patents have been put onto the shelf if they're not already incorporating them into their product pipeline.
Those people, those employees have all been redeployed to work on generative AI, to work on AI projects within Apple.
Now, Apple is expected to preview some of their AI technologies or even their AI products at their worldwide developer conference in June.
So we are waiting with bated breath to find out what Apple has up their sleeve.
So far, they've been very, very quiet about their AI work and their AI aspirations.
Every time Apple, every time Tim Cook gets asked about AI, he gives a very, very short and sweet generic answer.
But in the last earnings report, he promised that they would start announcing and launching and making available some of the AI products and capabilities that they've been working on internally.
So the Project Titan employees, all of those engineers have been redeployed to jumpstart or even supplement their current internal AI teams.
Now, I applaud the fact that Apple had the courage to shut down Project Titan.
Shutting down large projects in a large corporate environment, a large company like Apple, is very difficult.
I have seen this firsthand in my own corporate role, in my own corporate work.
You know, when these large projects take in millions or even billions of dollars, and all of that can be seen to be down the drain when you shut down a pet project like Project Titan.
You know, when projects like this are canceled, egos get bruised.
People get really vested, personally vested in these kind of projects.
And when you shut them down, they get upset.
Their egos are bruised.
There's a negative morale impact on the employees that are impacted by that shutdown.
There are layoffs.
There's a morale impact.
People need to find new jobs, either externally or even within the company.
But I think overall, this was the right decision for Apple.
This was the right thing they did.
Working on an Apple car seems just so way out of the ordinary versus what they typically focus on.
So I think this was the right decision for Apple.
I continue to believe that by focusing on AI, that's where they need to focus.
And by redeploying these engineers onto the gen AI work, I think that was the right decision.
I will be tuning in to their developer conference in June to hear about what they tell us about their AI work.
And continuing on this theme of cars and EVs, I wanted to talk a little bit about Toyota, that other very, very large global manufacturer of automobiles that is very often associated with very high quality products, very similar to Apple.
So Toyota has been very unique among the global auto manufacturers in the sense that Toyota has not been selling any electric vehicles thus far.

All of the other auto manufacturers are actively working on designing and launching and selling electric vehicles, but not Toyota.
Toyota has not done anything in this realm.
And that has been very unique and surprising for several people who follow the automobile industry.
Toyota made a deliberate decision to focus not on electric vehicles, but to focus on hybrid vehicles.
Now, we here are a Toyota family.
You know, Beachman's family is a Toyota family.
Today, I own two Toyota cars.
I've owned Toyota cars for most of my life.
And today, we own two Toyota hybrid vehicles, both of them SUVs.
We own a Toyota Hybrid Highlander and a Toyota Hybrid RAV4.
And we're happy with both those cars.
I've always been happy with our Toyota vehicles.
The quality of the car has always been solid.
The driving experience has always been very, very comfortable.
The gas mileage and the expense associated with not only fueling the car but maintaining it, etc.
has always been very, very economical and affordable.
So the question I would ask myself is why did Toyota decide not to go in for EVs?
So it comes down to the answer to that question comes down to batteries.
What happened was that Toyota realized that they are able to produce only enough of batteries to develop to manufacture 28,000 electric vehicles per year.
They only have the capacity to build 28,000 EVs per year.
But using that same volume of batteries, Toyota found or realized that they can produce and sell more than 1.5 million hybrid cars.
So this was an easy decision for them.
You know, why just sell 28,000 EVs when I can sell 1.5 million hybrid cars?
So it came down to a business, a fair and square business decision.
By selling those 1.5 million hybrid cars, Toyota actually reduces more carbon emissions.
So they're actually reducing carbon emissions by one third more than what they would have reduced by selling just 28,000 EVs.
If you put it in another way, the company is actually generating a more positive environmental impact by selling many more hybrid gas, electric hybrid vehicles versus what they would have created an environmental impact, a positive impact by selling just far fewer EVs.
And while they do that, they continue to make more money, more top line and more bottom line in terms of revenues and earnings.
So this is why Toyota basically just sidestepped the whole EV price war and stuck with hybrids over the last four to five years.
So let's wrap up today's episode by taking a look at what's coming up in the markets.
We've got a lot of important activity coming up over the next couple of weeks.
On March 12th, we get the CPI inflation report for February.
On that same day, March 12th, we get the NFIB or the Small Business Index Report for February.

This is one of the leading macro indicators that I closely follow because the NFIB Index Report tells me about the health of the small and medium-sized business community in the U.S.
On March 14th, we get the PPI or the Wholesale Inflation Report for February.
March 15th will be the monthly options expiration date in the markets.
I follow options expiration really closely because they lead to a lot of volatility upside and and lower side volatility.
March 18th and 19th is the next USFOMC or the US Federal Reserve Board meeting.
This is their March meeting.
Markets are not expecting an interest rate cut at this meeting, but obviously we want to follow what decisions are being made as well as Chair Powell's press conference at the end of that meeting.
And then on March 28th, we have a very large QuadWitch quarterly options expiration.
This is going to be a monster options expiration and we're expecting a lot of volatility in the market that week.
So that's all I have for this episode of Market Whispers.
Drop me a comment or question 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.