

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Stock prices are generally fair except for the largest tech companies.
INTEREST RATES	Positive	Long-term rates have been unusually volatile.
INFLATION	Positive	Inflation persists but is cooling.
VOLATILITY	Negative	Market volatility is low, which is somewhat bearish.
MONETARY POLICY	Neutral	Fed tightening to impede near-term economic growth, earnings.
DOMESTIC POLICY	Neutral	Focus growing on US debt levels, election.
GEOPOLITICAL	Neutral	Middle East on edge, China's economy in peril, Ukraine war drags on.

“What Don’t You Want?”

There’s a famous scene in the 2016 Taylor Sheridan film *Hell or High Water* in which two Texas rangers are ordering their meal at the “World Famous” T-Bone Café. The scene was completely stolen by the actor playing the waitress, who, with all the contempt she could muster, asks the two unwelcome lawmen, “what don’t you want?” Apparently, the only choice on the menu was which one of two sides to leave off the order. “So either you don’t want the corn on the cob, or you don’t want the green beans!” the snarling waitress hissed. Either way, the rangers were getting medium rare T-bone steaks and baked potatoes, no questions asked. (Both lawmen politely agreed that they did not want any green beans.)

Investors in U.S. stocks must be feeling a lot like those rangers these days. That's because, for investors in the S&P 500, more than a third of the plate when it arrives will be in just ten stocks. And those ten stocks will not be made to order—most of them will be served well-done. Overcooked by the market at 30 times forward earnings.

For markets in February, it was the same movie that's been playing for months. Stock prices pushed higher again. The S&P 500 powered ahead by another 5.3%. The NASDAQ ripped higher by another 6.2%, finally regaining its all-time highs last seen two years ago. Strong earnings reports bolstered investor confidence to stretch valuations among tech leaders to even higher levels. For the most part, that is.

	2022	2023	January	February	YTD
S&P 500	-18.1	26.3	1.7	5.3	7.1
DJIA	-6.9	16.2	1.3	2.5	3.8
NASDAQ	-32.5	44.7	1.0	6.2	7.3
Russell 2000	-20.5	16.9	-3.9	5.7	1.5
Russell 2000 Value	-14.8	14.6	-4.6	3.3	-1.5
Russell 2000 Growth	-26.3	18.5	-3.1	8.0	4.7
Russell 3000	-19.2	25.9	1.1	5.4	6.6
Russell 3000 Value	-8.0	11.6	-0.2	3.7	3.5
Russell 3000 Growth	-29.0	41.2	2.2	6.9	9.2
International*	21.0	17.9	0.4	1.7	2.1

Source: Bloomberg

*MSCI Daily TR Net World Ex USA USD

The Magnificent Seven, the group of megacap tech stocks responsible for the lion's share of the S&P 500's total return since January 2023, is no longer behaving as a single powerhouse unit. For example, electric car darling Tesla is down 28% since the start of 2024. Alphabet, Google's parent company, is off almost 6%, and shares of Apple Inc., have declined by almost 12% this year. Now, NVIDIA is up 71%, and Meta Platforms is up 39%, so not all is lost among tech titans, but it is interesting to note that market leadership is changing, or at least narrowing.

This powerful rally is susceptible to some economic crosscurrents. The global economy seems to be slowly going back to its pre-pandemic convention of lower rates and slower growth, but there are

still pockets of higher inflation and higher growth in the mix. As this transition continues and short-term rates eventually come down, we can expect there will be more price volatility at the top, but perhaps less so among the greater part of the markets outside the top ten.

Who knows? We might one day soon be able to order some T-bones rare. Or even trout.

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