

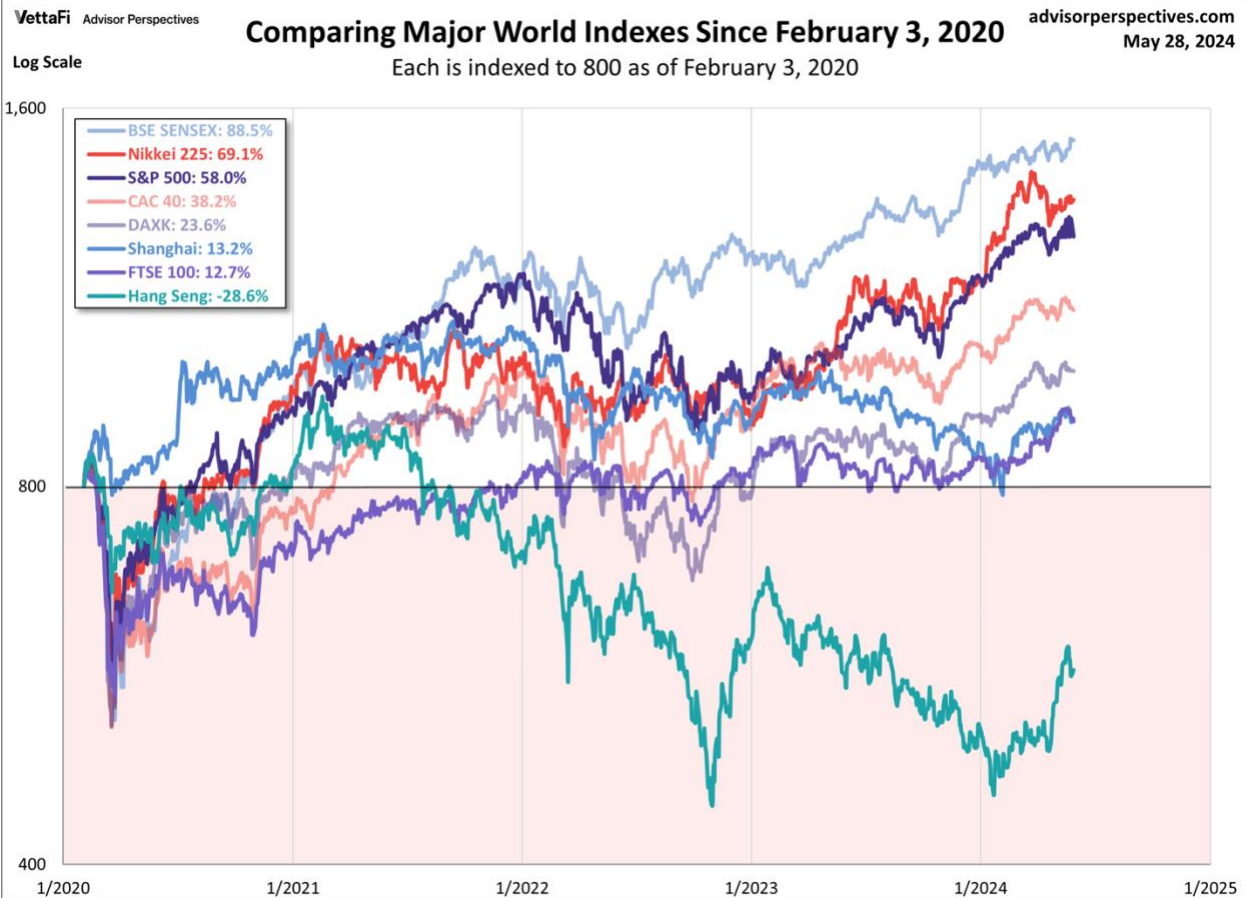
We aren't even into the 'dog days' of summer, and that August vacation to the mountains is looking pretty good right about now. In the spirit of AI, neither of these two people are real...I think. That said, those are sweet shorts!



What is it about the pace of how fast the world is spinning that makes us feel like we are aging in years counted by canines? I don't have the answer. But what I do have is the mid-year whip around the economy and sectors of the market. Read on to make a little more sense of what is happening on our space rock floating in nothingness in a universe that is ever expanding.



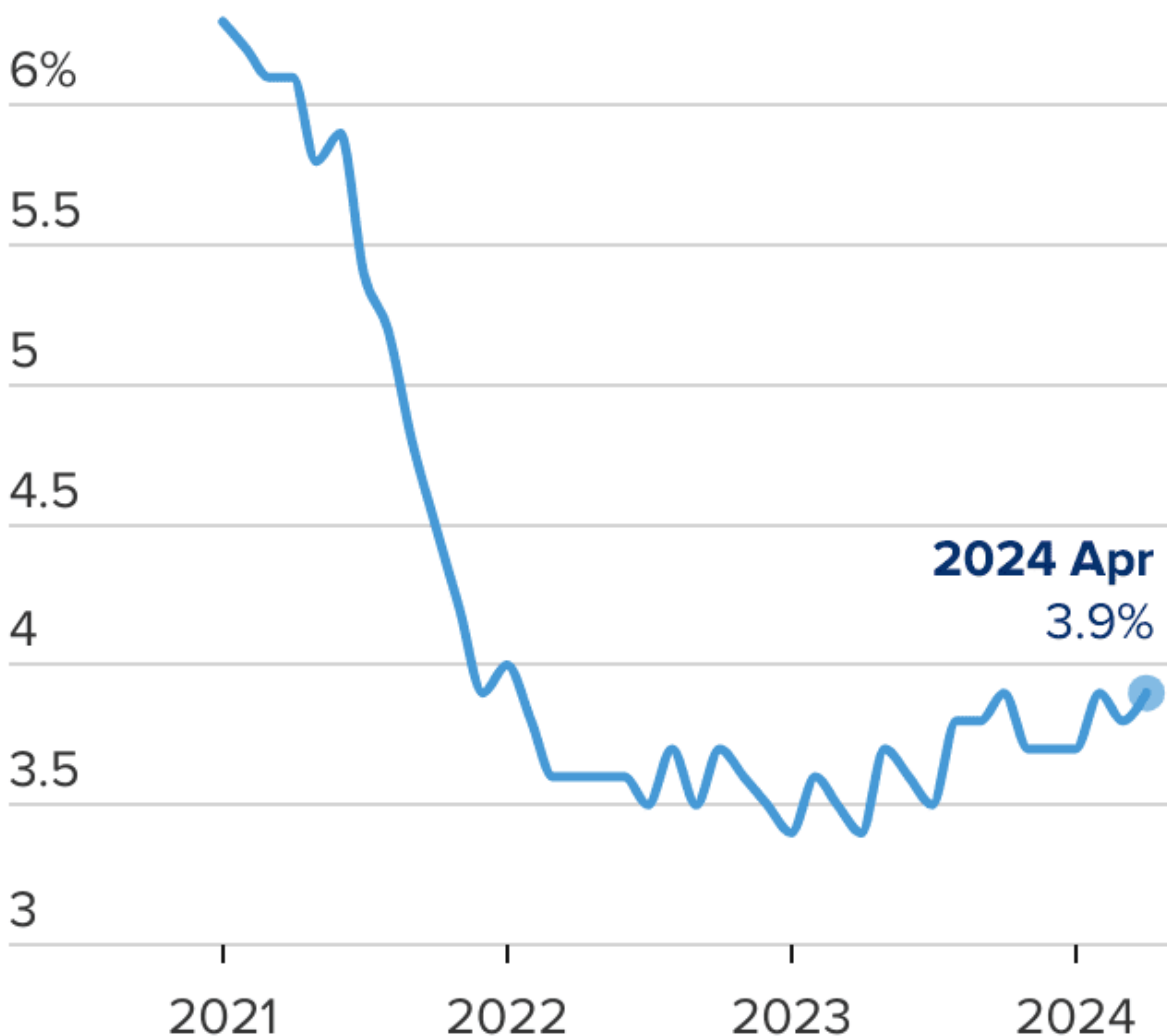
I've seen a lot in 25 years of watching and speculating, and this is indeed a special set of circumstances. Four years ago the world went into an almost full stop out of fear of a pandemic that was bearing down on it. Today, the return for global equity averages says we emerged just fine. Our S&P 500 is up just shy of 60% since the onset.



Unemployment in the United States is pretty much at rock bottom rates, and has been for going on two years now.

U.S. unemployment rate

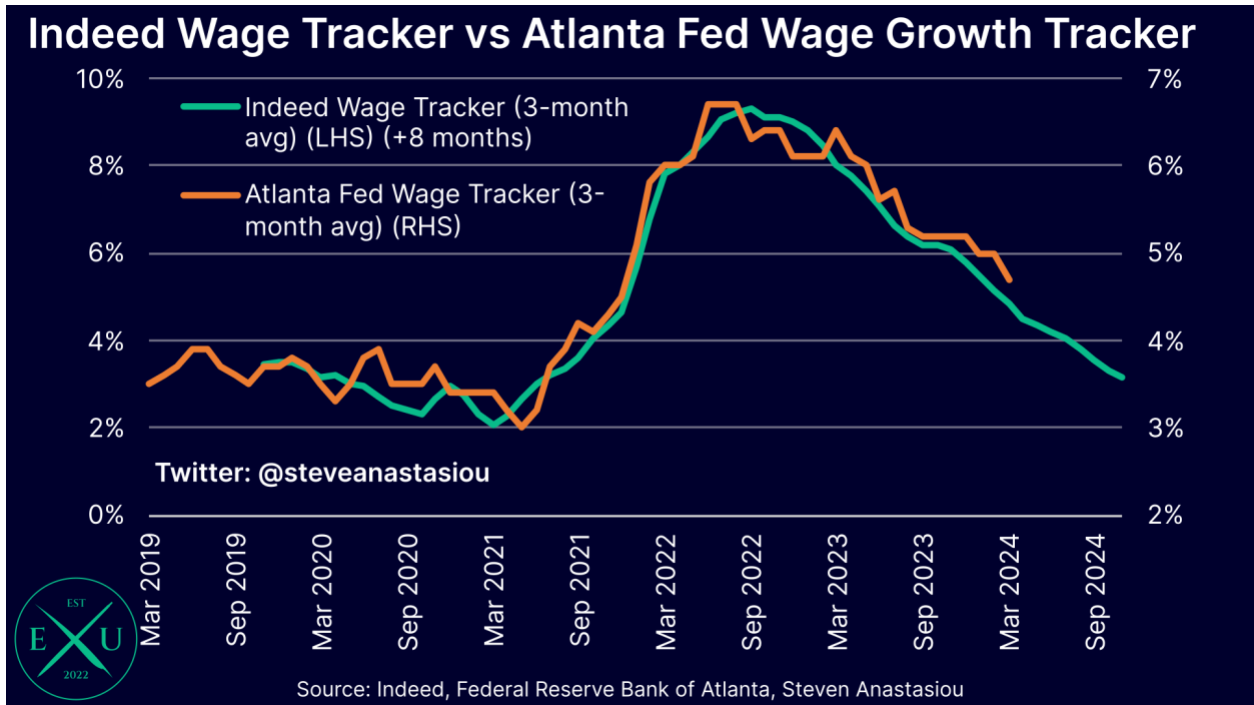
January 2021 through April 2024



Source: U.S. Bureau of Labor Statistics
Data as of May 3, 2024



Wages saw a huge bump two years ago. And while the pace of expanding take home has slowed, it's still positive.

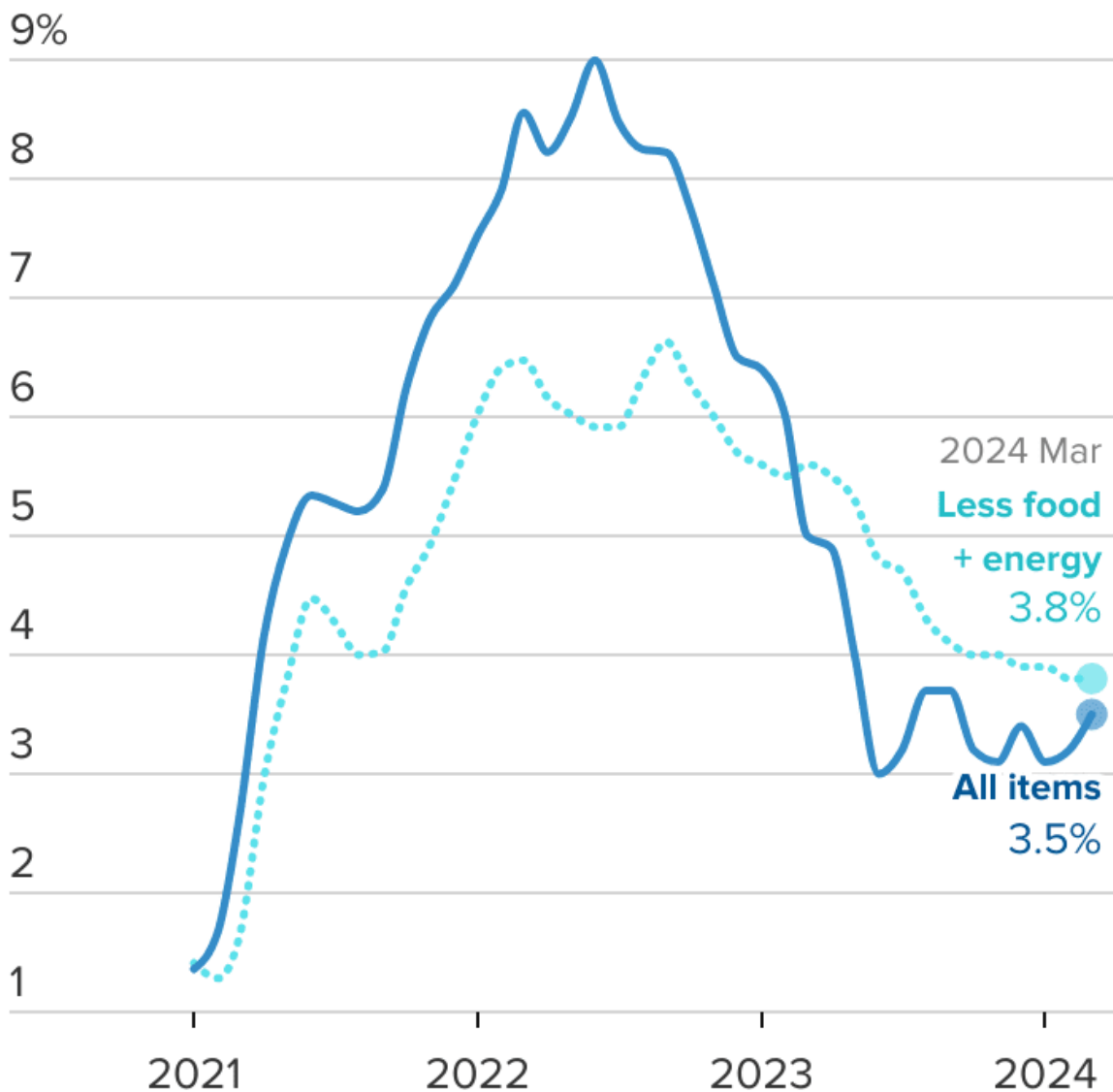


And thank God they did as inflation skyrocketed. And while moderate it did, a 3.5% rate is still a long way from the Federal Reserve's long term targeted goal of 2%.

U.S. consumer price index

Year-over-year percent change January 2021–March 2024

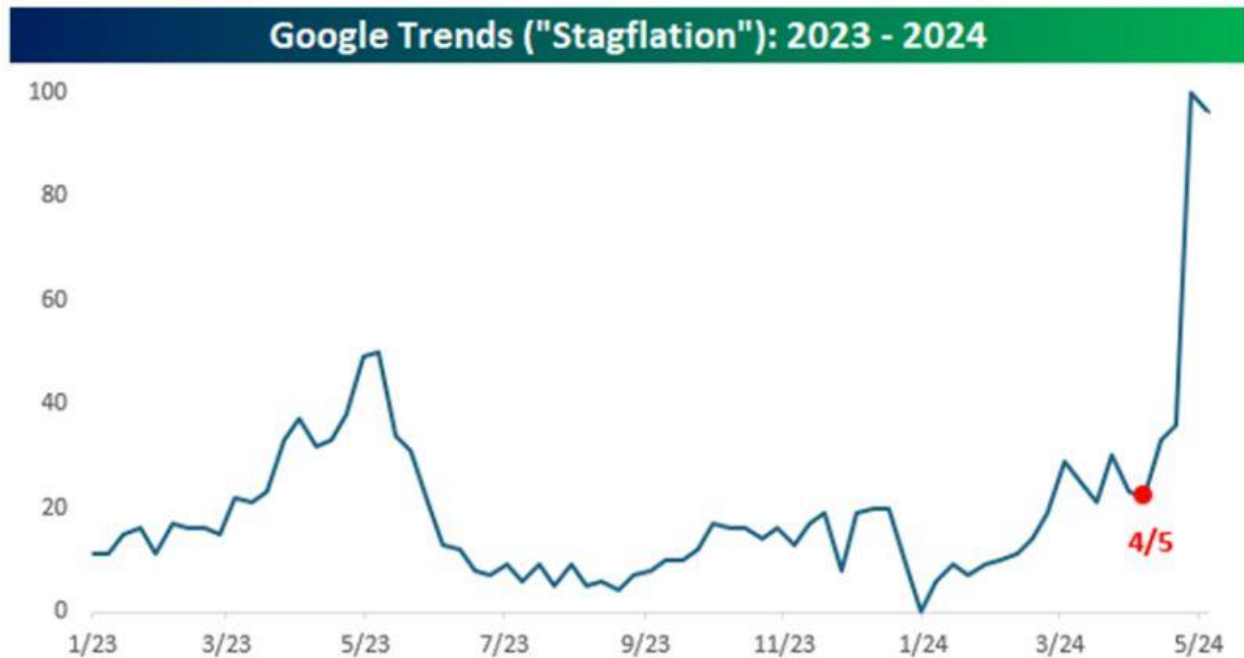
— All items ···· Less food and energy



Source: U.S. Bureau of Labor Statistics
Data as of April 10, 2024



If inflation with a three handle is the new'ish norm, and unemployment begins to rise, get ready for an avalanche of hyperbole about the return of stagflation. Google it....

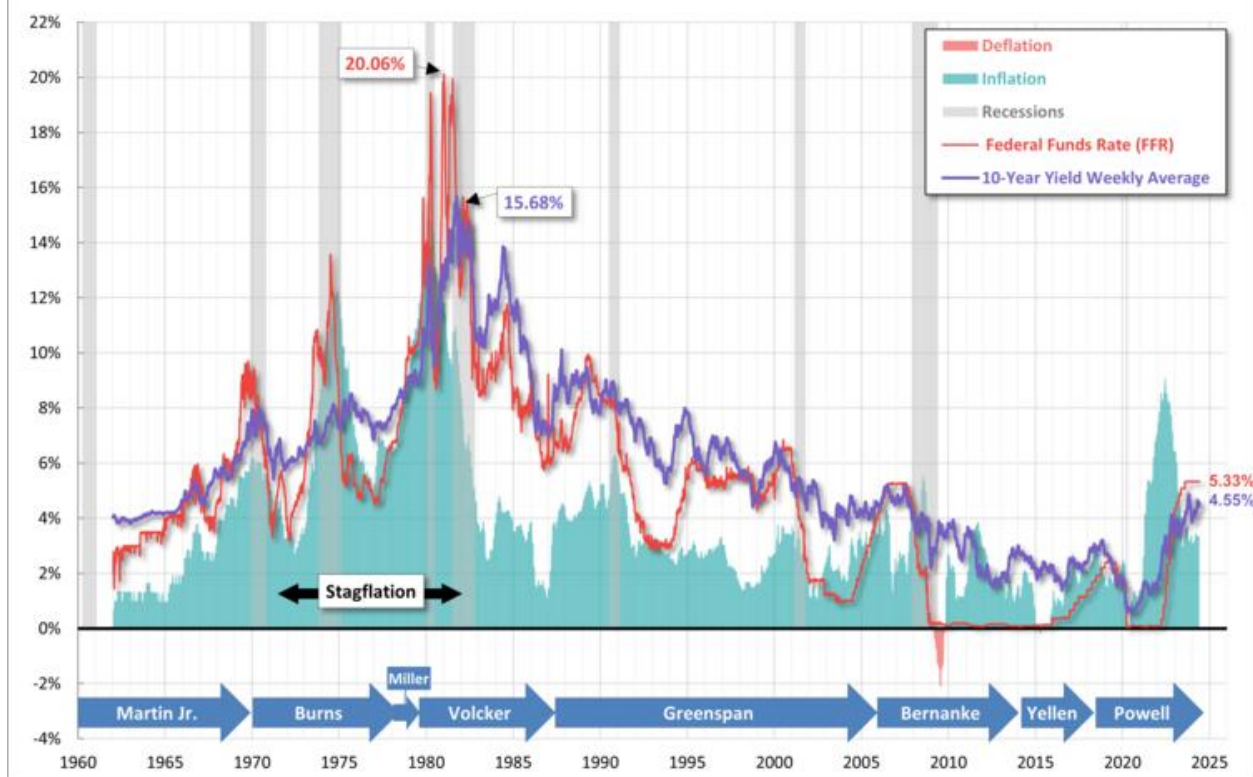


I can only hope and pray that my guy Sleepy Joe doesn't get on the horn and make mention of a 'National Malaise'. That one left a mark on President Carter that he didn't come back from. That said, he was a 'Country First' kind of guy, as was his replacement. That's a refreshing thought given the hand we are playing today.



And while this next one is a super busy chart, it tells an extremely interesting longer-term tale. Maybe after 45 years the trend has finally changed and going forward, debt needs to be refinanced at consistently higher rates.

Inflation, 10-Year Treasury Yields and the Federal Funds Rate



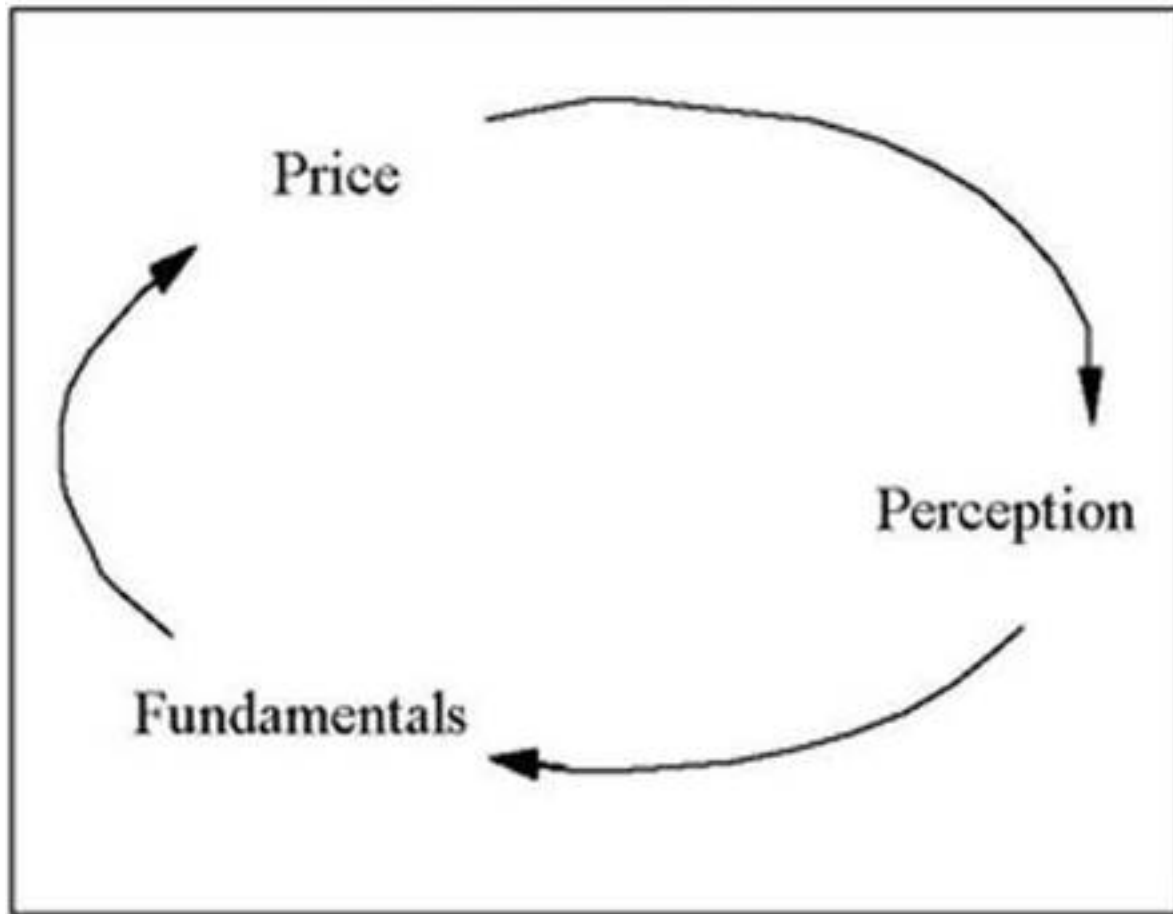
Which leads to our transition away from the macro, into the sector level micro. Take what comedian Bill Burr said to heart as we navigate the unknown.

'You gotta be fine even if you're not gonna be fine. Isn't it better to just exist. thinking you're gonna be fine until it's not fine?'



Now let's drop it down to the (Wall) Street level. A place where reflexivity is abundant, and myth has become reality.

Reflexivity Creates Virtuous and Vicious Cycles

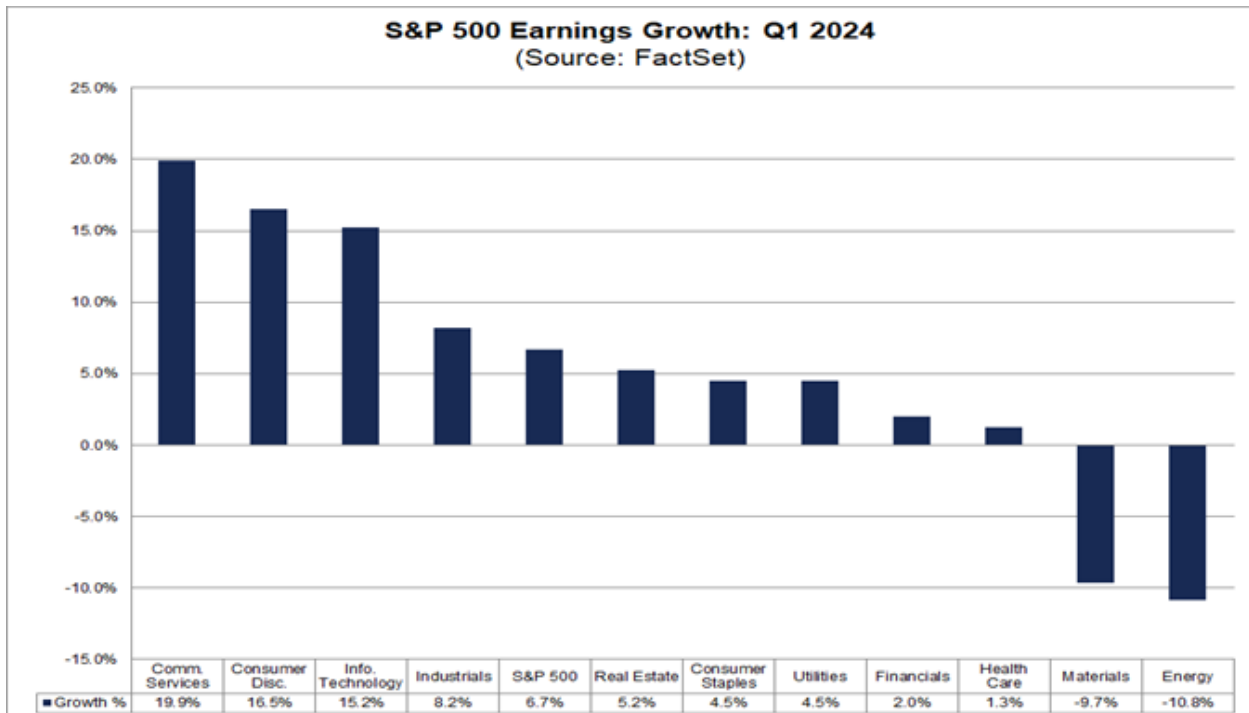


Let's start with what we already know. Indexes are a conglomeration of stocks. These conglomeration of stocks vary in price and value. There are times, many times in fact, where certain stocks and sectors become overweighted, and they become 'top heavy'. And that's where we are with our new leadership group.

THE MAGNIFICENT SEVEN



And why not have technology lead the indexes? It has something to do with 'dancing with the hand that brought you'. Earnings growth that is twice that of the overall index is a hand you want to dance with.



Viewed similarly from the venerable House of Ritholtz...

Technology Contribution to S&P 500 Earnings Growth



S&P 500 Tech Contribution to YoY (Actual) Earnings Growth vs Other Sectors

Since 2006. Monthly. Recent Data Point is 5/24.

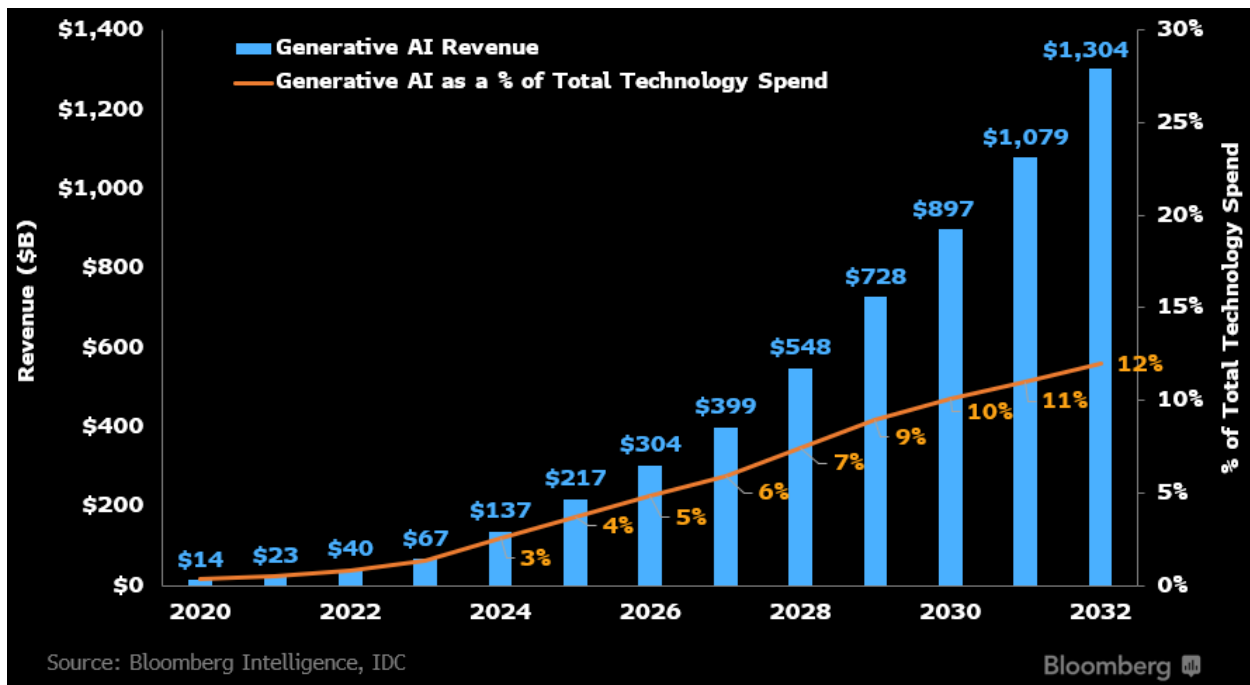


Source: RWM, Bloomberg Finance L.P.

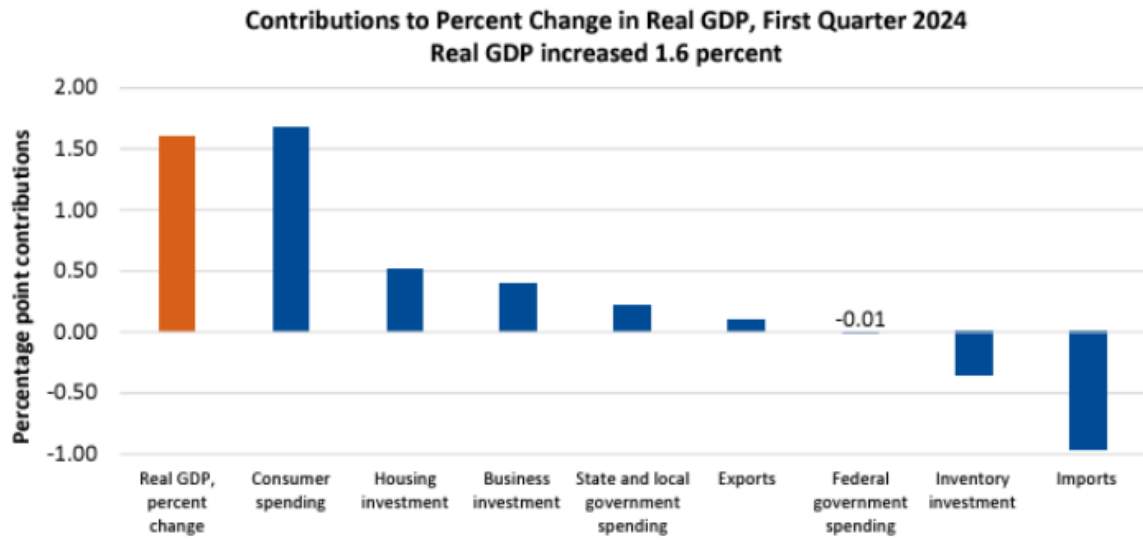
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If you are a dedicated observer of markets, or even a casual one, you know the reason why there is so much hope and promise. If we are indeed in the early innings in the pending parabolic growth of AI spending, hell yes, I want in on it. Life is short, and most everyone I know would like to be at this kind of party for the next decade.



Having made the point that there is good reason why tech is the queen of this hive, let's look at the rest of the worker bees. First up is the biggest of them all, the seemingly unflinching American consumer. The driver of 70% of GDP, the thing that saved Q1 GDP. If there is no 1.6% contribution from Joe and Josie Six Pack, there is no growth. If there is no growth, there is a recession. They just be the economic facts.



Note. Imports are a subtraction in the calculation of GDP; thus, an increase in imports results in a negative contribution to GDP.

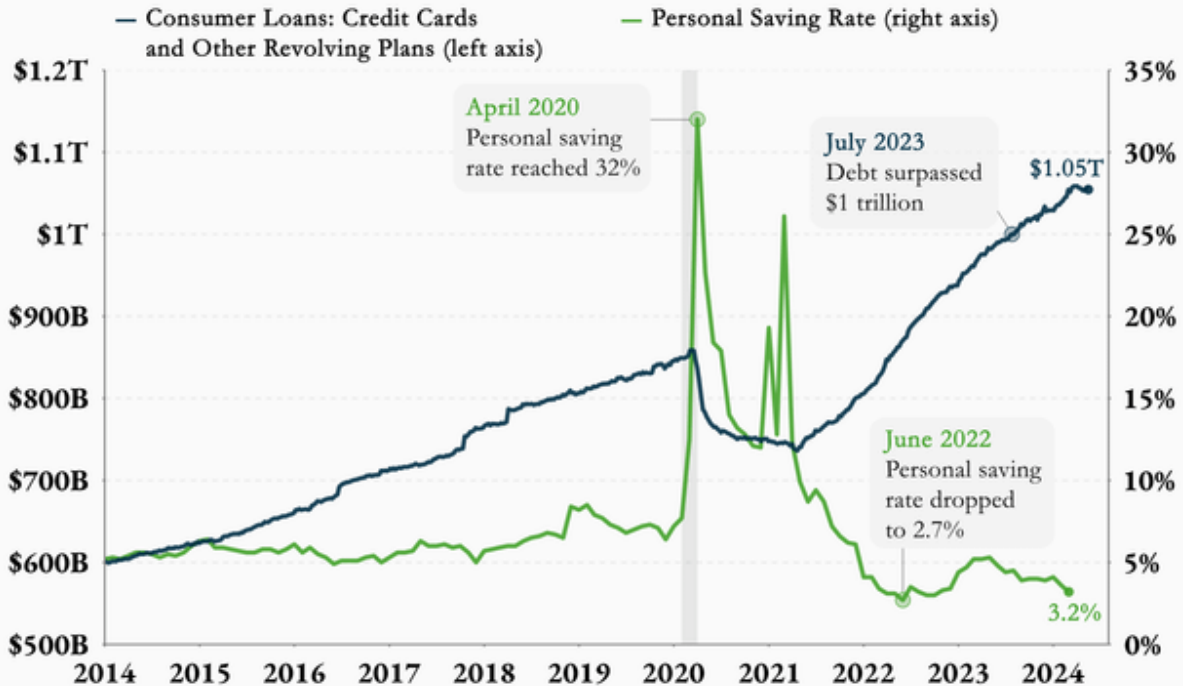
U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

But as I've written many times, all is not well in the wallet of the thing holding this thing afloat. Since the onset of the pandemic, credit card debt has doubled...and personal savings has plummeted. And a reasonable observer might say that we've reached some sort of nadir.

U.S. Personal Saving Rate v.s. Credit Card Debt

2014-2024



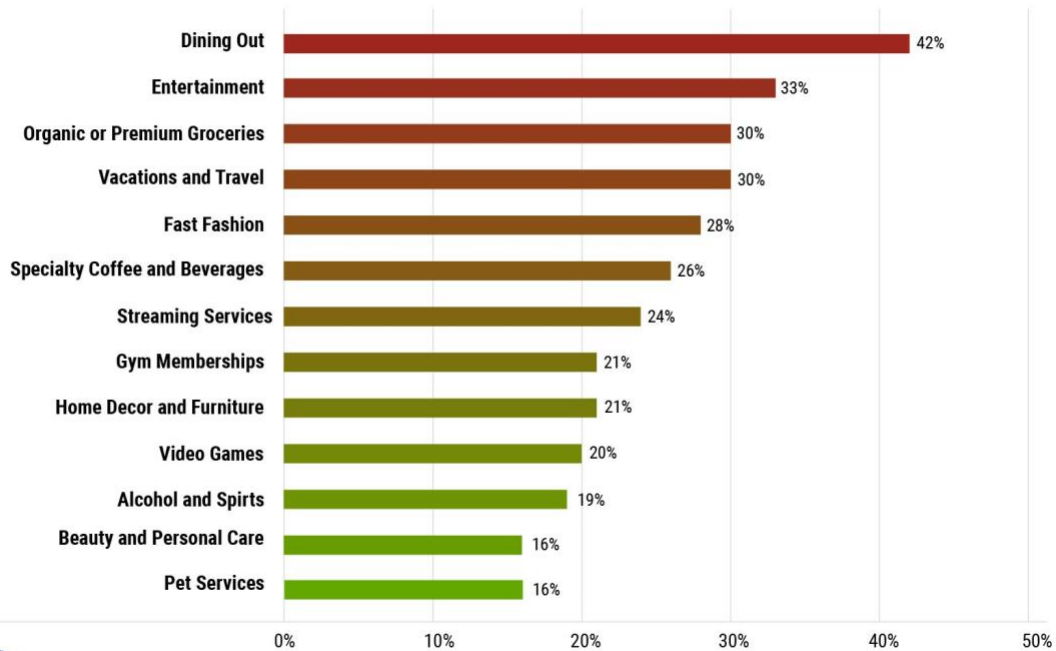
FES Product of Forensic Economic Services

Data Source: FRED

Big paycheck, small paycheck, pretty much everyone is looking to back off the dining out, going to the movies, trips to Whole Foods, and even vacations at home and abroad. Even that \$3.95 medium oat milk latte is at risk.

INFLATION IMPACT ON U.S. DISCRETIONARY SPENDING

What discretionary spending will you cut back on due to rising prices?



But the one place you can't really cut back, unless you go electric, is putting gas in the tank. While it's bad, especially on the coasts, truth be told the price at the pump is about average to where it has been in the past four years.



Prices are per gallon for regular unleaded gasoline.

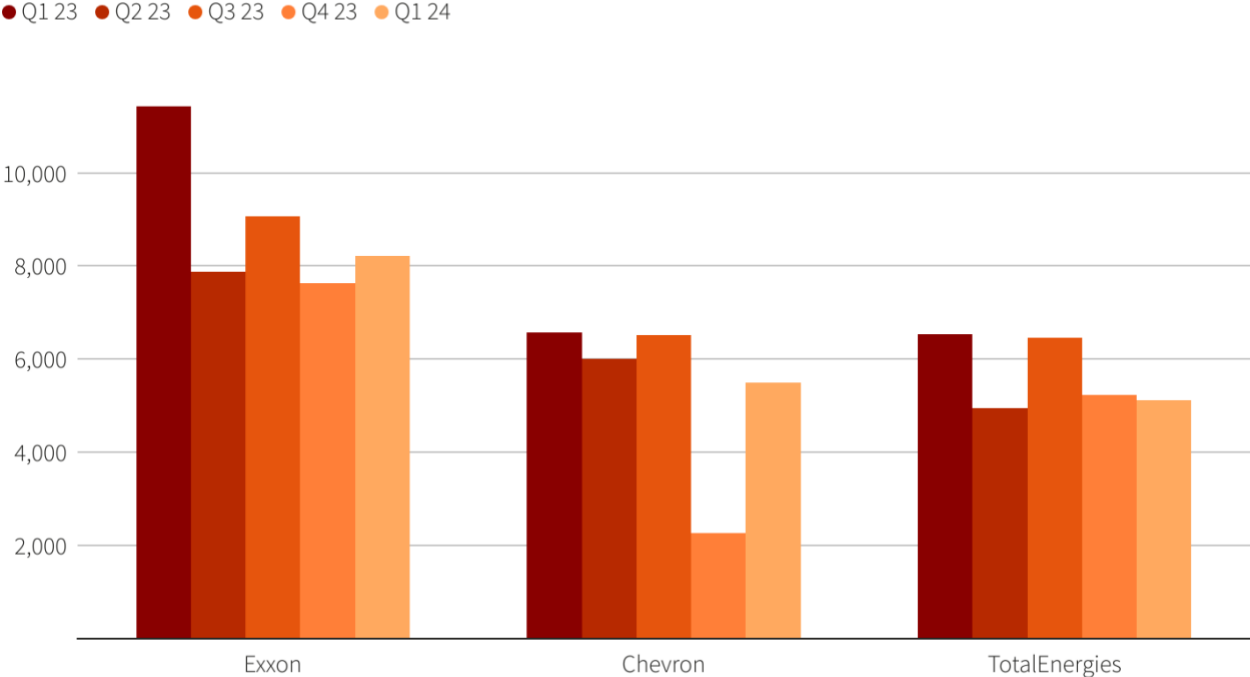
Source: AAA (GasPrices.AAA.com)



But are things as rosy as the price at the pump make it look for ‘super major’ oil producers? Negative. Earnings have been flat for the past few quarters. For as much hyperbole there is out there about price gouging, and massive profits, there are still margins in the business that need to be managed. Keep in mind, refineries have margins. When refining margins get hit because of upside down input prices, profits are tougher to find.

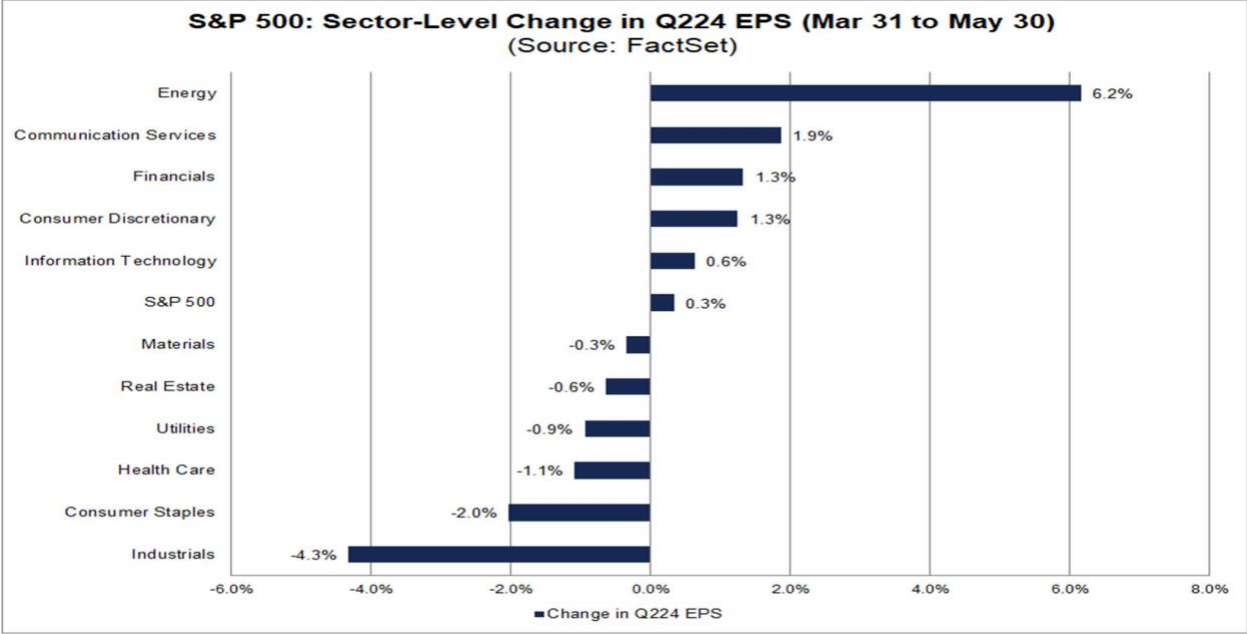
Oil majors take a hit from lower natural gas prices

Exxon Mobil, Chevron and TotalEnergies reported first quarter earnings that were lower than a year ago as natural gas prices and weaker refining margins curtailed gains from strong oil prices



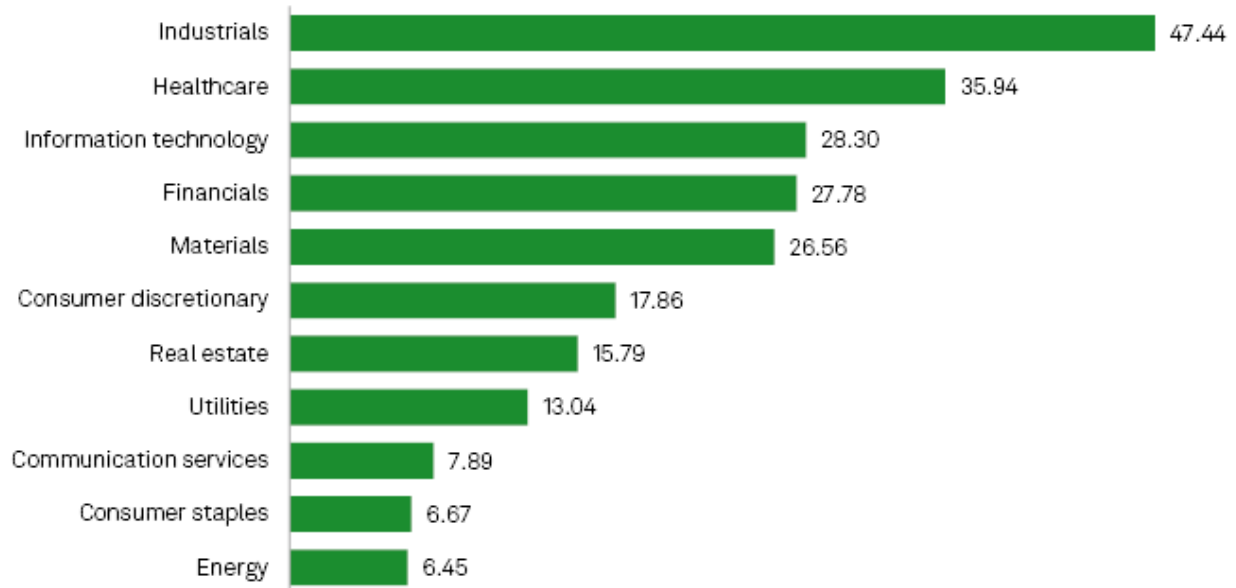
Source: Company reports

While even though margins are getting the squeeze, earnings for Big Oil are still seeing revisions to the upside.



Further to enforce the idea that this is a NTBFW market, half of the stocks in the very heavily weighted industrials segment of the S&P 500 have hit all time highs in 2024.

Sector-wise proportion of S&P 500 constituents that peaked in 2024 (%)



Data compiled March 4, 2024.

Analysis includes constituents of the S&P 500 index, which had their highest closing price in 2024.

Industry classifications are according to the Global Industry Classification Standard.

Source: S&P Global Market Intelligence.

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And here we are talking about real dirt moving, hammer swinging, factory running, plane making businesses. All the things you want to see doing well as a sign that the underlying economy is strong. Nothing runs like a Deere, baby.



Speaking of moving earth to plunder the land, the materials sector of the economy has been on fire as commodity materials have been in high demand. Whether it be tin, copper, or nickel, prices have gone up. In some cases, way up.

COPPER APPROACHES 2-YEAR HIGHS

2024 gains for bellwether metal reaches 12%



Source: CME Group via Bloomberg

Gold, the classic inflation hedge, is having its day in the sun as well. In the past six months, prices are up over 25% and Dutch hedonist Johann van der Smut is taking his party to the 'hollah boogie'.

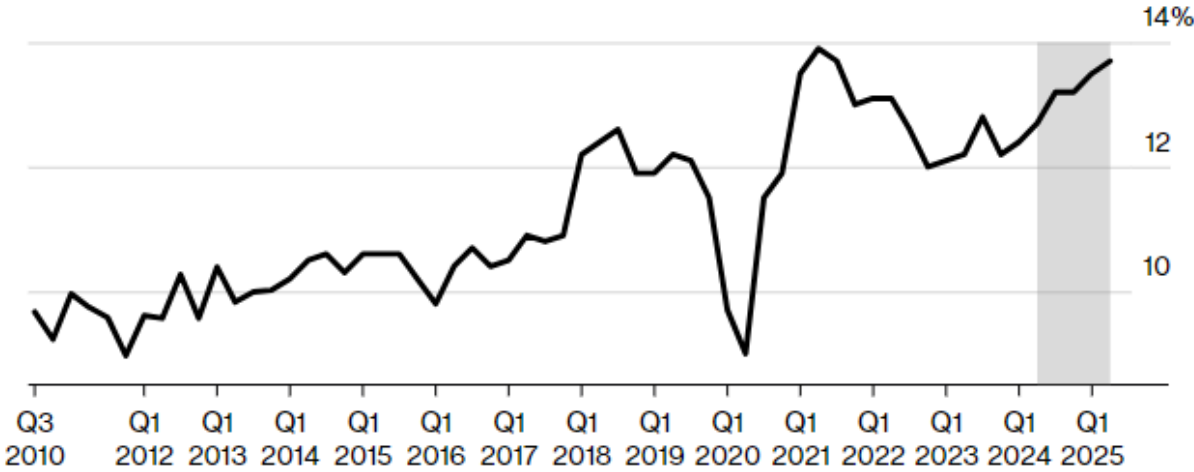


Putting a bow on this whip around the markets before I pay homage to Big Red. Profit margins are up and projected to be up for the next year and a half.

S&P 500's Profit Margins Near Pandemic High

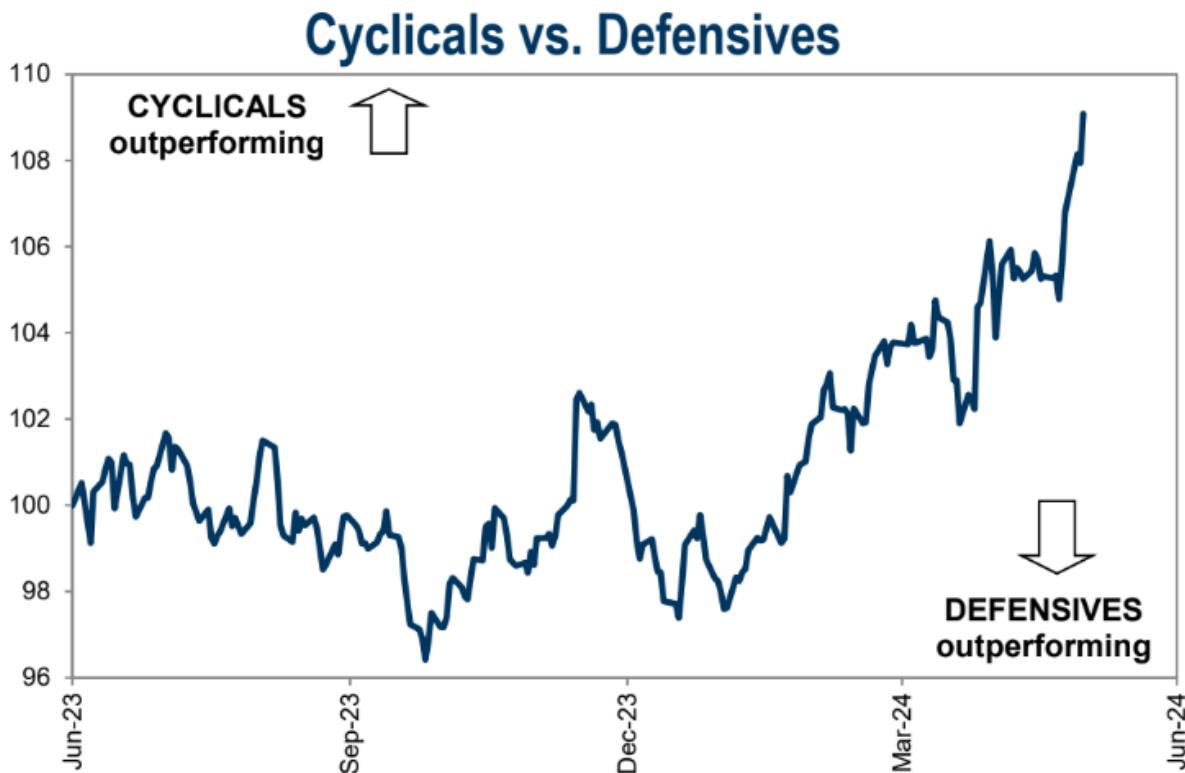
Job cuts and lower input costs shoring up profitability

Net Income Margin Estimated



Source: Bloomberg Intelligence
Note: As of May 24, 2024

For the markets, it's all gas and no brakes.



Last week the sports world, and the world world, said goodbye to a true prince, Bill Walton. As a Bruin, he was the glue that held together the dynasty years of John Wooden through the recent resurgence. He translated the Wizards words. Told stories about comraderies in both the wins and losses. And most of all he told stories of loving the life he was given. After all, he was the luckiest guy in the world. Peace be with you, Big Red.



Some of Bill's best hyperbolae, ironically from the good people at Awful Announcing.

15) Announcer: Here's Luke Walton. Bill, you know a little something about him. Walton: Yeah, he's a 6'8" forward from the University of Arizona.

14) John Stockton is one of the true marvels, not just of basketball, or in America, but in the history of Western Civilization!

13) If you ever think you're too small to make a difference, you've never spent a night in bed with a mosquito or you've never played basketball against Taylor from Utah, number 11 in your program, number one in your heart.

12) *The only man who can stop Cliff Robinson is Cliff Robinson. The man is unstoppable, even at 38.*

11) *SMU-Cal Berkeley. Miss that at your peril! What Larry Brown and Mike Montgomery will deliver to all of us as basketball fans and fans of humanity, that will be a thing to remember forever.*

10) *The art of tossing up the jump ball has really declined. These officials need to spend more time practicing in the offseason.*

9) *Come on, that was no foul! It may be a violation of all the basic rules of human decency, but it's not a foul.*

8) *Tonight's start was electric. Just both teams riding quasars all the way to the top of the mountain to the promised land!*

7) *Beautiful basketball! The Ducks on fire after a poor start a start as you could have! They have somehow come back and have found their way back to the Oregon Trail! Lewis & Clark would be so proud.*

6) *You look at Vladimir Radmanovic, this guy is cut from stone. It's as if Michelangelo were reading and a lightning bolt flashed before him.*

5) *Yesterday we celebrated Sir Isaac Newton's discovery of gravity. Today, Fabricio Oberto is defying it.*

4) *And when you look at Boris Diaw and what he's done to this franchise he's changed everything. We celebrate his brilliance and when you talk to Boris Diaw you realize what a classical human being he is. It was 201 years ago today, Beethoven's Symphony No. 3 in E Flat, which escorted in the age of Romanticism in music. And when I think of Boris Diaw, I think of Beethoven and the age of the Romantics. This guy has it all.*

3) A thing of beauty! Einstein, Da Vinci, Jobs! And now Tyreke Evans!

2) Walton when Pac 12 mascots are shown getting out of a limo: I was way in the back with Ray Lewis and it was unbelievable how much fun, oh my gosh, how many people were in there!

1) If Eric Piatkowski continues playing at this level, he's going to replace Jerry West on the NBA logo.