Financial Markets This Week

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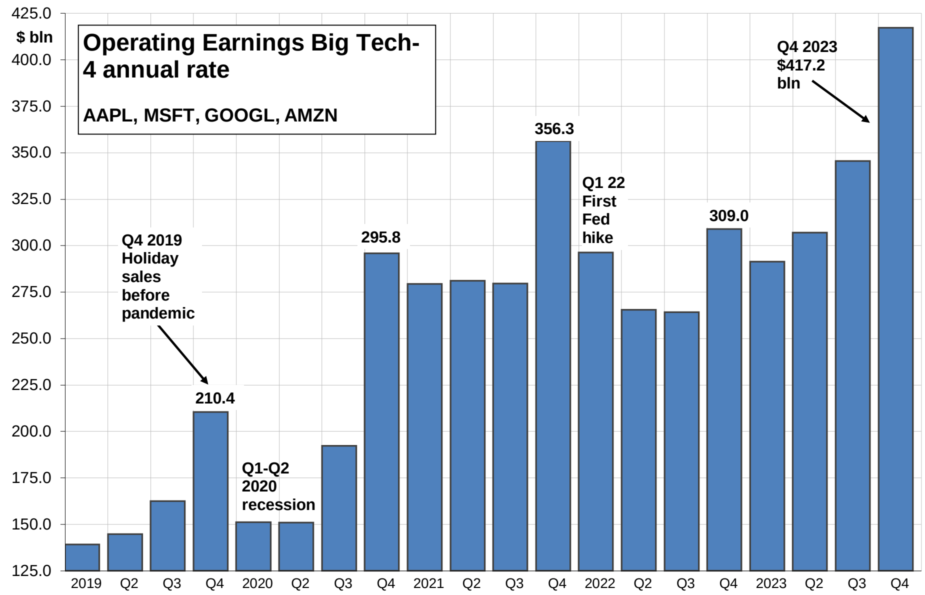
TECH STOCK RALLY

Okay this is not a 2000 stock market bubble that the Fed knew about and was one reason they raised rates to 6.5%. Unlike the dot.com era, it looks like the Top-4 tech companies made some money in Q4 2023 which is inflated by holiday season sales of course. Do we have to keep adding to the Top-4 $417.2 billion of Q4 2023 operating earnings, leaving Meta out of the count last week, and Nvidia this week.



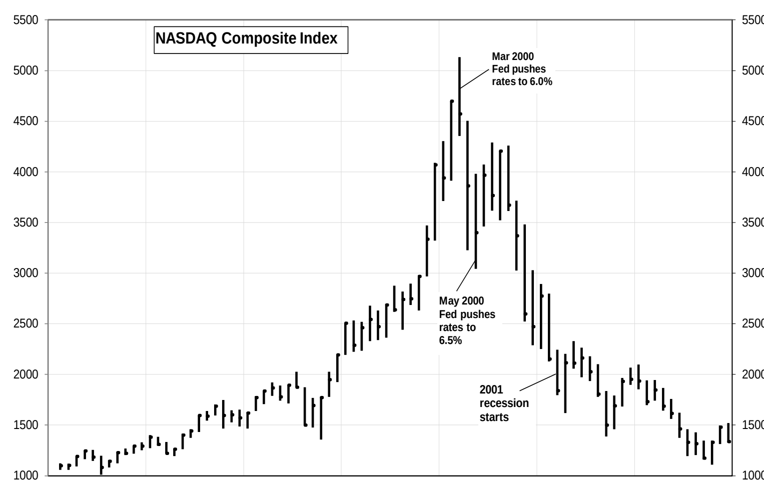
The biggest year-year earnings gains are correlated with the largest year-to-date increase in stock prices. Nvidia up 59.2% this year, Amazon up 15.2%, and Meta increased 36.7% in 2024 so far. S&P 500 gains continue to be driven by the largest stocks; it has been that way since the recovery from the 35.4% loss during the 2020 pandemic recession. The S&P 500 would not have rallied 2.1% Thursday without Nvidia earnings Wednesday night.

Operating Income calendar quarter

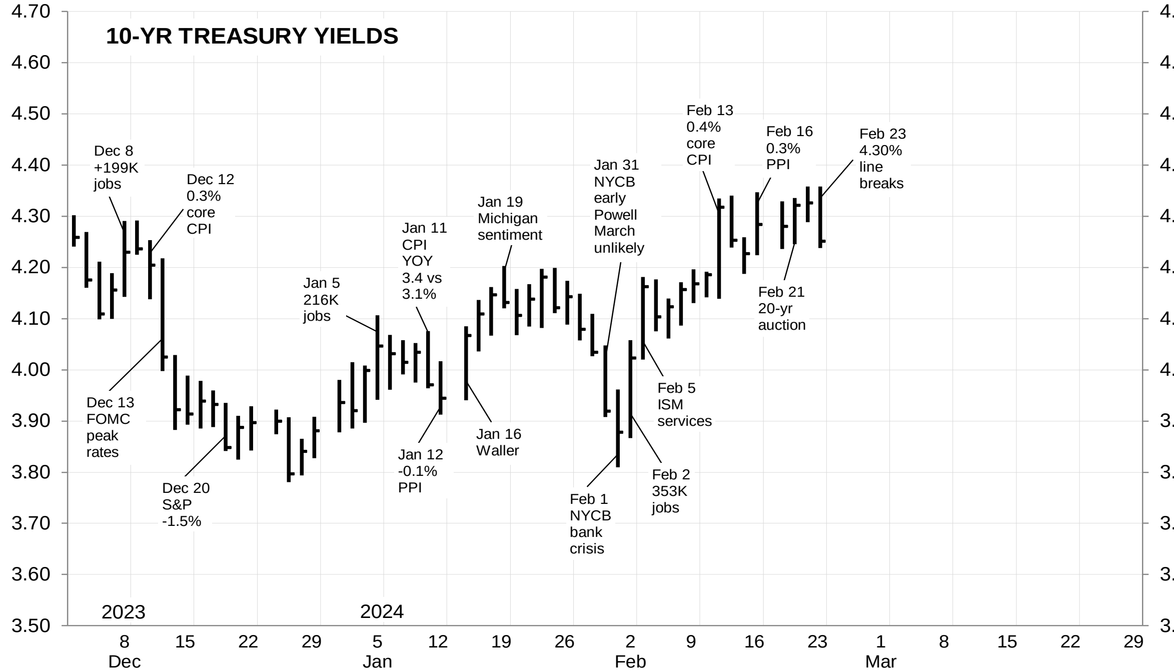
$bln	Stock YTD	% Chg	Q4 2023	Q4 2022
Apple	-5.2	12.1	40.373	36.016
Microsoft	9.1	32.9	27.032	20.339
Alphabet	3.1	30.5	23.697	18.160
Amazon	15.2	382.6	13.209	2.737
Total	---	35.0	104.311	77.252
Meta	36.7	156.0	16.384	6.399
Nvidia	59.2	983.1	13.615	1.257

Seems like a risk. How many data center chips does the world need. Nvidia revenue $22.1 billion Q4 2023 up from $18.1 billion Q3 and $6.1 billion Q4 2022. Company sees Q1 24 revenue of $24 billion. Growth slowing.

S&P 500 Weights	
Top 6: 28% of S&P	
7.16	MSFT
6.31	AAPL
4.54	NVIDIA
2.00	GOOGL
1.69	GOOG
3.72	AMZN
2.53	Meta



INTEREST RATES



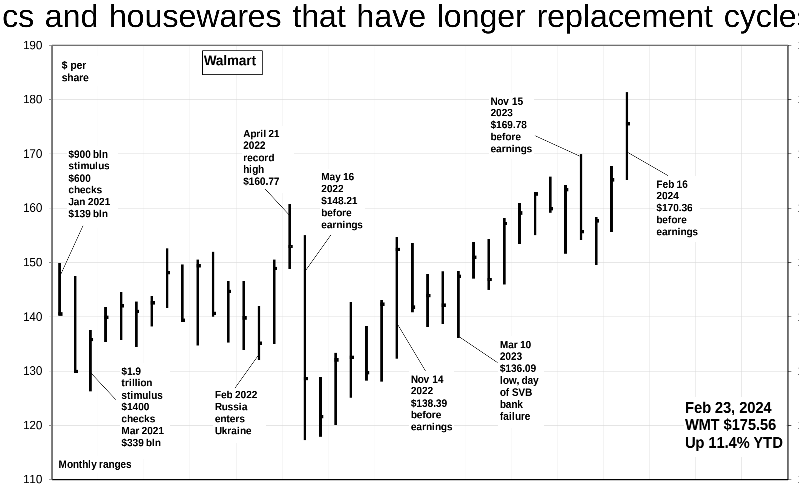
A light week for economic news but who cares. Nvidia earnings Wednesday night sent the S&P 500 to a new record on Thursday up 2.1%. There are not a lot of 2% rally days. Check your 401K investment results before Congress taxes them to save Social Security. Not a lot to say about the 10 bps range for 10-yr yields this week, closing Friday at 4.25%. 4.30% seemed to be important, breaking above after the 20-yr Treasury auction results at 1pm Wednesday, while moving up earlier in the 10 o'clock hour. Little reaction to Fed meeting minutes. The original press statement said it all three weeks ago: "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent." Yields broke back below 4.30% Friday; technical, but ECB's Centeno said they must be open for a March 7 meeting rate cut even if not likely. PCE inflation Thursday, February 29 is next: 0.4% core PCE discounted?

Walmart (WMT) new record high after earnings early Tuesday; Up 11.4% YTD

If you can drag yourselves away from Nvidia earnings, the company that makes things humans cannot yet understand, we thought we would look at the consumer. Consumer credit is arising in a scary way, and we do not scare easily. Yet Walmart earnings beat expectations Tuesday morning, and the company had earlier announced a 3 for 1 stock split in late January. General merchandise categories that surged in the pandemic, like electronics and housewares that have longer replacement cycles, are expected to be relatively weak in the first half of 2024, the company said.

Bln $	Revenue	Operating Income	Same-store Sales YOY *	13-weeks ending *
Q1 2021	138.3	6.9	6.2%	4/30/2021
Q2 2021	141.0	7.4	5.5%	7/30/2021
Q3 2021	140.5	5.8	9.9%	10/29/2021
Q4 2021	152.9	5.9	6.3%	1/29/2022
Q1 2022	141.6	5.3	4.0%	4/29/2022
Q2 2022	152.9	6.9	7.0%	7/29/2022
Q3 2022	152.8	2.7	8.5%	10/28/2022
Q4 2022	164.0	5.6	8.8%	1/27/2023
Q1 2023	152.3	6.2	7.3%	4/28/2023
Q2 2023	161.6	7.3	6.3%	7/28/2023
Q3 2023	160.8	6.2	4.7%	10/27/2023
Q4 2023	173.4	7.3	3.9%	1/26/2024

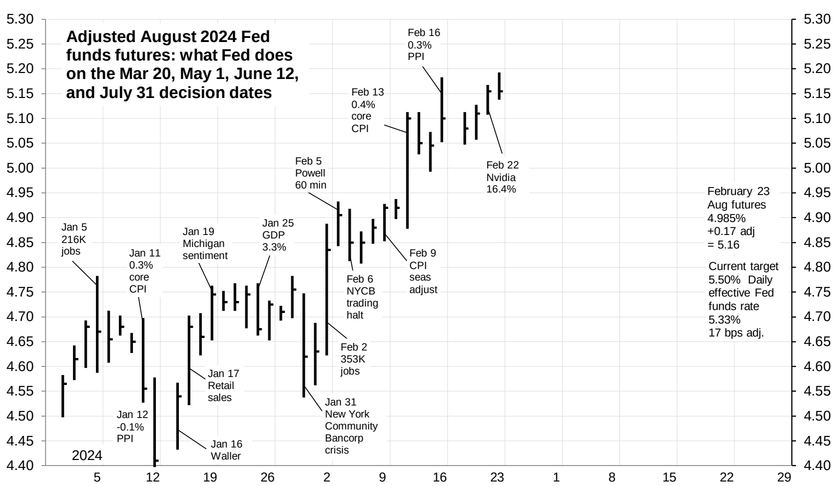
* US comparable sales, incl. Sam's Club, ex-fuel



FEDERAL RESERVE POLICY

The Fed meets March 19-20, 2024 to consider its monetary policy. Jefferson spoke Thursday morning, and as Vice Chair he is a proxy for Fed Chair Powell's thinking. His speech took us on an academic's economic history tour going back to the late 80s. Plenty of graphs of core PCE inflation in his speech even though Greenspan didn't try to move the Committee from CPI to PCE inflation until 2000. No one, no one in the markets looked at PCE inflation for years. And our recollection is the Fed did not start moving interest rates in 25 bps increments until it started announcing interest rate changes the first time in February 1994 if it matters. One problem with Jefferson's speech is that core PCE inflation was not doing much at all before most of the Fed rate cut periods he cited. The basic reason for Fed rate cuts in the 2001 and 2007-09 recessions was, well it was a recession, recession means jobs losses (except in Germany lately), and the Fed cut rates quickly when seeing weekly unemployment claims were rising. Also, the 2020 recession was a pandemic and does not count for judging where inflation was when the Fed first cut rates; so, don't include it. Ever. One good thing about this history lesson is that it brings up a problem with what inflation indicator to use in the Fed's monetary policy deliberations. The Committee forecasts of PCE inflation are well entrenched of course, but we aren't sure the public is on board with "PCE inflation" which is of course lower, less worse, than CPI inflation, and it is CPI not PCE that is used to index company wages, social security benefits etc. Anyway, Jefferson said rate cuts later this year as inflation comes down. Okay, who are we to quibble.

Selected Fed assets and liabilities						Change
Fed H.4.1 statistical release						from
billions, Wednesday data	21-Feb	14-Feb	7-Feb	31-Jan	3/11/20*	3/11/20
Factors adding reserves						to Feb 21
U.S. Treasury securities	4661.421	4692.495	4692.608	4692.721	2523.031	2138.390
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2414.220	2417.227	2417.156	2417.156	1371.846	1042.374
Repurchase agreements	0.001	0.000	0.000	0.000	242.375	-242.374
Primary credit (Discount Window)	2.405	2.419	2.334	3.189	0.011	2.394
Bank Term Funding Program	164.231	164.772	164.869	165.238		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.230	3.258	3.298	3.320		
Main Street Lending Program	14.809	15.132	15.103	15.083		
Municipal Liquidity Facility	0.001	0.001	0.001	0.001		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Central bank liquidity swaps	0.215	0.227	0.230	0.219	0.058	0.157
Federal Reserve Total Assets	7632.5	7684.7	7682.1	7680.2	4360.0	3272.440
~~3-month Libor %~~ SOFR %	5.30	5.30	5.31	5.32	1.15	4.150
Factors draining reserves						
Currency in circulation	2330.768	2328.158	2327.380	2326.951	1818.957	511.811
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	788.759	831.880	821.575	865.481	372.337	416.422
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	574.882	575.332	553.055	615.379	1.325	573.557
Federal Reserve Liabilities	4109.371	4147.206	4126.358	4268.525	2580.036	1529.335
Reserve Balances (Net Liquidity)	3523.095	3537.469	3555.738	3411.717	1779.990	1743.105
Treasuries within 15 days	67.773	118.167	82.267	83.218	21.427	46.346
Treasuries 16 to 90 days	257.083	194.735	230.601	229.458	221.961	35.122
Treasuries 91 days to 1 year	549.934	552.704	552.753	530.721	378.403	171.531
Treasuries over 1-yr to 5 years	1563.703	1580.306	1580.352	1602.637	915.101	648.602
Treasuries over 5-yrs to 10 years	716.276	741.748	741.769	741.790	327.906	388.370
Treasuries over 10-years	1506.651	1504.834	1504.865	1504.897	658.232	848.419
Note: QT starts June 1, 2022	Change	2/21/2024	6/1/2022			
U.S. Treasury securities	-1109.358	4661.421	5770.779			
Mortgage-backed securities (MBS)	-293.226	2414.220	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						



Fed funds futures call Fed policy		
Current target: February 21 -- 5.50%		
Rate+0.17	Contract	Fed decision dates
5.495	Apr 2024	Mar 20
5.165	Aug 2024	May 1, Jun 12, Jul 31
Last trade, not settlement price		

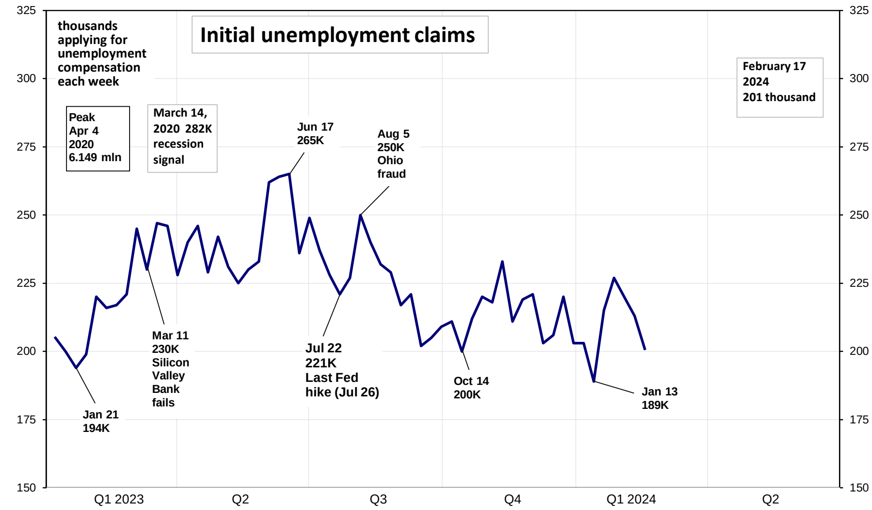
Next up: January PCE inflation report Thursday, February 29

Monthly	2024	2023											2023	2022	
% Changes	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov
Core CPI inflation	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.4	0.5	0.3	0.5	0.4	0.4	0.3
Core PCE inflation		0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3
Core PCE YOY		2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1
Core CPI YOY	3.9	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0

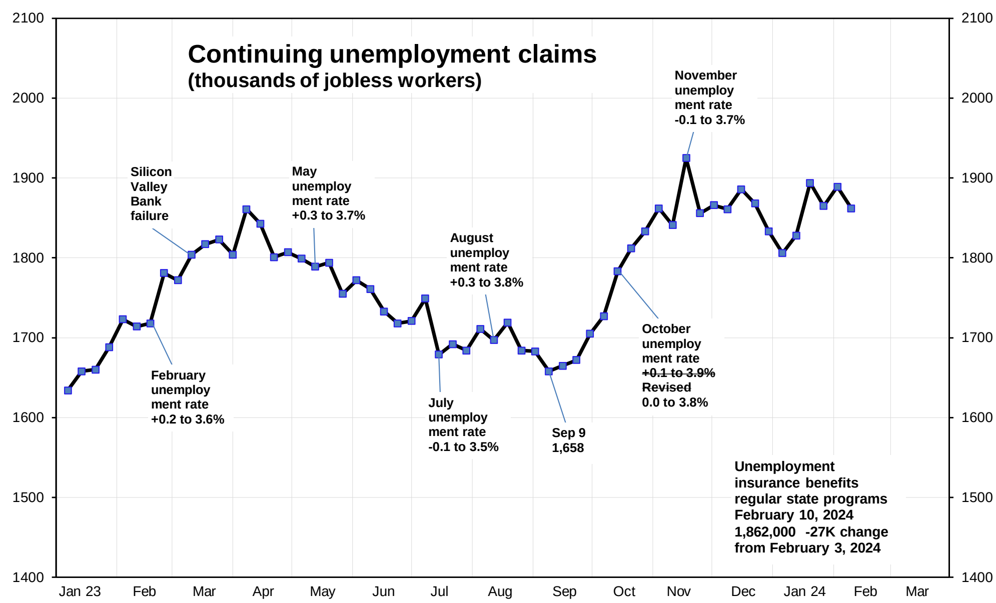
OTHER ECONOMIC NEWS

No layoffs, no rate cuts (Thursday)

Breaking economy news. No job layoffs. There may be companies reporting layoffs of 10K here and 7K there, but they do not add up to the more than 201K applying for jobless benefits across the nation in the February 17 week. The total number of Americans receiving benefits fell back this week as well, and the collective payouts to 1.862 million in the February 10 week, remain below the recent peak back in November. The Fed's interest rate policy is not restrictive in terms of the labor market, that is for sure.



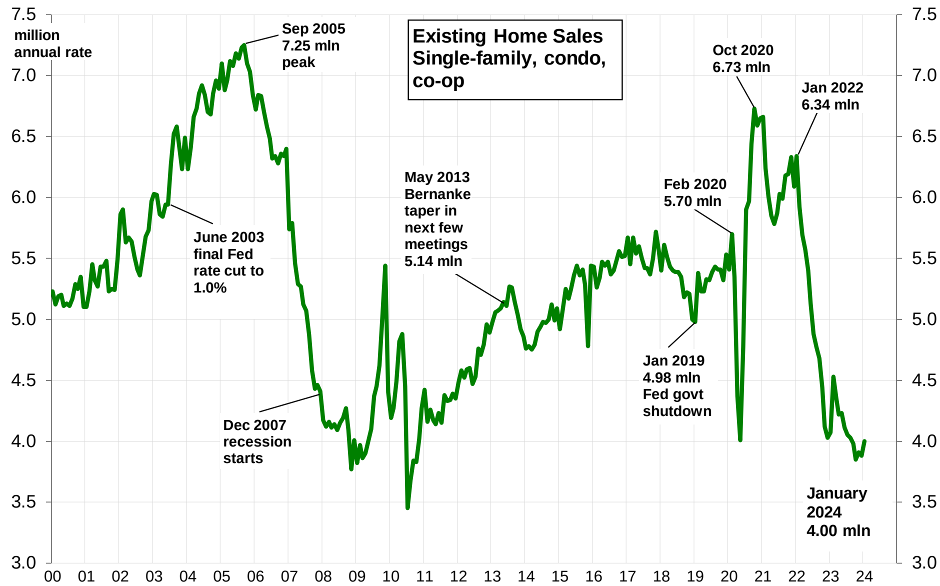
Net, net, job layoffs remain minimal so wage pressures from a tight labor market will continue to push off the day when Fed officials can safely lower interest rates without reigniting inflation. January inflation data were worse than expected and if the labor market is not rebalancing then neither can interest rates which remain at the highest level in over a couple of decades. Fed officials must wonder to themselves whether the Fed's blunt interest rate tool even works beyond bringing the housing markets down, sales mostly, not home prices or even construction really, besides multi-family construction. The key economic indicator of whether the economy is slowing down has been and always will be job losses. There are none to speak of. No recession on the horizon. Company layoffs are ongoing, but first-time applications for unemployment remain low at 201 thousand in mid-February which is close to the 189K low in the January 13, 2024 week. No additional layoffs mean no Fed rate cuts. Bet on it.



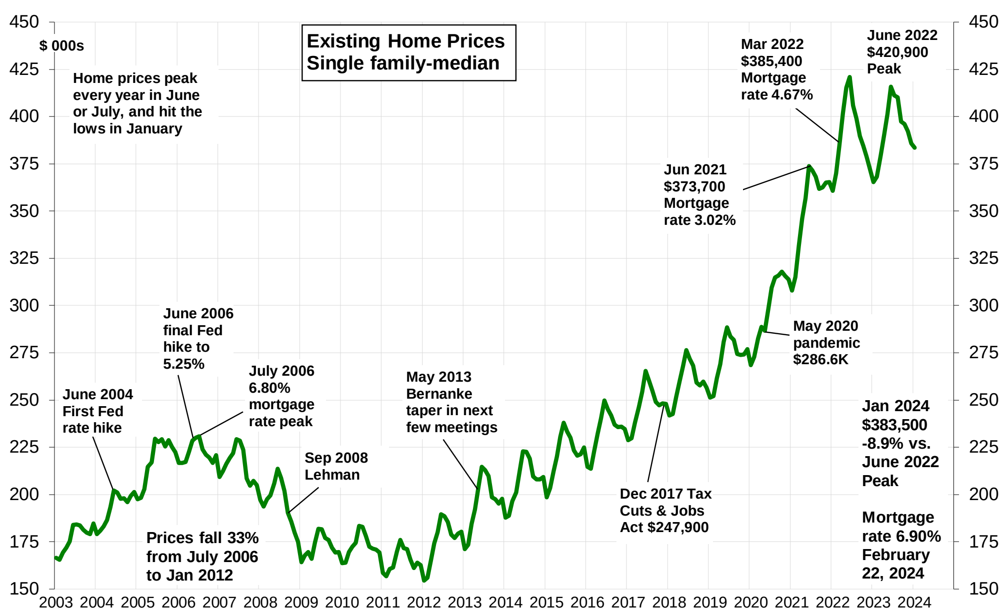
Existing home prices -7.6% June-January (Thursday)

Breaking economy news. Existing home sales rose 3.1% in January and turnover appears to be stabilizing near the lows reached after the Great Recession over a decade ago. One thing the Fed's aggressive rate hikes have done is put the kibosh on existing home sales where homeowners are reluctant to give up their 3% mortgages. Freddie Mac says 30-year mortgage rates were 6.77% in the February 15 week. Existing home sales were 4.00 million at an annual rate in January 2024 versus 6.12 million for the full year 2021, and 5.03 million in 2022.

Single-family existing home prices are in a downdraft from the recent peak of $415,700 in June 2023 falling 0.6% (for the month) to $383,500 in January 2024. The winter doldrums are about over and we could see record prices this spring and into early summer as shortages persist. These home prices averaged $357,100 in 2021 nationwide.



Net, net, the colder than seasonal winter weather did not deter buyers of existing homes in January except in the Northeast. Maybe prices are a "bargain" with single-family home prices having fallen 7.7% from June 2023. Stay tuned. Story developing.



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