



CAPITAL INVESTMENT COUNSEL

## The Columns

**April 2024**

I'll be honest, after four months of talking about a selloff, I felt like the boy who cried wolf. In late March, the skies were clear – the S&P was up 10% and the Nasdaq was up 9%. The artificial intelligence stocks felt like they were powering the entire market, and the Nvidia/AMD hype helped the semiconductors to a 29% first quarter gain. Everything was great until reality set in for the highfliers. On March 7<sup>th</sup>, AMD was up 45% year to date, but there was a slight problem.

AMD traded at an eye-popping 50 times next year's estimated earnings. To make matters worse, the AI hype had not yet translated into real sales and AMD actually had a revenue *decline* last year. It's not surprising AMD sold off – that type of valuation leaves little margin for error. AMD may very well be an AI winner, but it's a little too early to assign a valuation that rich. AMD's former 45% gain shrunk into a 2% gain as of late April.

Last month I talked about the road race where I went out too fast and things got ugly in a hurry. It's all about pacing. Something similar happened to stocks this month and it was interest rates that seemingly did the damage. Yields on the 10-year US Treasury skyrocketed from 4.1% in early February to 4.6% currently. That doesn't sound like much but when everyone is leaning on one side of the boat, the smallest wave upsets everything.

The good news is that the economy keeps rolling along, and stocks are doing just fine. Before we feel too sorry for ourselves, let's remember the market is still 7% above the 2024

low. The market's growth story is intact, but it looks like the hero is going to have to slay a few more dragons before the story's end. There's no crying in baseball or the stock market, but the narrative coming out of the Federal Reserve hasn't helped over the last two months. I write regularly about the Fed governors shooting their mouths off and the constant Fed chatter does more damage than good. I long for the days of Alan Greenspan and his indecipherable comments. At the end of the day, the Fed sees the same data we all do, but their crystal ball appears to be cracked.

At first glance, the CPI inflation report from April 10<sup>th</sup> was a disaster class. But look under the hood and it wasn't so bad after all. The bulk of the inflation spike came from shelter CPI which covers housing. The CPI calculation uses shelter numbers from months ago so there's a time lag that doesn't reflect how much better the situation is now. Using real time shelter inflation shows us that shelter inflation *was high* months ago at 3.8%. However, the current shelter number as of March runs (much) cooler at only 1.9% and that beats the Fed's 2% target.

Energy stocks get a bad rap, but I'm a long-time fan. I'd love gas at sub-\$2 at the pump but \$3.40 a gallon is doable. Adjusted for inflation, \$3.40 a gallon is actually 30% lower than gasoline's peak in 1981. I remember those days with regular unleaded at \$1.30/gallon and that felt expensive. Let's give a moment of thanks for domestic oil production. The US produces 13 million barrels a day and I shudder to think about where prices would be without it. In addition to helping us out at the pump, the oil industry keeps state governments running. Texas collected over \$25 billion last year from oil. That ole' hillbilly Jed Clampett was right: black gold, Texas tea.

Markets have been beaten up and the S&P recently closed under its 50-day moving average. Is this the beginning of the end or is the market taking a late spring swoon like it typically does during an election year? The S&P traded 110 days above the 50-day. History shows that stocks were higher 3 months later 90% of the time, and higher 6 months later 80%

of the time with a 8% gain. I like those odds and we're monitoring the weakness for buying opportunities. Remember, it's an election year and they've been positive 74% of the time since 1932. If you have any comments, feel free to contact me at [heddins@capital-invest.com](mailto:heddins@capital-invest.com) or call at 919-656-0836.

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