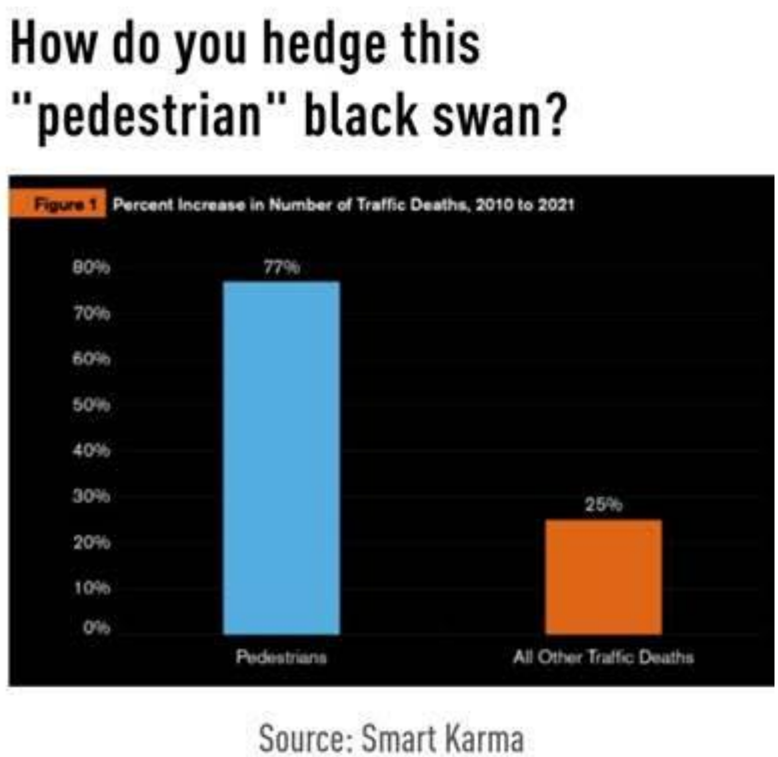
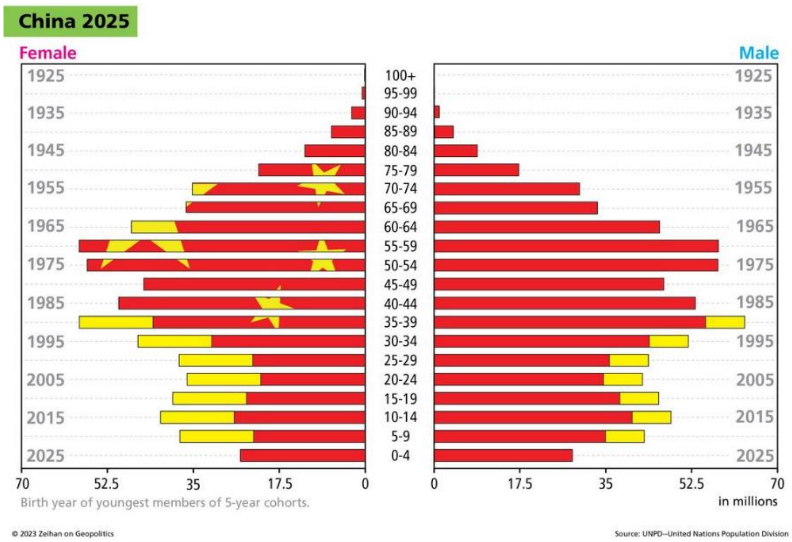
Summer Musings 07.12.2023

In lieu of my "normal" (I hope to never write anything "normal") market update, I'm going to splice in a bunch of random stuff (along with some market stuff), that seemed (to me anyway) to be amusing or interesting or crazy or stuff that "makes you go "hmmm."" There are snippets about "coning" cars, China's population disaster, ChatGPT, stocks or commodities for the next 15 years (you've got to read this part), pedestrians and cars, and a few other things. It may seem long but it's just cuz of the charts and graphs. Hope you enjoy.



First thing up, is this stat, which I am putting out because it's summer and people take more vacations meaning more walking. This is not something anyone could have predicted 13 years ago. Check out the table showing pedestrian deaths (I know, not a very uplifting topic). Since 2010, pedestrian deaths have gone up 77% vs a 25% increase in all other traffic fatalities. What could possibly cause this… drum roll… could it be people walking with their smart phones cemented to their hands and their noses glued to the screen? Please tell your kids/grandkids to put down the phone and "look both ways" so all have a great rest of the vacation time.

Speaking of summer, in your younger years, you may have waited on a lazy afternoon in the car or on your bike by the railroad tracks, watching a train far off in the distance, as it appeared to be slowly approaching the crossing. When it finally arrived, it was awesome to feel and see the huge, rumbling, metal cars as they raced past and made their way into the distance. It was always a fun illusion that the train looked to be going so slowly as it was far away and then suddenly speed up as it came closer. That's the way I look at our current state of the economy. Rumblings of a recession have been slowly approaching for months. Multitudes of economic and technical data that have "always" coincided with recessions are upon us (see graphs below). At the same time, stock markets have roared back from the depths last fall and pricing and several indicators/data points, are portending more gains ahead. Alas, poor Yorick, which to believe?

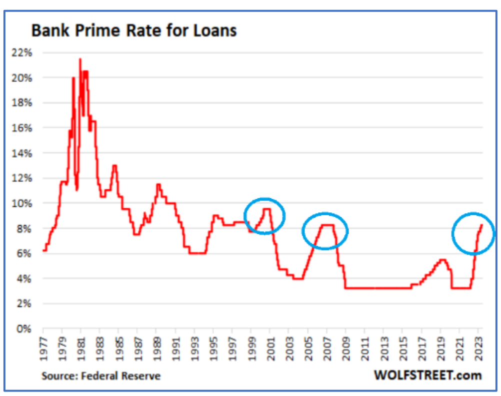


Something we didn't think about 15 years ago – a completely collapsed population bomb from China. The red bars show what US data shows as the China population (the red plus yellow bars are what China reports). The young people (first 7 bars at the bottom of the chart), are going to be crushed by the bars above them because there ain't enough young people, meaning there will probably be mass trouble ahead for the Chinese economy. This has all sorts of knock-on effects for supply chains, labor costs, etc. Should be inflationary for wages in China meaning "onshoring" will most likely accelerate to cheaper countries.

I found this of interest, especially with Independence Day just past. Purchasing power parity (PPP), is vastly higher in the US v most any European country. While much of what passes for news often browbeats the US, when it comes to average cash that we can spend, we are far and away the richest country of any size in the world.

Source: Chris Frieman (via Jared Dillan newsletter)

Rank	Country/Territory	2021* (PPP)[1]
1	United States	62,300
2	Luxembourg	51,400
3	Australia	45,000
4	Germany	44,400
5	Switzerland	44,400
6	Norway	44,300
7	Austria	41,800
8	Netherlands	41,400
9	Belgium	40,800
10	France	39,800
11	Canada	38,900
12	Finland	37,400
13	Denmark	37,100



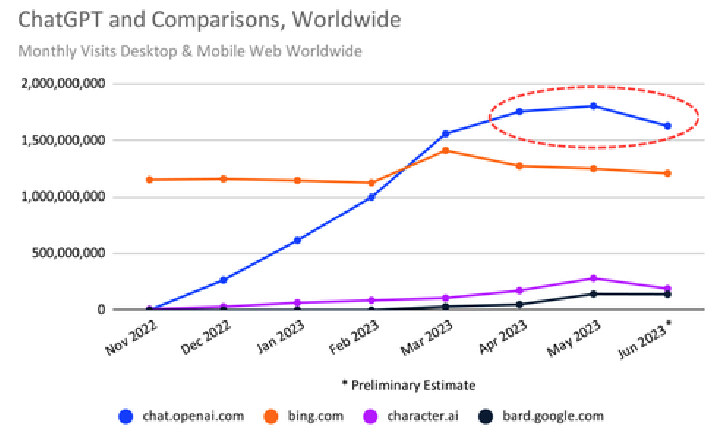
In golf, every shot makes someone happy. Either you are happy with your shot, or your opponent is happy with your shot. Interest works the same way. Bank prime rate loans are now over 8% (see chart on left – blue circles), like in 2000 and 2008, possibly foretelling doom ahead. The flip side is one can earn 5% on one's money without taking risk, which also last happened in the same years. *
https://ycharts.com/indicators/6_month_treasury_bill_rate

12:30 PM · Jul 6, 2023

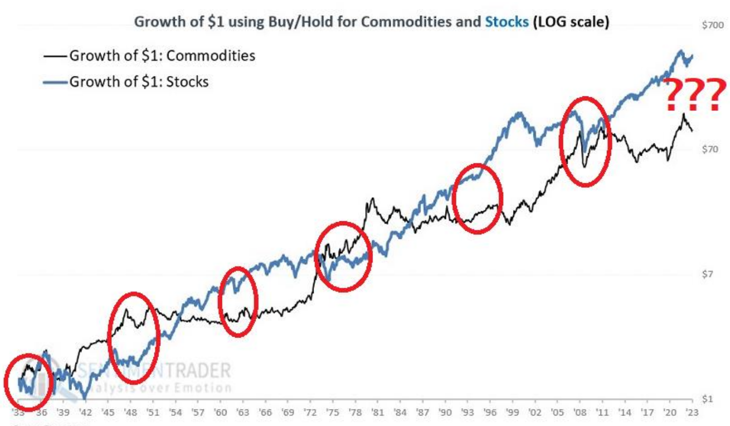
I found this to be totally crazy. People are "coning" driverless cars in San Francisco and, I suppose, it will catch on in other cities. When a cone is put on a driverless car, it can't move and, in some cases, requires a hard restart to get going again. Not sure if it is "luddite" syndrome, but people are protesting because they don't want to be part of a "grand experiment." Or maybe, it's just Uber and Lyft drivers afraid for their livelihoods.

https://www.zerohedge.com/technology/driverless-cars-hit-coning-incidents-san-francisco-group-rebels

By now, I presume most of you have heard of "ChatGPT," which, by some accounts, is destined to take over the world Skynet style or is the biggest hype since the dotcom boom in 1999. It's certainly sent a few tech stocks into the stratosphere. If you haven't used it, give it a try. Go to chat.openai.com, set up an account, and then ask away. It can do research for you and write papers or poems or songs (perfect for the next anniversary card). All sorts of stuff including technical coding. I asked it to write this update, but market data is only through 2021 so "no soap." Anyway, its usage already seems to be declining so maybe the latest A.I. boomlet will boom out. We shall see.
https://www.zerohedge.com/technology/chatgpt-usage-drops-first-time-ai-buzz-fades



If I asked you whether stocks or commodities had a higher return from 1933 to 2010, would you automatically say "stocks." I would and we would both be wrong. One of my data feeds* has done research on cycles and I find this to be quite compelling. Stocks and commodities have had rolling 15-year periods since 1933 where one has hugely outgained the other (see the graph and table below). It's quite surprising and is making me think lots about where we are in this cycle now. Stocks have vastly outperformed for the past 15 years and by many accounts, are at huge valuations relative to history suggesting a long period of "consolidation." During periods of inflation, we've seen big moves in commodities. History could easily repeat itself.



1st 15 yrs Start	1st 15 yrs End	Commodities % +(-)	Stocks % +(-)	Difference
1933-06-30	1948-06-30	222.4	53.4	169.0
1963-06-28	1978-06-30	257.8	37.7	220.1
1993-06-30	2008-06-30	424.6	184.1	240.5
2023-06-30	2023-06-30	?	?	?
	Average	**301.6**	**91.8**	**209.9**
	Median	**257.8**	**53.4**	**220.1**

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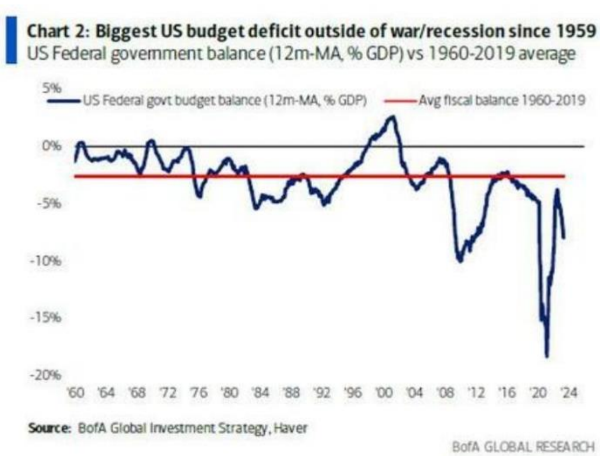
2nd 15 yrs Start	2nd 15 yrs End	Commodities % +(-)	Stocks % +(-)	Difference
1948-06-30	1963-06-28	7.1	314.4	(307.3)
1978-06-30	1993-06-30	52.9	371.6	(318.7)
2008-06-30	2023-06-30	0.5	247.7	(247.2)
2038-06-30	2053-06-30			
	Average	**20.2**	**311.2**	**(291.1)**
	Median	**7.1**	**314.4**	**(307.3)**



Under the heading of "this can't be good," the US budget deficit for the past 12 months is now 8% of GDP, the largest in 60 years outside of war or recession. The $6.9 trillion proposed 2024 Federal budget would make the US government the 3rd largest economy in the world. Does anyone really wonder why we are getting so much inflation.

Finally, some brief market commentary. Stock markets have done well this year while bond markets have done little. Or, maybe I should write, that a few big mega-cap tech stocks have done well while most of the other stocks, lumped together, have mostly tread water. The "AI" boom has been incredible for a few companies who have seen their prices skyrocket. The question is, as posed early, whether it's hype that will fizzle out or something sustainable. Most indicators show it's not sustainable and a recession is clearly on its way. On the other hand, the strong market this year often portends good gains to the end of the year.

There are a couple of drivers that have put off the "inevitable." Previous record low interest rates have kept companies afloat and relatively little of that debt has had to be refinanced yet. Same with mortgage holders, millions of whom are now trapped in a low-rate loan and are not inclined to move. Huge federal deficits have poured billions/trillions into the economy. Increasing interest rates have resulted in those with cash in the bank, money markets, or annuities enjoying massive income increases. $500k at 0.5% = $2500/year. At 5%, that's $25,000/year. Those on social security (about 66 million) have increased their incomes by about 15% in the past 2 years due to COLAs. The flip side, as indicated previously, is these massive debts must be repaid and that's going to hurt.

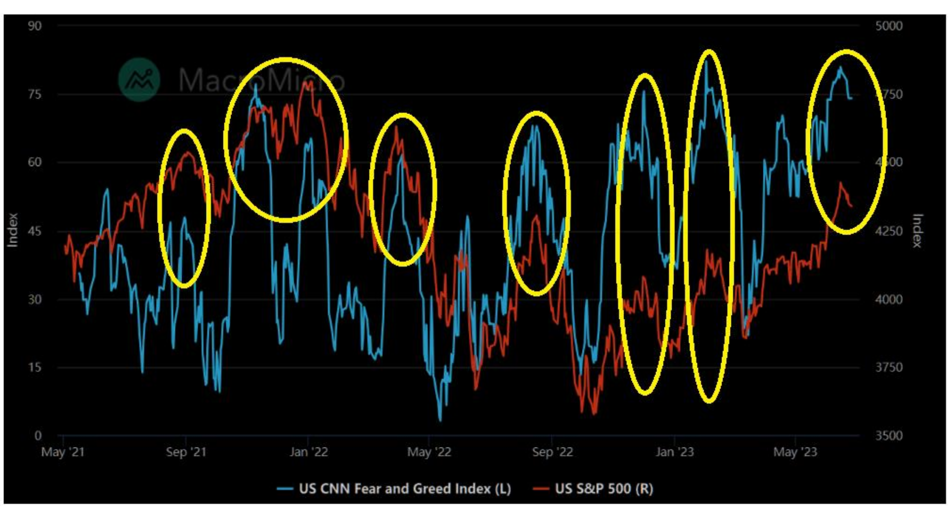
Another Sign This Bull Market Isn't Over Yet

S&P 500 Returns When Negative the Year Before and >10% YTD at the End of June the Following Year

Year	YTD Return End of June	Return Year Before Return	S&P 500 Returns 1 Month	3 Months	6 Months	12 Months
1954	17.7%	-6.6%	5.7%	10.6%	23.2%	40.5%
1958	13.1%	-14.3%	4.3%	10.7%	22.0%	29.2%
1961	11.2%	-3.0%	3.3%	3.2%	10.7%	-15.3%
1967	12.8%	-13.1%	4.5%	6.7%	6.4%	9.9%
1975	38.8%	-29.7%	-6.8%	-11.9%	-5.3%	9.5%
1991	12.4%	-6.6%	4.5%	4.5%	12.4%	10.0%
1995	18.6%	-1.5%	3.2%	7.3%	13.1%	23.1%
2003	10.8%	-23.4%	1.6%	2.2%	14.1%	17.1%
2019	17.3%	-6.2%	1.3%	1.2%	9.8%	5.4%
2023*	12.7%	-19.4%	?	?	?	?

First up, this table shows the returns for the rest of the year when the previous year was negative, and the stock market increased more than 10% in the 1st half of the year. In all but 1 instance, the returns for the rest of the year were generally quite good. Momentum is a hard thing to stop.

Something about which I've written earlier is the upside-down yield curve, where short term rates are higher than long term rates. This phenomenon has generally always resulted in a recession within 12-18 months. Most often because of the problems it causes with bank lending. We are now at the most inverted rates of the past 100 years outside of 1929, 1973, 1979, and 1980. None of those dates preceded stellar stock market returns over the next few years.



Source: Macromicro

And, finally, thank God, the last chart, which shows the CNN Fear and Greed Index (blue line) vs the S&P 500 Index (red line). Every time the blue line peaks, the market has a pretty good tumble. The last yellow circle on the right shows where we are now. Often there's a bit of back and forth before the fall, but, if history is a guide, it's going to happen.

I hope you've enjoyed this as much as I had fun putting it together. Have a great summer.

Thank you for allowing us to be of service. Please let us know if you need anything.

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