Ropes Wealth Digests Debates, Data, and Diversification

"We cannot become what we want by remaining what we are."

—Max De Pree, author of Leadership is an Art

With the November presidential election now just 19 weeks away, the battle for the White House was in full swing last night with the first debate between President Joe Biden and former president Donald Trump. Topics ranged from border security to abortion, foreign policy, inflation, deficits, taxes, and the overall health of the economy. According to reports, 57% of the adult population tuned in. Probably 0% felt they saw a vision for the future, especially when the most animated part of the evening was over golf handicaps. In the aftermath of the evening, calls are accelerating for Biden to step aside in favor of a different candidate.

Matching the anemic performance of the debate was the final report on first quarter GDP, which was solidified at a 1.4% growth rate, the weakest quarterly pace since Q2 2022. In the details of the report, personal consumption was revised lower from a 2.0% gain to a 1.5% increase, well below the 3.3% increase from the prior quarter.

While durable goods orders unexpectedly rose 0.1% overall in their latest monthly reading, beating expectations of a -0.5% decline, headline orders fell -1.5% in May, the largest annual decline since January. New home sales slumped -11.3% in May, spread broadly across all four major geographic regions. Pending home sales, which provide a look at the pipeline of existing home sales, were likewise soft in May, falling -2.1% from April. The level of pending home sales was the lowest in data going back to 2001, reflecting the impact of high mortgage rates and home prices. Finally, the May Personal Consumption Expenditures (PCE) price index data was released this morning and came in as expected, showing annual gains in both the headline and core PCE of 2.6%. The May reading marks the lowest annual rate in over three years, hopeful news for the Fed's inflation fighting mission.

That said, wobbling economic data and worrisome politics have yet to make a dent in market activity. Indeed, markets are closing out another strong quarter with today's trading, with the S&P 500 Index adding nearly 5% in Q2 to deliver a year-to-date advance of 15%. However, market breadth remains weak overall with tech stocks still the dominant factor. Notably, Nvidia stock has been backsliding in recent days, perhaps on profit-taking after a truly remarkable run. Even so, other tech stocks like Super Micro Computer, Oracle, Advanced Micro Devices, and Taiwan Semiconductor advanced along with the likes of Amazon, Meta, and Alphabet. Small cap stocks finally started to flex their muscles, posting gains after a flat performance year-to-date thanks to attractive valuations and falling Treasury yields. Bank shares rallied on Thursday after all 31 large banks subject to the Fed's "stress tests" passed with sufficient capital. In contrast, Nike shares sank after the world's largest sportswear company issued a full-year outlook that missed expectations, reinforcing investor concerns about waning demand for its sneakers and apparel. Amid a wave of competition from upstarts such as On Holding AG and Deckers' Hoka running shoes, Nike has vowed to prioritize sports, new products, and wholesale partners that had largely received less attention from the company as it sought to boost its own stores and websites. Or maybe get Nvidia CEO Jensen Huang to start wearing Chuck Taylors for the AI effect?

Will the rest of the market catch up to the stunning spectacle of performance delivered by the Magnificent Seven? We guess yes, as earnings growth is expected to clock in over 8% on 4.6% higher revenues. We may be in the early days of market broadening and remain committed to some diversification in your investment plan. In times like these, when valuations are so disparate and the winners so narrowly concentrated, it makes sense to look to the broader opportunity set of companies for the next All Stars (Converse and otherwise)?

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