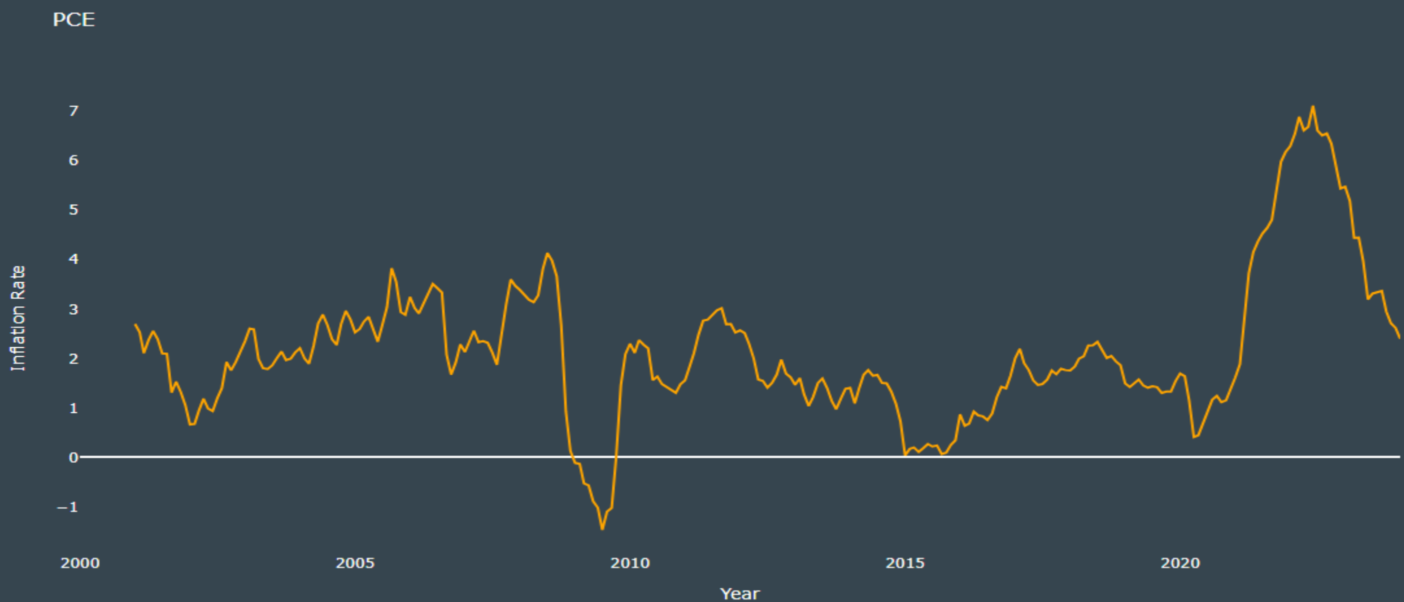
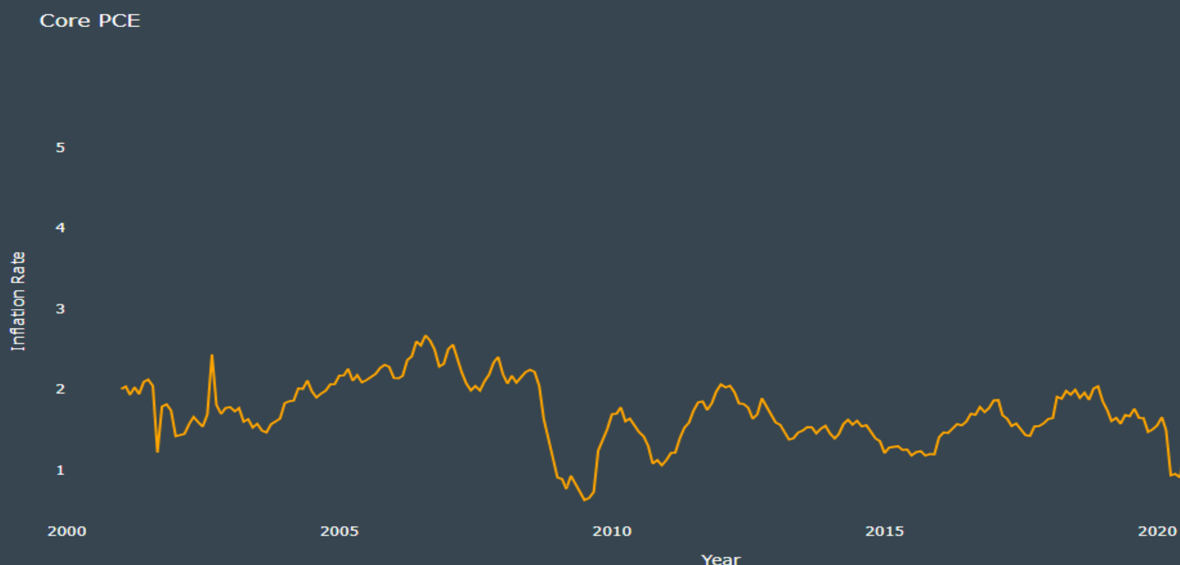
Danny Robushi, APEX MACRO Founder

March 2, 2024

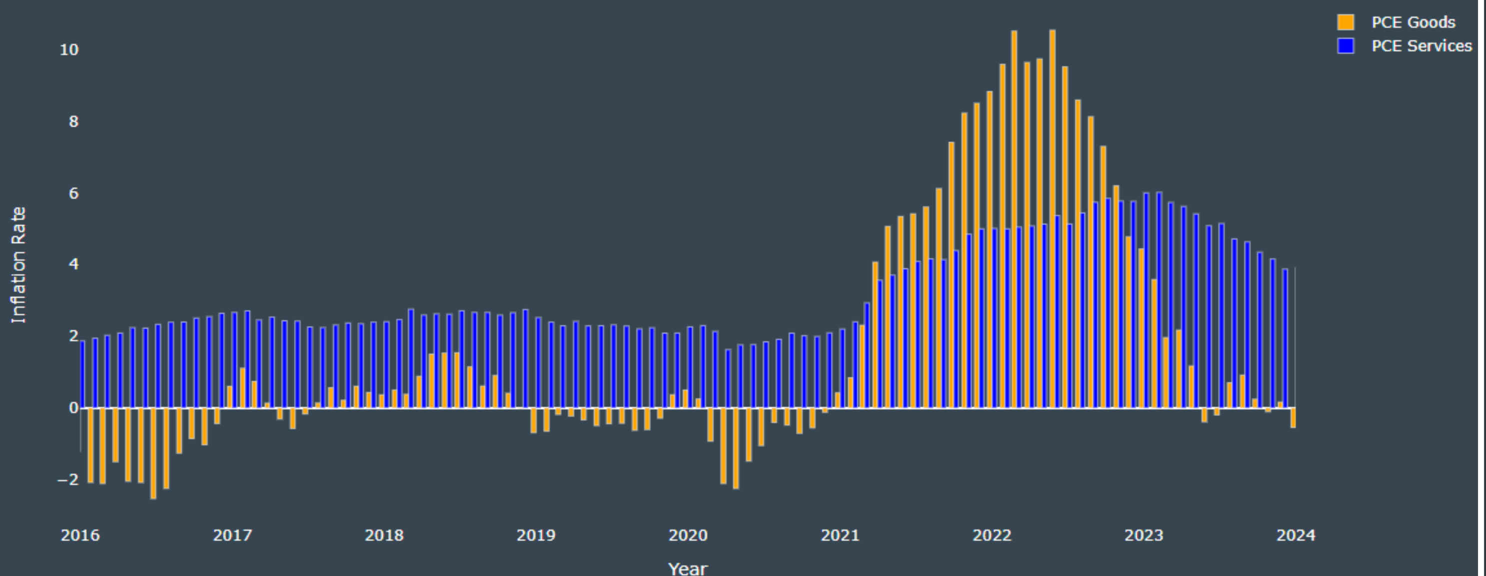
Inflation Remains Sticky

The Federal Reserve's preferred inflation metric, Personal Consumption Expenditures (PCE), was released last week. The market's response to this information was more positive compared to the reaction to the Consumer Price Index (CPI) release. The PCE figures met expectations, with a month-over-month increase of 0.3%, and Core PCE, which excludes food and energy costs, also matched expectations with a rise of 0.4%. Annually, these rates stand at 2.4% and 2.8%. Despite remaining above the Federal Reserve's inflation target of 2%, the release did not indicate a reacceleration of inflation, leading to a subdued market reaction. Yields, which have been rising on the long end backed off key support levels. For the 10 year that level is ~4.3% and for the 30 year, 4.50%. The market's response to increasing yields has not mirrored its reaction during the latter part of last year. However, I believe that moving into the 4.5%-5% range for yields could lead to greater volatility in pricing.

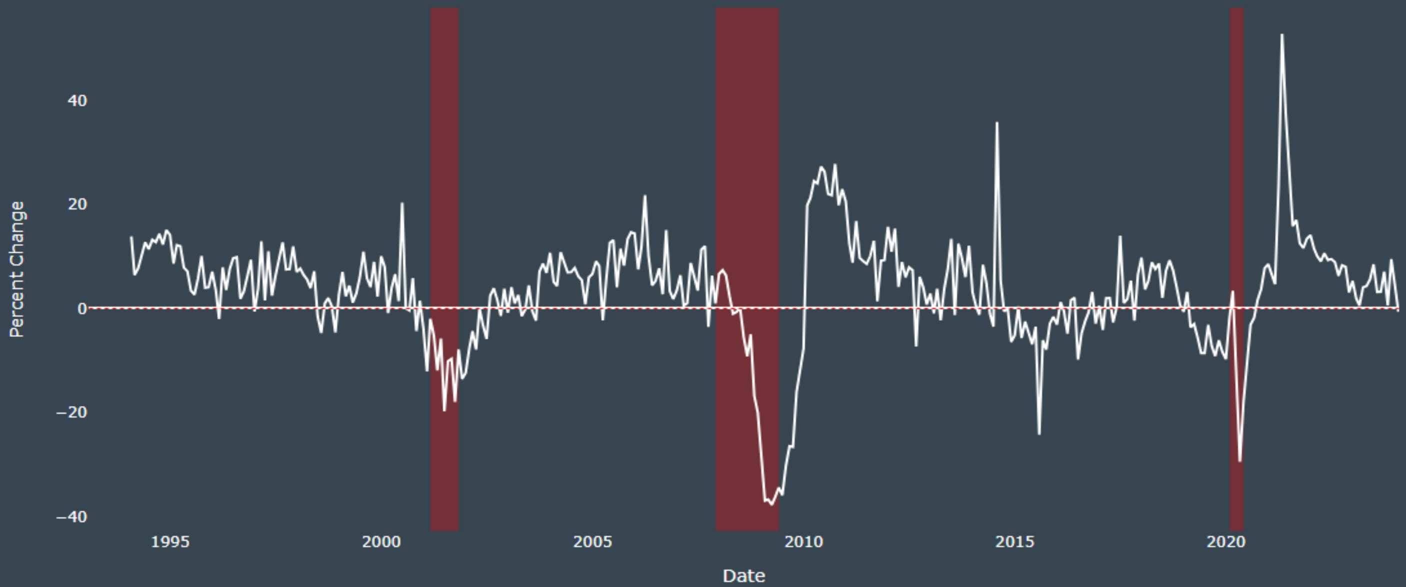




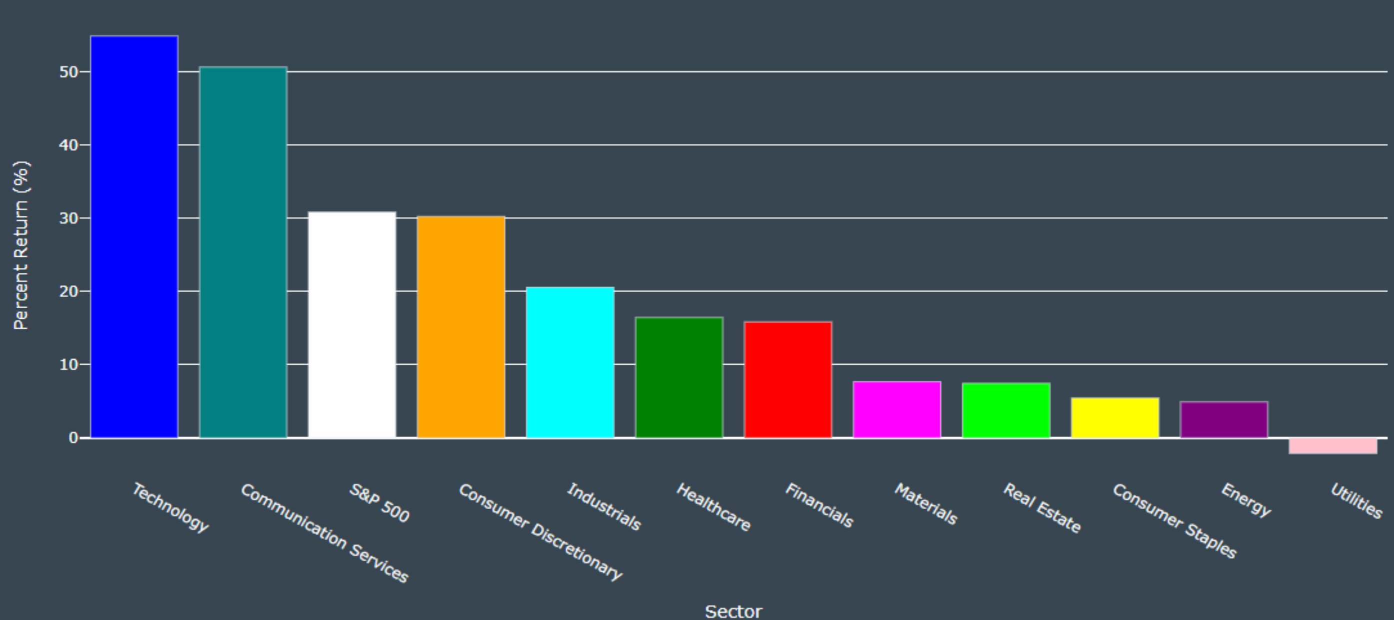
The Fed has noted, and data confirms, that the persistent element of inflation yet to be fully addressed is in the services sector. The influx of money to households during 2020 and 2021 led to significant income increases, boosting consumer spending. Initially, this surge in spending drove up the prices of goods. Over time, as goods prices remained elevated, the effect spilled over into the services sector, particularly through higher wages. This phenomenon occurs because as living costs rise, employees often seek higher wages to maintain their purchasing power, prompting companies to raise their prices to preserve profit margins. This cycle, a simplified version of a wage-price spiral, hasn't reached the extent of the 1970s, largely because the labor market dynamics were different then, with a higher unionization rate leading to widespread wage increases for large groups. However, the impact is still noticeable. Wages are also inherently sticky; it's challenging to reduce someone's salary once they've received a raise. Additionally, a tight labor market has enabled workers to move to better-paying jobs more easily, further driving wages up. With more negotiating power, employees have been able to exert upward pressure on wages. While this summary simplifies the complex interactions that have led to increased and persistently high prices, it serves as a basic explanation of the recent dynamics influencing inflation and why prices have remained stickier than initially expected.



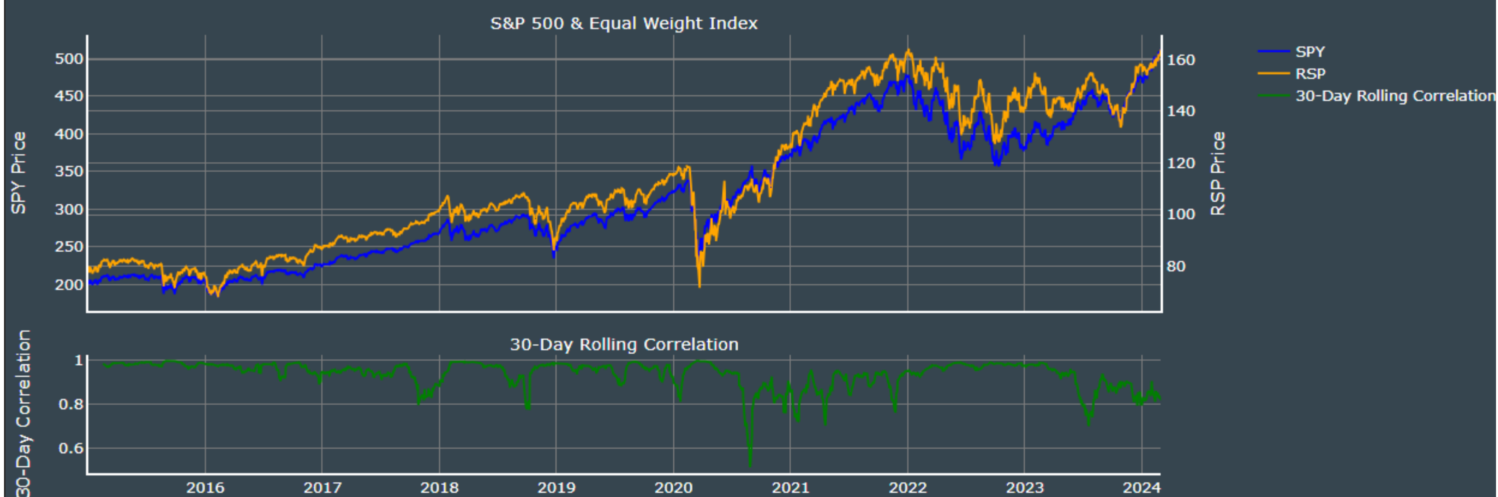
U.S. Durable goods was also released this past week and fell 0.6% year-over-year. The decline highlights insights into the state of the economy. Durable goods, known for their extended lifespan of three years or more, include a wide variety of products such as home appliances, vehicles, and industrial machinery. This trend in orders serves as a crucial gauge for evaluating spending habits of consumers and businesses alike, reflecting plans for long-term capital investments. Moreover, fluctuations in durable goods orders are often viewed as early indicators of economic shifts, including potential recessions. Although a decline in durable goods orders alone isn't definitive evidence of an impending recession, it is an important piece of the puzzle. When analyzed alongside other economic data, the decrease in orders can offer clues about the economy's overall direction.



The ongoing concern about the market's narrow focus is echoed in recent analyses, highlighting the risks associated with limited market breadth. The concentration within major indexes, such as the S&P 500, underscores a vulnerability to heightened volatility due to its lack of diversification. Despite comprising approximately 500 stocks, about 30% of the S&P 500's value is concentrated in just seven companies. This concentration is a byproduct of the index's market capitalization weighting system. A retrospective analysis of one-year returns across all sectors compared to the overall index reveals that only two sectors have surpassed the index's performance. This scenario points to a significant crowding effect in the market. Such a trend might be underpinned by solid fundamentals; however, it also raises concerns about the influence of fear of missing out (FOMO) and career risk on investment decisions. Investors and advisors may feel compelled to participate in trending investments to avoid missing out on gains or to justify their performance, further exacerbating the market's concentration issue.



To gain a clearer understanding of market breadth, analyzing the differences between the market capitalization-weighted S&P 500 and its equal-weighted version is insightful. When the correlation coefficient between these indices falls below 1, it indicates the market cap-weighted index is leading in performance. This scenario often means that a few dominant stocks are propelling the index's gains, rather than a collective advance across many stocks. As market breadth begins to normalize, as depicted in the chart, the index may experience a decline. This decline occurs because the major contributors to the rally often face periods of correction. Rarely does the broader market manage to rally sufficiently to counterbalance the downturns of these leading names.



The healthcare sector has captured significant attention this year, with many market analysts predicting it would outperform. These forecasts were largely grounded in a fundamental narrative and projected earnings for companies within the sector. Recently, Biotech, which has lagged behind the market since 2020, has notably broken out of a two-year consolidation phase. This suggests that while the broader healthcare sector may see benefits from earnings growth, specific subsectors like Biotech are leading the charge in driving performance. This breakout signals that Biotech could be a compelling area within healthcare to watch. Historically, when stocks emerge from prolonged periods of price consolidation, they often experience substantial gains, with the potential upside typically increasing the longer the consolidation lasts. XBI, representing Biotech, appears to have established a strong foundation, and maintaining above the $93 level would indicate positive momentum.

Biotech

Gold has also been in the spotlight this week. After surpassing the $2,000 mark towards the end of last year, it entered a sideways consolidation phase for more than two months. This week, Gold Futures reached a new all-time closing high. Technical analysts have highlighted a head & shoulders pattern has formed. If the price successfully sustains above the neckline of this pattern, it suggests a potential price target approximately 30% above the current levels. This would position Gold in the range of $2,600 to $2,700 per ounce. It's important to remember that these outcomes are not guaranteed, and technical analysis primarily aims to tilt the odds in your favor by leveraging historical price and volume data. Patterns like the head and shoulders, whether bullish or bearish, are observed to have a greater than 50% chance of continuing the trend following a neckline breakout.

Echoing my earlier points about XBI potentially offering higher returns than the broader healthcare sector, Gold Miners might stand to gain more than Gold itself as prices trend upwards. Historically, Gold Miners have not performed as well as the metal's price over the long term, but they exhibit higher volatility due to their greater beta. This means that during periods when Gold prices increase, Gold Miners are likely to see more significant movements. This dynamic is further reinforced by the fundamental economics of gold mining. Mining companies incur costs to extract Gold from the earth, operating at a specific cost per ounce. Consequently, their earnings are closely tied to the fluctuating price of Gold, with the potential for earnings to increase or decrease dramatically depending on the direction of Gold prices.

We Appreciate Your Feedback!

We highly value your feedback and earnestly invite you to contribute your insights regarding potential enhancements and suggestions for future content. We welcome all forms of constructive feedback and suggestions, as they are crucial in guiding our efforts to refine and develop our offerings. Please share your professional insights and recommendations through the link provided below. Your input is instrumental in shaping our direction and ensuring our services align with your expectations. We anticipate your contributions with great interest.

Contact | Apex Macro (apexmacroinsights.com)

The information provided by Apex Macro LLC ("we," "us," or "our") on any platform, including but not limited to websites, reports, emails, newsletters, and presentations, is for general informational and educational purposes only. All information is provided in good faith, however, we make no representation or warranty of any kind, express or implied, regarding the accuracy, adequacy, validity, reliability, availability, or completeness of any information.

None of the content offered by Apex Macro LLC constitutes financial advice, legal advice, or any other type of advice meant for your specific reliance for any purpose. Any use or reliance on our content is solely at your own risk and discretion. You should conduct your own research, review, analysis, and verification of our content before relying on them. Trading and investment in securities involves high risk and the possibility of losing some or all of the principal investment. It is crucial to seek advice from an independent financial advisor who is licensed to provide investment advice.

Our content is intended to be used and must be used for informational purposes only. It is very important to do your own analysis before making any investment based on your own personal circumstances. You should take independent financial advice from a professional in connection with, or independently research and verify, any information that you find on our platform and wish to rely upon, whether for the purpose of making an investment decision or otherwise.

This disclaimer has been created to expressly convey that Apex Macro LLC and its content creators are not providing financial advice through the dissemination of the information contained herein and are merely providing information and insights as a public service. Apex Macro LLC, its directors, employees, and agents will not be liable for any loss or damage of any nature arising in any way from the use of, or reliance on, the information provided or for any decision made on the basis of such information, including (without limitation) any loss of profit, business, contracts, revenues, or anticipated savings.

Terms of Use: This document is the property of Apex Macro LLC and is intended solely for the use of the recipient. It contains confidential and proprietary information and may not be reproduced, redistributed, or disclosed in whole or in part to any third party without the prior written consent of Apex Macro LLC. By accessing this document, you acknowledge that you have read and understood these terms and agree to be bound by them.