

Great February Driven by AI Enthusiasm

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February rewarded many investors with very strong results. Both the S&P 500 and the Nasdaq delivered their best February since 2015, and the Nasdaq notched its first record close in over two years. Probably the most widely watched group of economists, Goldman Sachs, is also very optimistic about U.S. markets in 2024. They are projecting healthy GDP growth of 2.3%

this year, unemployment staying below 4%, and recession odds of just 15%, all of which are more optimistic than the consensus.

(ticker: AAPL), the stock market's darling for a long time, is down on the year because of their perceived weakness in the AI space.

Despite recent strength, many market skeptics remain, and they have some justification as well. The cyclically adjusted price-to-earnings ratio (Shiller ratio) is at 34, higher than it's been over 96% of the time since 1881. Robert Shiller, the ratios namesake, said the S&P 500 could plunge 30% with a recession. He may be right, but it's worth highlighting that Shiller has raised this alarm on stocks and the economy several times in the previous months without seeing his projected results materialize.

Regardless, based on both trailing and future earnings, the S&P 500 remains expensive by historical standards, trading at about a 20% premium to already high 10-year

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Supporting Goldman's beliefs, it is hard to see a bubble in the stock market today. Initial public offerings remain subdued, and the ongoing business case for artificial intelligence, the primary driver of recent gains, is easy to verify. Nvidia (ticker: NVDA), the leading producer of AI chips, has performed spectacularly with its stock up over 50% year-to-date alone and around 250% over the past year. Nvidia's fourth quarter sales more than tripled from the previous year, and they are growing fast enough that by using the price/earnings growth ratio as a measure, Nvidia's stock is still viewed as undervalued. In contrast, laggards in AI have been punished. Apple

averages. Expectations for profits at S&P 500 companies for the next 12 months are also at a record high, suggesting analysts are pricing in a blue-sky scenario – which of course, could materialize. The Federal Reserve also remains less confident about U.S. future growth projecting GDP growth of only 1.4% growth – versus Goldman's estimates of 2.3% – in 2024 and 1.8% in 2025.

The US jobs market is showing cracks as people have been dropping out of the labor force in surprisingly high numbers. The government also overestimated the

number of jobs added in almost every month in 2023. The last time that happened was 2007 and 2008. Real wages and average hours worked declined in 2023, and reduced hours have long been an early recession indicator. Also, the number of jobless claims rose. It's still low, but consistently rising – a bad sign. Inflation remains a threat as well with January showing a 0.4% in the core index.

Despite these data, Goldman, along with other more bullish forecasters, may be right, and investors may be rewarded with a soft landing and continued solid growth. Or, the many who remain unconvinced that the U.S. has successfully navigated a very tough inflationary and valuation environment could be correct. International conflicts add complications. From our perspective, we are growing cautiously more optimistic, but we emphasize the word “cautious” given the amount of conflicting data.

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