

August 7, 2023

- *The markets were in a celebratory mood in July, as stock prices continued moving higher on reasonably good economic news and signs that inflation may be moderating.* However, just before the corks started popping, Fitch's rating service downgraded the debt rating of the United States, the second time in recent history.
- *Does this mean the end of the United States, the U.S. Dollar and life as we know it? Not so much.* The downgrade in the U.S. debt rating has little to do with an ability of the country to service its debt and everything to do with the continued dysfunction in the nation's capital.
- *Elsewhere, we continue to be faced with an ongoing array of conflicting economic data. On the downside, we see the employment situation moderating.* Remember that employment is the last domino to fall in the recession narrative. On the upside, somehow, the economy continues to slog along, keeping its head above water. The recession debate continues.
- *The current debate is favoring those in the soft-landing camp, which always makes me nervous since the crowd is almost always wrong.* One of my favorite economic indicators, Productivity and Costs, hints that things are improving. The latest report reveals that productivity is outpacing unit labor costs, which we haven't seen in recent history. Still, one report does not a trend make.
- *Some analysts are suggesting we are experiencing a "rolling recession," where recession rolls through different sectors at different times as opposed to everything going over the cliff together.* I am not opposed to this point of view. In fact, it somewhat supports the signal we are getting from our Recession Predictor, which continues to show the greatest warning we've seen in its 50-year history. But I could be wrong...
- *On a positive note, we continue to see an increase in the breadth of the markets, meaning more stocks continue to participate in the rally.* We still need to be prepared for overbought corrections, since PE ratios are climbing (prices are increasing faster than earnings) The trailing earnings are down over 18% year-over-year and the current trailing ratio on the DJIA is over 25. At the end of the day, valuations matter.
- *The bulls continue to prosper but still remain in the crosshairs of the naysayers.* I will finish with another of my favorite quotes from Winston Churchill: "In life, nothing is more exhilarating than to be shot at without result." Let us hope the bears can't shoot straight! More next time!

- *Disclosures:*

Opinions expressed are as of the current date and subject to change without notice. Intrinsic Investors, LLC shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses or opinions contained herein or their use, which do not constitute investment advice, are provided as of the date written, are provided solely for informational purposes and therefore are not an offer to buy or sell a security.

This commentary is for informational purposes only and has not been tailored to suit any individual. References to specific securities or investment options should not be considered an offer to purchase or sell that specific investment.