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The Heartland Group at Morgan Stanley Investment Insights

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The Good, the Bad and the Ugly

The first week of March has proven to keep momentum intact as the S&P 500 hits another all-time high. 5165 an intraday high when writing this. S&P 500 is up 8.2% so far this year. The tech heavy NASDAQ up 8.6%.[1] The S&P 500 index continues to climb to my expected range of 5200-5400 as noted in the last two newsletter.

However, if one looks a little bit closer, details matter. By now you may have heard the markets good performance over the past year or so, has been concentrated in just 7 names, what investors have coined "the *Magnificent 7*". (Apple, Google, Microsoft, Nvidia, Meta, Tesla, and Amazon.) What is interesting of late is that three of these are down from their highs and appear to have been previously priced to perfection. All the good news may have already been baked into their stock price.

Down from their highs, the Magnificent 7 isn't looking all that magnificent lately. Nevertheless, with four names being at or near all-time highs, the Magnificent 7 look more like a differently named western, the *Good, the Bad and the Ugly.*[1]

I don't want to oversimplify it, but what that is telling me, is that this market rally is starting to broaden out. Some of the leadership stocks are pulling back, but the overall market is continuing to make new highs. The other 493 stocks in the S&P500 are participating, which is good and healthy for a bull market.

Even though we have anecdotal evidence of bull momentum continuing, we still want to look at the macroeconomic factors. The Federal reserve appears to be keeping rates where they are, and our Morgan Stanley Chief US Economist still believes the Fed may start its first rate cut in June.[2] I personally would not be surprised if the first cut isn't even later. M2 Money supply is still at 2,781.8Billion[3] down from the highs of March 2022, but has recently levelled off. With January PCE is still at 2.4%[4] , Chairman Powell's remarks at Wednesday's House Financial Services committee stated Fed Core PCE forecast expected by year end to be 2.3%[3], and if "the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year."[3]

Basically, he changed his previous language from "mid-year" to "some point", to me sounds like rate cuts coming later than the market currently expects.[2] I think the Fed is waiting to see the economy slow more, however GDP is still trending around 2.5% and consensus expectations is at 2%[6] Which tells me investors are underestimating the strength of the economy.

Bottom line, I think stocks still make sense to invest and slightly overweight and be mindful of this rotation out of the recent leaders like the Magnificent 7. Seeing some of the market leaders down this year may just be temporary, but in my opinions it's a reversion to the mean and the sign of a bull stock market broadening out in the late stages of a market cycle.

1 Dow Jones/ Reuters news and Thompson One
2 US Economics: Semi-Annual Monetary Policy Testimony
3 M2 (M2SL) | FRED | St. Louis Fed (stlouisfed.org)
4 Personal Income and Outlays, January 2024 | U.S. Bureau of Economic Analysis (BEA)
5 GDPNow - Federal Reserve Bank of Atlanta (atlantafed.org)

The greatest compliment one can give us is a referral to their friends and family.
As always, please call or email us with any questions or concerns about the management of your family's wealth.

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Disclaimers:

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