NEW DIMENSIONS CAPITAL

WEEKLY BULLETIN

June 2024: Issue #1

Quote of the Week.

Know what you own, and know why you own it – Peter Lynch

The S&P 500 surged to its best May since 2009, driven primarily by a concentrated rally in a few heavyweight technology stocks. The index posted a nearly 4% gain for the month, reflecting a strong performance, especially among the largest market cap companies. However, the performance was not uniformly distributed across the market, highlighting an ongoing disparity between the largest tech firms and the broader market.

Key Highlights

- **Performance**: The S&P 500 gained approximately 4% in May 2024, marking its second-best May in two decades.
- **Concentration**: The rally was highly concentrated, with Microsoft, Apple, Nvidia, Alphabet, Amazon, and Meta driving 76% of the index's gains.
- **Disparity**: The equal-weighted S&P 500, which gives equal importance to all 500 stocks, rose only 1% in May, underlining the uneven performance within the index.
- **Year-to-Date Performance**: The S&P 500 is up 12% YTD, while the equal-weighted S&P 500 has risen only 4%. Excluding Nvidia, the S&P 500's YTD gain drops to 7.9%, and excluding the "Magnificent Seven," the gain is 4.9%. The index's performance excluding the AI-driven "Big Ten" stocks is a modest 3.6%.

Market Dynamics

- **Technology Leadership**: The dominant performance of the top tech stocks can be attributed to significant market enthusiasm around artificial intelligence. Nvidia, in particular, exemplifies this trend, having reported a sevenfold increase in profits due to high demand for its AI-related products.
- **Market Capitalization Shifts**: The top six tech giants now account for 30% of the S&P 500's market cap, up from 28% at the start of the year, pushing the index towards its most top-heavy level since the Great Recession. I suspect there is strong incentives to keep the US indexes high to induce more to hold US dollars.
- **Economic Indicators**: Broader economic indicators suggest mixed signals. While inflation trends downward, leading to expectations of lower interest rates, other factors such as reduced government spending, contracting ISM, and slowing capital goods sectors indicate potential headwinds.

Strategic Implications

1. **Portfolio Diversification**: Given the concentration of gains in a few stocks, diversifying across sectors and including defensive stocks could mitigate risk.
2. **Tech Stock Valuations**: Investors should scrutinize the valuations of the leading tech stocks, particularly those heavily reliant on AI hype, and assess whether their growth prospects justify current prices.
3. **Economic Sensitivity**: Portfolios should be adjusted to reflect the mixed economic indicators, balancing growth-oriented investments with more conservative holdings.

Last Week 's Notable Events.

US Economy/Politics

- At least 7 US officials publicly resigned in protest of Biden's Gaza policy – 31st May
- US ISM Manufacturing came in lower at 48.7 vs expectation 49.5 – 3rd Jun
- US Nonfarm Payrolls 272k vs expectation 195k, – 7th Jun

Europe Economy/Politics

- German business insider eyes expansion for China-Europe freight train operations – 3rd Jun
- ECB cuts rates by 25bps to 4.25% – 6th Jun

Asia Pacific Economy/Equity

- Chinese EV sales surge in Australia's auto market – 3rd Jun
- Singapore April Retail Sales y/y -1.2% vs expectation 1.9% – 5th Jun
- BOJ chief Ueda reaffirms resolve to trim bond buying – 6th Jun

Weekly Data Monitor.

Performance

- Global equity raise as US markets continue to outshine the rest of the world on AI craze,

Weekly chart:

- Oil fell on possible OPEC+ easing production cut.
- Gold slip on diminishing Fed cut estimates

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

INDEX	Weekly %	MTD %	YTD %	1YR %	3Y %	5Y %
Global Equity	1.13	1.11	10.09	20.23	16.08	68.57
Global Real Estate	0.09	-0.31	-4.64	4.70	-12.72	5.62
US Real Estate	-0.19	-0.23	-5.01	5.16	-10.03	12.56
APAC Real Estate	1.10	-0.27	-3.40	-1.73	-28.75	-25.01
Investment Grade	0.42	0.46	2.10	10.44	5.10	21.83
High Yield Bonds	0.30	0.02	-3.29	0.63	-16.58	-8.72
Global HY ETF	-1.36	1.22	4.32	9.01	15.64	34.18
ASIA Real Estate ETF	1.17	-0.66	-12.49	-13.29	-27.22	-29.97
USD Index	0.20	0.58	3.88	1.56	16.25	8.53
Gold	-1.46	-0.59	12.17	18.17	23.22	73.49
WTI Oil	-1.93	1.91	9.50	16.90	10.65	53.42

Chart of the Week.

The 10-year Treasury yield is a key indicator of broader investor confidence. Since April 2024, it has been trending downward, as shown in the chart on the right. The yield at 4.40% appears to be the midpoint of the downward channel and is currently hovering above the 200-day moving average. Equity investors can closely monitor this chart. I expect a breach above 4.60% could trigger a minor correction in equities due to higher rate risks. Conversely, if the downward trend continues, the rallies in the S&P 500 and Nasdaq may persist without concerns about Fed policy.

Additionally, it's important to consider the broader economic context. Factors such as inflation data, employment reports, and geopolitical events can all influence Treasury yields and, by extension, equity markets. The interplay between bond yields and stock prices often reflects investor sentiment about future economic growth and stability.