Hilberry Group
Wealth Management

March 15, 2024

Markets have ‘Spring’ in their step.

But *That Lovin’ Feeling* is not universal.

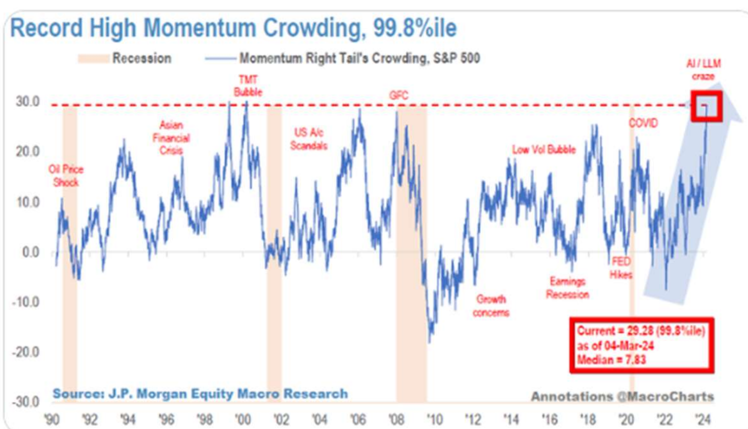
Following up on last weeks notes about enthusiasm, for some sectors, investors have definitely found that lovin’ feeling…

Macro Charts
@MacroCharts

From JPM:

• Momentum crowding flashing RED at 99.8%ile – fastest increase ever.
• Last seen at the peak of 2000 Tech Bubble.
• Equity investor positioning near prior highs.
• Momentum often becomes crowded – leading to inevitable momentum crash.

Stay nimble.



Source: Macro Charts via Twitter

Tech is in absolute terms scaling new highs and is at a much higher price relative to the broader market today than it was in 2000.

JPM equity strategy

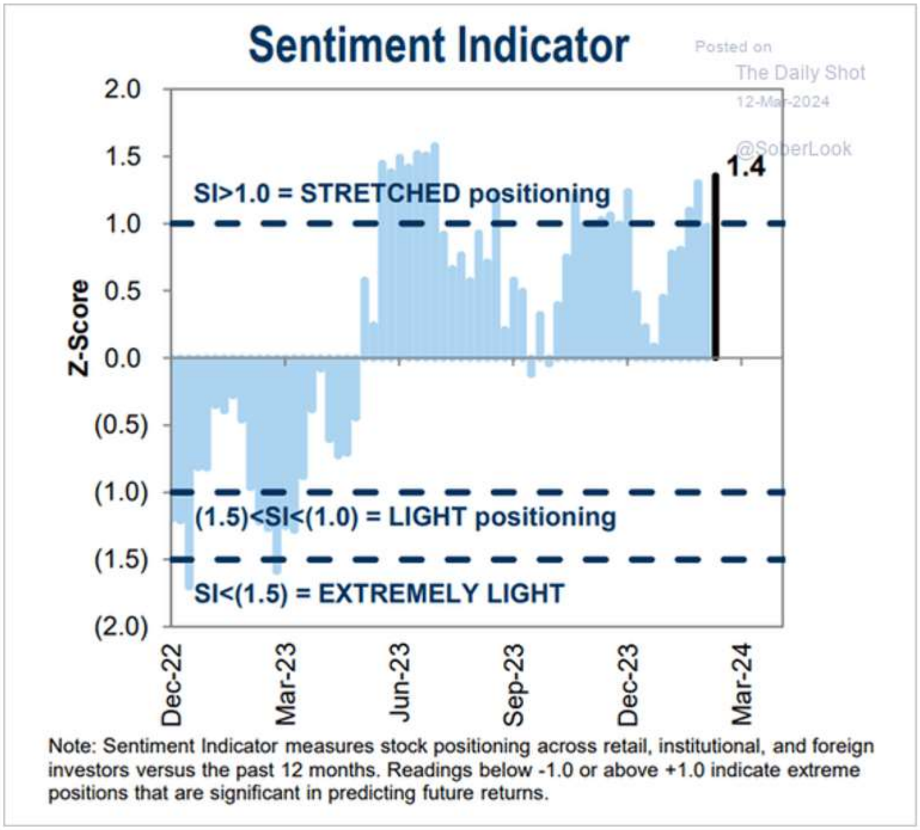
Tech is globally at highs in a P/E relative context.

Datastream

Performance of largest 10 stocks vs Rest of S&P 500.

JPM

Source: JP Morgan



Source WSJ Daily Shot

US Major Indices (price only) from…

S&P500: YTD: +8.3% | 52 wk low: +34.8%

S&P500 Equal Weight Index: YTD: +3.9% | 52 wk low: +22.8%

Dow Industrials: YTD: +2.8% | 52 wk low: +23.3%

NSDQ US Dividend Achievers Index: YTD: +4.9% | 52 wk low: +22.8%

FANG+TM Index: YTD: +11.5% | 52 wk low: +78.3%

Greyscale Bitcoin Index: YTD: +75.7% | +559% (not a typo)

Note the variance between the S&P500 (market cap weighted) and the S&P500 Equal Weight (each constituent 1/500th of total). Market weighted year-to-date variance is 3X equal weight. From the low, +52% variance. Think concentration risk. The correlation between the Dow, S&P500 Equal Weight and US Dividend achievers vs. the explosive price moves in the FANGs/NVDIA are more evidence of how concentrated the action has been in the darlings of the day. We aren't in a rush to dance with the darlings. We see value elsewhere.

Canada? not so much

SP/TSX Composite: YTD: +4.2% | 52 wk low: +16.8%

TSX Banks: YTD: -0.17% | 52 wk low: +20.7%

DJ Cda Select Dividend Index: YTD: -0.34% | 52 wk low: +13.2%

Clearly Canadians are missing out with long-term repercussions for the economy, lifestyles, and savings. 'Affordability' has two inputs. 1) The amount of money available spend results from net after-tax earnings, derived from productive output. 2) The gross of sales-tax cost of what you hope to purchase. Recent Canadian Government policies have depressed net after-tax earnings and increased after-tax costs. The Canadian equity market returns condenses this inconvenient truth into prices. It hasn't been pretty. That's the bad news.

The optimistic side is Canada is simply too close to the US to be left behind forever. Our rule-of-law, economic output and skills make us too compelling to ignore…forever. The dismissal of Canada's energy patch may change. We're confident Canada will play catch-up. This may take changes at the political level. We're sensing Canadians want change. Past periods of catchup have seen the Loonie gain against the US and Canadian equity prices perform well. Given the low base and high dividend incomes on offer here, added to our client's ultimate requirement for Canadian dollar results, we think owning Canada will prove rewarding. We are tilted towards Canada.

If we're seeing bubbly prices in certain sectors, what is the tie-in with US consumer confidence/ Fed policy?

'This Bubble doesn't need rate cuts' – Capital Economics

'Consumer Confidence and the Stock Market' – Capital Economics

(see attached reports)

Clients have asked about the potential impact of a Trump victory in Nov/2024 election.

'The potential impact of a Trump presidential victory' – NBC Geopoltical Briefing - Mar 14, 2024

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=17c97e1d-db57-45c6-b424-5a9e7ca76d5f&mime=pdf&co=nbf&id=anna.hilberry@nbc.ca&source=mail

FOREX Update

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=86733fa4-e496-45d9-9575-1936fdbcee67&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

There's been rumblings of discontent over the low Canadian content in private and public pensions. Interventionists want Governments to step in. We see that as the problem! Joe Oliver – Finance Minister under the Harper Conservatives - waded in this week.

'Hands Off My Pension!' – Joe Oliver - Financial Post March 12, 2024

https://financialpost.com/opinion/joe-oliver-hands-off-my-pension-that-includes-you-chrystia-freeland

History of Canadian RRSP/Pension Foreign Content restrictions.

- 1957 RRSP enacted (Diefenbaker's Conservatives). Max contribution 10% of pervious year's earnings to $2,500 total Foreign Content limited to 10% of market value.
- 1971 (Liberals) Max Foreign content 10% changed from market value to book-value.
- 1994 (Liberals): Max Foreign Content limit raised to 20%.
- 2001 (Liberals): Max Foreign Content limit raised to 30%.
- 2005 (Liberals): Max Foreign Content limit scrapped.

The past (good) changes to pension content rules have been made by Liberal governments. Our guess is not much will come of this.

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD March 15, 2024

DOW INDUSTRIALS:	38,694
S&P 500:	5,116
S&P/TSX COMP:	21,873
WTI:	$81.15
LOONIE IN $USD:	$0.7381 $US

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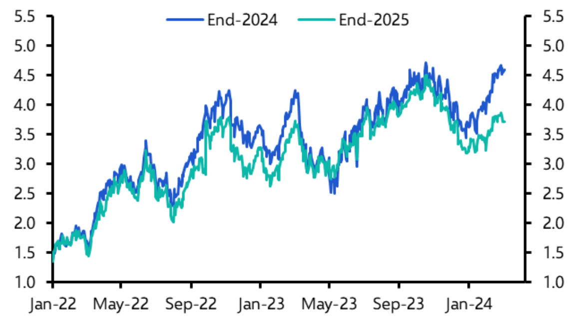
CAPITAL DAILY

This bubble doesn't need rate cuts

We don't think Fed rate cuts are a necessary condition for the stock market bubble to inflate further. After all, most measures of equity risk premia have scope to fall as hype around AI grows.

A central theme of 2024 so far has been the paring back of expectations for Fed rate cuts. Indeed, the market-implied US policy rate for the end of 2024 is back at the highs reached late last year. (See Chart 1.) Some cuts have simply been nudged into 2025; but the rise in the implied rate for end-2025 shows that some cuts have been taken off the table entirely.

Chart 1: OIS-Implied US Policy Rates (%)

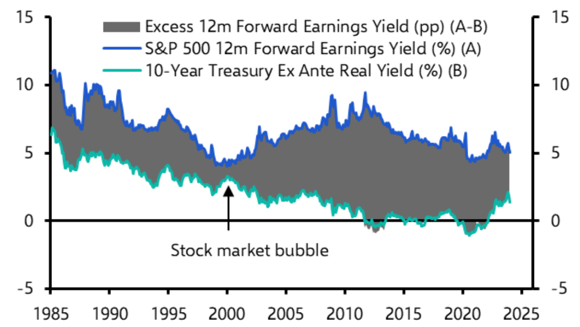


Sources: Refinitiv, Capital Economics.

However, this has not prevented a bubble in stock markets from inflating – for example, the S&P 500 is up by almost 8% year-to-date. And we think this bubble would continue to inflate this year even if rate expectations do not fall back, or creep higher.

After all, rising yields in the US in the late stages of the dot com bubble did not prevent equities rallying. (See Chart 2.) Similarly, the current bubble has inflated against a backdrop of increasing real yields.

Chart 2: S&P 500 FTM EPS Less 10Y Ex-Ante Real US Treasury (UST) Yield & Components

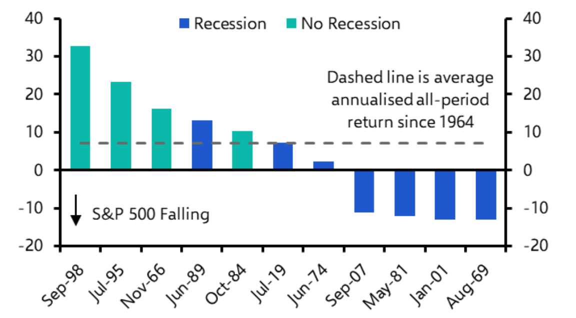


Sources: Refinitiv, DKW/KWW, Capital Economics

In both episodes, it was a falling 'equity risk premium' (ERP) that drove up the valuation of the stock market, rather than a decline in 'risk-free' rates.

Clearly, then, Fed rate cuts are not a necessary condition for a bubble. We can go further and show that rate cuts are also not a *sufficient* condition for equity rallies. For example, the performances of the S&P 500 over the 12 months following the start of Fed easing cycles since 1969 has been mixed. (See Chart 3.) Rather than just rate cuts, much seems to depend on the economic backdrop during the easing cycle (in this case, recession or no recession).

Chart 3: Changes In S&P Composite/500 Price Index Over 12m Easing Cycles* (%)



Sources: Refinitiv, Capital Economics. *Easing cycles refers to 12-month periods following selected falls in the (effective) fed funds rate.

So, a scenario where the Fed cuts rates by less than we anticipate because economic activity remained resilient (a common argument put forward for rates not being cut) would not be incompatible with a further fall in equity risk premia. Combined with growing enthusiasm around AI, we suspect that most measures of equity risk premia would still narrow towards the levels seen during the dot com bubble.

To be clear, we think that the Fed *will* cut interest rates by more than investors are now discounting, and that Treasury yields will fall back this year. For example, we forecast the 10-year Treasury yield to fall back to 4.00%, from ~4.30% now, by end-2024.

But the fortunes of government bond and equity markets are not necessarily intertwined. Even if we are wrong about Treasury yields falling this year, we don't think that would necessarily stop the stock market bubble from continuing to inflate this year.

James Reilly, Markets Economist, james.reilly@capitaleconomics.com

Key Insights From CE

- In the latest edition of our *Weekly Briefing* podcast, we discuss the coming clash over Chinese oversupply, the UK Spring Budget this Wednesday, and the carbon price outlook.
- In his *Chief Economist's Note*, Neil Shearing discusses three key topics for this year: how we should read China's economy; when will inflation in the US and Europe return to target; and what would Trump's re-election mean for global trade, particularly for China.
- Despite OPEC+'s decision to extend its voluntary production cuts until the end of June, we still forecast oil prices to drop back by end-2024. We continue to expect OPEC+ to raise output in the latter half of the year and other producers will plug the gap left by OPEC+ in the meantime, as we discuss in this *Energy Update*.

Economic Data & Events

For the full calendar of data releases and key meetings this week, see here.

Date	Country	Release/Indicator/Event	GMT	Previous*	Median*	CE Forecast*
Tue 5th	Aus	Current Account Balance (sa, Q4, q/q(y/y))	00.30	-$0.2bn	-	+$0.6bn
	Ind	HSBC Services PMI (Feb.)	05.00	61.8	-	62.0
	Ind	HSBC Composite PMI (Feb.)	05.00	61.3	-	61.5
	SA	GDP (Q4, q/q(y/y))	09.30	-0.2%(-0.7%)	+0.3%(+0.9%)	(+0.1%)
	UK	S&P Global/CIPS Composite PMI (Feb., Final)	09.30	53.3p	53.3	53.3
	UK	S&P Global/CIPS Services PMI (Feb., Final)	09.30	54.3p	54.3	54.3
	Can	S&P Global Canada Services PMI (Feb.)	14.30	45.8	-	48.0
	US	Factory Orders (Jan.)	15.00	+0.2%	-	-3.0%
	US	ISM Services Index (Feb.)	15.00	53.4	-	53.5
	Kor	CPI (Feb.)	23.00	+0.4%(+2.8%)	+0.3%(+3.0%)	+0.1%(+2.7%)

*m/m(y/y) unless otherwise stated; p = provisional

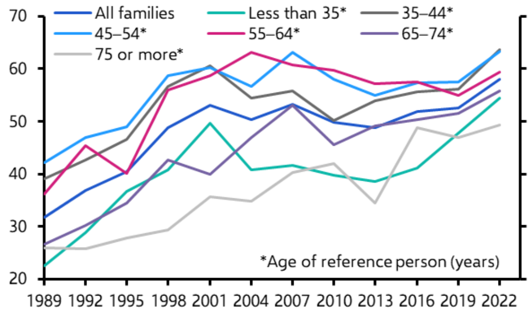
CAPITAL DAILY

Consumer confidence and the stock market

It is no surprise that the confidence of US consumers is closely aligned to the health of the stock market these days. After all, the share of households that own equities is the highest in at least three decades. With that in mind, the recent surge in equity prices – to a record high in the case of the S&P 500 – is likely, all else equal, to have boosted the headline index in tomorrow's report on consumer confidence from the University of Michigan (UoM).

Based on the Fed's triennial Survey of Consumer Finances, the share of US families that own equities rose to 58% in 2022 – the highest share since the 1989 survey. Over the course of recent surveys, the share has risen particularly sharply among those below the age of 35, perhaps reflecting rapid technological change and lower fees that have enabled easier and cheaper access to the stock market. (See Box 1 here.) This is notable because the ownership share among this age cohort also rose sharply during the dotcom bubble, before dropping back the most not long after it burst. (See Chart 1.)

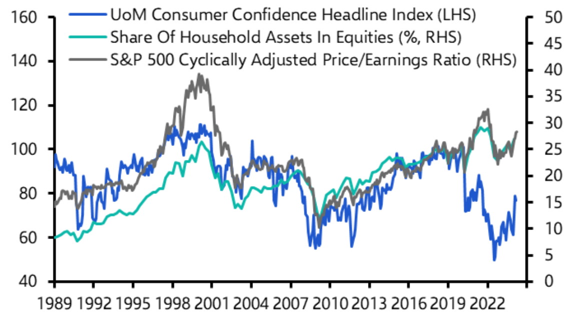
Chart 1: US Families Having Stock Holdings, Direct Or Indirect (%)



Sources: Fed, Capital Economics

Given the extent of US households' exposure to equities, most of which are likely to be listed domestically, it is hardly surprising that their confidence seems to be closely tied to how well the stock market at home is doing. Admittedly, the stock market isn't the only thing that affects confidence, as was the case in recent years around the pandemic. But, it does seem to play a key role. This can be seen by comparing the UoM's headline index of consumer confidence with the share of households' assets that are invested in equities and a cyclically adjusted price/earnings (P/E) ratio of the S&P 500. (See Chart 2.) While the ownership share and the P/E ratio have been climbing amid enthusiasm over AI, they, like the UoM's index of consumer confidence, remain short of the levels they reached during the pandemic. The P/E ratio and the UoM's index of consumer confidence also remain below their peaks before the dotcom bubble burst.

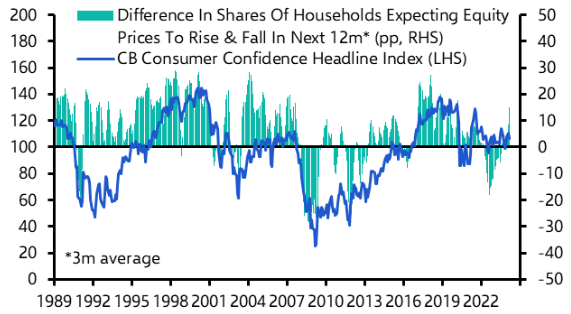
Chart 2: US Consumer Confidence, Share Of Households' Assets Invested In Equities, & S&P 500 Cyclically Adjusted Price Earnings Ratio



Sources: Refinitiv, Shiller, Capital Economics

Meanwhile, a comparable report on consumer confidence from the Conference Board (CB) sheds light on households' view of equities' *future* performance. Caution can be the watchword when households have confidence that equity prices will keep rising: just look at how things played out in the dotcom boom and bust. (See Chart 3.) But while the gap between the share of consumers expecting a gain, and the share of them expecting a fall, in equity prices in the next twelve months has risen, it is still less than the gap in much of the late 1990s.

Chart 3: US Consumer Confidence & US Households' View Of Equity Prices In Next 12m



Sources: Refinitiv, Capital Economics

Key Insights From CE

- EM GDP growth accelerated in Q4. But the data showed wide disparities between regional performance, with Emerging Asia leading. We discuss in this *Emerging Markets Economics Update* why we expect this divergence in growth prospects to continue over the next couple of quarters.
- In this *US Rapid Response*, we explain that the 0.6% m/m rebound in retail sales in February appears to reflect the unwinding of the drag on sales from the winter storms in early January. But the details suggest that the strength of consumer spending over the second half of last year is fading.
- Amid increasing concerns in the west over China's dominance in the production of solar panels, China's exports of green technology has become a key macroeconomic variable to track. In this *Climate Economics Update,* we introduce our new related Dashboard and regular monthly coverage of such trade flows.

Economic Data & Events

For the full calendar of data releases and key meetings this week, see here.

Date	Country	Release/Indicator/Event	GMT	Previous*	Median*	CE Forecast*
*m/m(y/y) unless otherwise **stated;** p = provisional						
Fri 15th	**Chn**	1-Year Medium-Term Lending Facility (MLF) Auction	01.20	2.50%	2.50%	2.50%
	Fra	HICP (Feb., Final)	07.45	+0.9%(+3.1%)p	+0.9%(+3.1%)	+0.9%(+3.1%)
	Ita	HICP (Feb., Final)	09.00	+0.1%(0.9%)p	+0.1%(0.9%)	+0.1%(0.9%)
	Pol	CPI (Feb.)	09.00	+0.4%(+3.9%)	+0.5%(+3.1%)	+0.4%(+3.1%)
	Isr	CPI (Feb.)	12.00	+0.0%(+2.6%)	+0.3%(+2.5%)	+0.0%(+2.2%)
	US	Industrial Production (Feb.)	14.15	-0.1%	0.0%	-0.3%
	US	Manufacturing Output (Feb.)	14.15	-0.5%	-	+0.3%
	US	Uni. of Mich. Consumer Sentiment (Mar.)	15.00	76.9	77.0	85.0

*m/m(y/y) unless otherwise stated; p = provisional