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RETIREMENT STRATEGIES

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March 18, 2024 – Signs of a Changing Economy…"What to look for, where to find it, and what to do when you see trends changing"

If you were an investor back in 1994 you may remember the technology sector became "the thing", and there is always "the thing"! Starting about Thanksgiving of 1994 the valuations of the technology heavy NASDAQ 100 Index went up over +850% before peaking in mid-February 2000. Early 2000 was arguably about the start of what is now referred to as "The Tech Wreck"!

That is a very large percentage gain and I would say a heck of a return in just over five years! Not only that, it was virtually straight up with no correction in price of significance. The tech sector rally did pull up the valuations of Corporate America in general, but clearly technology was the engine that could.

Today, "the thing" is Artificial Intelligence (A.I.) and the valuations in that space have, in my observation, produced very large share price increases.

In the chart below, focus on the middle box and note the hefty +9.3% total S&P 500 earnings per share (EPS) are from just six large companies that all have a large A.I. presence. Then make special note of the bottom two numbers in the very middle, these are key!

	Q4 2023 YoY Earnings Growth (%)	Upside Surprise (%)	Contributions to Q4 2023 S&P EPS (ppt)	Consensus Estimated Earnings Growth in 2024 (%)	Revision to 2024 Consensus Estimate Since 01/15/24 (%)
NVIDIA (NVDA)	495.9	12.7	2.3	18.4	41.2
Amazon (AMZN)	3294.0	26.6	2.2	29.0	46.2
Meta (META)	195.4	9.9	1.7	16.1	31.0
Alphabet (GOOG/L)	49.8	3.1	1.4	15.5	17.5
Microsoft (MSFT)	25.9	6.5	1.0	14.8	3.1
Apple (AAPL)	12.6	3.8	0.8	8.9	0.4
TOTAL S&P EPS Contribution from Super Six:			**9.3**		
S&P 500 Earnings Per Share Growth Overall*			4.8		
S&P 500 EPS Growth Ex. Super Six*			-4.5		

Earnings season not fully completed with 488 S&P 500 companies having reported Q4 2023 results. Source: LPL Research, FactSet 02/29/24 Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. Any companies referenced are being presented as a proxy, not as a recommendation.

It is hard to believe that if you were to remove these Super Six companies the S&P 500 earnings growth drops from an expansion of +4.8% to a contraction of -4.5%, for delta of -9.30%. That is a wow!

In my opinion the Super Six, and the list of other strong companies in the tech sector could be the engine that pulls the earnings and values higher, for years to come, much like the period noted above, i.e. pre-Tech Wreck!

If nothing else, be sure to read this month's update for Sign #2 (money flow) below. The valuations of Corporate America, as measured by the S&P 500, have had a very strong increase in values of approximately +18% since November 2023! That represents about two years of average gains in just four months!

Note to self: In an average year the valuations of Corporate America suffer one decline of 14%.

Maybe this happens in 2024, maybe it doesn't. Either way I will say it is not a reason for angst, in fact I would suggest you pray for it as you drift off to sleep at night! Why? Well, because it will have started from an all-time high valuation and overall, our economy remains solid, inflation continues to drop and the jobs market would be better if not for enough qualified people.

Personal Consumption Expenditures (PCE), the big driver of our economy and Sign #1 below, was weather impacted this month, but remains positive. More people than ever are working, earning money, paying taxes, saving and spending.

The lower inflation rates have kept the profits for Corporate America growing to the highest ever on earth and this, over time, tends to pull the valuations of Corporate America higher.

Going back to that late 1990's Tech Wreck observation above, the valuations just got way too far ahead of what the companies could earn. Even during the Tech Wreck, from 2000-2002 the economy was strong and growing. The wreck had everything to do with normalizing the values that had gotten ahead of themselves and not much to do with our economy.

Today, I don't yet believe the values are too far ahead, even on the super six, and the other 494 companies in the S&P 500 are arguably undervalued. So, pray for that correction, as we are, and have a plan to add to your investments. It is a time-tested reality that the values of Corporate America tend to go up and down with our economy and even in periods like the Tech Wreck when they were down -40% they came back up to the economic growth rate.

As you will read in Sign #6 and #7 below, our economy is growing and will cross over the $28 Trillion level by fall 2024 and that's before the lights turn on in the $110 billion of manufacturing plants now under construction in our country.

This month's Seven Signs are updated below.

1) Indicator: *Personal Consumption Expenditure (PCE)*

Where to find it: *www.bea.gov*

What to look for: *Consumer spending increases or decreases for three consecutive months*

(Positive) [Reduced from positive to neutral in June 2022 and to negative in July 2022. Increased from negative to neutral in June 2023. Increased from neutral to positive in August 2023].

As a refresher, Sign #1 is Sign #1 for a reason and has been in these monthly updates for over 30 years. Why, per J.P. Morgan Guide to the Markets 12-31-2023, Personal Consumption Expenditures (PCE) represents 67.70% of the entire U.S. economy. So, PCE is the "bullseye" for following our economic growth.

A key subset into that bullseye is the #1 retail outlet in America. No, it is not a brand like Hermes or Tiffany's, it is Walmart! Americans spend $50,400,000 at Walmart... every hour of everyday. (source: Walmart.com). That's a cool $29,299 of Profit (not revenue) every minute. Today Walmart has more sales than Home Depot, Kroger, Target, Sears, Costco and what's left of K-Mart... COMBINED.

Arguably, as investors we could simply watch Walmart sales and they could tell us what PCE will do next.

As you ponder that very important data flow also ponder that our Personal Consumption Expenditure (PCE) took the Covid speed bump, yes, the same Covid our leaders told us would be our Swan Song, like a small speed bump. Here is the data flow.

2023 +3.40%
2022 +3.30%
2021 +4.50% (Covid rebound)
2020 -2.20% (Covid impacted)
2019 +2.80%
2018 +2.40%
2017 +2.45%

That noted, the most recent PCE came in at a -.10% inflation adjusted contraction!

The business news reported this as a very negative and ominous sign of the looming recession.

Wal-Mart reported the highest sales and profit numbers ever and the company's shares closed out February 2024 at an all-time high valuation. So, who do you believe? The business press or Wal-Mart shoppers? I will take Wal-Mart shoppers every time!

Gasoline at the pump is up +10% since we updated last month. The reduction in fuel costs over the last few years, per Gasbuddy.com, has put more disposable income in the consumer's pocketbook, for sure. But now that the U.S. Strategic Petroleum reserves have been drained down to under 19 days of our country's need, the demand imbalance will be a headwind, i.e., slow down PCE growth, I think.

Easy button – that's why we keep buying our favorite energy investments in our client accounts! Sign #1 PCE is very positive, yet a thinking person must note there are headwinds, so we will be observing the possible impact, if any.

Sign #1 remains positive!

2) Indicator: Institutional Money Flow
Where to find it: www.lipperusfundflows.com
What to look for: Increasing or decreasing prices on high volume of large block trades

(Positive) [Reduced from positive to neutral in June 2022, from neutral to negative in July 2022, back up to neutral from negative in June 2023 and up again to positive in July 2023].

In the November 2023 issue, under Sign #2 I wrote:

- Since 1950, the six-month period of November through April are the best performing six months of the year at +7% on average (Source: Bloomberg 11/3/2023).
- In just six weeks we start a Presidential election year. In the years where the President is running for re-election, market performance has been excellent. (I expect Biden to run despite ongoing speculation to the contrary). There have been 15 of these election years since 1952 and the average S&P 500 return has been +15%!
- It is my opinion that the Federal Reserve is done increasing interest rates to fight inflation, which you will read below in Sign #7, is dropping like a rock. Even if the Fed hikes one more time it would likely be assumed to be the last one and the markets would do well, i.e., it doesn't matter.

Since I wrote that on 11/01/2023, the valuations of Corporate America are up approximately +18.09%. Granted, nearly half the gain was from a handful of tech stocks, yet the gain is still a gain! What tends to happen after that…usually… the correction, back and fill, downdraft, etc., whatever you want to call it, it is a reduction in the valuations of Corporate America.

I am not suggesting a crash or a bear market, meaning more than a 20% drop in valuations from the last peak, but I am suggesting a "routine sell off". So, the point is to suggest that like the three bullet points above coming true these could too!

- Market valuations "pull back" 5%-10% on average three times per year and 10% or more once per year.
- In an average year the market valuations suffer a decline of 14%.
- As noted above, the valuations of Corporate America have jumped up over +18.00% in value since November 1, 2023. That represents about two years of average gains in five months.

Compare the top three bullet points to the bottom three. Then, don't fret, panic or worry when the "normal" back and fill comes knocking. It will not be as scary as the business news will tell you.

That said, Sign #2 remains positive, with the obvious correction staring back at us!

3) Indicator: Leading Economic Index (LEI)

Where to find it: www.businesscycle.com or https://www.conference-board.org/data/bci.cfm

What to look for: Trends up or down for three to four months

(Negative) [Reduced from positive to neutral in July 2022, from neutral to negative in August 2022]

The creator of the Leading Economic Index (LEI) is The Conference Board. The data lags for the time to collect it, so for January 2024, the LEI declined -.40% following a -0.10% decline in December 2023.

If you didn't read last month's update, I shared this quote from The Conference Board, who is the creator of the Leading Economic Index.

"The US LEI fell slightly in December, continuing to signal underlying weakness in the US economy," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "Despite the overall decline, six out of ten leading indicators made positive contributions to the LEI in December. Nonetheless, these improvements were more than offset by weak conditions in manufacturing, the high interest-rate environment, and low consumer confidence. As the magnitude of monthly declines has lessened, the LEI's six-month and twelve-month growth rates have turned upward but remain negative, continuing to signal the risk of recession ahead. Overall, we expect GDP growth to turn negative in Q2 and Q3 of 2024 but begin to recover late in the year."

Following that quote I wrote:

At some point, I believe, the Conference Board is going to eat a big piece of humble pie! We will see, but this negative trend in the LEI and call for a recession has been reported in contraction since April of 2022, twenty-one months of straight contraction, yet we still have the recession that didn't recess!

Well, well, well! Just 30 days later, the same person wrote the quote below
www.conferenceboard.org/data/bci.cfm

"The US LEI fell further in January, as weekly hours worked in manufacturing continued to decline and the yield spread remained negative," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "While the declining LEI continues to signal headwinds to economic activity, for the first time in the past two years, six out of its ten components were positive contributors over the past six-month period (ending in January 2024). As a result, the leading index currently does not signal recession ahead. While no longer forecasting a recession in 2024, we do expect real GDP growth to slow to near zero percent over Q2 and Q3."

Please read that last sentence in her quote above one more time. She did her best to lessen the LEI credibility reduction I have been writing about here in Sign #3 for almost two years, by sticking with the GDP slowing down to zero in 2024.

Okay, these people do know the lights are going to "turn on" in chip manufacturing plants being built right here in our back yard to the tune of over $110 billion - I hope!

All things "coming soon" to our economy happen first in chemicals. As you know, pretty much nothing happens without chemicals to manufacturing stuff.

So, per the American Chemistry Association, February 23, 2024 report chemical production is up +2.30% year over year and chemical rail carloads are up +3.40% year over year.

For now, our Sign#3, LEI, has made itself irrelevant. Yet with this month's admission of not knowing what the heck to look at, they may have a chance to regain their fame!

For now, Sign #3 remains negative and irrelevant.

4) Indicator: Employment rate and after-tax personal income

Where to find it: www.bls.gov

What to look for: Trends up or down for three to four months

(Positive) [Always has been]

The Bureau of Labor Statistics (BLS), new jobs created report comes out after the deadline for writing this Seven Signs update. So, like other times in the past I will share my prediction and then report how I did in next month's update!

Last month's job creation was a huge, and unexpected, increase of 353,000 new jobs. The goal is to create about 200,000 jobs per month, as we need 100,000 new jobs for young people entering the workforce for the first time and 100,000 for those who chose to leave during Covid and are now starting to return. My estimate for new jobs created is 235,000! I believe it would be more if not for last month's surge in new hires. Businesses remain challenged by fewer qualified applicants as well as those applicants that are qualified yet can't get past that pesky drug test.

The 4-week moving average of Initial Jobless claims came in at 212,500. Any report between 200,000 and 250,000 is also positive. So again, good.

The Continued Jobless Claims came in at 1,905,000. This is also positive. Numbers slightly above or below 2 million is normal. Yes, it is up from the 1.29 million in September of 2022, yet still "normal"!

An interesting side note is that our Federal Government current tax receipts have increased to $2.8 trillion for the trailing twelve months and are up month over month. Thus, we know people are finding jobs, earning better income and getting raises. This key sign feeds back into our most impactful Sign #1, Consumer Spending!

Sign #4 remains positive and growing!

5) Indicator: Durable Goods spending

Where to find it: www.census.gov *(Monthly Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders)*

What to look for: An increasing or decreasing trend, especially a trend of four to five months out of six would be a positive or negative sign

(Negative) [Reduced from positive…barely…in December and November 2022 to negative in March 2023]

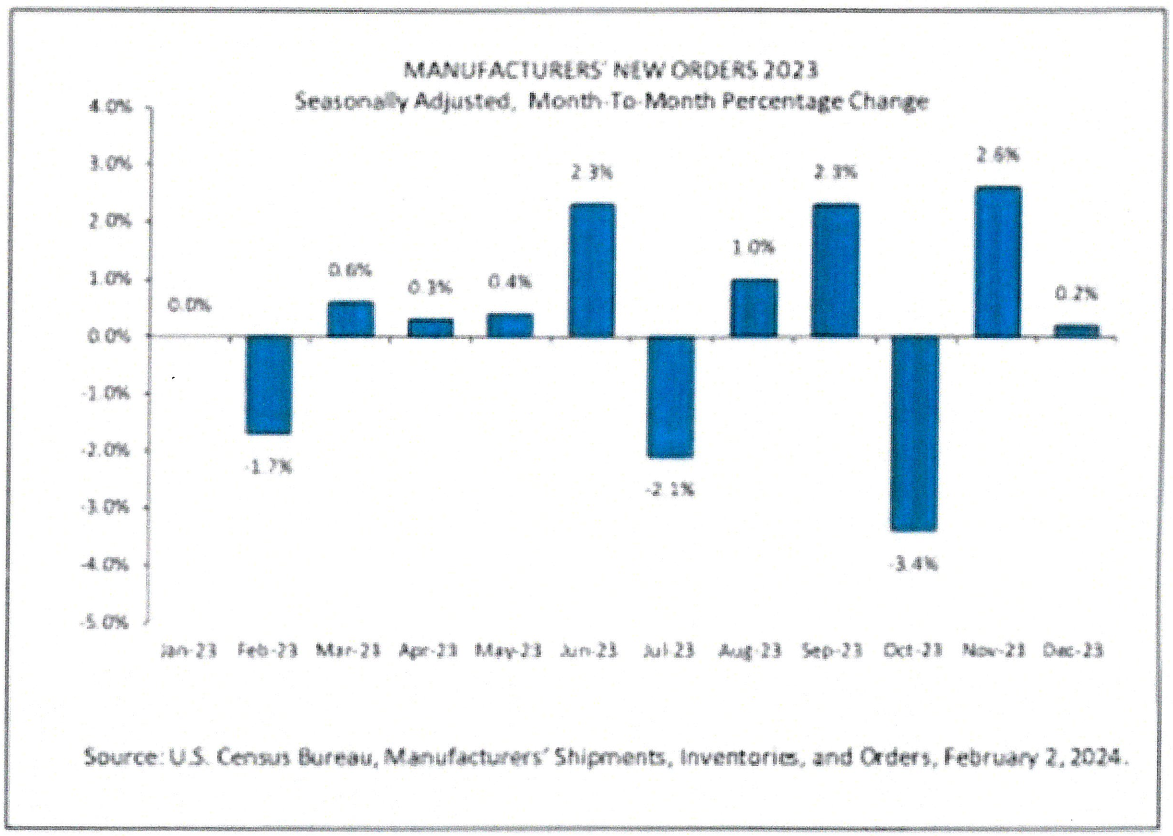
These long shelf-life items like non-perishable, non-fashion items are usually the first to show signs of a slowing economy. Remember, these are items we can do without, if need be.

In last month's update for sign #5, Durable Goods Spending I presented this detail,

<u>In Summary:</u>
2021 Durable Goods were + 1.60%
2022 Durable Goods were +-1.40%
2023 Durable Goods were + 1.00%

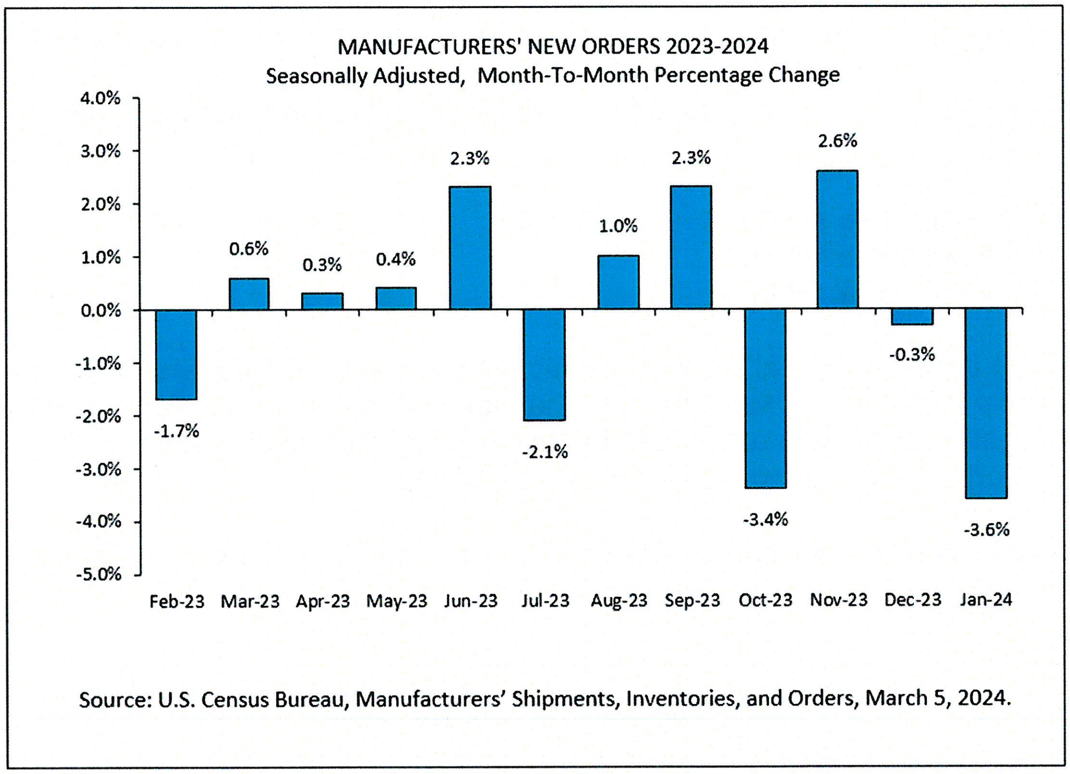
Arguably, these annualized "real" growth/contraction rates are not a negative trend as indicated above in the Sign #5 indicator box. However, they are also not booming. For now, I will leave Sign #5 as negative, yet it sure appears to be gaining traction toward a more positive observation. More to follow as we press through Q12024.

The 2023 data referenced above was reported for the full year of new orders. Source: United States Census Bureau.



As noted above in 2023 the simple growth rate was +2.5% and after adjusting for inflation +1% (note: Durable Goods are not automatically inflation adjusted).

This month adjustments were released and whatever "positive traction" I wrote last month in the above quote went up in flames. Here is the most recent New Orders adjustment from the U.S. Census Bureau.



The trailing twelve months contracted -1.70% and -5.20% after adjusting for inflation.

This is not just a "January" pull back event. In the last two years January New Orders had been up +3%.

The weather in January clearly had an impact, yet this appears to be more than weather and perhaps consumers really are starting to delay buying the "stuff" they can do without, if need be. This sign of a healthy consumer has been negative for almost a year. It is possible to have a good economy with less spending on durables, but it will be an important input to watch as we head into spring.

Sign #5 remains negative!

6) Indicator: S&P 500 Earnings per Share growth

Where to find it: www.standardandpoors.com

What to look for: Two quarters of S&P 500 earnings per share growth, up being a positive trend and down being a negative trend

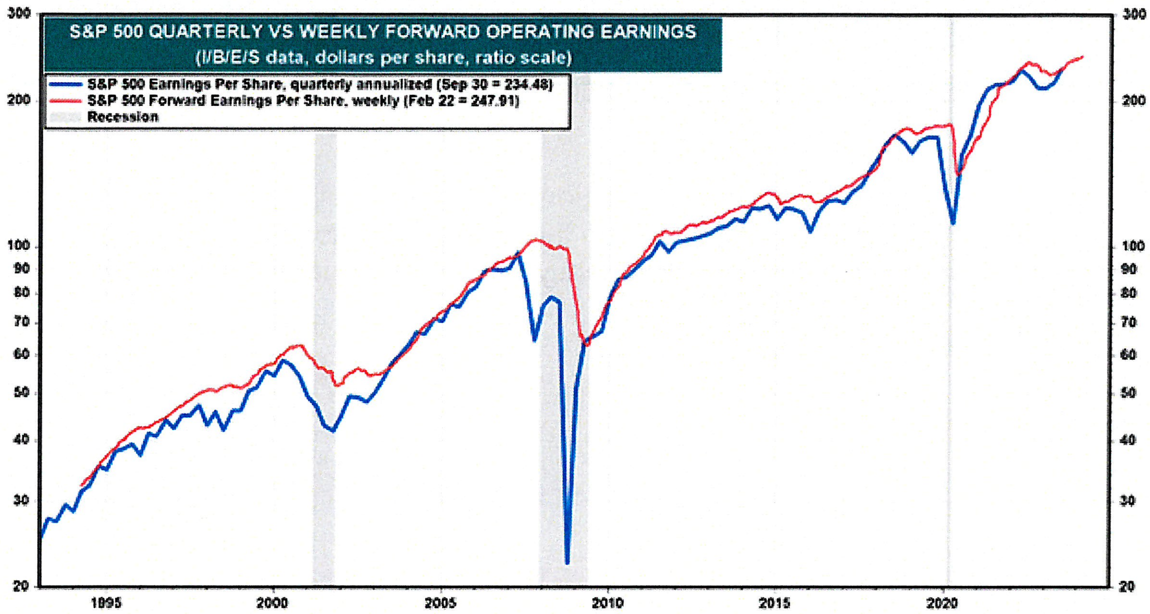
(Positive)

As you have read here since the depths of Covid, "our economy is better than it appears" and as for the earnings of Corporate America I suggested many times that you will read "better than expected" in the majority of earnings release reports. So, that hasn't changed.

The 1Q2024 quarterly earnings reports are very quietly coming to a close. Odd eh, that when the business news has been so wrong for so long it just gets quiet! The facts are that of the 474 of 500 companies that have reported earnings (95%), overall, 77% have reported more earnings than expected and these increases are up over 7%, (which is a lot!). Of the 23% missing their earnings, the median reduction is a modest -6%

So, as some economists and business leaders pound the table on the coming "crash" in valuations, i.e., "there it is, right there, just look at it" Jamie Dimon CEO JP Morgan.

The facts of life look more like this! (note: the red line placing future earnings at $247.91. At the end of 2023, about 60 days ago, that was $238.06! Just keeps getting better, per Sign #3 above, that $110 billion in new chip factories is getting ready to turn the lights on)



Source: LSEG Datastream and © Yardeni Research.

So where are we?

Let's plug the numbers into our business school "Rule of 20" to see where the valuations of Corporate America are versus Fair Market Value (FMV).

To use "The Rule of 20" you just subtract the inflation rate from 20. I will use the same inflation rate the BEA used in calculating the Gross Domestic Product (GDP) for the 4Q2023 "Second Estimate", released February 28, 2024, of +1.70% and earnings per share of $247.91 to calculate the Fair Market Value (FMV).

- 20 – 1.70 = 18.3x
- 2024 S&P 500 earnings estimate $247.91 (Source: Yardeni Research, 2/27/2024)
- 2024 S&P 500 Fair Market Value estimate $247.91 x 18.30 = S&P 500 FMV 4536.75
- As of 3/1/2024, the S&P 500 trades at 5,137.08 about a 13.23% premium to 2024 FMV (Hence the "back and fill" detailed in Sign #2 above could be normal)

The current 2/9/2024 price of the S&P 500 at 5,137.08 divided by the earnings per share estimate of $247.91 equals a Price to Earnings (P/E) ratio, a measure of risk, of 20.72x. Per J.P. Morgan Guide to the Markets (12/31/2023) the 20-year average P/E ratio for the S&P 500 is 18.9x. So, close! But, back out those big six above in Sign #2 and the P/E drops to a historically reasonable 13x.

Sign #6 remains positive!

7) Indicator: Inflation/deflation numbers

Where to find it: www.bls.gov/ppi/ or www.bls.gov/cip/

What to look for: Two quarters of S&P 500 earnings per share growth, up being a positive trend and down being a negative trend

(Positive) [Turned negative in May 2022 and ended up neutral June 2023, September 2023 up positive]

The Producer Price Index (PPI) measures inflation at the factory "input" level. This month's data continues to support the fact that we have seen the peak of inflation increases with input costs continuing to drop and moderate. More importantly, let's look at the annualized trend.

2023 PPI (updated per BLS 1/12/2024)

January	5.70%
February	4.70%
March	2.70%
April	2.30%
May	1.10%
June	0.30%
July	1.10%
August	1.90%
September	1.80%
October	1.00%
November	0.70%
December	1.00%

2024 PPI (updated per BLS 1/14/2024)

January	0.90%

The above detail is for 2023, so remember these input costs peaked in July 2022 at 9.70%! This month's +0.90% represents a -92.80% reduction in these input costs, i.e. inflation is below the Federal Reserve's target of 2%.

The Consumer Price Index (CPI) is meant to measure inflation at the household level.

2023 CPI

January	6.40%
February	6.00%
March	5.00%
April	4.90%
May	4.20%

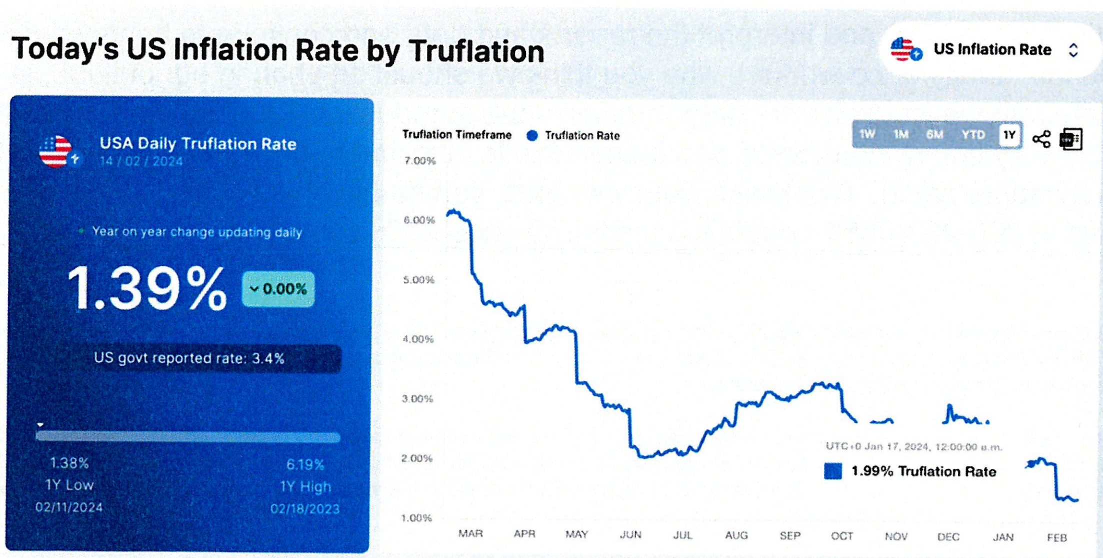
June	3.00%
July	3.20%
August	3.70%
September	3.70%
October	3.20%
November	3.10%
December	3.40%

<u>2024 CPI</u>

January	3.10%

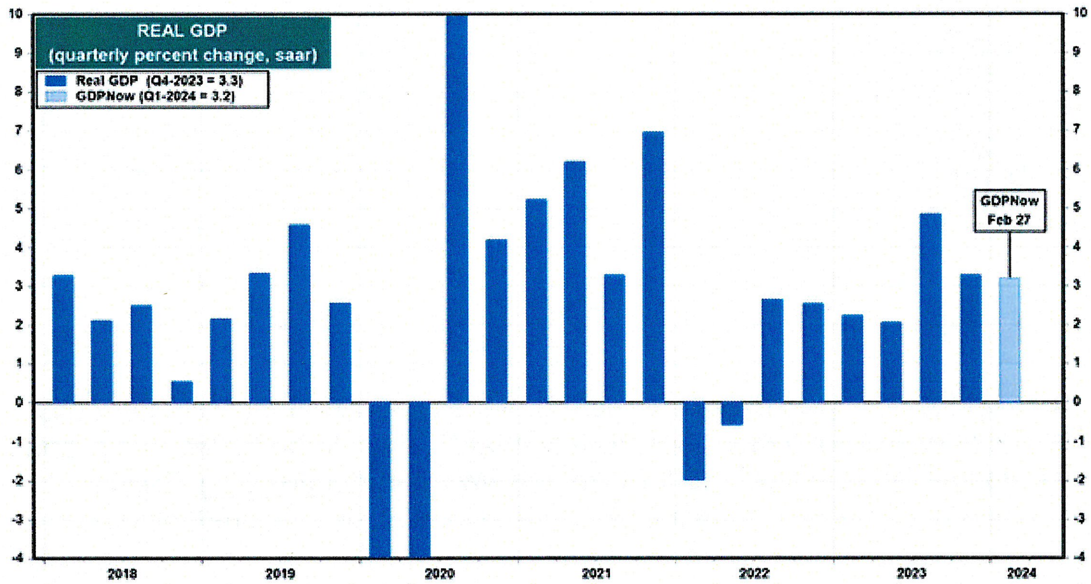
In last month's update I shared detail around the oversized impact that "shelter costs" (rent and housing) have a household inflation. Specifically, that CPI would be between 1% and 2% if shelter was measured in real time like they do at www.apartmentlist.com. The chart below is provided by Truflation. This is a quantifiable, fact based and source cited inflation rate in real time.

In last months update I suggest "real" inflation was between 1% and 2% and I was right on the money. Per Truflation we rest at 1.39%, significantly below the Federal Reserve's target of 2%. Thus, it would be reasonable to see interest rates starting to be reduced by summer, if not before.



As for Gross Domestic Product (GDP), all the goods and services we produce as a country, well Q12024 is already well past the economists' estimates. Our $28 trillion dollar economy is expected to cross the $30 trillion level before the leaves change color. What a coincidence that at about the same time that $110 billion in factories under construction will be flipping the switch to "On"!

Per the chart below, The Recession That Didn't Recess™, is still not in the cards



Source: LSEG Datastream and © Yardeni Research, and Bureau of Economic Analysis.

Sign #7 remains positive!

We will continue to monitor and interpret the reports and data and continue to bring value to you. If you have friends, family or co-workers who you think we should be sharing our outlook, strategies and processes with we would be honored to receive the introduction. Just forward my e-mail to your e-mail list. It is very timely information and in the volatile investment environment a second opinion may be greatly appreciated. As always, your thoughts, comments and discussion are welcome. Please call us at 800-283-8850 or email to Lindsey@successfin.com.

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Government bonds and Treasury bills are guaranteed by the US government as to timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional 15 investors.

"NYSE® Composite Index™ (NYA) is a float adjusted market capitalization weighted index that is composed of equities of NYSE-listed companies. The index is designed to measure the performance of all common stocks listed on the NYSE, including ADRs, REITs and tracking stocks. It is a measure of the changes in aggregate market value of NYSE-listed U.S. and non-U.S. stocks, adjusted to eliminate the effects of capitalization changes, new listings and delistings. The index is weighted using free-float market capitalization, and calculated on both price and total return basis.". Dow Jones Industrial Average Index: "The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

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