

➤ Market and Economic Update – May 2024



Peter Flannery CFP, FA

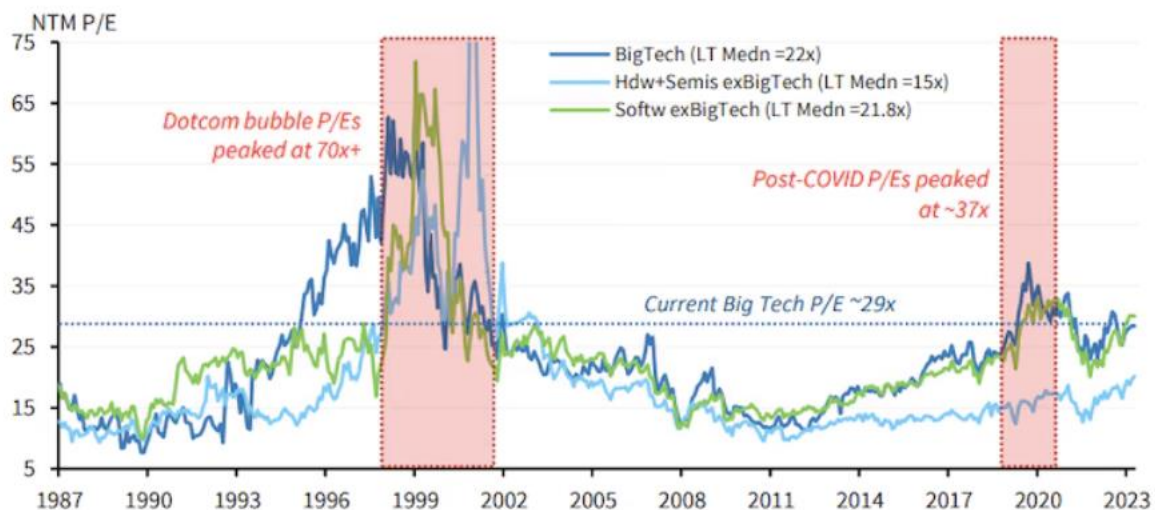
"People calculate too much and think too little."

- Charlie Munger

The Markets

Are markets expensive?

Current Tech valuations are materially below post COVID and Dotcom bubble peaks



Data as of 8 March 2024.

Source: LSEG Data & Analytics, Bloomberg, Barclays Research

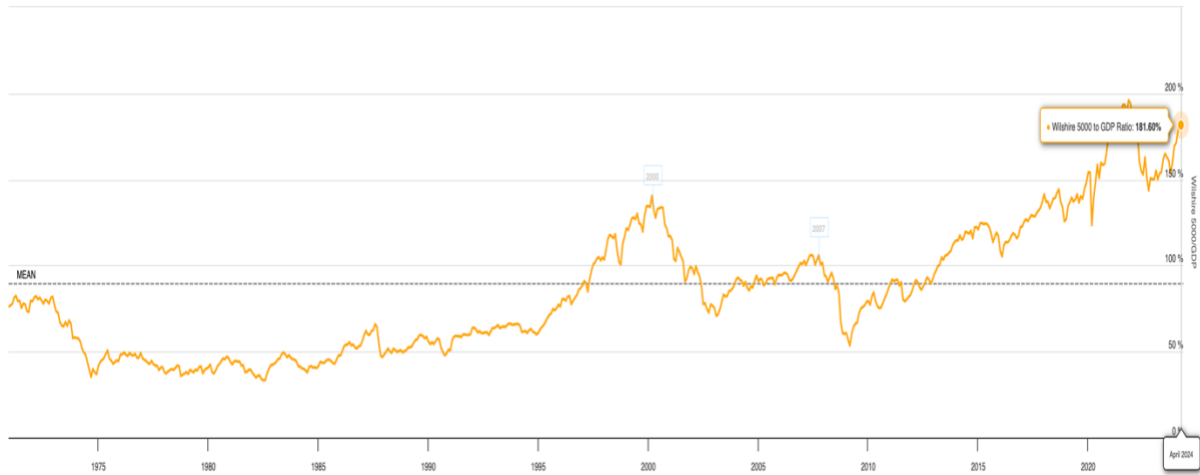
The graph above shows P/E (price to earnings) ratios from 1987 - 2024.

P/E ratios are one way to value markets. We need to be careful using them though as they are somewhat of a blunt instrument. Worth looking at all the same to get a gauge of where markets are at, by this measure, anyway.

There are other ways to look at where market prices are at compared to the difficult to nail down fundamental value.

At WISEplanning we also use The Buffett Indicator.

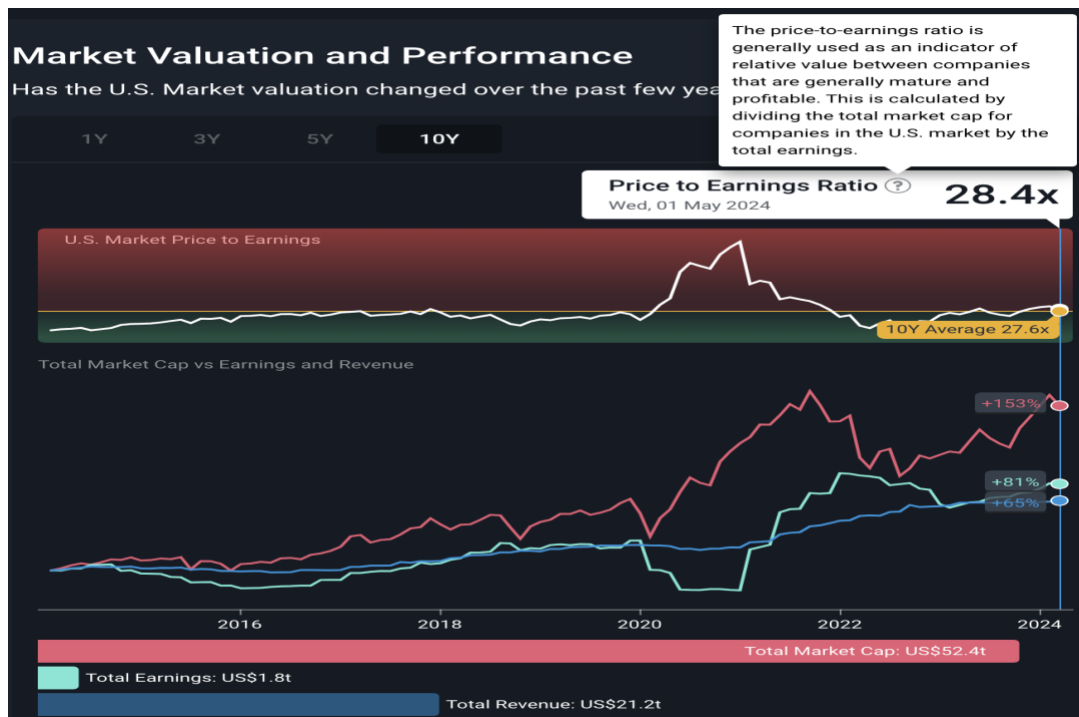
The Buffett Indicator



The above graph is known as The Buffett Indicator. It compares economic growth (GDP) with the trading prices in total across the market (the aggregate of all company trading prices across the US share market).

So according to The Buffett Indicator, arguably a more fundamental measure, trading prices (total market capitalisation) are expensive. By this measure, trading prices are generally expensive although it might be useful to keep in mind that the market is currently driven by only a few tech stocks (Tesla, Microsoft, Alphabet, NVIDIA, Amazon, Meta Platforms and Apple).

The P/E Ratio

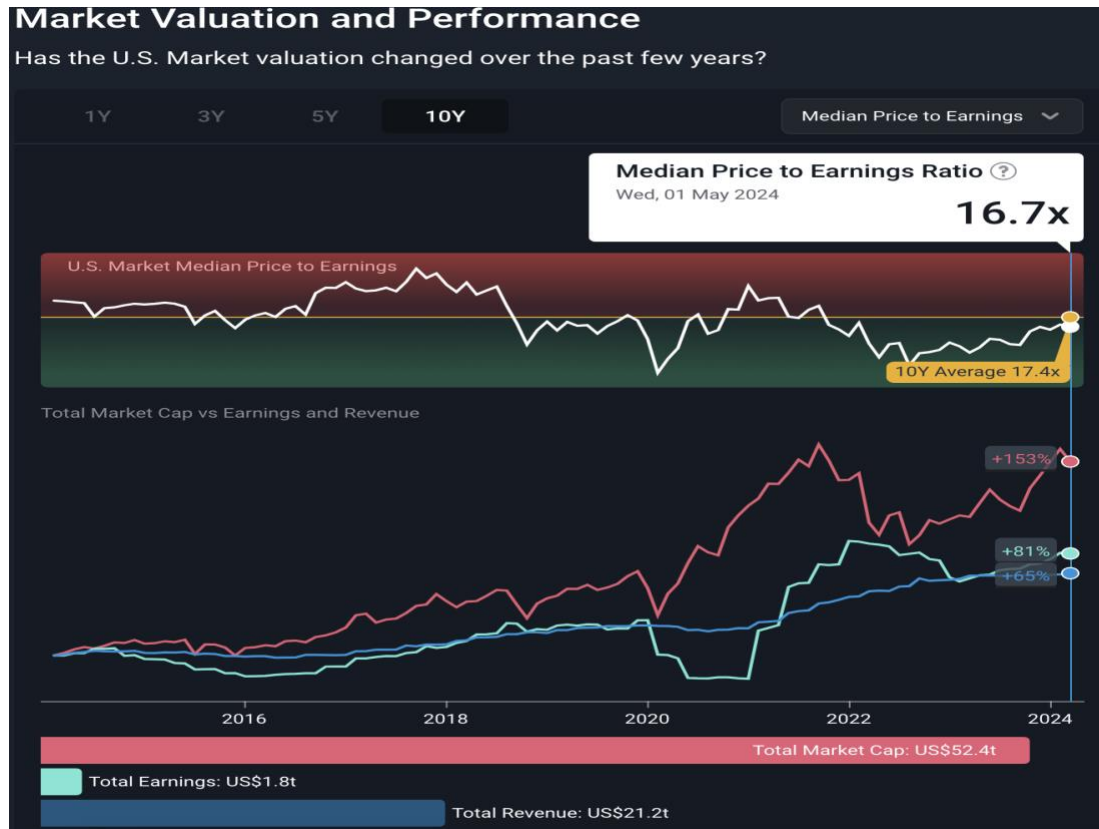


The price to earnings ratio compares the trading price with earnings (profit). Put simply, the further apart they are (the higher the ratio), the greater the risk, in theory.

OK, then there is the median P/E ratio.

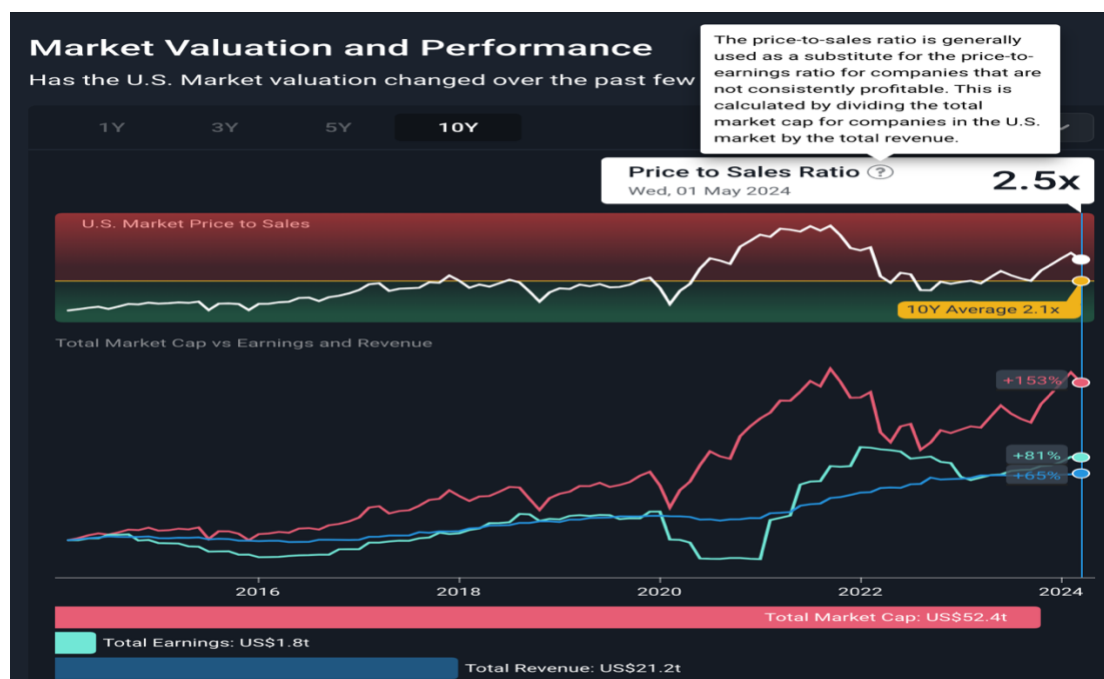
The median P/E ratio shows the middle ratio. Remember we talked about how currently very few tech stocks (e.g. the magnificent 7) are mostly driving market prices up? This median P/E ratio is useful because it helps to smooth out the skew of those few tech outliers, an unusual situation. If we just looked at P/E ratios we might think that markets are more expensive than in fact might be the case.

The median P/E ratio



Notice the Median P/E ratio is lower than the standard P/E ratio.

The price to sales ratio



The price to sales ratio is a more specialised ratio but also useful to look at.

A final point to keep in mind is that a high P/E ratio today may be lower next year if earnings grow and trading prices for example, stay the same – the reverse is also true.

So, generally, the market is not a bargain, but may not be as over priced as some measures suggest. The bottom line is that we invest in the business and do not invest widely across the markets. Our focus is on the performance of the business, rather than today's trading price.

The US Share Market Over April 2024

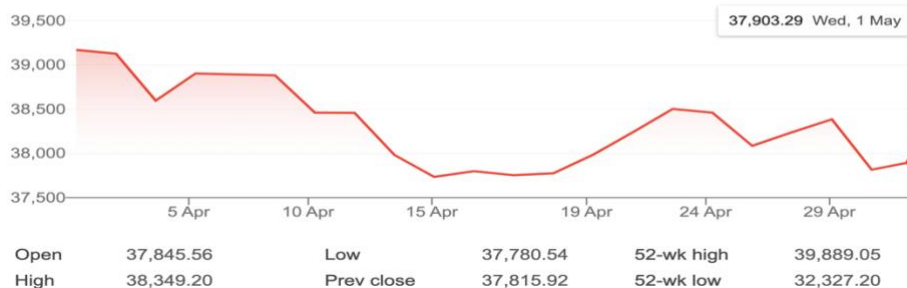
Market Summary > Dow Jones Industrial Average

37,903.29

-1,266.95 (-3.23%) ↓ past month

1 May, 5:12 pm GMT-4 • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



The above graph tracks the movement in the Dow Jones Industrial Index over April 2024

The US Share Market May 2023 – April 2024

Market Summary > Dow Jones Industrial Average

37,903.29

+4,218.76 (12.52%) ↑ past year

1 May, 5:12 pm GMT-4 • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



The above graph tracks the movement in the Dow Jones over the last 12 months.

The downside volatility over April 2024.

This was how it went for the fourth month of 2024:

- The Dow Jones finished the month – 3.23%
- The S&P500 by – 3.60%

- The Nasdaq by – 3.91%

The upside volatility over March 2024.

The third month of 2024:

- The Dow Jones finished the month + 2.08%
- The S&P500 by + 3.10%
- The Nasdaq by + 1.79%

The upside volatility over February 2024.

This was how it went for the second month of 2024:

- The Dow Jones finished the month + 1.84%
- The S&P by + 3.93%
- The Nasdaq by + 4.34%

The upside volatility over January 2024.

This was how it went for the first month of 2024:

- The Dow Jones finished the month + 1.22%
- The S&P by + 1.59%
- The Nasdaq by + 1.20%

The upside volatility over December 2023.

This was how it was for the last month of 2023:

- The Dow Jones finished the month + 3.98%
- The S&P by + 4.40%
- The Nasdaq by + 5.90%

The upside volatility over November.

Here is what happened:

- The Dow Jones finished the month + 6.30%
- The S&P by + 5.24%
- The Nasdaq by + 5.82%

The downside volatility over October.

Went like this:

- The Dow Jones finished the month down -1.14%
- The S&P by -2.21%
- The Nasdaq by -3.43%

The downside volatility over September.

Here is how it went:

- The Dow Jones finished the month down -3.5%
- The S&P by -4.9%
- The Nasdaq by -5.8%

August 2023 downside volatility.

Here is how August went:

- The Dow Jones finished the month down -2.35% (from a low of -4.30%)
- The S&P by -1.77 (from -5.52%)
- The Nasdaq by -2.16% (-8.25%)

From the peak of 35,630 on August 01, 2023, The Dow Jones Industrial Index declined to 32,417 by the end of October 2023. The Dow Jones currently sits at 37,903 as of May 02, 2024.

Markets continue to track upwards, albeit in an uneven way - that's normal. Earnings season is now in full swing.

Rate cuts moving further out

The latest inflation data shows inflation stubbornly persistent. 'The last mile' is about getting inflation down to 2%. That will be increasingly difficult.

Unemployment may need to rise. Economic growth may need to slow. Markets may pull back in the midst of it all, however, if US economic growth continues, along with inevitable rate cuts, perhaps later this year or 2025, this combination is positive for businesses and therefore trading prices.

Steady as we go ...

The Global Economy

By Morgan Edwards – [brief bio](#)

Staring into a Hazy Crystal Ball



Every now and again, it is good to take stock and use our theories to predict what may happen in the future. For us, perhaps the most important thing is to try and understand where interest rates may end up in the long run.

With inflation continuing its downward trend (owing to the easing of supply factors and the 'pricing in' of elevated interest rates), the question is now turning to what the future international economic system, and thus the investment environment, will look like in the medium to long term.

This is contextualised by the release of the latest IMF World Economic Outlook. Namely, the IMF note that 'the global economy has been surprisingly resilient, despite significant central bank interest rate hikes to restore price stability'.

Let's not forget that, had fiscal policy not responded on the scale it did in 2020, the situation would be a lot more bleak. Also, to those familiar with the IMF, they are not the biggest fans of prolonged fiscal intervention.

For the record, note that the IMF's 'recommendations' have led to great social despair for countries like Greece and Sub-Saharan Africa (namely through the recommendations of their Structural Adjustment Packages – i.e., forced austerity – in the 1980s).

This has been reflected in the 'groupthink and intellectual capture' that stopped the IMF from seeing the impending 2008 Global Financial Crisis.

Note that the 'groupthink and intellectual capture' terms aren't just my opinion, but the findings of the IMF Independent Evaluation Office (IEO) in a report on the IMF. Nonetheless, here are the latest IMF figures for growth over the next year.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2023	PROJECTIONS	
		2024	2025
World Output	3.2	3.2	3.2
Advanced Economies	1.6	1.7	1.8
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	-0.3	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4
Emerging Market and Developing Economies	4.3	4.2	4.2
Emerging and Developing Asia	5.6	5.2	4.9
China	5.2	4.6	4.1
India	7.8	6.8	6.5
Emerging and Developing Europe	3.2	3.1	2.8
Russia	3.6	3.2	1.8
Latin America and the Caribbean	2.3	2.0	2.5
Brazil	2.9	2.2	2.1
Mexico	3.2	2.4	1.4
Middle East and Central Asia	2.0	2.8	4.2
Saudi Arabia	-0.8	2.6	6.0
Sub-Saharan Africa	3.4	3.8	4.0
Nigeria	2.9	3.3	3.0
South Africa	0.6	0.9	1.2
Memorandum			
Emerging Market and Middle-Income Economies	4.4	4.1	4.1
Low-Income Developing Countries	4.0	4.7	5.2

Source: IMF, *World Economic Outlook*, April 2024

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2023/24 (starting in April 2023) shown in the 2023 column. India's growth projections are 6.9 percent in 2024 and 6.5 percent in 2025 based on calendar year.

INTERNATIONAL MONETARY FUND

IMF.org

The table above shows a selection of growth projections for key economies around the world.

As you can see, growth is rather anaemic *but* not declining. There appears to be more faith in Advanced Economies (AE) than Emerging Market Economies (EMEs). Low-Income Growth Countries seem to be tracking well also.

So, back to the original point, what could this mean for interest rates and investment?

Despite the repeated claims that elevated inflation has been the result of supply factors more so from an expanding monetary base (which is rarely, if ever, a cause of inflation), the 'surprising resilience' shown by the international economy to elevated interest rates will likely give central bankers comfort in keeping interest rates higher for longer. Importantly, this will likely change *how* central banks respond to economic uncertainty in the future.

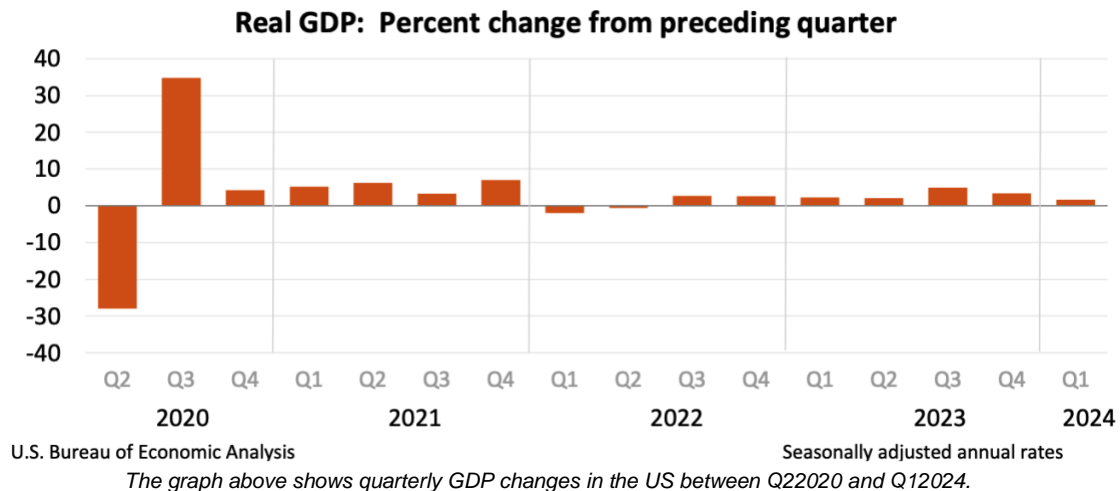
Of course, this implies that fixed (i.e., interest) income investment is now not as dormant as it was between 2008 and 2020.

Recent attitude changes to fiscal policy may be a bellwether to future attitudes to monetary policy. However, given the fact that the study of macroeconomics privileges monetary policy over fiscal policy, then this may not come to pass.

Anyway, on to our trip around the world.

United States

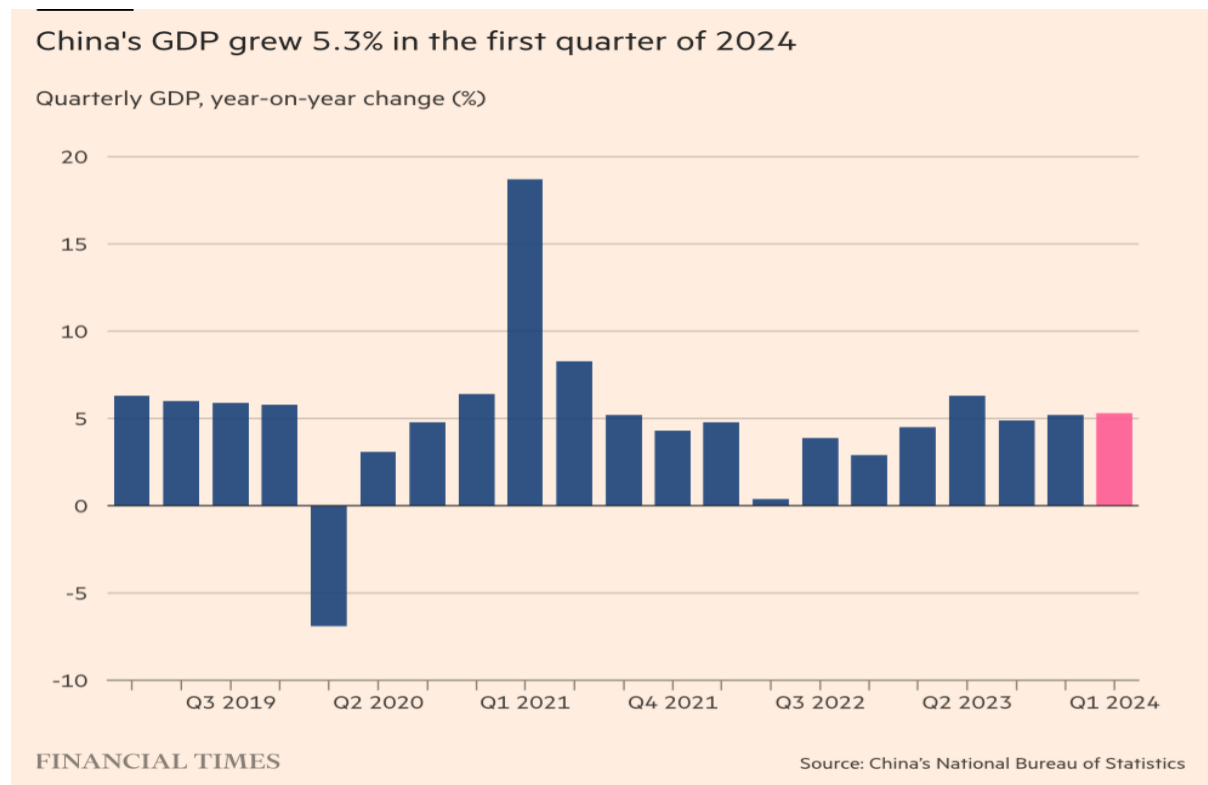
The US economy slows but inflation grows, according to the latest data (and a rather catchy headline from the BBC). As noted, it is likely that the 'unexpected' persistence of inflation is due to the continued elevated interest rates, which is also having a downward impact on economic activity.



Of course, the Fed retained interest rates at their current levels at its May 1 meeting, with the expectation that the Fed to stay the course with interest rates for quite some time yet. It also seems that many market commentators are moving to the same view, and are pushing out their interest rate cut expectations.

China

The latest GDP data for China (measuring growth in the first quarter of 2024) indicated a better-than-expected performance of China's economy.



The graph above depicts changes to GDP from the previous annual quarter. Note this difference between this and the preceding graph.

This is an interesting result, given that China's economic activity has been a bit 'choppy sideways' over the past year or more. This is best demonstrated through this really informative graph I have sourced from the Financial Times.

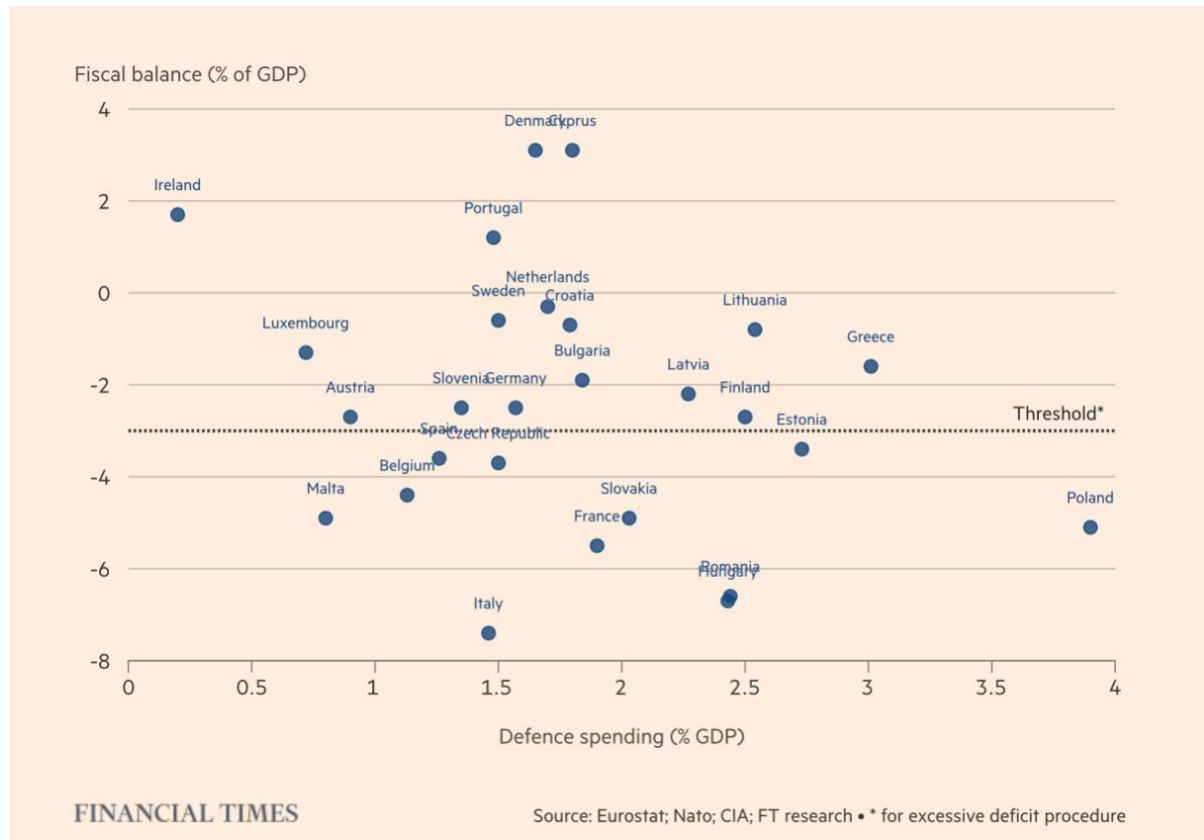


This panel of graphs shows various monthly economic indicators in China during 2023.

It will be interesting to see these dynamics moving forward, and the impact that credit(debt) will continue to have on the Chinese economy.

Euro Area

Countries within the Euro Area have exceeded the 3% deficit threshold stipulated by the Stability and Growth Pact. What this means is that the European Commission will growl at these countries, including Italy and France.

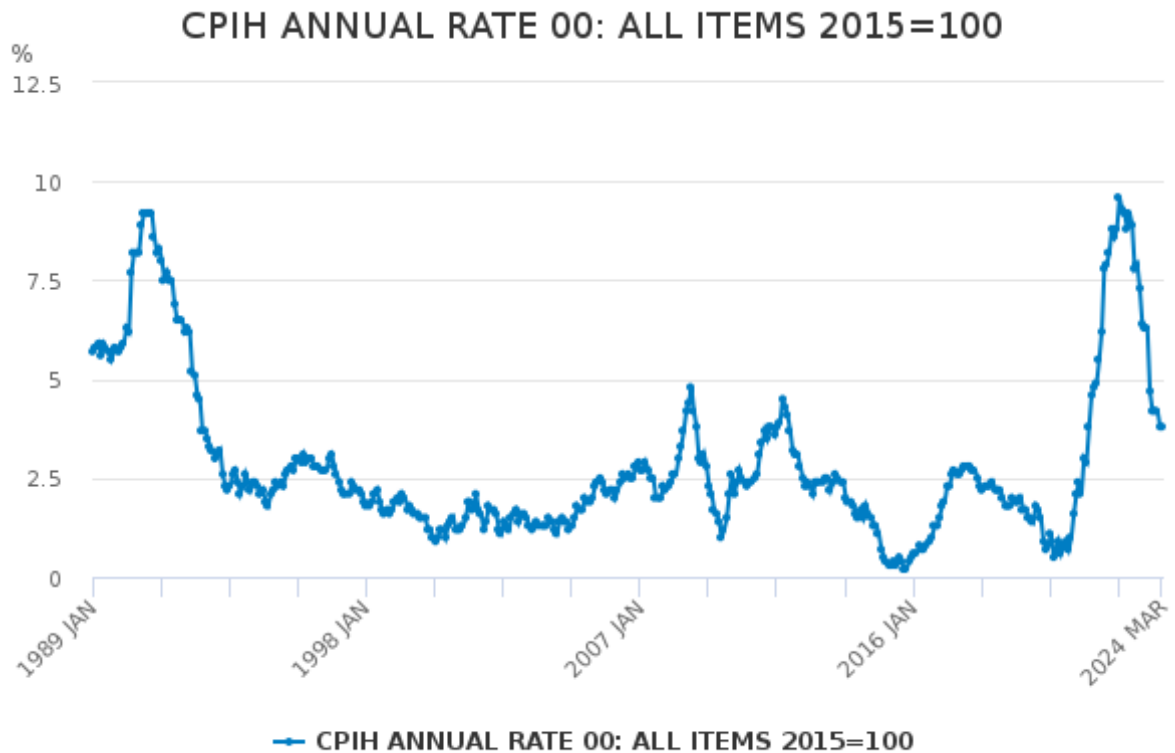


The graph above shows the fiscal balance of countries within the EU (not only Euro Area countries).

If significant fines are levied, this will likely hamper the fiscal position of those states. This will have a flow on impact to capital investment and thus economic activity.

United Kingdom

In the UK, there seems to be a growing rift between the supposedly independent central bank (recall the piece from a few months ago) and the Conservative party. Namely, the Conservative party are wanting interest rates to come down prior to the general election scheduled to be held later in the year. This has likely been given more fuel from the continued decline in headline inflation within the UK.



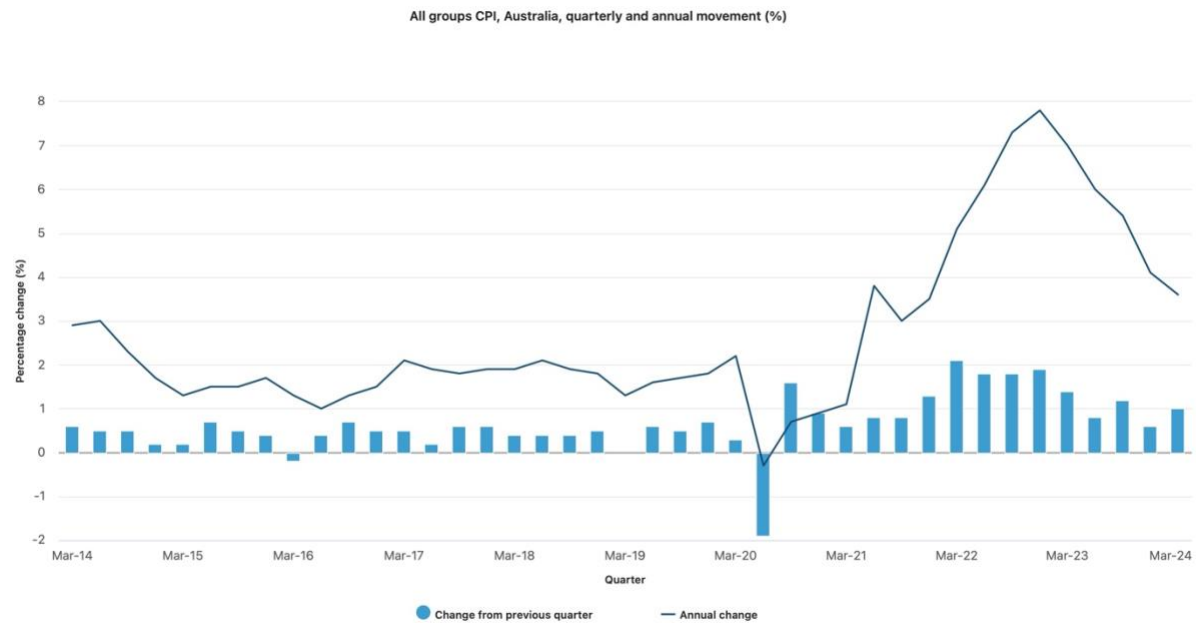
Source:

The graph above depicts the annual CPI rate from January 1989 to March 2024.

Don't expect the Bank of England to acquiesce to the government, however.

Australia

Australian inflation continues to decline. The latest data from the Australian Bureau of Statistics indicate that inflation continued its downward trend from 4.1% in Q32023 to 3.6% in Q12024.



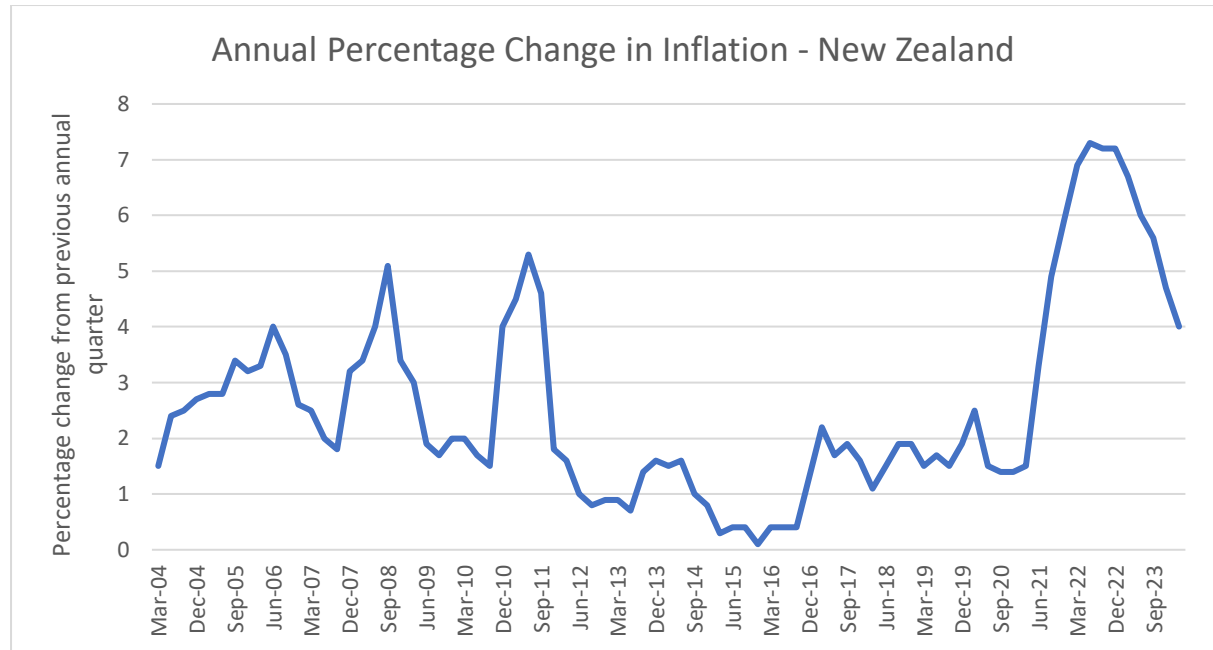
The graph above depicts both the annual and quarterly change in CPI.

Despite this, some commentators are still suggesting that the Reserve Bank of Australia will hike interest rates. However, one of the key reasons (aside from supply and credit-based demand) for continued inflation (such as rents, which account for 68% of the increase of the housing component of inflation) are from the RBAs rate hikes.

New Zealand

Loads of intrigue in New Zealand over the past month. From the sacking of two ministers, deep staffing cuts within government departments and ministries, and the future of money (a digital currency).

Here, let's take a look at recent (17 April) inflation data for Q12024. Indeed, the annual inflation rate has continued to decline. In Q12024, annual inflation was recorded at 4%. From StatsNZ, we see that 'housing and household utilities were the largest contributors to the annual inflation rate. This was due to rising prices for rent, construction of new houses, and rates.



The graph above depicts inflation in New Zealand between Q12004 and Q12024.

It is very interesting to note that StatsNZ have attributed (at least in part) the continued inflationary pressures to the continued increases in council rates. However, interest rates are a key component in how councils determine their rates. This shouldn't come as too much of a surprise given previous MAEUs, but it still seems to be lost on economic commentators.

There will also be some economic damage from the austerity imposed by government. Primarily, the lack of certainty around funding and financing for the 'infrastructure pipeline' has already resulted in civil contractors moving overseas. Again, this is the sectoral balances (as one sector saves, the other sector has to make up the difference to an equal amount). Moreover, the financial pain faced by mortgage holders, as outlined in the latest Financial Stability Report, will likely depress demand even more with more flow on economic impacts likely.

Conclusion

Inflation continues to be the main headline around. However, the antagonism between interest rates, fiscal policy and economic dynamics continues to ring through loud and clear. This will become the headline grabber as time goes on.

Until next month!



Cartoon from Mark Hill

©1987 – present WISEplanning. All Rights Reserved. The integral concepts are part of The Money M – A – T – R – I – X and Wise Asset Management and cannot be used without the written permission of WISEplanning. If you would like further information about The Money M – A – T – R – I – X programme other services and products, please telephone 03 375 7001, fax 03 386 0686 or email admin@wiseplanning.co.nz

Attention: Any form of reproduction, or further dissemination of this content is strictly prohibited. The views and opinions expressed are those of the author, and are not necessarily those of WISEplanning, and are not intended to be a personalised service for an individual retail client. The views and opinions are general in nature and may not be relevant to an individual's circumstances. Before making any investment, insurance or other financial decisions, you should consult a professional financial adviser for personalised advice.

Any calculated projections or any predictions given by me to you are not guaranteed and are merely an expression of opinion and are intended for illustration purposes only.

Product performance can vary over time. The payment of a particular rate of return and the repayment of your capital is not guaranteed by myself, the company or any of its officers. Historical information and performance may not necessarily be a good guide to future performance.

While every care has been taken to supply accurate information, errors and omissions may occur. Accordingly, WISEplanning accepts no responsibility for any loss caused as a result of any person relying on the information supplied.

Any mention of Warren Buffett or other successful investors is not intended to mislead anyone to think that WISEplanning or clients of WISEplanning will be as successful as Warren Buffet and other successful investors.

[Click here to view our Disclosure](#)