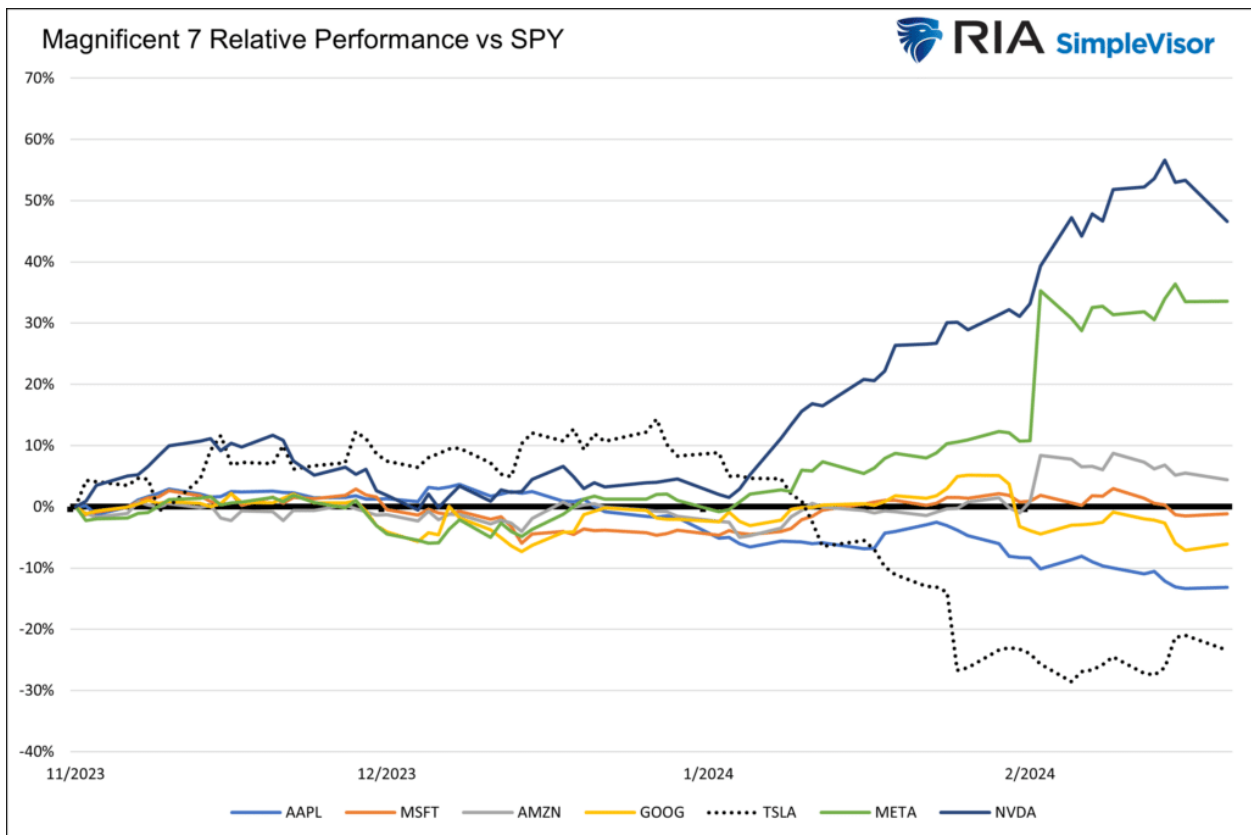


The Magnificent Two Leaves Five Stocks In Their Dust

The Magnificent Seven hog the headlines and are the envy of many investors. Yet since the start of 2024, only two Magnificent Seven stocks have been beating the market significantly. The graph below shows the relative performance of each stock versus the S&P 500. As shown, the Magnificent Seven traded in a unified fashion from November 1, 2023, when the market started rallying on hopes for Fed rate cuts. However, with the start of the new year, the Magnificent Seven is splintering, with only two stocks leading the way. NVDA and META are handily beating the market. Amazon is the only other stock outside of the "Magnificent Two" beating the market this year. Apple and TSLA, shall we say the "Un-Magnificent Two," have significantly lagged the market.

The question on many investors' minds is whether the Magnificent Seven is a bubble or whether their high valuations properly reflect the potential for higher-than-market earnings growth. To put the question in historical context, we wrote [Are The Magnificent Seven In A Bubble?](#) The article compares the mania surrounding the seven stocks to the Nifty Fifty of the late 1960s and early 1970s. Surprisingly, it turns out the high valuations of the Nifty Fifty were justified. However, the risk is not just the combination of high valuations and weaker-than-expected earnings growth but, maybe more importantly, a loss of confidence.



What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap ▼	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
🕒	INTU	Intuit Inc.	\$183,565,232,640	Jan/2024	\$1.07	10	2/23/2023	\$1.05
🌞	LYG	Lloyds Banking Group Plc	\$141,723,640,000	Dec/2023		N/A	2/22/2023	\$0.10
🕒	BKNG	Booking Holdings Inc.	\$129,680,075,561	Dec/2023	\$29.69	8	2/23/2023	\$24.74
🕒	MELI	MercadoLibre, Inc.	\$89,428,697,854	Dec/2023	\$6.66	4	2/23/2023	\$3.25
🕒	EOG	EOG Resources, Inc.	\$66,222,468,803	Dec/2023	\$3.14	9	2/23/2023	\$3.30
🕒	VALE	VALE S.A.	\$65,136,260,654	Dec/2023	\$1.04	4	2/16/2023	\$0.82
🌞	PXD	Pioneer Natural Resources Company	\$54,027,338,267	Dec/2023	\$5.41	9	2/22/2023	\$5.91
☹️	E	ENI S.p.A.	\$51,397,300,059	Dec/2023	\$1.22	3	2/23/2023	\$1.51
🌞	PCG	Pacific Gas & Electric Co.	\$47,246,544,709	Dec/2023	\$0.45	4	2/23/2023	\$0.26
🕒	CPRT	Copart, Inc.	\$47,012,931,400	Jan/2024	\$0.35	4	2/20/2023	\$0.31
🌞	KDP	Keurig Dr Pepper Inc.	\$43,306,469,109	Dec/2023	\$0.54	7	2/23/2023	\$0.50
🕒	SQ	Block, Inc.	\$40,309,064,520	Dec/2023	\$0.05	11	2/23/2023	(\$0.23)
🌞	NEM	Newmont Corporation	\$38,527,801,542	Dec/2023	\$0.50	5	2/23/2023	\$0.44
🌞	D	Dominion Energy, Inc.	\$38,375,499,918	Dec/2023	\$0.40	4	2/08/2023	\$1.06
🌞	LNG	Cheniere Energy, Inc.	\$38,208,932,860	Dec/2023	\$2.70	6	2/23/2023	\$15.78
🕒	NU	Nu Holdings Ltd.	\$37,296,000,000	Dec/2023	\$0.09	3	2/14/2023	\$0.03
🌞	MRNA	Moderna, Inc.	\$33,694,066,726	Dec/2023	(\$0.82)	12	2/23/2023	\$3.61
🌞	PWR	Quanta Services, Inc.	\$30,719,037,141	Dec/2023	\$1.83	6	2/23/2023	\$1.54
🕒	VICI	VICI Properties Inc.	\$30,549,733,060	Dec/2023	\$0.55	11	2/23/2023	\$0.51
☹️	ADM	Archer-Daniels-Midland Company	\$28,615,904,330	Dec/2023	\$1.45	7	1/26/2023	\$1.93
☹️	CQP	Cheniere Energy Partners, LP	\$25,649,233,127	Dec/2023	\$0.71	5	2/23/2023	\$1.87
🕒	EIX	Edison International	\$25,434,441,359	Dec/2023	\$1.22	4	2/23/2023	\$1.14
🌞	BLDR	Builders FirstSource, Inc.	\$22,669,903,777	Dec/2023	\$2.70	8	2/28/2023	\$3.21
🕒	RKT	Rocket Companies, Inc.	\$22,538,485,817	Dec/2023	(\$0.06)	6	2/28/2023	(\$0.12)
🌞	TEF	Telefonica SA	\$22,292,416,958	Dec/2023	\$0	1	2/23/2023	\$0.12
🕒	LYV	Live Nation Entertainment, Inc.	\$21,477,839,820	Dec/2023	(\$1.08)	7	2/23/2023	(\$1.09)
🌞	ETR	Entergy Corporation	\$21,179,028,361	Dec/2023	\$0.55	5	2/16/2023	\$0.51
🌞	KOF	Coca Cola Femsa S.A.B. de C.V.	\$21,165,885,019	Dec/2023	\$1.76	2	2/23/2023	\$1.73
🌞	TECK	Teck Resources Ltd	\$20,124,000,000	Dec/2023	\$1	14	2/21/2023	\$0.79
🌞	IRM	Iron Mountain Incorporated	\$19,849,450,832	Dec/2023	\$1	6	2/23/2023	\$0.98
🕒	PBA	Pembina Pipeline Corp.	\$18,682,470,000	Dec/2023	\$0.55	4	2/23/2023	\$0.29
🕒	CTRA	Coterra Energy Inc.	\$18,564,090,909	Dec/2023	\$0.55	9	2/22/2023	\$1.14
🕒	AEE	Ameren Corporation	\$18,277,310,286	Dec/2023	\$0.61	5	2/15/2023	\$0.63
🕒	BMRN	BioMarin Pharmaceutical Inc.	\$16,721,442,539	Dec/2023	\$0.24	12	2/27/2023	\$0.11
🌞	POOL	Pool Corporation	\$14,980,442,153	Dec/2023	\$1.26	6	2/16/2023	\$1.79
🌞	NICE	NICE Ltd	\$14,292,418,978	Dec/2023	\$1.75	8	2/23/2023	\$1.40
🌞	LKQ	LKQ Corporation	\$13,390,619,882	Dec/2023	\$0.75	7	2/23/2023	\$0.78
🕒	PODD	Insulet Corporation	\$13,337,773,505	Dec/2023	\$0.67	11	2/23/2023	\$0.55
🌞	GRAB	Grab Holdings Limited	\$13,237,500,000	Dec/2023	(\$0.08)	1	2/23/2023	(\$0.10)
🕒	AMH	American Homes 4 Rent	\$12,465,585,428	Dec/2023	\$0.42	8	2/23/2023	\$0.40
🌞	GFI	Gold Fields Limited	\$12,096,007,208	Dec/2023	\$0.15	3	N/A	N/A
☹️	KRTX	Karuna Therapeutics, Inc.	\$12,006,654,985	Dec/2023	(\$2.64)	12	2/23/2023	(\$2.22)
🕒	FND	Floor & Decor Holdings, Inc.	\$11,822,863,818	Dec/2023	\$0.27	10	2/23/2023	\$0.64

Economy

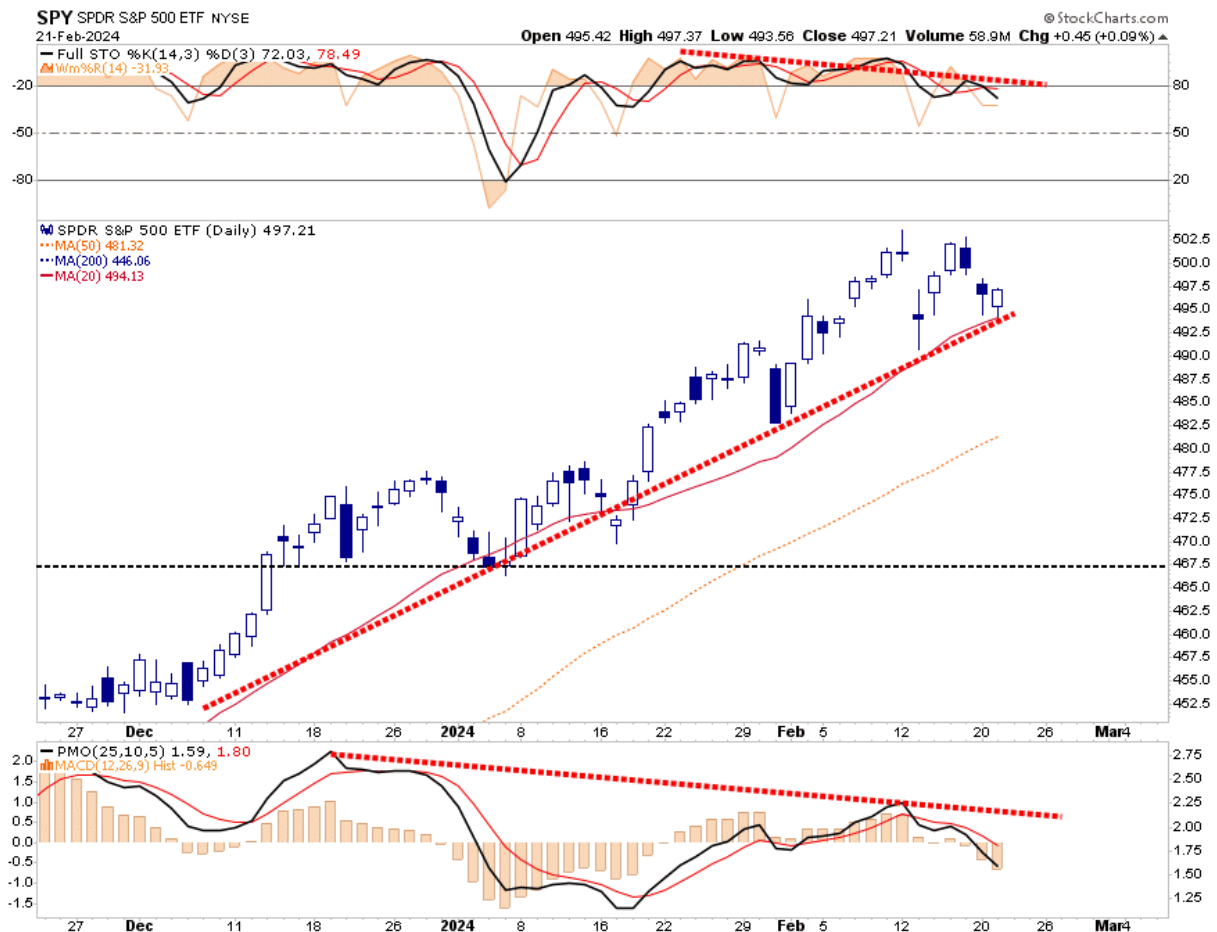
Time	Event	Impact	Actual	Dev	Consensus	Previous	
THURSDAY, FEBRUARY 22							
13:30	USD Chicago Fed National Activity Index (Jan)		-	-	-	-0.15	
13:30	USD Continuing Jobless Claims(Feb 9)		-	-	1.885M	1.895M	
13:30	USD Initial Jobless Claims 4-week average(Feb 16)		-	-	-	218.5K	
13:30	USD Initial Jobless Claims(Feb 16)		-	-	218K	212K	
14:45	USD S&P Global Services PMI(Feb) PREL		-	-	52	52.5	
14:45	USD S&P Global Composite PMI(Feb) PREL		-	-	-	52	
14:45	USD S&P Global Manufacturing PMI(Feb) PREL		-	-	50.5	50.7	
15:00	USD Fed's Jefferson speech				SPEECH		
15:00	USD Existing Home Sales Change (MoM)(Jan)		-	-	-	-1%	
15:00	USD Existing Home Sales (MoM)(Jan)		-	-	3.97M	3.78M	
15:30	USD EIA Natural Gas Storage Change(Feb 16)		-	-	-	-49B	
16:00	USD EIA Crude Oil Stocks Change(Feb 16)		-	-	4.298M	12.018M	
16:00	USD Kansas Fed Manufacturing Activity(Feb)		-	-	-	-17	
16:30	USD 4-Week Bill Auction		-	-	-	5.28%	
18:00	USD 30-year TIPS Auction		-	-	-	1.97%	
20:15	USD Fed's Harker speech				SPEECH		
22:00	USD Fed's Kashkari speech				SPEECH		
22:00	USD Fed's Cook speech				SPEECH		

Market Trading Update

Despite poor guidance from Palo Alto Networks yesterday, which pulled the market lower, it continues to hold onto rising trendline support coinciding with the 20-DMA. [As noted yesterday](#), the selloff this week did trigger a MACD sell signal. As shown, there is a negative divergence between momentum indicators, which are waning, and the rising bullish market.

While such a divergence can last for a while, they usually resolve themselves with lower asset prices and more deeply oversold conditions. With bullish sentiment still very elevated, it is likely that we have more work to do before the current correction/consolidation is complete.

We are watching the 20-DMA very closely, which is our first indication that the recent rally may end. Continue managing risk exposures for now. With Nvidia's blowout quarter on revenue and earnings last night, the market should get a lift today, defending the bullish trend for now, so no major concerns about a risk-off environment currently.



More On The Magnificent Two And Valuations

Our article from the opening ([Are The Magnificent Seven in a Bubble?](#)) uses logic by famed investor Jeremy Seigel. 26 years after the Nifty Fifty stocks peaked, he looked back on their high valuations and subsequent earnings growth to determine which stocks were cheap, fairly valued, or expensive at the top of the bubble.

Without the benefit of hindsight, we can't appreciate how the seven stocks will grow their earnings, but we can calculate the earnings growth that would justify current valuations. Per the article:

For example, as shown in the table below, Amazon (AMZN) has a P/E ratio of 62.30, more than three times the S&P 500 (18.90). Before forming an opinion, consider that AMZN has grown its earnings at three times the rate of the S&P 500 over the last five years. For AMZN to perform in line with the market, assuming its P/E falls to market levels, its earnings must grow annually by 19.54% over the next ten years or 11.08% over the next 26 years.

Whether you are focused on the Magnificent Two or Seven, or for that matter, any stock, the analysis we employ can help investors appreciate whether a stock's relative valuation versus the market is fair.

	P/E Ratio	5yr CAGR Earnings	Fair Value Growth Rate	
			26 Years	10 Years
AAPL	24.00	8.99%	7.08%	8.67%
AMZN	62.30	18.69%	11.08%	19.54%
MSFT	38.70	17.97%	9.07%	13.98%
NVDA	95.08	18.22%	12.90%	24.70%
GOOG	27.90	19.20%	7.70%	10.31%
META	31.02	16.78%	8.14%	11.49%
TSLA	44.21	33.93%	9.63%	15.51%
S&P 500	18.90	6.10%		



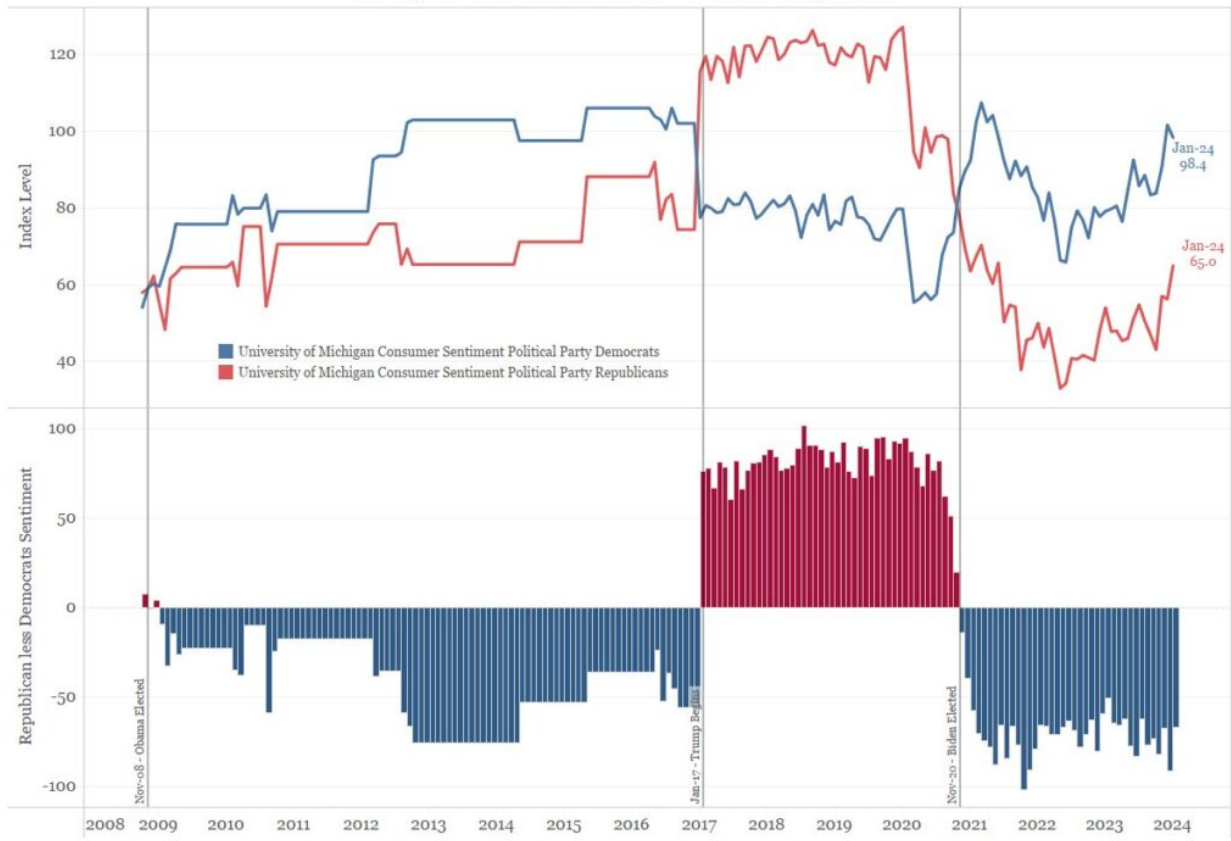
Is Consumer Confidence About Politics, Not Economics?

The graph below from Jim Bianco is very telling in trying to answer our question. As shown, confidence among Democrats and Republicans shifts with the party of the President. While confidence readings by political party tends to trend in the same direction, they move in opposite directions at the election. Per Jim Bianco:

This is why I call consumer confidence polls "the world's most useless economic statistic." Because it is not an economic statistic, it is a political statistic!

We do not necessarily agree with Jim. Many governmental economic statistics are incredibly complex and can not accurately capture the state of the economy or inflation. Similarly, sentiment surveys can be highly biased, as we show. However, the trends of confidence surveys do a reasonable job of telling us whether sentiment is improving or declining. Given the consumer represents about two-thirds of economic activity, changes in confidence should be an important factor in projecting economic growth.

Michigan Confidence Survey -Political Alignment



Source: University of Michigan

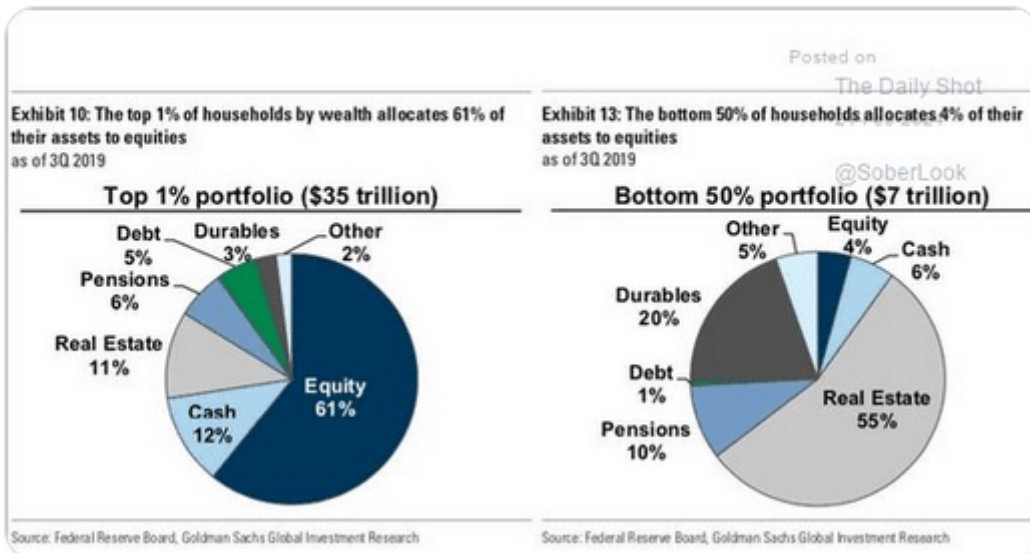
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Hmmm. 🤔



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