Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – February 1, 2024

Growth is the only evidence of life. ~ St. John Henry Newman

The young disease…grows with his growth, and strengthens with his strength. ~ Alexander Pope

The gentlemen above penned their works more than a century apart from one another on different subjects for very different reasons. Newman felt obliged to write a defense of his evolving or growing beliefs as a vicar in the nineteenth century Anglican Church. He eventually left the church to become a Catholic priest. He was canonized in 2019.

Pope, on the other hand, wrote a poetic study of mankind in the early 1700s. The "young disease" mentioned above refers to our mortal passions that drive us, ofttimes over cliffs. Unlike some aspects of nature, according to Pope, passions may become firmer as we age, growing with our growth and strengthening with our strength.

The market these days seems to embrace each of these sentiments on growth. It is no secret that technology companies accounted for outsized gains in 2023 and so far in 2024. Focusing on 2023 for a moment, the price return for NON-technology companies in the S&P 500 was a respectable 13.99%. However, the price return for the technology sector exploded 56.39%!

Is this mere mania? Or, are these results based on solid fundamentals?

The answer to both questions is a resounding yes, which is what makes it a challenge to invest our own and client monies.

Let's tackle the fundamentals question first. Here, we return to our quotations above. As Newman intimated, revenue or earnings growth is the only evidence of life, it is the chief factor investors focus on these days. More than profitability. More than operational efficiency. Growth is the mantra. And as Pope suggested, the big get bigger, faster. That is, the most important growth comes from massive corporations operating in massive markets.

The so-called Magnificent 7 (the seven largest stocks in the S&P 500) are all technology companies. Because of their size, their collective weighting in the index is now 29%. Yes, you read that correctly. That means the other 493 companies account for the other

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71%. These same seven companies account for 21% of all the earnings in the index, a healthy proportion, but not enough to justify the large weighting. Clearly, another factor is capturing investors' fancies – growth. These same seven companies are expected to contribute 34% of all the earnings growth in 2024!

And so, if earnings and the growth of future earnings are the most important factors in establishing a firm value for a company, then it makes sense those corporations producing huge, sustainable earnings growth are highly favored. These seven companies should be weighted more than 21% in the index. But is the correct number 22%? 23%? Or is it 29% as it is currently?

This returns us to question one. Is it mere mania?

Anything with an "AI" moniker soared last year. Just like anything with a "remote" moniker soared in 2020. As Pope understood long ago, human passions must be guarded by reason. And while we remain enthusiastic about AI's ability to drive growth and efficiency across many industries, we must simultaneously temper our fervor. For example, semiconductor companies are notoriously cyclical, even those selling the most advanced chips. As such, it is difficult to justify the multiples of earnings or cash flow paid for many of them. They are fantastic companies – at fair prices.

And as of this writing, technology companies are enduring a one-day sell-off as markets digest the fact that the Fed will not cut anytime soon (as we suggested in this letter last month). If the small negative trend continues for days or weeks, opportunities in tech-land may again abound. We'll be there with capital to sop up bargains and enjoy a new cycle of growth!

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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