

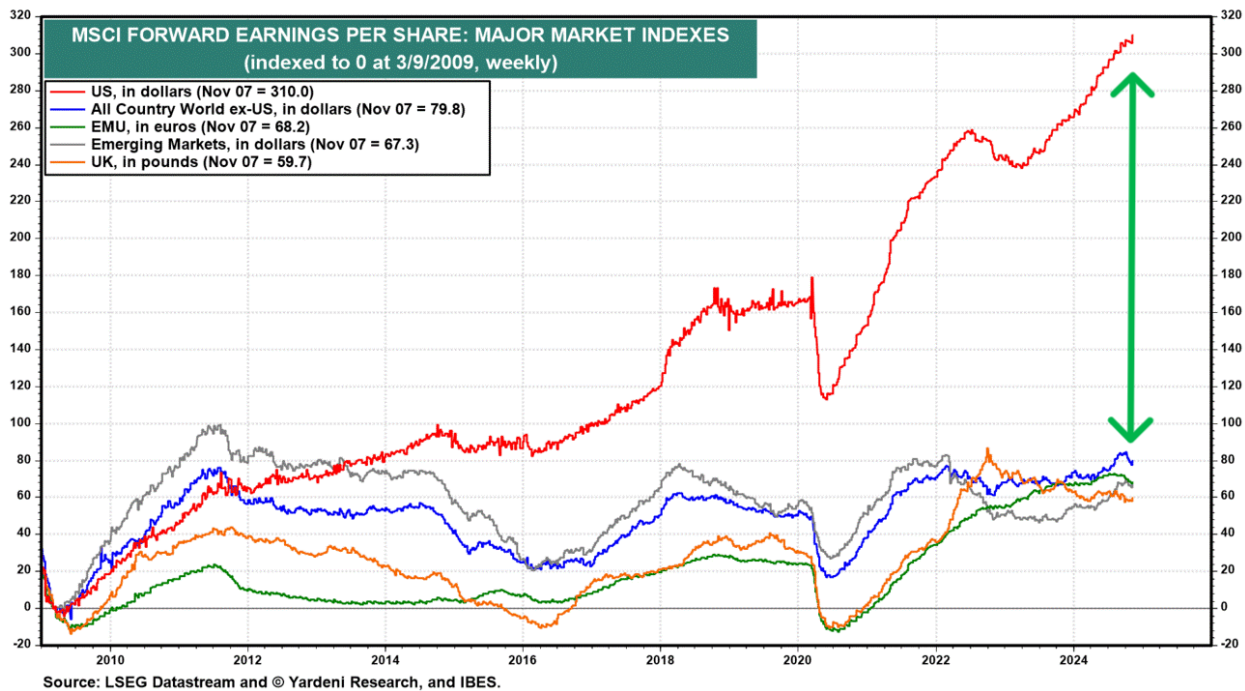
The Outlook: Nov. 19, 2024

When rallies don't matter.

Hardly an hour or a day goes by, lately, without eminent authorities publishing their thoughts on whether the “Trump Rally” is toast, or just giving us a head fake downwards before booming again . . . or every possibility in between. That’s the nature of the market’s daily betting crowd, whose mission is to roll the dice every day based on the impressions created by the headlines.

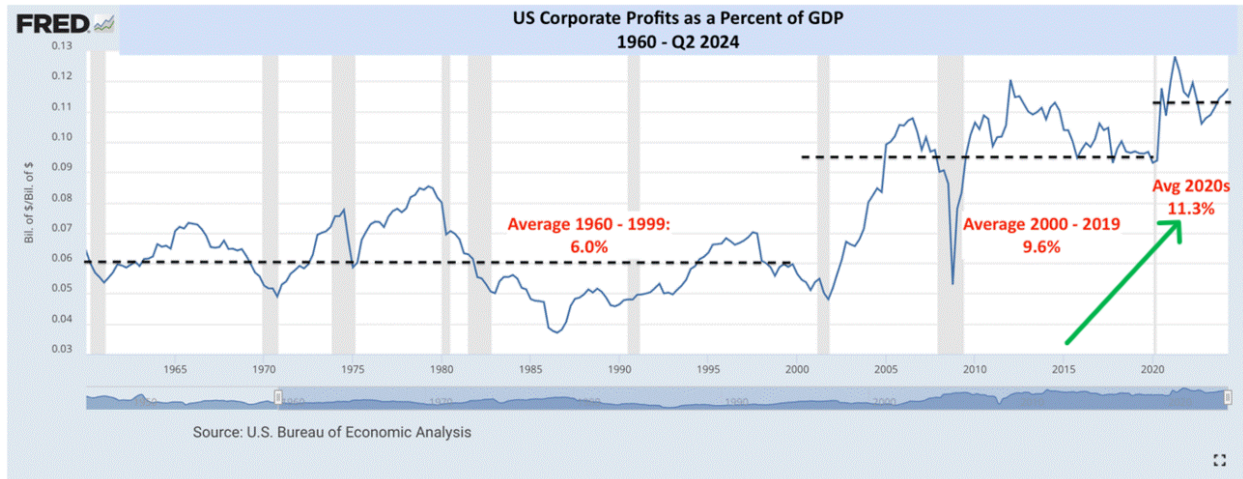
Our mission, of course, is something different. We always want our investment capital to give us the highest probability we’ll come out well ahead, looking back a few years from now; and also the lowest probability that our roller coaster ride won’t just go down (which is inevitable) but will also stay down (which will not happen if we own strong companies, valued reasonably.) So although we never turn up our noses at a “Trump Rally” or any other rally, they just don’t matter much. Here’s the kind of thing that matters.

US EPS vs. the rest: forward earnings per share (EPS) for the US stock market is flying to new record highs, while the rest of world’s forward EPS have remained relatively flat in recent years.”



That’s a dramatic picture, with a tall green arrow spotlighting the huge difference between profits earned by big U.S. companies versus the rest of the world’s, since the Great Financial Crisis of 2008 – 2009. Now, dramatic pictures can lie—but not this one. That red U.S. profit line is the story of invention, business leadership, competition and financial strength. The rest of the world has simply trudged ahead slowly since 2009. America’s Main Street has sprinted. One more picture.

Corporate profits vs. GDP. It makes sense that the S&P 500 trades for higher valuations now than most of the last 60+ years, since 1) corporate profits are a much greater ratio of GDP than ever before, and 2) that disparity is at least partly due to a set of companies with global competitive advantage."



The two pictures point to the same thing: the dramatic acceleration of Main Street's profits over 10 – 20 years . . . to levels which would have seemed impossible thirty years ago. We own companies which are both sharing in that acceleration and driving it, especially driving the most recent engine: Artificial Intelligence. We'll like what we see, looking back a few years from now, in every company we own . . . but we might especially like Microsoft and Micron, both of which are pushing the Artificial Intelligence gas pedal.

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