Ropes Wealth Asks Are We Alright, Alright, Alright?

Yesterday, the S&P 500 Index closed at 5,087, an all-time high. Why? Because Nvidia, the chipmaker that has seen soaring demand for its semiconductors used to power artificial intelligence applications, announced revenue that more than tripled in the latest quarter. As a result, Nvidia's stock price popped on Thursday, increasing the company's market value by a staggering $277 billion in just one day. In fact, Nvidia's one-day gain is more than the total market values of market stalwarts Bank of America ($265 billion) and Coca-Cola ($263 billion). Nvidia is now the third most valuable public company in the world.

With that news, many stocks ripped higher, all around the world. Remarkably, Japan's main stock index, the Nikkei, closed at 39,098.68. This is significant because the last time the Nikkei traded this high was in 1989. The 34 years it has taken for the Nikkei to regain its footing is a decade longer than it took Wall Street to recoup losses from the 1929 crash and Great Depression.

As David Wooderson, aka Matthew McConaughey, drawled in the 1993 iconic coming-of-age movie, *Dazed and Confused, "alright, alright, alright."* Nvidia's news certainly had investors feeling good, after a few weeks of handwringing over when and how much the Fed will cut interest rates in 2024.

To that point, on Wednesday, the Fed released their January FOMC meeting minutes which—no surprise given the recent rhetoric--showed an ongoing concern regarding inflation. While price pressures have clearly declined from recent peak levels, the progress towards their 2% inflation target has stalled, and officials are clearly concerned about their ability to get there on a sustained basis. Removing any indication of further rate hikes, the Committee noted the risks of achieving both their inflation and unemployment goals are moving into better balance, but they remain *"highly attentive"* to inflation risks. Furthermore, with growth accelerating beyond expectations into year-end, alongside a solid consumer and strong labor market, most officials noted there are *"risks of moving too quickly to ease the stance of policy."*

Economic numbers Thursday suggested the job market remains firm despite a recent round of corporate layoffs. The Labor Department reported weekly initial jobless claims at 201,000, down from 213,000 the previous week and about 15,000 below expectations. Continuing claims, an indication of how long it's taking the unemployed to find new jobs, fell to 1.862 million. It was also notable that S&P Global's U.S. manufacturing purchasing manager's index (PMI) rose to 51.5 in February, up from 50.7 in January and at a 17-month high. However, in contrast, S&P Global's services PMI fell to 51.3 from 52.5, weaker than expected. Both measures of activity showed expansion in the economy, consistent with the outlook for the U.S. to fully skirt a recession and post positive GDP growth in 2024.

But are things really this alright, alright, alright? Yes, and no. In the aftermath of these gains, the S&P 500 is trading at a 21x forward multiple—the highest valuation level in over two years. On average, the index has traded at a 17.7x multiple the past 10 years, leaving room for multiple contraction should investor sentiment reverse. That said, narratives that drive rapid, outsized gains are nothing new, and can last awhile. Consider the price surge in the stocks of EV carmakers, crypto companies, and of course the meme stock phenomenon that drove Gamestop and AMC Entertainment to record highs in 2021. Nvidia is in another league though, not a fad or meme. As Jensen Huang, founder and CEO of Nvidia said in a statement, *"Accelerated computing and generative AI have hit the tipping point. Demand is surging worldwide across companies, industries, and nations."* It would seem that remarkable changes are in store for all of us in our future. It is both exciting and a little daunting to consider what might lie ahead. As investors, let's enjoy the moment, being due some recovery since the pandemic and 2022 market meltdown. That said, it is also not a bad time at these market highs to tick off those required minimum distributions, make some in-kind charitable gifts now instead of later using appreciated stock, and even prudently trim equity exposure on strength in portfolios that are approaching the high end of your financial plan. Expect that we will be raising these topics with you to consider in our conversations. My old boss used to call it ringing the register after a good day's work, but I think Warren Buffet said it best this way: *"Be fearful when others are greedy, and be greedy when others are fearful."* Alright, alright, alright, Warren, we will.

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Ropes Wealth Advisors
800 Boylston Street Boston, MA 02199-3600