# Good for Bad

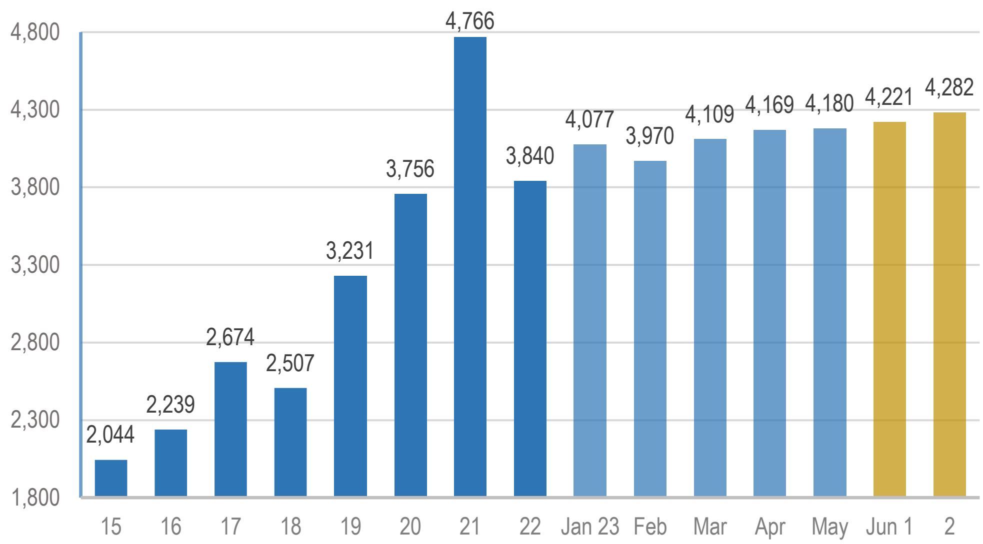
*Weekender*
June 3, 2023

The era of procrastination, of half-measures, of soothing and
baffling expedients, of delays is coming to its close.
In its place we are entering a period of consequences.
*Winston Churchill*

Good morning and welcome to the *Weekender* for Saturday, June 3, 2023. It was a stellar week for the S&P 500, which rose by 1.8%. Primary drivers for the week's equity moves were legion.

First, the debt ceiling debacle, a talisman for the voodoo political environment we find ourselves in, was solved. Taking credit for pulling the country back from the brink in a nationally televised address, President Biden told the nation that he was the man who could mend the tears in the national fabric, clearly a nod to, and unofficial commencement of, his run for re-election. Second, employment numbers, this Weekender's primary topic, came in strongly suggesting the Fed's record-breaking interest rate hikes have had limited impact on the labor market. Third, artificial intelligence, the gift that keeps giving, continued to lift the big tech names.

**S&P 500 Index Levels**
*(Source: Bloomberg)*




It's going to be a long weekend for the US Treasury. With the debt ceiling lifted, the supply of government bills and notes will flood global financial markets beginning Monday. Areas outside the treasury's wake will be deafened by a one trillion-dollar sucking sound draining liquidity from almost deposits, lending, and capital markets. Every unemployed dollar will be sucked into treasury markets to fund the US government. The impact will be far-reaching and deeply felt.

In an illustration of how lopsided the equity market is, as of Friday's close, more companies in the S&P are considered oversold than overbought. While this is not exceptionally uncommon, it is highly unusual when the index is at a six-month high like it is now. The last time this occurred was in late 1999, while the internet bubble was inflating.

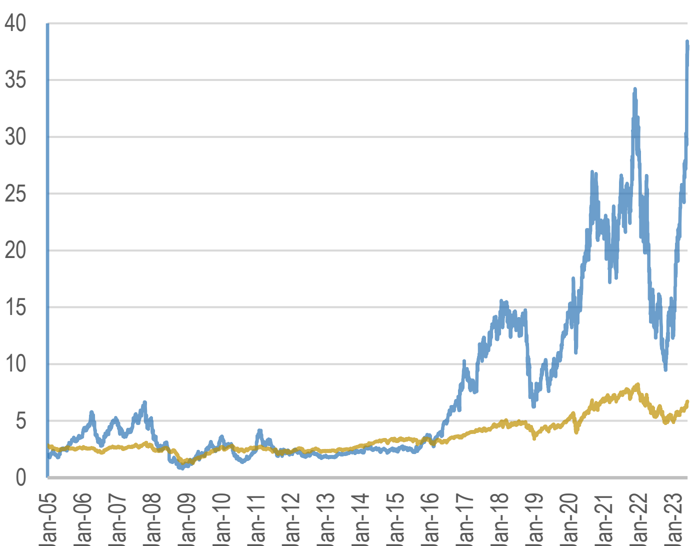
Artificial intelligence continues to be a dominant secular driver for the markets. US equity markets have been bifurcated for the last several months. The small capitalization Russell 2000 has been going nowhere, while the Nasdaq 100, alight with the future glow of artificial intelligence, has been off the rails. The similarities between the AI froth today and internet stocks in 2000 are remarkable and should not be ignored.

Below is a graph of the price-to-sales ratio for the S&P 500 information technology index, the blue line, and AI poster child Nvidia. We love Nvidia. Its graphical processing units lead the market, and its diversified exposure to artificial intelligence, gaming, data centers, and cryptocurrencies is desirable. The company is unique compared to other AI high flyers in that it provides the picks and shovels needed to build the foundations for artificial intelligence to take hold. The gold line is the S&P 500 information technology index.

**Price-to-Sales for Nvidia (Blue) and S&P 500 Tech Index**

*January 1, 2005 - June 2, 2023*

*(Source: Bloomberg)*




This will be a particularly short *Weekender* as we prepare to alter our research product, going into next week. Please be sure to consult a financial advisor prior to making any financial decisions.

## Economic Commentary

Several fascinating data points were released last week on the economic front. Consumer confidence strengthened as consumers became accustomed to inflation as a regular part of their daily lives. House prices, as we discussed last week, have been supported even though mortgage rates remain high. Meanwhile, commercial, warehouse, and industrial real estate concerns are increasing significantly. US manufacturing strength is eroding in the face of bloated inventories while the service sector is buoyed by consumer willingness to ramp up their credit card balances to record levels. While the mini-banking crisis of March 2023 tightened lending standards for would-be borrowers, those same borrowers are increasingly not interested in borrowing money.

Inflation continues to soften but not nearly as fast as expected. We expect inflation to be higher for longer, well above the Federal Reserve's target level of 2%. Consequently, the interest rates will also stay higher for longer, tightening the lid on sectors that rely on debt financing. Manufacturing PMI data for May signaled contraction, declining prices, tight labor demands, and soft future orders.

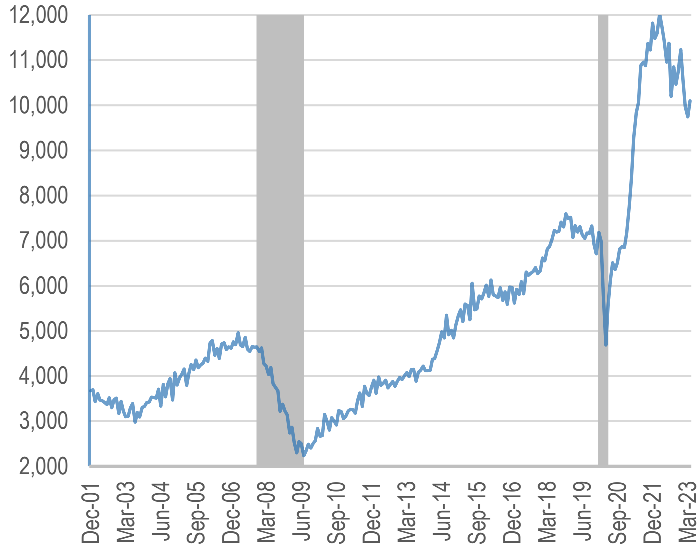
Although commodity prices have come to heel quickly, from lumber to shipping containers below their pre-pandemic levels, some weighty inflation contributors remain upwardly sticky. Housing prices are rising. Labor cost inflation is still double Fed targets. Used car prices are also much higher than their pre-pandemic levels.

Last week the employment data for May showed that the US economy created 339,000 jobs, well more than expected. The previous month's jobs data were also adjusted higher as estimates turned into actuals. The number of job openings also jumped back above ten million, far higher than the seven million before the pandemic, exceeding all estimates.

### US Job Openings (000)

*December 2001 - April 2023*

*(Source: Bloomberg)*




Despite what is considered and expected to be a broadening economic slowdown, the labor market refuses to show any signs of a breakdown. But this time is different. Since March 2022, approximately five million jobs have been created, and only two million new employees have entered the workforce. The phenomena continued in May. Payrolls rose, and employees fell. This phenomenon is brought to you by remote workers who, from the din of their home offices, work more than one full-time job, in most cases, unbeknown to their primary employer. By third-party calculations, approximately 58% of employees granted remote working options during the pandemic have been ordered back to the office.

In short, all the economic data line us up for stagflation, tepid economic growth, and above-trend inflation.

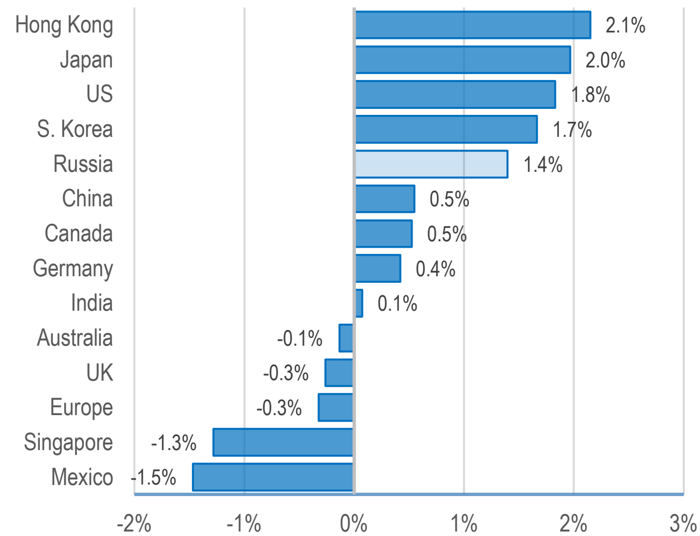
## Countries

The Pacific Rim dominated country performance. Economic growth in the US, South Korea, and Japan is more robust than expected. In China, the opposite is true. China's real GDP growth in the first quarter was 4.5%, much higher than most of its peers but well below the government's target. Meanwhile, exports are slowing, and domestic demand continues to soften.

### Weekly Country Returns

*May 29 - June 3, 2023*

*(Source: Bloomberg)*



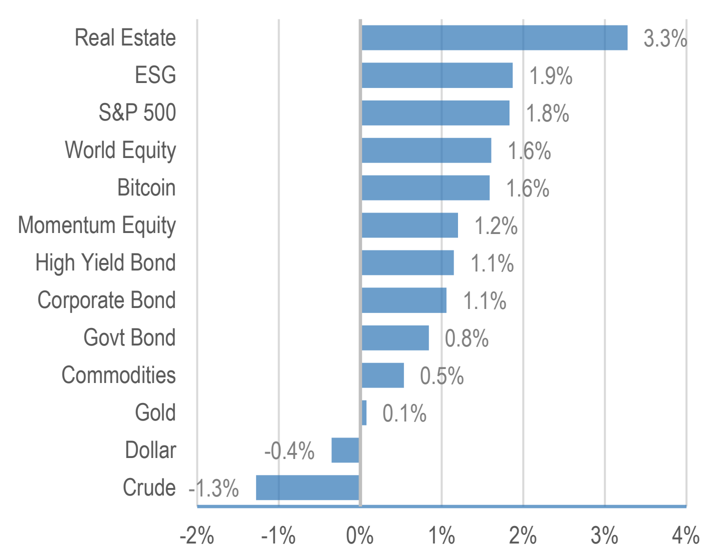

## Instruments

In a continuation of a 2023 trend, equity is outperforming fixed income. Real estate was the best-per-

### Weekly Instrument Returns

*May 29 - June 3, 2023*

*(Source: Bloomberg)*



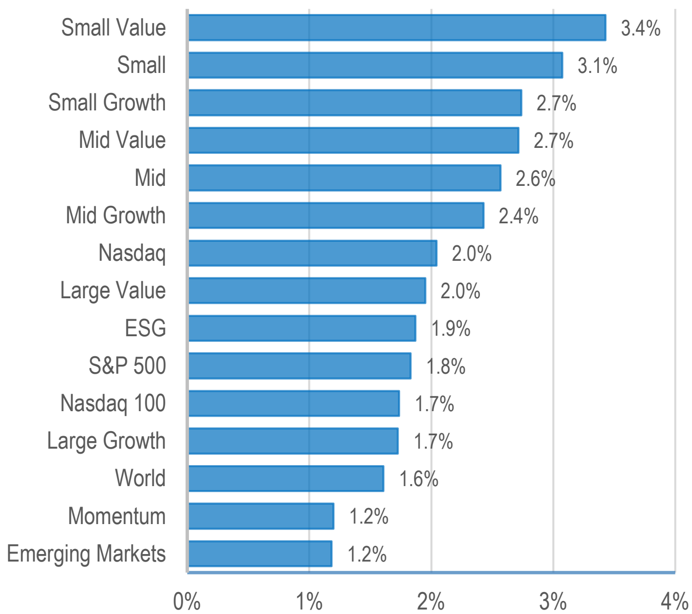
forming instrument last week, which seems paradoxical given the continued high mortgage rates.

All equity instruments were higher on the week. Value outperformed growth; however, a significant change from the trend at play from the beginning of the year.

### Weekly Equity Instrument Returns

*May 29 - June 3, 2023*

*(Source: Bloomberg)*



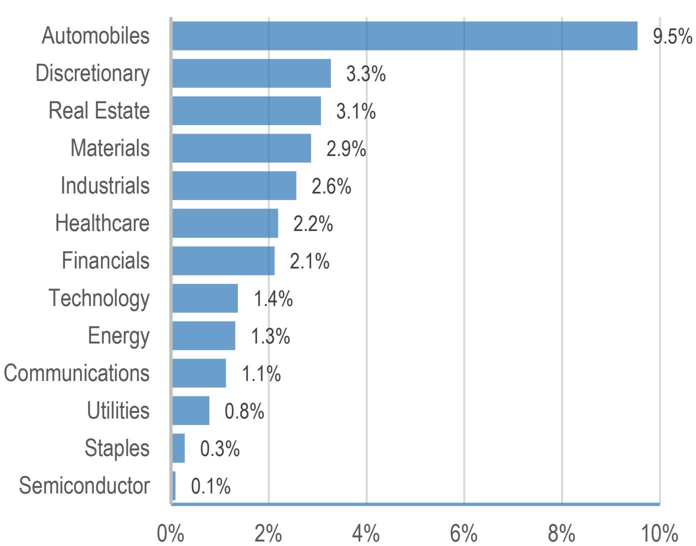

## Sectors

Automobiles were the undisputed leader last week. Strong demand for "old fashioned" internal combustion engine vehicles, especially trucks, supports sentiment. It seems increasingly likely that electric vehicle demand is slowing.

### Weekly Sector Returns

*May 29 - June 3, 2023*

*(Source: Bloomberg)*



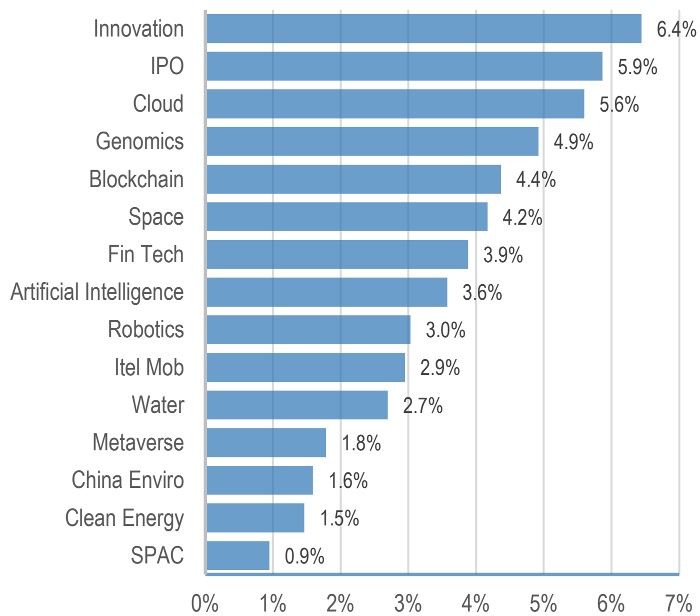

## Themes

All themes were higher. Artificial Intelligence took a middle spot as analysts urged caution by throwing water on the near-term prospects for the technology.

### Weekly Theme Returns

*May 29 - June 3, 2023*

*(Source: Bloomberg)*




## Conclusion and Research Update

Our next Weekender will be published on Saturday, June 10. It will look and feel a little different. It will be published in PDF as well as video formats. On Saturday, July 1, 2023, our first complete edition of *The Bucket List* and our third quarter *House View* will be published. We hope you like the evolution of the research and welcome any comments and suggestions.

### *Disclosure Statement*

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors cannot invest directly in an index. Past performance does not guarantee future results. Investing involves risk, including loss of principal.

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