

Research Triangle AAI

August 10, 2024

What's the Market Smoking? Valuation, Concentration, Confidence and Complacency Are All Quite High.

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Piedmont Trust Company**

John earned a BA from Davidson College and a PhD from UNC-Chapel Hill. He has held faculty positions at the University of Virginia's Darden Graduate School of Business Administration and UNCG's Bryan School of Business and Economics. John's practical experience includes trading commodities for a NYC investment bank and relationship and investment management roles for private wealth and family office firms. He holds the Chartered Financial Analyst designation and is a member of CFA Institute and the CFA NC Society. John serves his community on the Finance and Administration Committee of the United Way of Greater Greensboro and the Board of Family Service of Greensboro Foundation.

Since 1928, Piedmont Trust Company has served as the family office for a large Greensboro-based family now in its sixth generation. Piedmont also works with other multi-generation families to meet their investment management, fiduciary, tax planning, foundation administration, and estate and financial planning needs.

August 2024 Discussion Agenda

Personal Declarations

- Like you, I am an individual investor & am speaking as such, **not for Piedmont**
- I am worried about the adjustment required to exit current policies & return to a more stable path

Key Question #1—what do current valuations mean for expected return & asset allocation?

Bottom line—**beginning valuation critical to long-term realized returns**

Key Question #2—can 19 policy makers fine tune a \$25 trillion economy?

Bottom line—is “the courage to act” the same thing as doing the right thing?

Have you read Ben Bernanke's book?

Key Question #3—what strategies might improve portfolio diversification?

Bottom line—there is “value” in rebalancing, value investing and non-correlated strategies

Key Question #4—what can an individual investor do to manage risk?

Bottom line—know your time horizon & risk tolerance, learn about options, consider cash & gold

*Remember - the stock
doesn't know you
own it!*

Key Question #5—is fiscal policy sustainable?

Bottom line—yes, right up until the bond vigilantes awake!

Quiz

Name an item that people buy less of when its price is cut 40% - 50%?

Reminder

The volatility of price is greater than the volatility of value.

In America, there is no constituency for pain

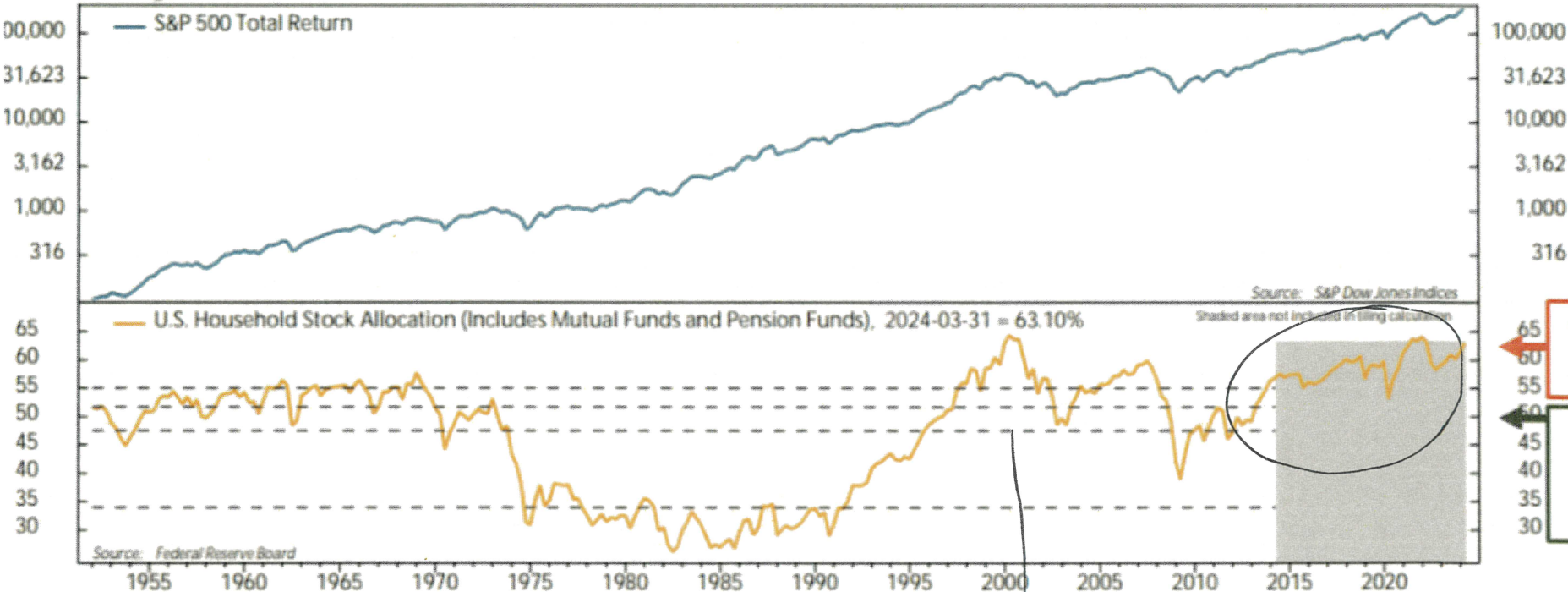
Valuation is poor timing tool, but historically has proven accurate about returns going forward.

	Latest	Month ago	Beginning of year	Percentile since		
				2000*	1970*	1950*
P/E ratio (LTM)	27.78	27.96	25.09	81%	88%	91%
P/E ratio (NTM)	23.09	23.20	21.68	98%		
CAPE ratio	35.47	35.22	32.37	95%	93%	95%
P/Dividend ratio	1.31%	1.32%	1.47%	96%	95%	96%
P/Sales ratio	2.91	2.88	2.59	96%	98%	99%
P/Book ratio	4.93	4.89	4.43	100%	99%	99%
Q ratio	2.22	2.20	1.95	100%	100%	100%
Buffett ratio (Market cap/GDP)	1.95	1.93	1.73	98%	99%	99%
Average household equity allocation	50.0%	50.0%	48.3%	97%	97%	98%
S&P 500/M2 money supply ratio	0.25	0.25	0.23	100%	95%	

*100% most bearish

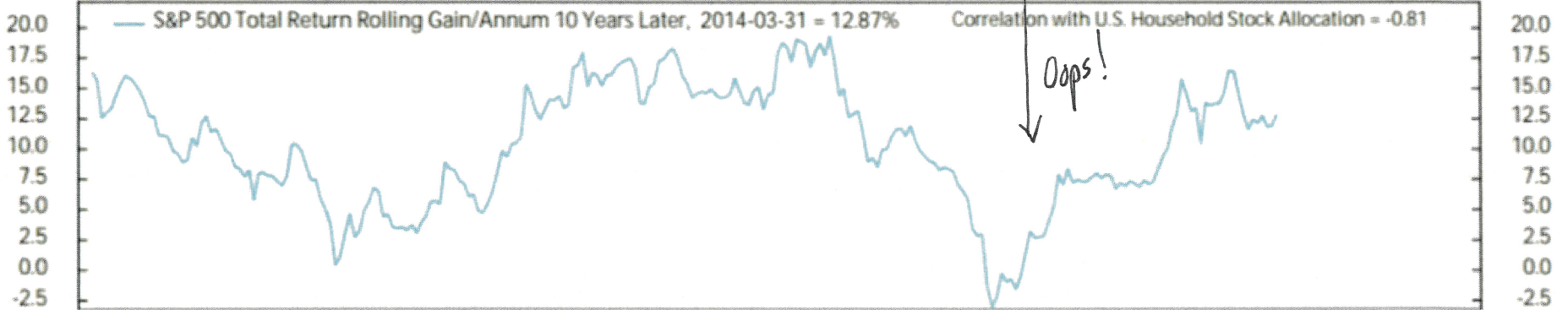
Source: Hulbert Ratings

Rolling 10-Year S&P 500 Total Returns And U.S. Household Stock Allocation



**We are here
5-31-2024**

**We'd be better here
5-31-2024**

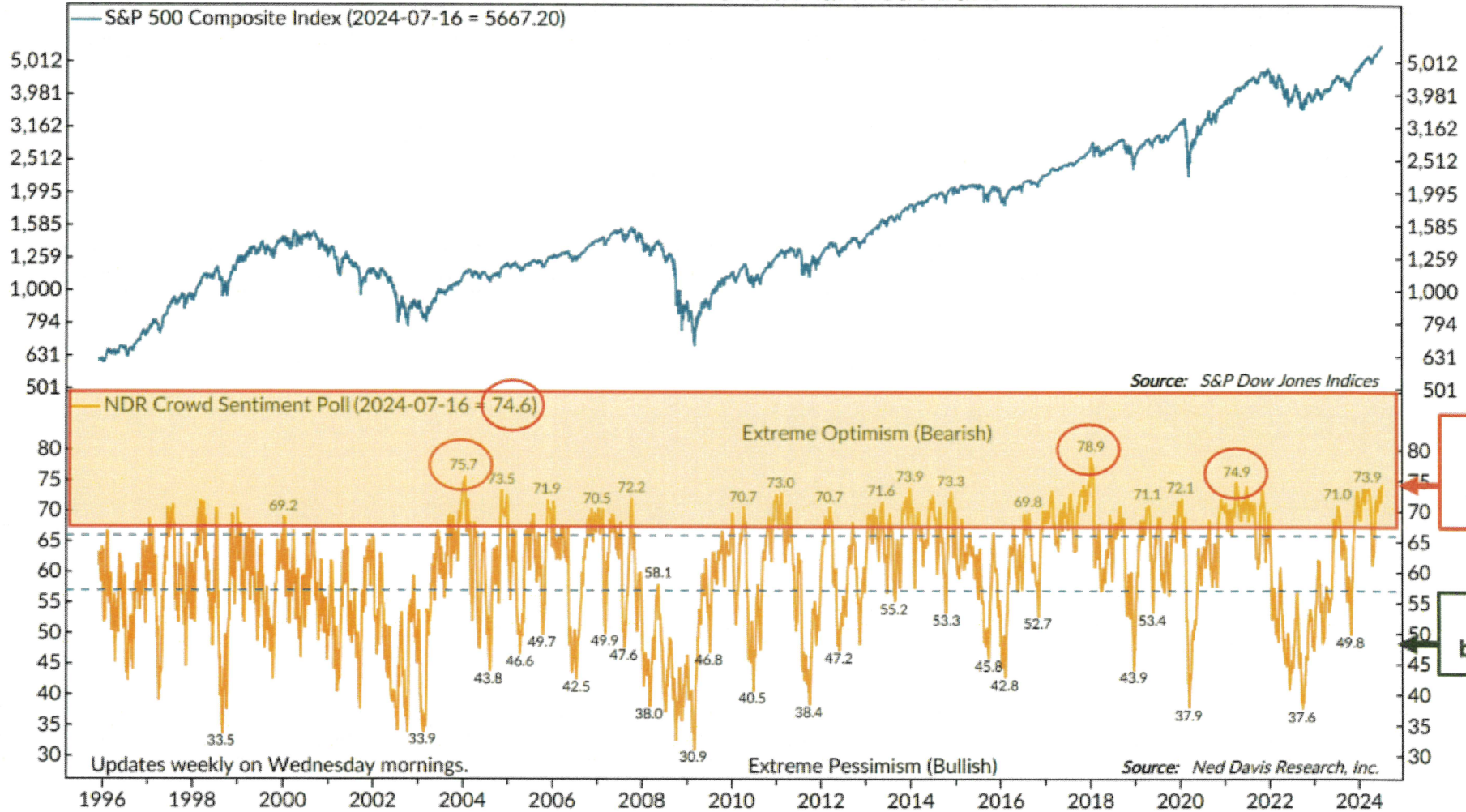


Stock Allocation Quintile	Average Stock Allocation	Low GPA% 10 Years Later	High GPA% 10 Years Later	Average GPA% 10 Years Later
Highest 20%	57.48	-3.03	12.87	4.49
2nd Highest 20%	53.61	2.78	12.77	8.01
3rd Highest 20%	49.83	4.76	16.35	10.41
4th Highest 20%	40.23	8.38	16.95	12.82
Lowest 20%	30.67	13.68	19.36	16.38

Middle Clip: The U.S. household equity allocation as a percent of total equities, bonds, and cash (% invested position).

S&P 500 Index vs. NDR Crowd Sentiment Poll - Transitional Mode Basis

Daily Data 1995-12-01 to 2024-07-16

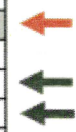


We are here here
7-16-2024

We'd be better here

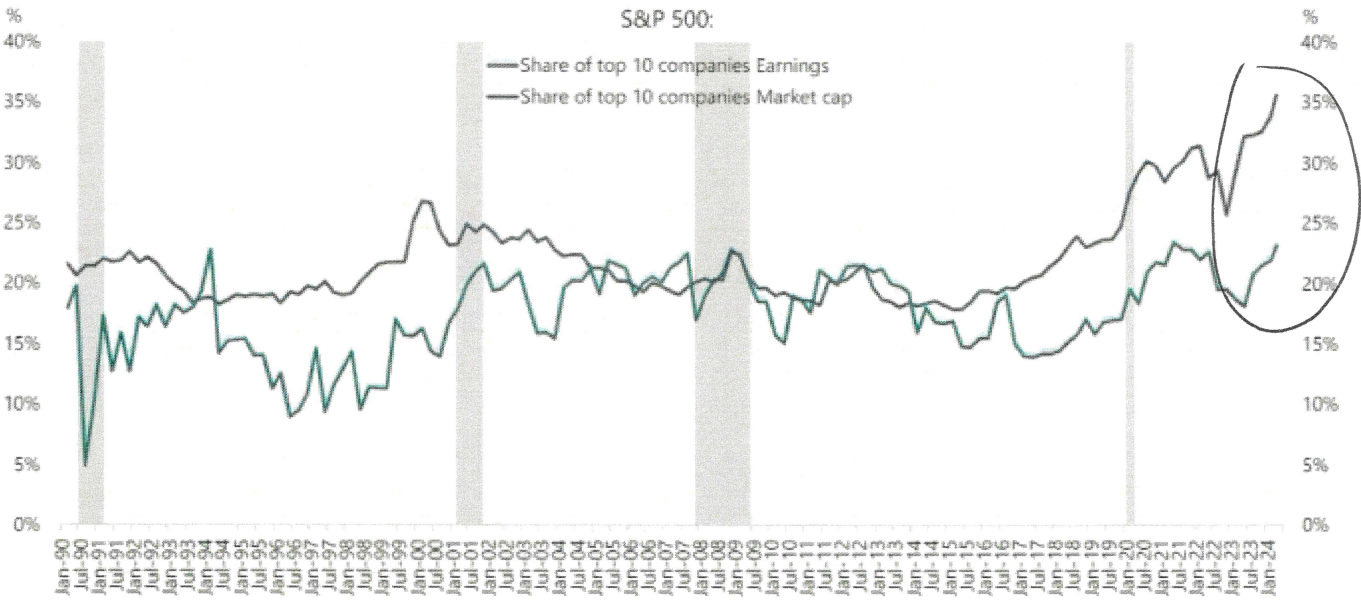
Where you start matters.

S&P 500 Index Performance		
Full History: 1995-12-01 to 2024-07-16		
NDR Crowd Sentiment Poll is	% Gain/Annum	% of Time
Above 66.0	1.57	28.43
57.0 to 66.0 From Above	2.71	17.30
57.0 to 66.0 From Below	19.80	18.05
Below 57.0	10.82	35.84
<i>Buy/Hold = 8.11% Gain/Annum</i>		



S&P 500: Record-high bullishness on future earnings

APOLLO



Yes, we're smoking something.

Source: Bloomberg, Apollo Chief Economist

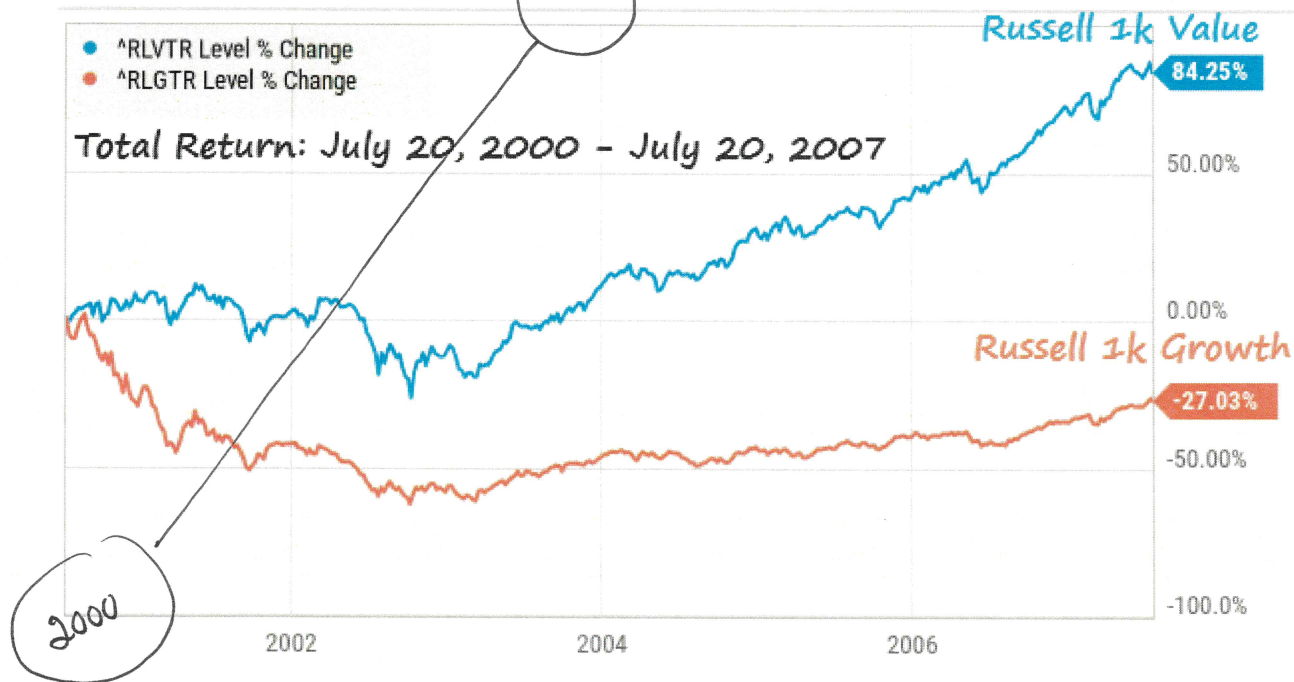
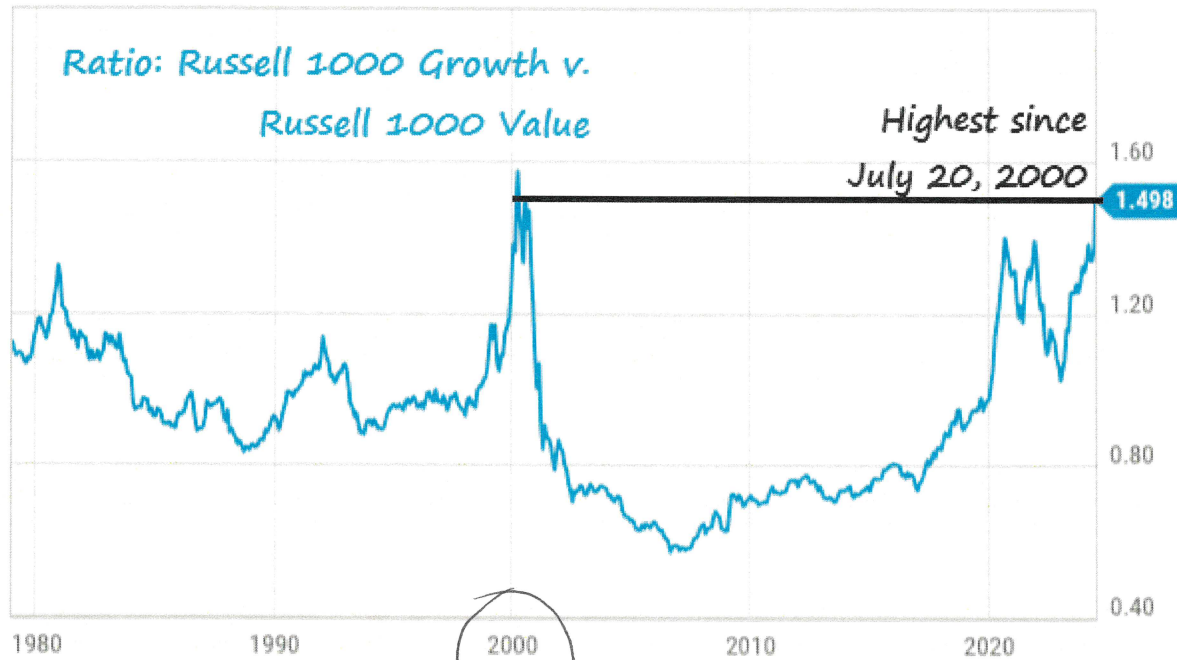


Huge divergence.

^SPXTR Level / ^RUTTR Level



History provides lots of warning.

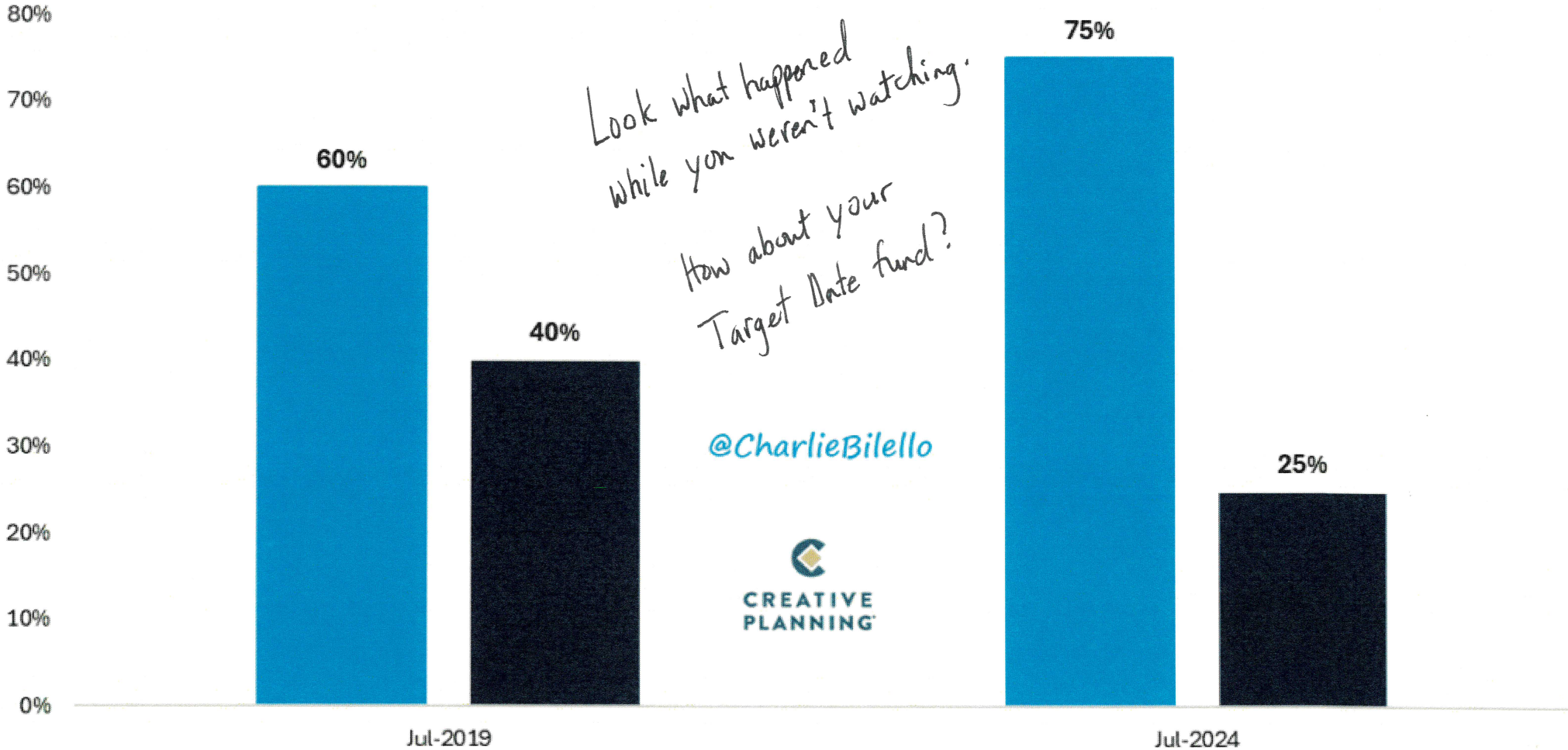


Ditto!

Rebalance
Diversify

Changes in US 60/40 Portfolio Weights over Last 5 Years

■ S&P 500 ETF (Stocks) ■ US Aggregate Bond ETF (Bonds)



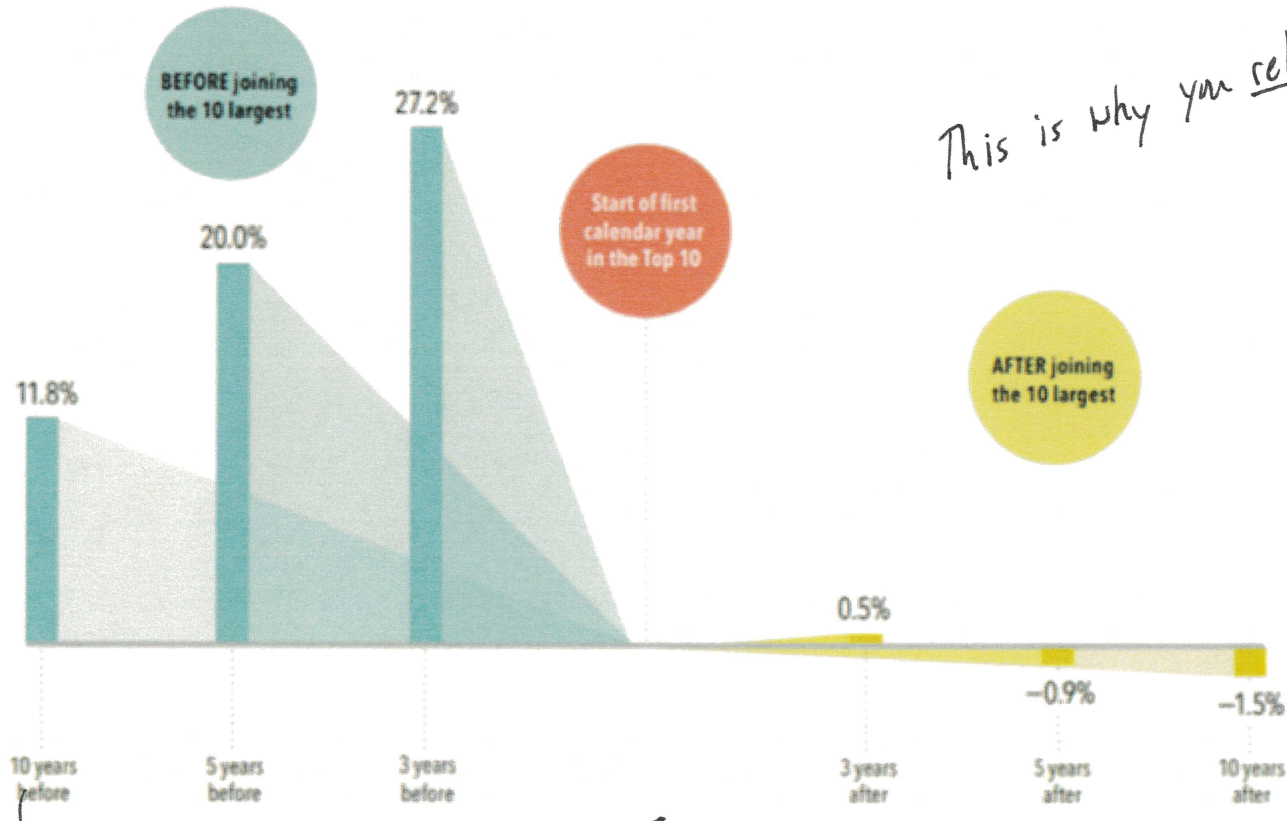
*Look what happened
while you weren't watching.
How about your
Target Date fund?*

@CharlieBilello



History Suggests Not Chasing Highflyers

Average Annualized Outperformance of Companies Before and After
The First Year They Became One of the 10 Largest in the US*



This is why you rebalance!

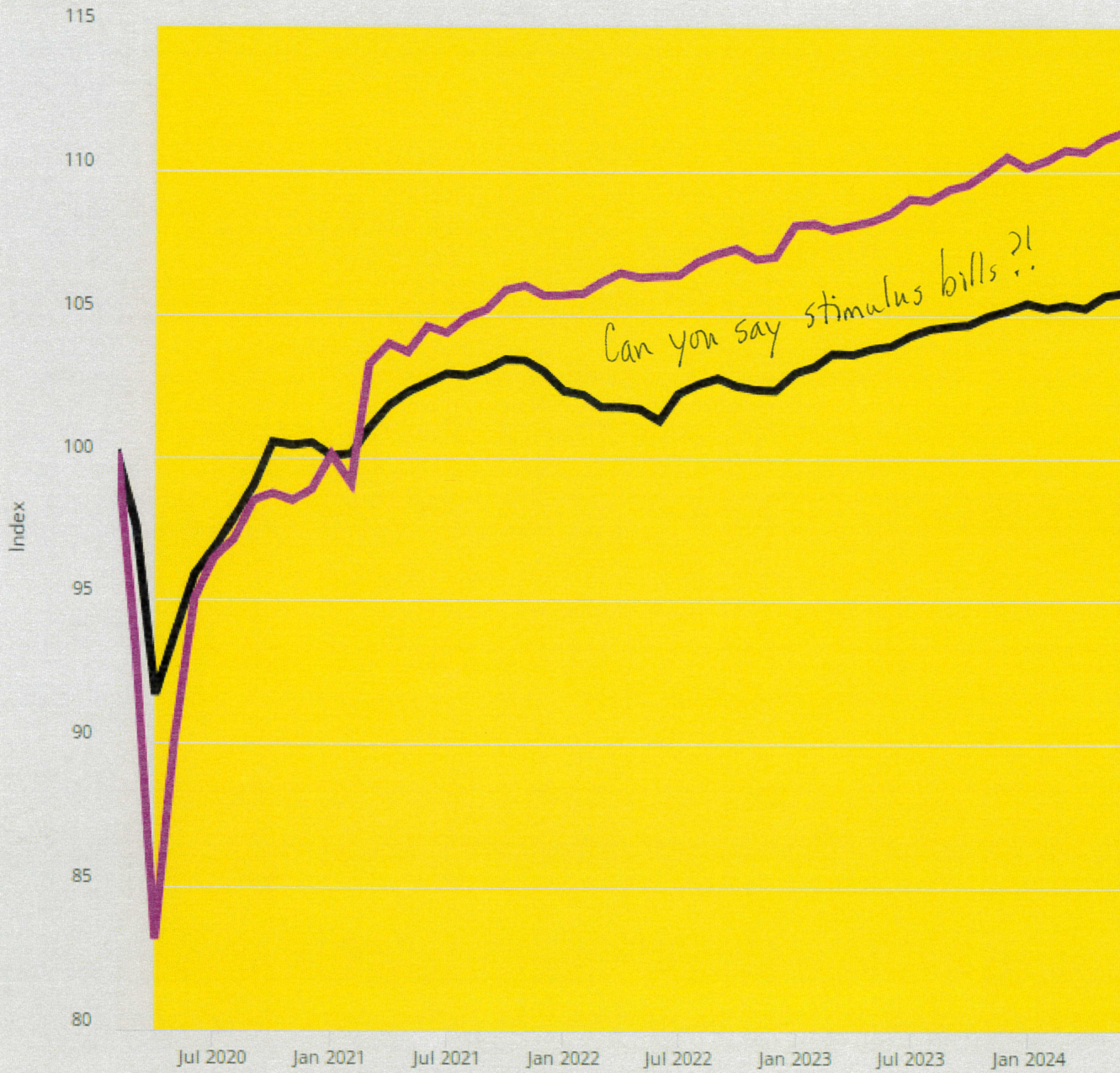
*Note: Compared to Fama/French Total US Market Research Index, 1927-2023
Source: Dimensional Fund Advisors

This is how you get big!

Then, competition, etc.

FRED

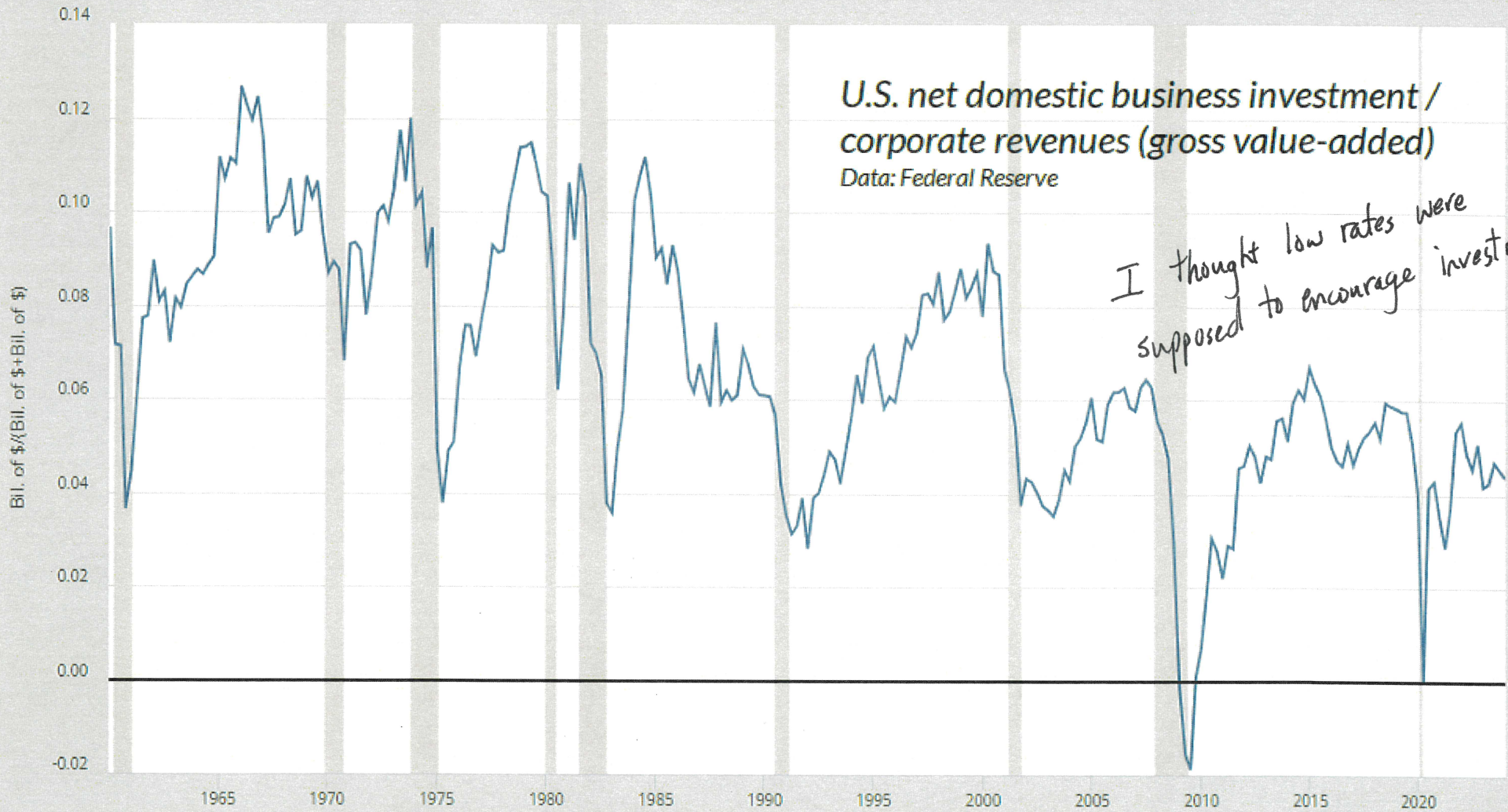
— Real personal income excluding current transfer receipts, Feb 2020=100
— Real Personal Consumption Expenditures, Feb 2020=100

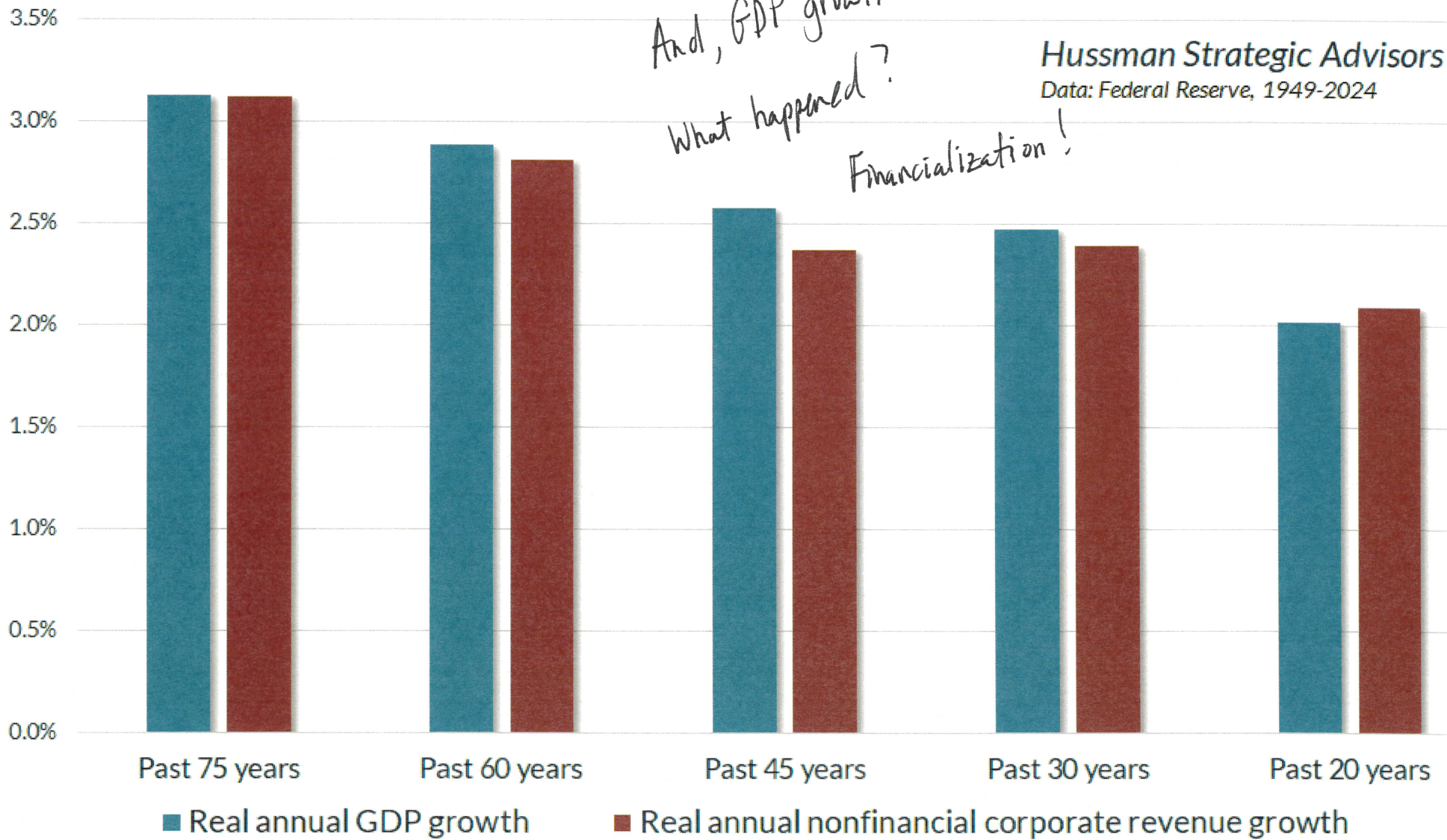


Source: U.S. Bureau of Economic Analysis

FRED

— Net domestic investment: Private: Domestic business/(Gross value added of financial corporate business+Gross value added of nonfinancial corporate business)

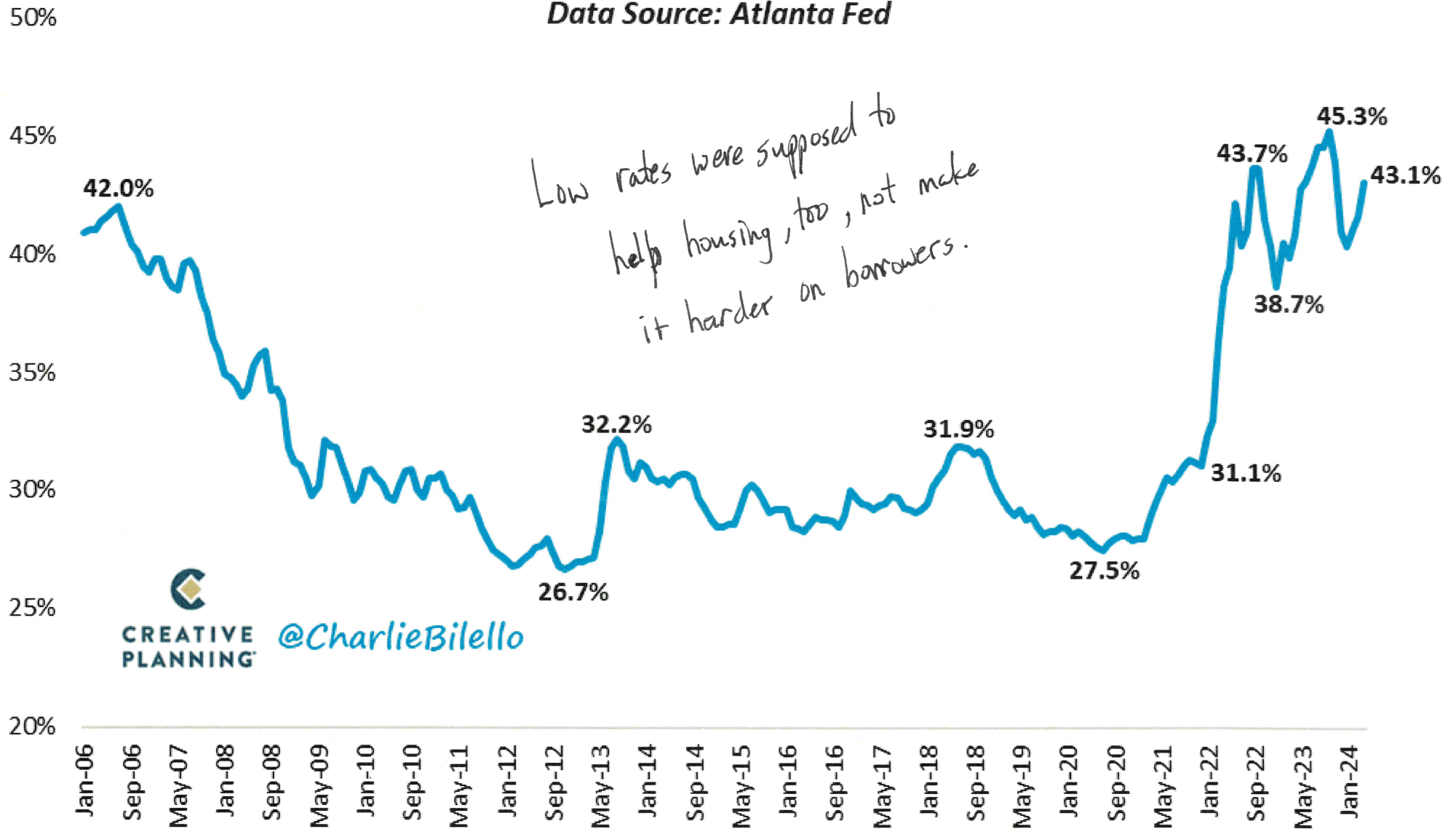




US Median Housing Payment as % of Median Income

(Note: Payment includes P&I, Taxes, Insurance, PMI)

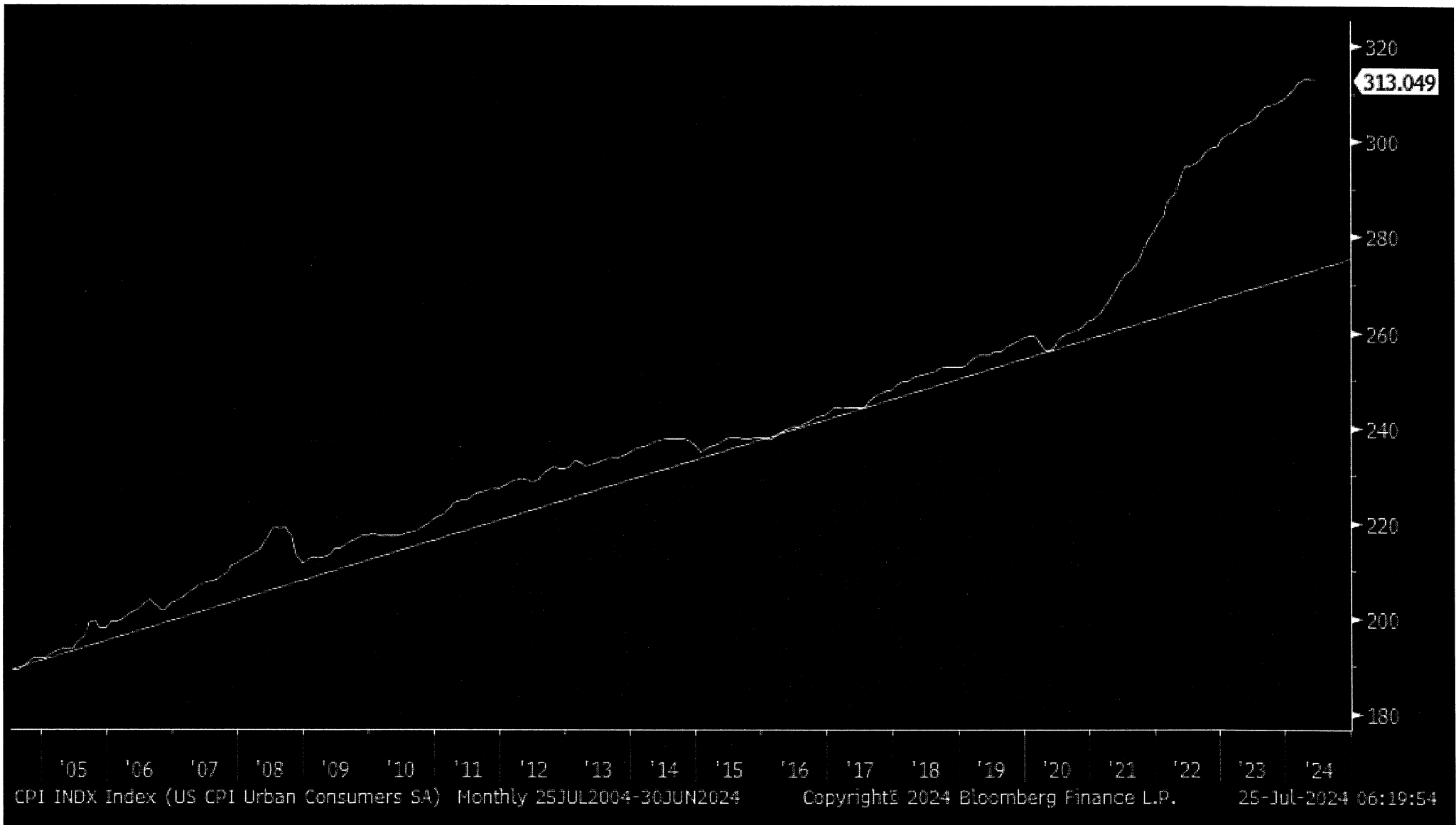
Data Source: Atlanta Fed



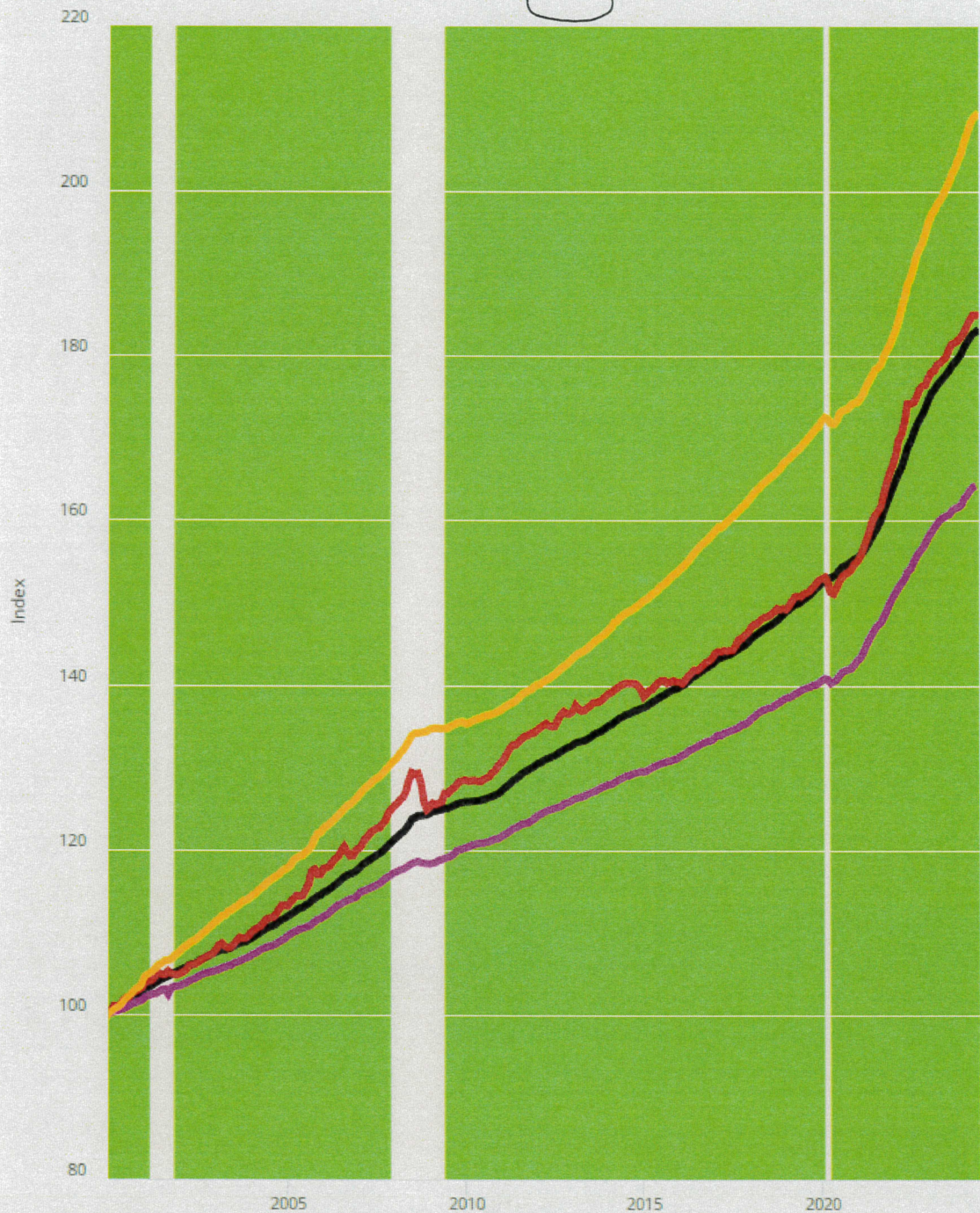

CREATIVE
PLANNING

@CharlieBilello

Hmm, a funny thing happened in 2020.



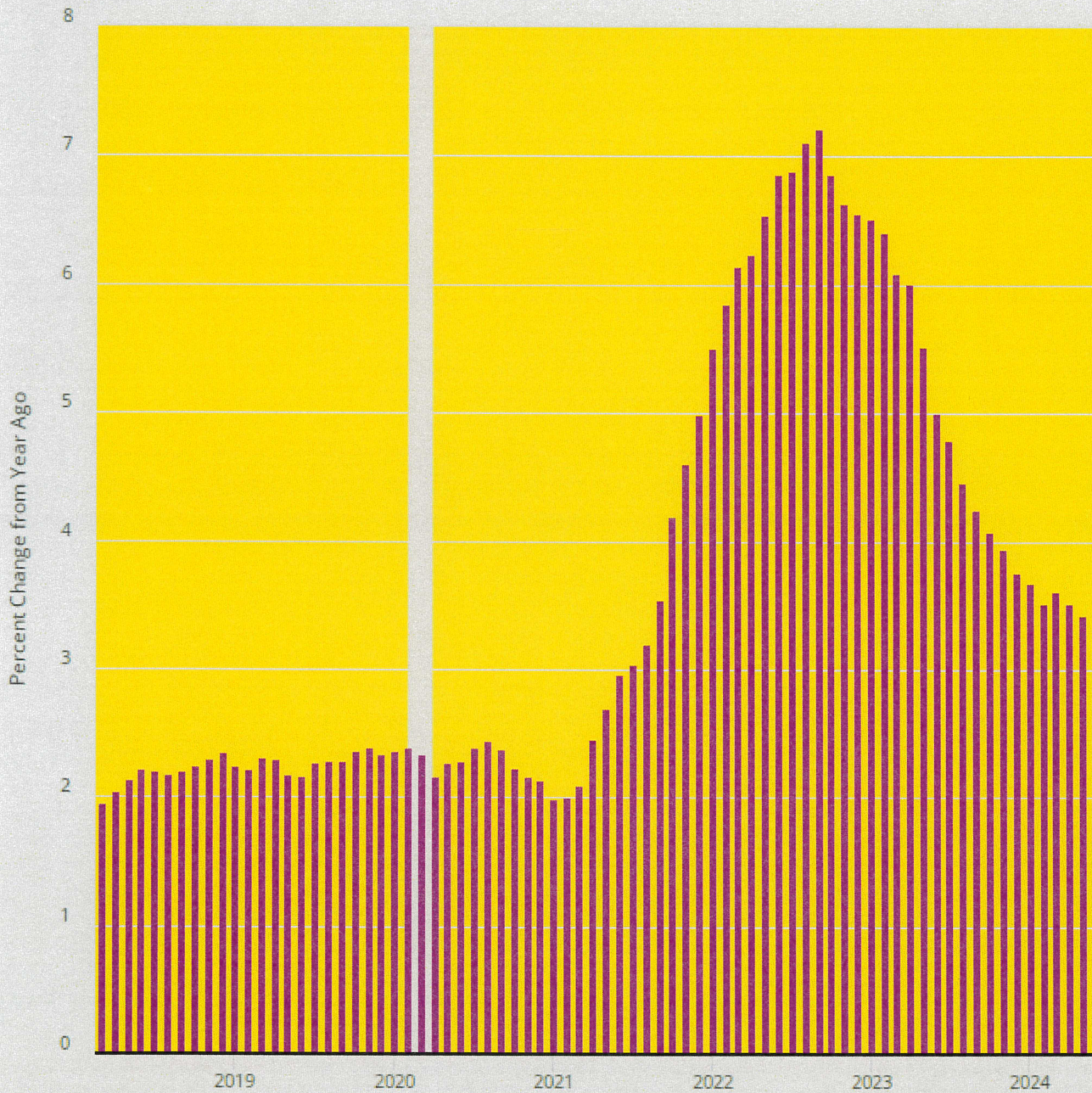
- 16% Trimmed-Mean Consumer Price Index, Jan 2000=100
- Personal Consumption Expenditures Excluding Food and Energy (Chain-Type Price Index), Jan 2000=100
- Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, Jan 2000=100
- Consumer Price Index for All Urban Consumers: Services in U.S. City Average, Jan 2000=100



Services are the sticking point.

FRED

16% Trimmed-Mean Consumer Price Index



Source: Federal Reserve Bank of Cleveland

Will Fed achieve their target?

Services again!

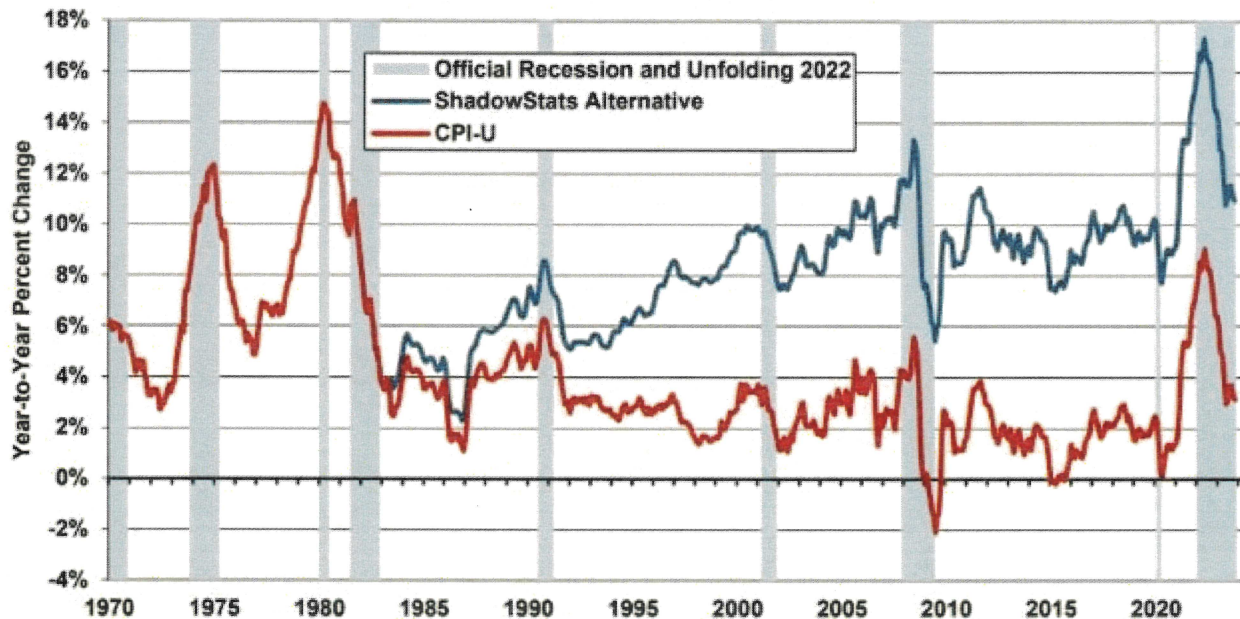


Last Price
■ US Bloomberg BLS CPI Core Services Less Shelter YoY 4.92
■ US Bloomberg BLS CPI Core Services Less Shelter MoM 0.07

4.92

0.07

CPI and ShadowStats Alternate Inflation (1980 Base)
Year-to-Year Percent Change
1970 to February 2024, Not Seasonally Adjusted [ShadowStats, BLS]

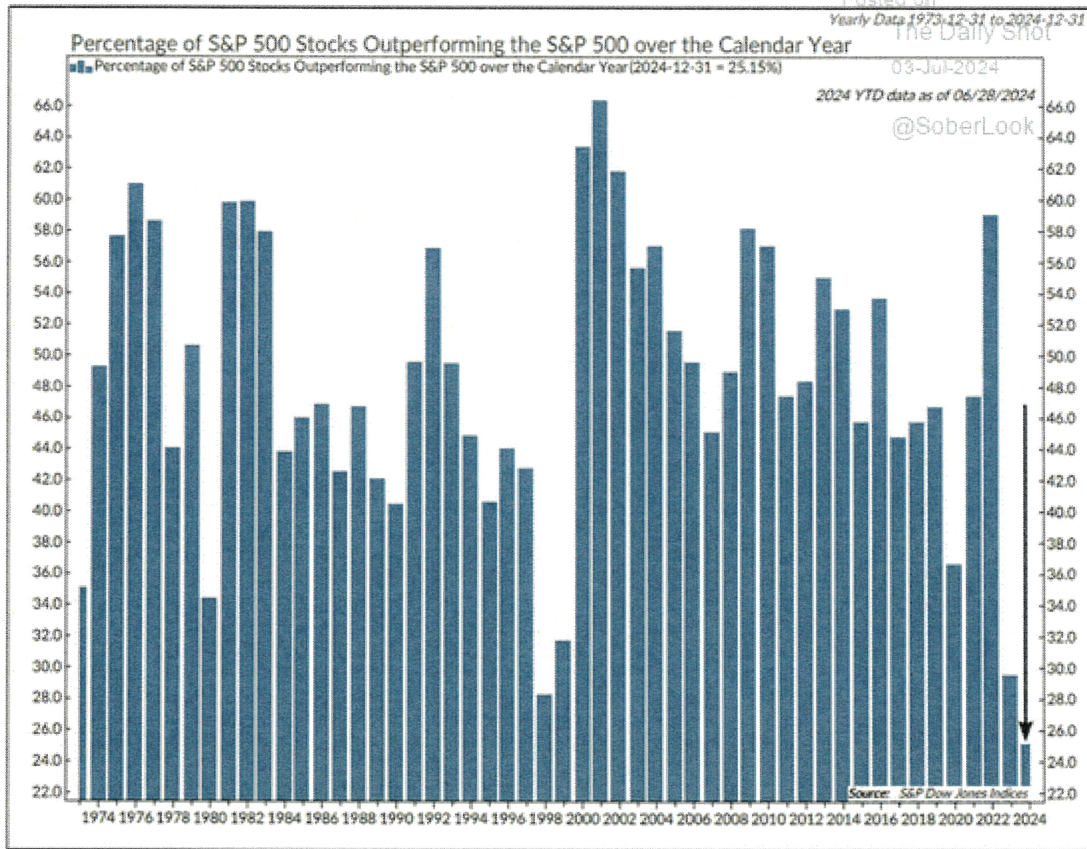


"constant-standard-of-living"
 vs.

"constant-level-of-satisfaction"
 - hedonics
 - substitution

Impacted: Social Security COLA (effect on deficits + debt)
 Tax bracket creep
 Reported GDP

On pace for record low % of stocks beating S&P 500



This has changed during recent market "rotation."

Good thing for diversified portfolios.

Question: is the S&P 500 a diversified index today?

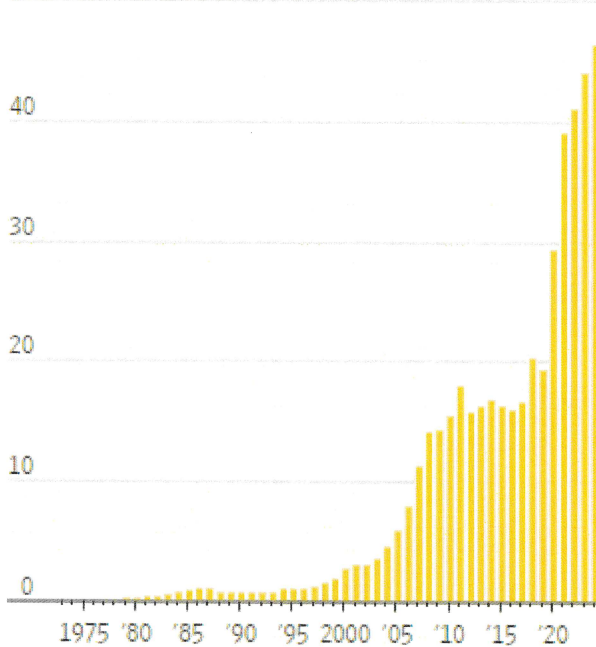
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Average daily options volume, annually

50 million contracts



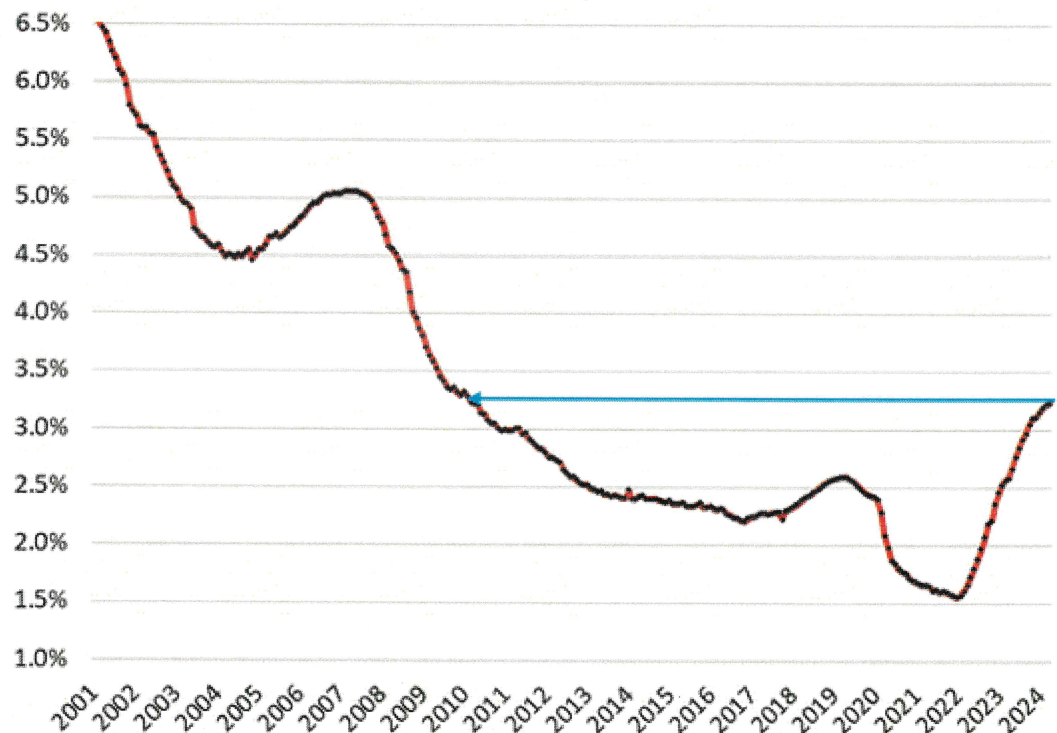
Source: Options Clearing Corp.

Are you using ØDTE
options?

Follow the Najarian
brothers?

And now we have sports gambling too!
What could go wrong?

Average Interest Rate on Treasury Debt



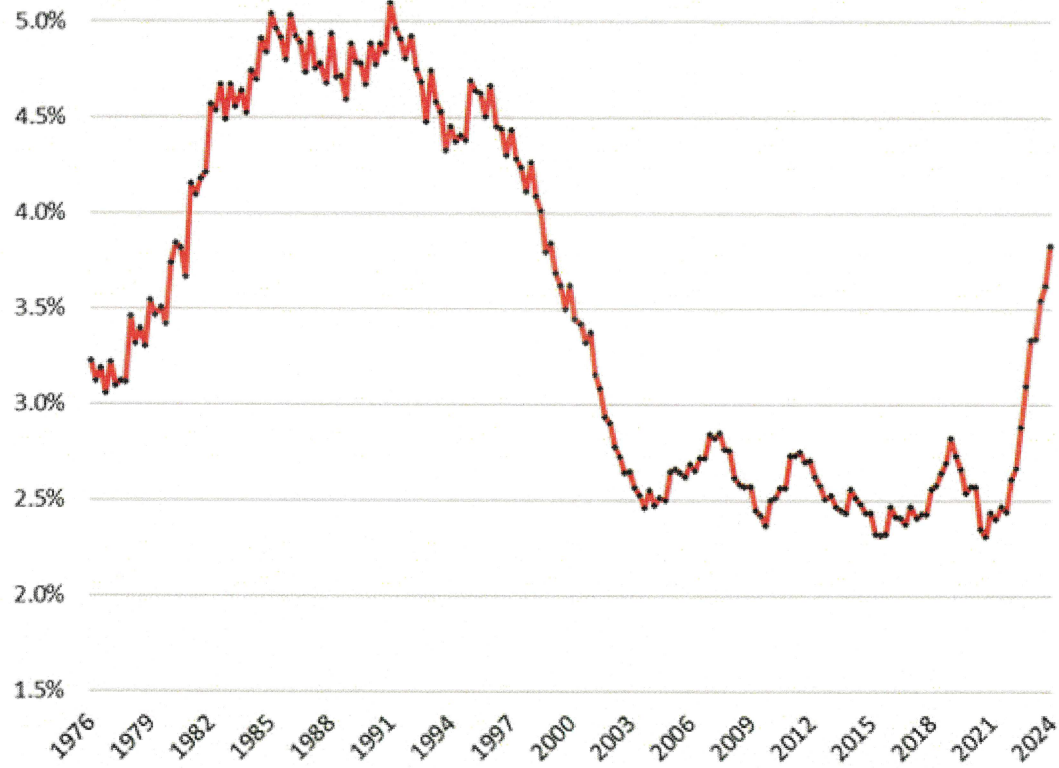
Source: US Treasury Dept.

WOLFSTREET.com

Back to the good
ol' days!
But with a much
heavier debt load.

US Gov. Interest Payments as % of GDP

Actual interest payments as % of nominal GDP, quarterly

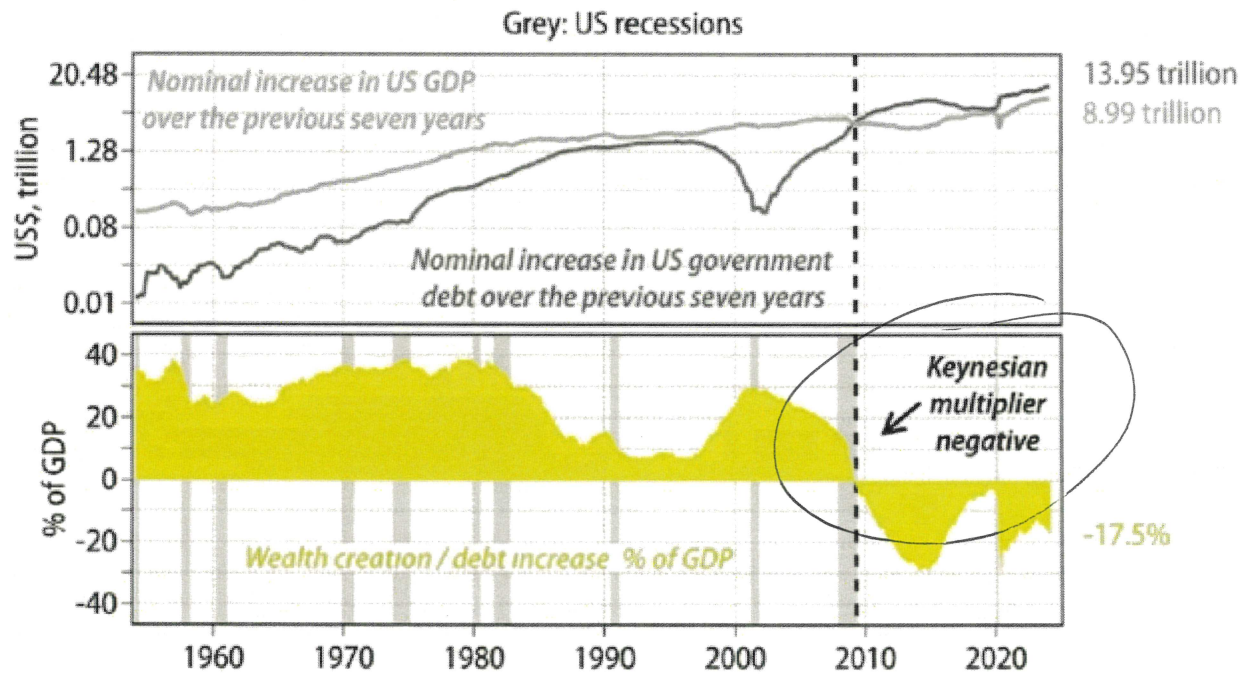


Source: US Treasury Dept., BEA, St. Louis Fed

WOLFSTREET.com

> Defense!

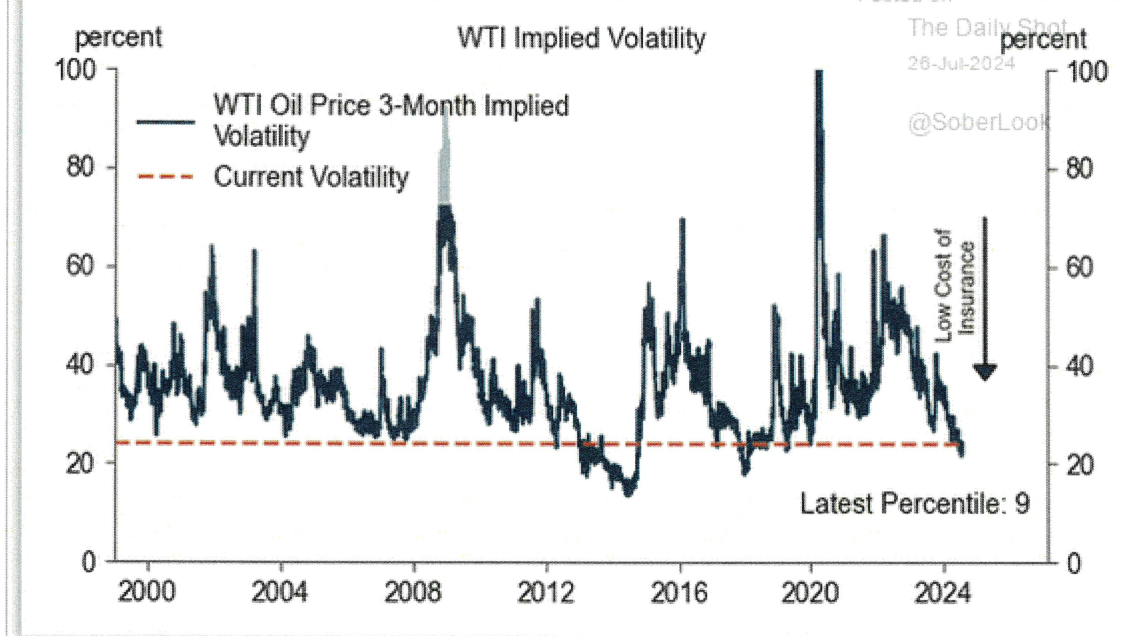
GROWTH OF DEBT EXCEEDING ECONOMIC GROWTH



*Gavekal Research/Macrobond, July 24, 2024

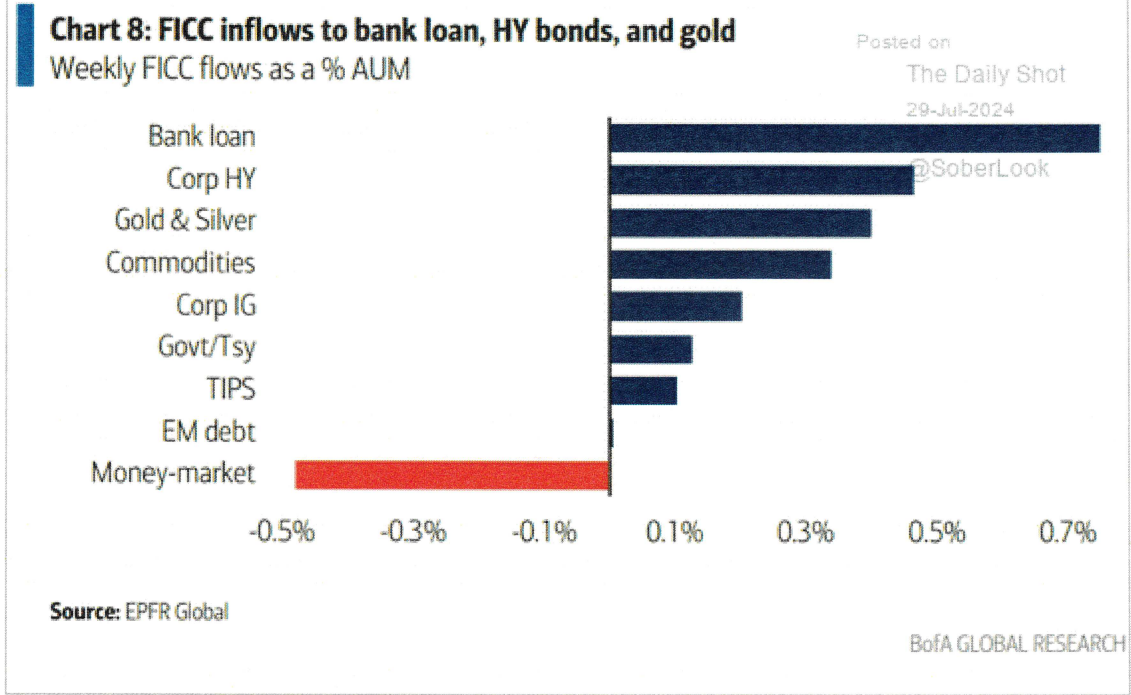
Oops, the math gets grim going forward with this relationship.

Crude Oil Price Implied Volatility Has Dropped to Percentile 9 Over the Last 25 Years



Source: Bloomberg, Goldman Sachs Global Investment Research

Sure, no way Mid East wars will impact oil.



Look what we like
 these days.

Private credit is
 hot!

- Invesco QQQ Trust (QQQ) Total Return Price % Change 40.11%
- ARK Innovation ETF (ARKK) Total Return Price % Change -61.26%



Why does ARK attract inflows?
Is Cathie Wood going to make it this time?

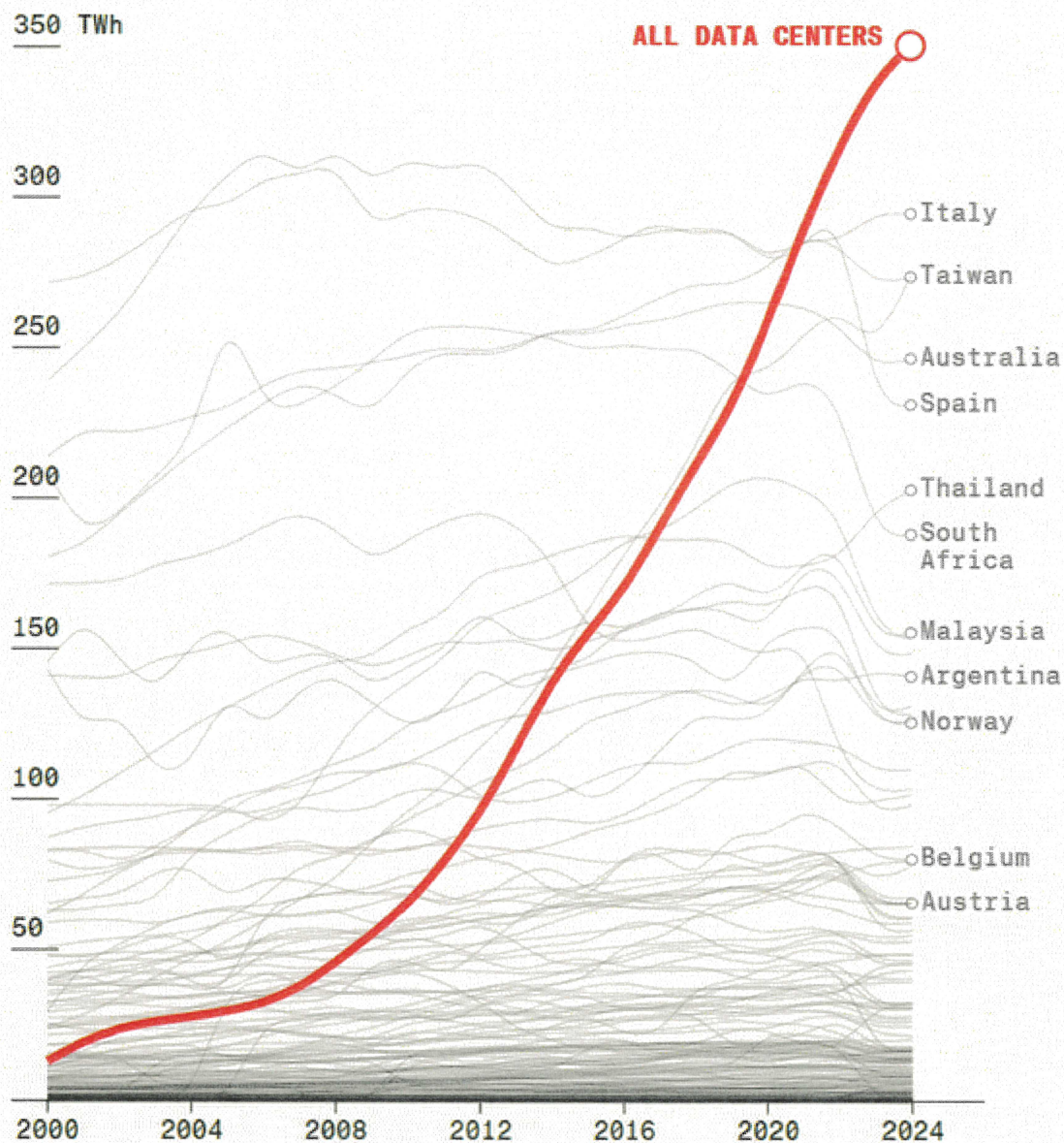
Altogether, data centers use more electricity than most countries

Only 16 nations, including the US and China, consume more

The Daily Shot

09-Jul-2024

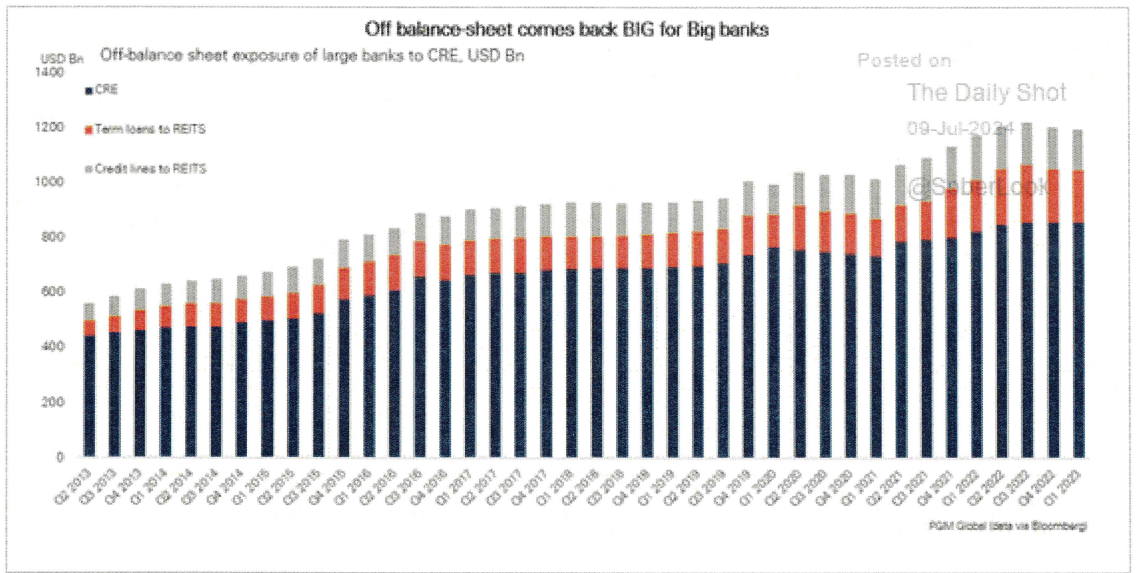
@SoberLook



Amazing!
Believe wind +
solar will work
anytime soon?

Sources: Bloomberg analysis of BloombergNEF and DC Byte data

Note: Data center energy consumption through Q1 2024. National energy consumption levels are actual through 2022 and projected for 2023 and 2024.



Commercial real estate is a good candidate for next fire starter.