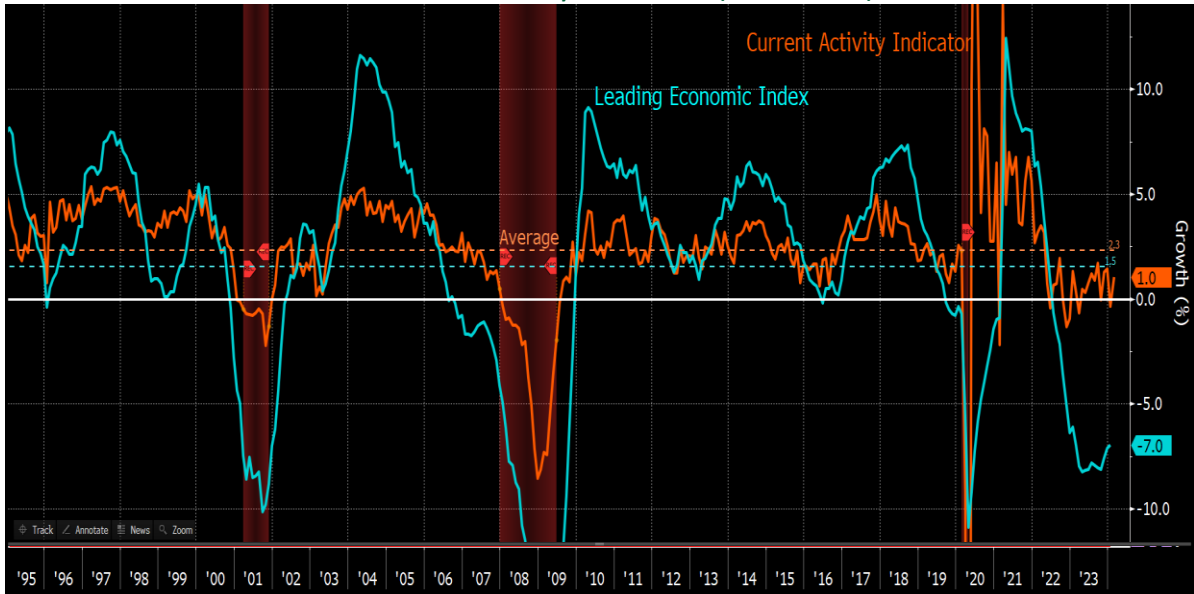


“More important than the will to win is the will to prepare.”

Charlie Munger

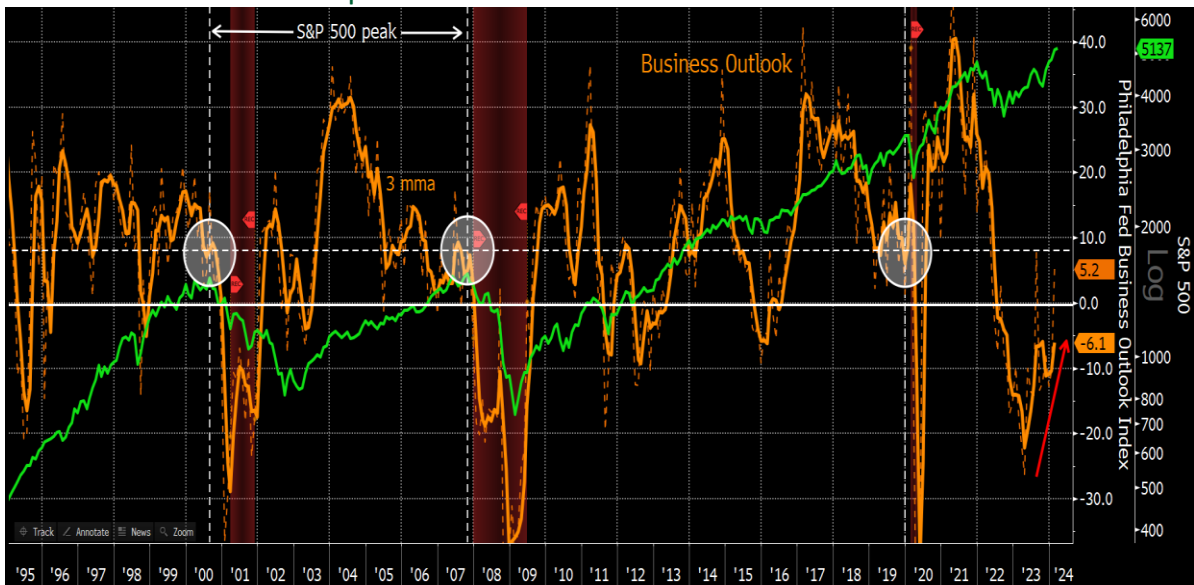
1. US ECONOMY

US – Conference Board Leading Economic Index vs Goldman Sachs Current Economic Activity Indicator (% Growth)



The authoritative Leading Economic Index in the above chart is in the process of turning for the better off a low base. This usually happens at the end of a recession. The Current Economic Activity Indicator has been hovering marginally in positive territory for quite a while already.

Philadelphia Fed Business Outlook Index vs S&P 500



The above Business Outlook Index is also turning for the better off a low base, delivering a similarly constructive message. Further to this, it is currently still in negative territory. As indicated with the dotted lines, stock market peaks occurred when this Index dropped from elevated levels. Overall, these charts support our perception of a soft economic landing instead of a deep recession.

2. US FINANCIAL CONDITIONS

Apart from the economic conditions, capital markets are of course very dependent on the financial conditions in terms of how supportive or restrictive they may be.

US – Bloomberg Financial Conditions vs S&P 500



According to the above Bloomberg Financial Conditions Index (based largely on yield spreads), conditions are currently largely supportive of risk assets following the very restrictive conditions a while ago. The Index has historically often stayed supportive for long. Seeing historic trends, current indications are that it may be possible to stay supportive for a while again.

Goldman Sachs Financial Conditions Index vs S&P 500



Apart from interest rates and credit spreads, the wider Goldman Sachs Financial Conditions Index also considers the Dollar, equity prices and market volatility. Whilst less bullish than the Bloomberg Index, it has recently also moved to a more constructive level.

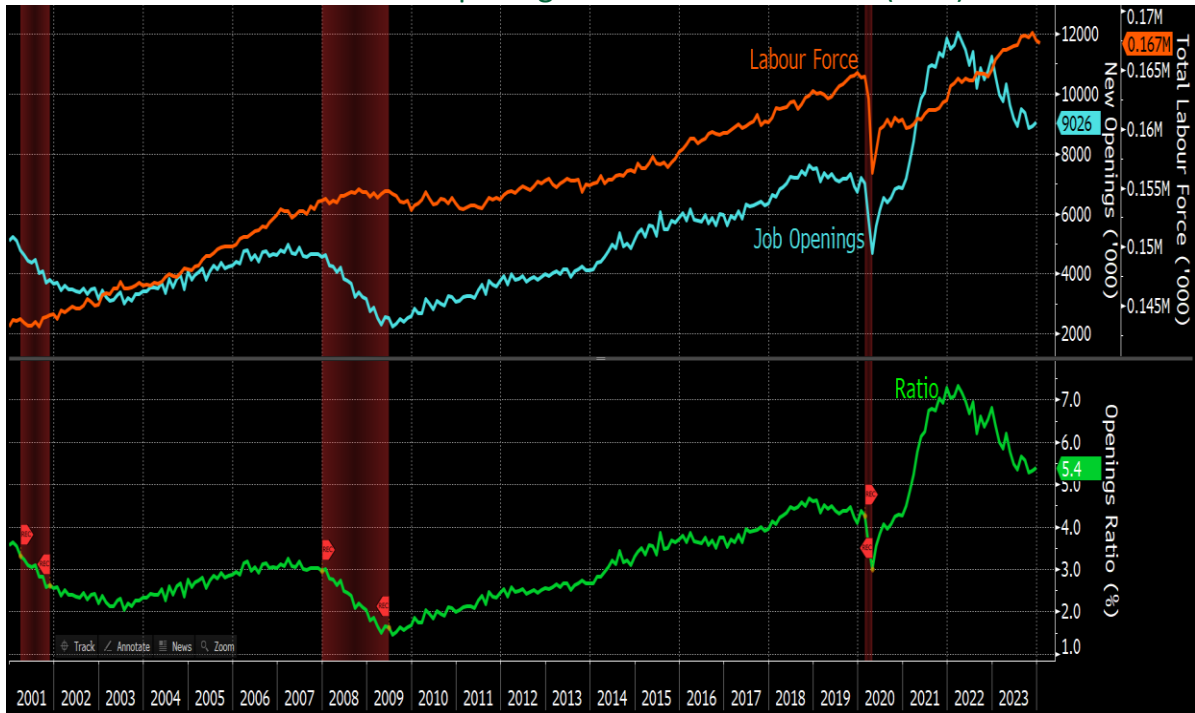
Overall, US financial conditions seem to support risk assets currently.



3. US EMPLOYMENT

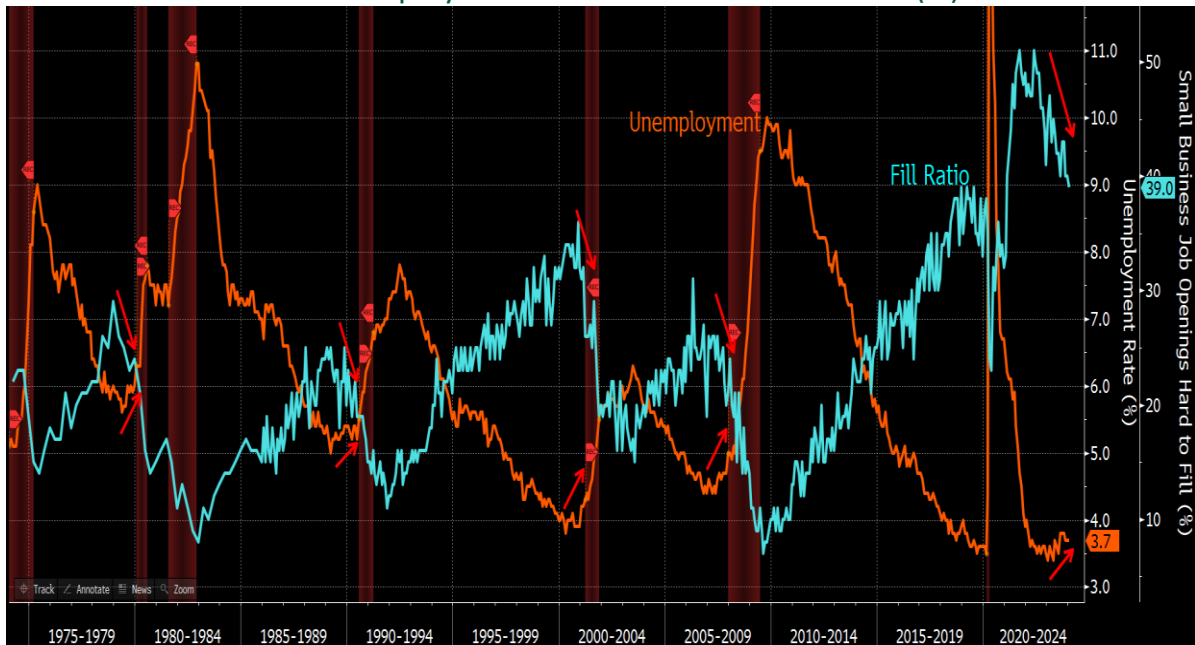
With the US economy so dependent on consumption, we continuously monitor its employment data:

US – New Job Openings vs Total Labour Force ('000)



The top section of the above chart depicts the new job openings and the total size of the labour force. Job Openings have dropped from 12 million two years ago to the current 9 million. Whilst this seems to be a large drop, the current number remains above the pre-Pandemic peak. Expressing the Openings as a Ratio of the Total Labour Force in the bottom section of the chart, we get a similar message – it is a large drop, but remains above the pre-Pandemic peak level. We must continue monitoring these numbers carefully.

US – Unemployment Level vs Job Fill Ease Ratio (%)



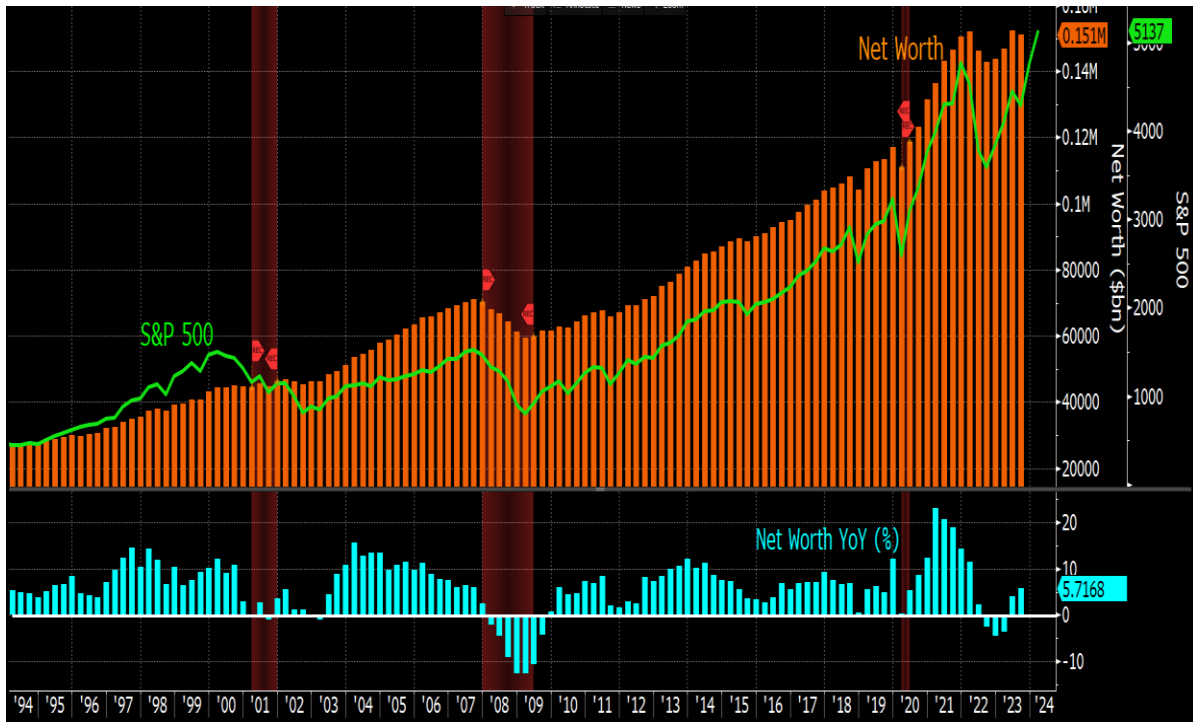
The ease with which Job Openings can be filled is another valuable indicator (the blue line in the above chart). Following the Pandemic, it was the hardest on record to fill new openings. This has eased materially but, likewise, is still at the most difficult levels pre the Pandemic. With unemployment levels increasing (the orange line), we must keep our fingers on the employment pulse in assessing potential recession risks.



4. US CONSUMER

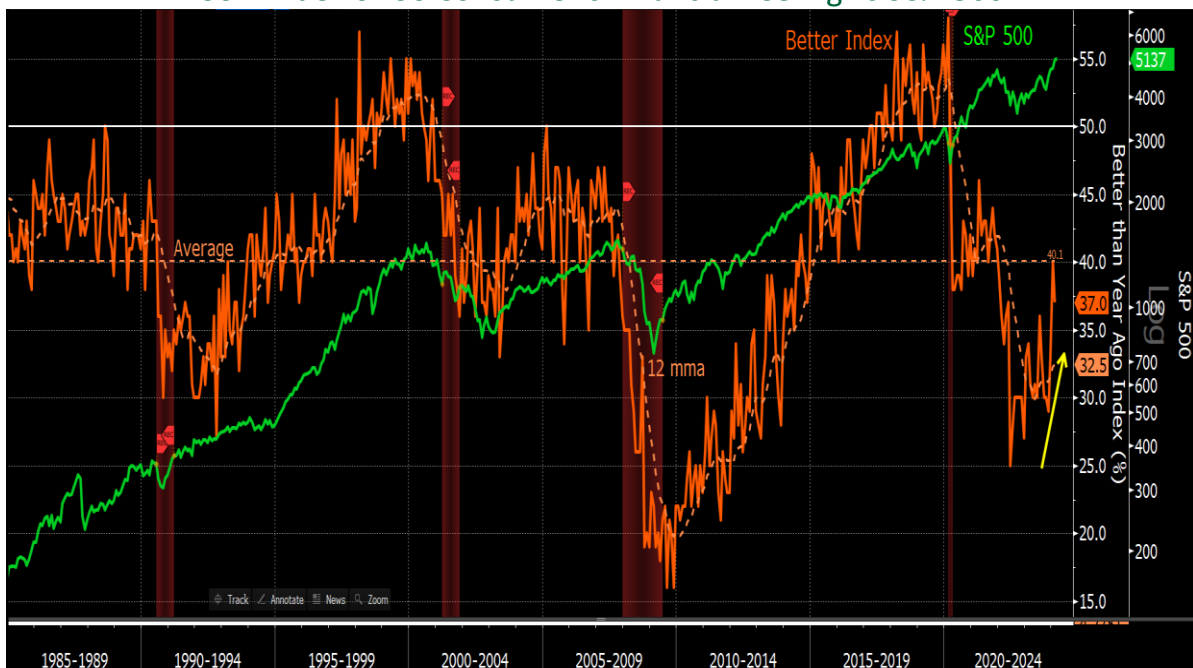
Continuing the consumption theme, we consider in this paragraph the US consumer's financial situation:

US – Household Net Worth vs S&P 500



The US consumer's total net worth suffered during the 2022 cycle of sharply rising interest rates but has since recovered close to record levels (the orange bars) to \$151,000, growing at +5.7% over the past year (the blue bars). It is 112% higher than the pre-Financial Crisis peak and 28% higher than the pre-Pandemic peak level. It is clear that the average US consumer's balance sheet is healthy.

US – Index of US Consumer's Financial Feeling vs S&P 500



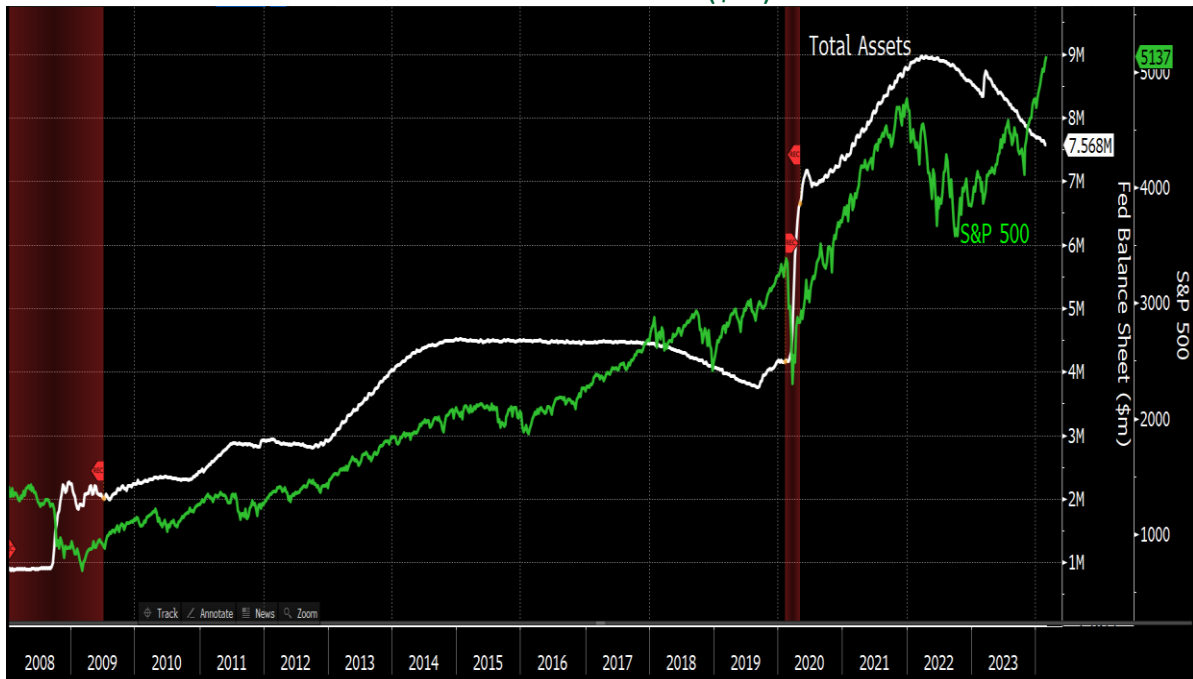
The orange line in the above chart reflects the percentage of survey respondents that believe their financial positions are better than a year ago. This ratio is in the process of recovering and is currently close to its long-term average. This constructive trend is also reflected in the official consumer confidence indices.



5. FED BALANCE SHEET

Some investors fear the potential impact on interest rates from the continued process of the Federal Reserve (Fed) reducing its balance sheet.

Federal Reserve Balance Sheet (\$m) vs S&P 500



Historically, the Fed's balance sheet has been rather supportive of risk assets, as reflected in the above chart. Over the past year and a half it has shrunk its balance sheet by \$1.5tn (-15%) with a contrary (positive) result on share prices.

Federal Reserve Balance Sheet as a Ratio of US GDP (%)



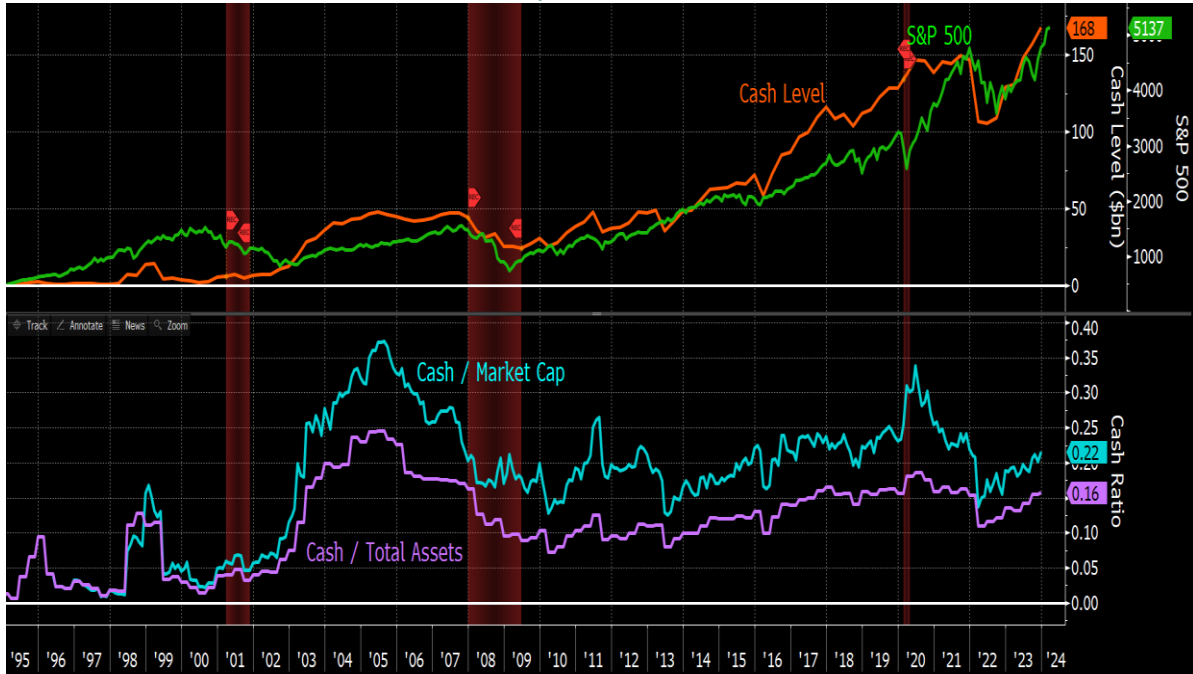
The size of the Fed's balance sheet as a ratio of the US GDP keeps dropping and has been reduced from 36.4% to 27.6% (-8.8%). There is another 5.0% to go to take it to a long-term average of 21.6%. We believe the proverbial 'heavy lifting' in this context has been done and the worst effects on capital markets have mostly been factored in. On this basis, we believe interest rates going forward will rather reflect economic reality than potential capital market constraints.



6. BERKSHIRE HATHAWAY

Warren Buffett commented in his annual letter that Berkshire Hathaway’s cash pile is its ‘not-so-secret weapon’ and that the business ‘holds a cash and US Treasury bill position far in excess of what conventional wisdom deems necessary’. It is also a fact that the business now earns more interest than dividend income – thanks to the cash pile of \$168bn.

Berkshire Hathaway – Cash Position vs S&P 500



The top section of the above chart depicts the cash level (the orange line). The business has generally been able to invest more at lower share prices (the green line). Buffett’s comment that he plans to ‘sit on the cash’ is no surprise considering current share prices.

As a ratio of Total Assets, the Cash level currently is 16% (the purple line). It makes up 22% of Market Capitalisation (the blue line). Whilst relatively high, these are by no means record levels. Historically, Berkshire has found good opportunities to invest at the right time.

7. ALL-TIME RECORD

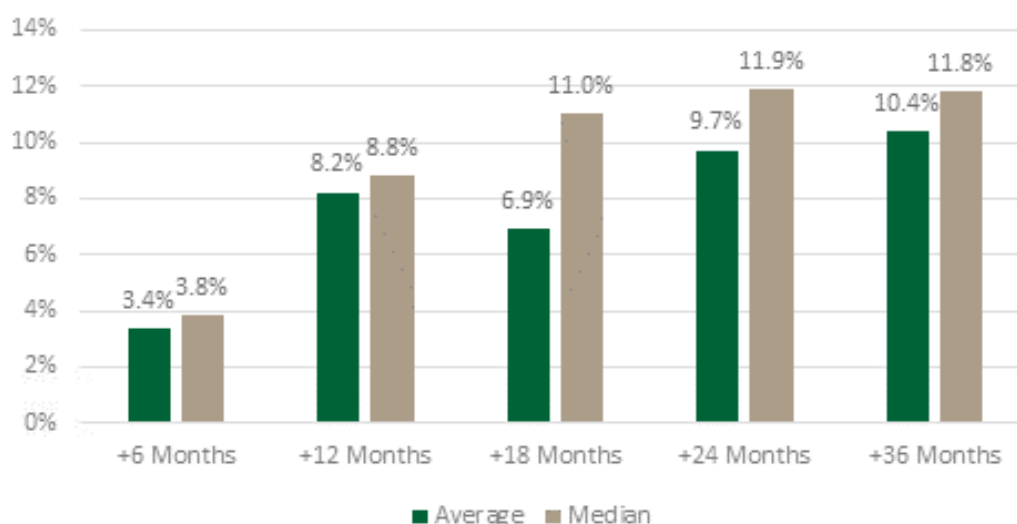
S&P 500 – Technical Picture



The S&P 500 is currently at another record level, seven percent above its pre-Fed tightening peak level. As is clear on the preceding chart, it ticks all the most important technical boxes (above the Golden Cross, above the 50- and 200-day moving average, both the latter in rising trends, and above its Fibonacci level). Other technical indicators (% of stocks above the upper Bollinger level, above the 70 RSI levels and at new 52-week highs) are all elevated, though not at extreme levels. The Put/Call Ratio is high, but not elevated. The Greed Index (not reflected in the chart above) is at a record level.

A logical question is whether a new stock market high should be a deterrent for further investment. To consider this, we calculated historic returns in this context:

S&P 500 Equal Weighted – Annualized Returns Following New Record Highs (% p.a.)



The chart is consistent in its conclusions. Positive returns have generally been earned on Index returns following new stock highs. On this basis, investors do not need to shy away from making new commitments, but of course should first make sure about the fundamentals of each consideration.

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