MOST CAPITAL MANAGEMENT, LLC

Daily Market Analysis By Michael Kramer

FIRST-QUARTER 2024 THEMATIC GROWTH UPDATE

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First Quarter 2024 Review

Stocks were higher in the first quarter of 2024, continuing their winning ways that started in the fourth quarter of last year. On a gross up-or-down overall, the S&P 500 Index increased 10.16% and outperformed the broader S&P 500 Total Return Index.

The first quarter saw the M7 Mega-Cap Growth Companies increased by 2.8% net of costs and inclusive of dividends versus an S&P 500 total return index of 10.16%. This was an evident disappointment, and as a result, we have dropped the S&P 500 total return over the first-part years, with annualized gains of 13.52% versus the S&P 500 total return annualized gains of 15.05%.

	5/2/8 Gains	5-Yr Annualized	Since Inception
M7 Mega-Cap Growth Companies	2.8%	13.52%	840%
S&P 500 Total Return	10.16%	15.05%	15.00%

The quarter's underperformance resulted from two factors: a concentration of performance in just a few stocks in the overall S&P 500 and, more importantly—yet continues to be ignored in fundamental analysis of the broader market, which is at the heart of the Thematic Growth Fund philosophy.

Nvidia's Impacts on The Market

In the first quarter, Nvidia was responsible for 11.02% of the returns in the S&P 500 total return index, followed by Microsoft, 5.49%, Meta's 5.20%, and Amazon's 2.85% contribution. Of course, we own Microsoft and Amazon and benefited from these positions. However, they could not offset the declines increased by our other holdings during the period.

Apple was the weakest contributor to the S&P index in the first quarter, subtracting 3.32%, followed by Tesla's 2.25%, Adobe's 0.46%, and Boeing's 0.42%.

(Bloomberg)

For us, it came down to owning too few "right" stocks in a market driven mainly by a few individual issues while maintaining a higher-than-normal cash balance.

That said, a cautious, somewhat defensive position is the correct course for the Thematic Growth strategy. With the market being dangerously driven by an Artificial Intelligence monetization narrative, valuations very high, and interest rates at their highest levels in decades, there are too many fundamental signals to be pessimistic about the remainder of the year, and certainly enough evidence to be very cautious about term investment outlook.

The most significant risk to this market presently doesn't seem to be the economy but Nvidia. Nvidia has been the most critical contributor to the gains in the market in 2024. The company is due to report results on May 22, with the first investment-grade bonds from the launch of its AI chip. Revenue growth rates should begin to slow dramatically in the coming quarters, which could be one reason the stock has stalled in recent weeks, with quarts expected to slow.

(Bloomberg)—Nvidia's stock price versus expected sales growth

Usually, I would not discuss a stock we don't own. However, given how vital this stock has been to the index and the market's overall performance, where it goes from here will significantly impact the overall market trends.

Additionally, because the stock is the third largest in the S&P 500, which is market cap-weighted, its earnings and revenue growth will support overall earnings estimates for the S&P 500.

So, a lot is riding on this AI monetization trade now, and whether that rally can continue is questionable. It seems to be a monumental bubble because many companies are spending a lot on AI but aren't necessarily seeing the benefit of AI in greater revenue. In contrast, only a handful, mostly Nvidia, seem to be benefit.

Higher Rates and Sticky Inflation Pose Risks

More fundamentally, we are dealing with a market that appears to be overvalued when considering where Treasury rates are currently. This is especially true given that inflation remains sticky in the mid-3% range, which likely means that rates will remain higher for a more extended period.

S&P 500 earnings are expected to grow 11.4% over the next 52 weeks, while the risk-free rate is around 4.5%. That means the expected earnings growth rate above the risk-free is around 6.9%. For that, investors are paying about 20.1 times earnings. The risk-adjusted growth rate was higher from early 2017 until late 2018, when the PE ratio was lower. Nonetheless, in 2021, the PE ratio was around 22, with a rate of growth above the risk-free well above 20%, based on the nearly zero federal funds rate.

S&P 500 Index + Last Price
S&P 500 Index (Market Cap) Net, USD
SPX Index
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