WJ Charts of the Month

May 2024

WJ Interests
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WJ Charts of the Month Intro

"WJ Charts of the Month" is a comprehensive monthly slide deck designed to showcase recent significant financial events and data. The presentation is organized into four sections, beginning with a "Highlights" slide that sets the stage for the subsequent content.

1. What Happened Last Month: This section features a curated collection of charts and images from various publications, offering a visual summary of the previous month's key events.

2. WJ State of the Economy: Our team at WJ has created an array of charts to emphasize crucial economic factors and trends.

3. WJ State of the Markets: Similarly, this section comprises a series of charts crafted by WJ to provide an overview of the core markets we monitor.

We strive to maintain consistency across the charts to facilitate easy comparison month-over-month. However, we may adjust or emphasize specific charts if their relevance shifts over time.

Our objective with this publication is to establish a "One-Stop Shop" for the most vital financial information, presented in a concise and easily digestible format. **We value your feedback to help us achieve this goal.** If you have suggestions regarding the format, or if there's particular information you'd like to see in future editions, please don't hesitate to let us know.

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Highlights

- CEOs Announce Price Cuts at Major Retailers
- Corporate Profit Margins Near All Time Highs
- OPEC+ Announces More Oil Production Coming
- Good Hard Data vs Weak Soft Data
- Bounce Back for Stocks, but Alts Still Lead

What Happened

Prices Are Coming Down

Carl Quintanilla
@carlquintanilla · Follow

That's three high-profile consumer companies cutting prices in May. #CPI

1. McDonald's
2. Target
3. Wendy's

$MCD $TGT $WEN
@CNBC @talmonsmith @byHeatherLong
@knowledge_vital #DoveBait
cnbc.com/2024/05/20/wen...

CNBC WATCH LIVE

RESTAURANTS

Wendy's will offer $3 breakfast deal, as rivals such as McDonald's test value meals to drive sales

PUBLISHED MON, MAY 20 2024·3:53 PM EDT
UPDATED AN HOUR AGO

4:49 PM · May 20, 2024

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***Walter Bloomberg**
@DeItaone

$TGT

◆ TARGET TO REDUCE PRICES ON 5,000 FREQUENTLY SHOPPED ITEMS

Target announced it will lower prices on approximately 5,000 frequently shopped items across its assortment. The retailer has just reduced prices on about 1,500 items, with thousands more price cuts planned to take effect over the course of the summer. Consumers will enjoy savings on everyday items such as milk, meat, bread, soda, fresh fruit and vegetables, snacks, yogurt, peanut butter, coffee, diapers, paper towels, pet food and more. These price reductions will collectively save consumers millions of dollars this summer.

5:08 AM · May 20, 2024 · 71.7K Views

Sometimes I hear, "you can't trust data". Particularly government data. I disagree but understand the sentiment.

Regardless, its helpful to hear other sources corroborate what you're seeing in data. Last week, several of the most visible retail chains reported earnings, and announced several price cuts going forward, as their input costs are falling.

No charts in this one, just read some of the transcripts/reports of what companies are doing.

Also helping the consumer, Amazon is following WalMart and Target and lowering the pricing of their goods...

> Amazon is slashing grocery prices by up to 30% in hopes of luring inflation-weary customers — following in the footsteps of other major retailers such as Target and Walmart. The company said that it will reduce prices of 4,000 items at its Amazon Fresh grocery stores online as well as at its handful of brick-and-mortar locations. Amazon Fresh shoppers will be offered discounts on meat, seafood, frozen food, dairy and cheese, beverages, snacks and pastas, the company said on Friday. The price reductions will apply to national brands as well as Amazon-owned private label products.

NY Post

Costco remains one of the best reads on inflation and last week they confirmed that it has flatlined...

> "As inflation has leveled off, our members are returning to purchasing more discretionary items and growth in the category was led by toys, tires, lawn & garden and health and beauty aids...On the inflation front, it's more of the same from last quarter. Across all core merchandise, inflation was essentially flat in Q3. And with Fresh foods close to 0 and slight inflation in food and sundries being offset by some deflation in nonfoods. The deflation in nonfoods was led by hardware, sporting goods and furniture all still benefiting from lower freight costs year-over-year." -Costco CFO Gary Millerchip

The Transcript

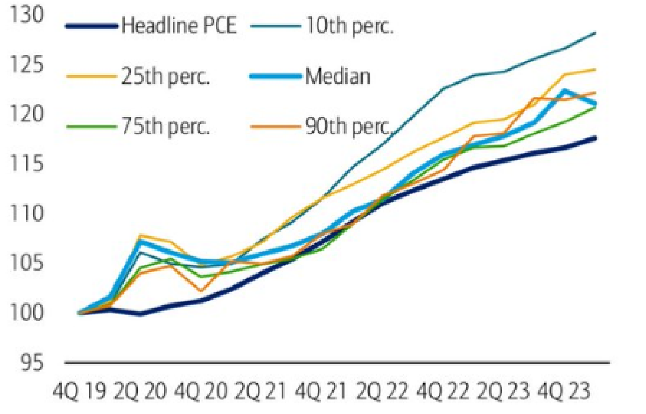
Incomes Are Outpacing Inflation

Carl Quintanilla
@carlquintanilla

B of A: ".. Lower-income consumers: no clear signs of cracks ..

".. lower-income spending has generally
outpaced higher-income spending on a y/y basis since early 2023, even excluding
necessities (i.e., groceries and gas). This is consistent with the strength in blue-collar
wage growth since the start of the pandemic." 🇺🇸

Exhibit 12: Usual weekly earnings by percentile, vs. prices (SA, 4Q 2019 = 100)
Wages have outpaced prices across the wage distribution. Lower-income workers have seen the largest wage gains



Source: BEA, Bureau of Labor Statistics (BLS)
BofA GLOBAL RESEARCH

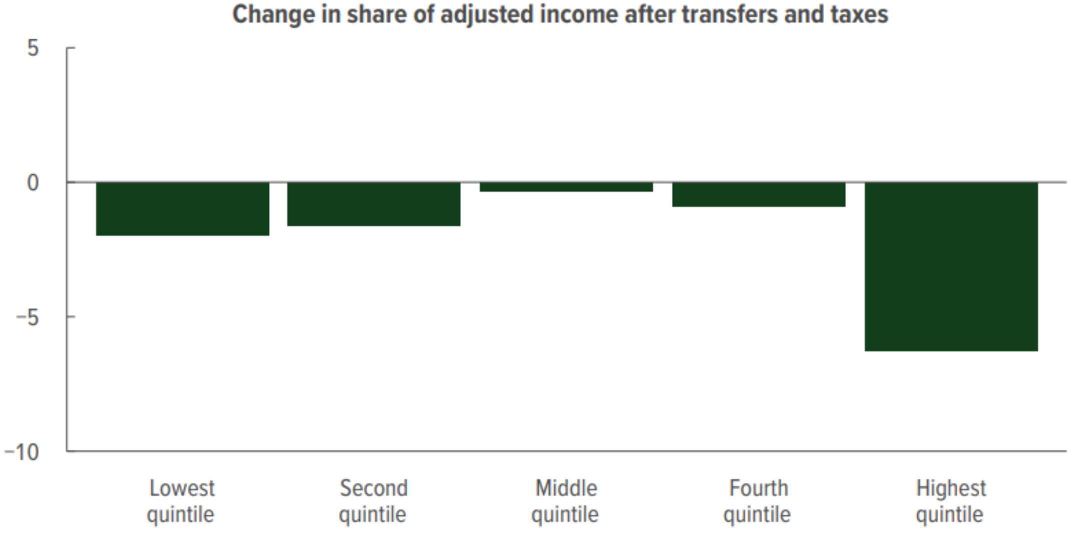
6:24 PM · May 16, 2024 · **80.2K** Views

According to data from Bank of America, lower income consumers are spending more outside of necessities (food and gas). Since 2019, incomes have increased more for the lower earning cohorts, than the higher. This is a big reversal from the 20 years before that.

Another table below shows what % of income is required to purchase the same bundle of goods/services. For every group of incomes, they are spending a smaller % of their income than in 2019.

Change Since 2019 in the Share of Household Income Required to Purchase a 2019 Consumption Bundle, by Income Quintile

Percent

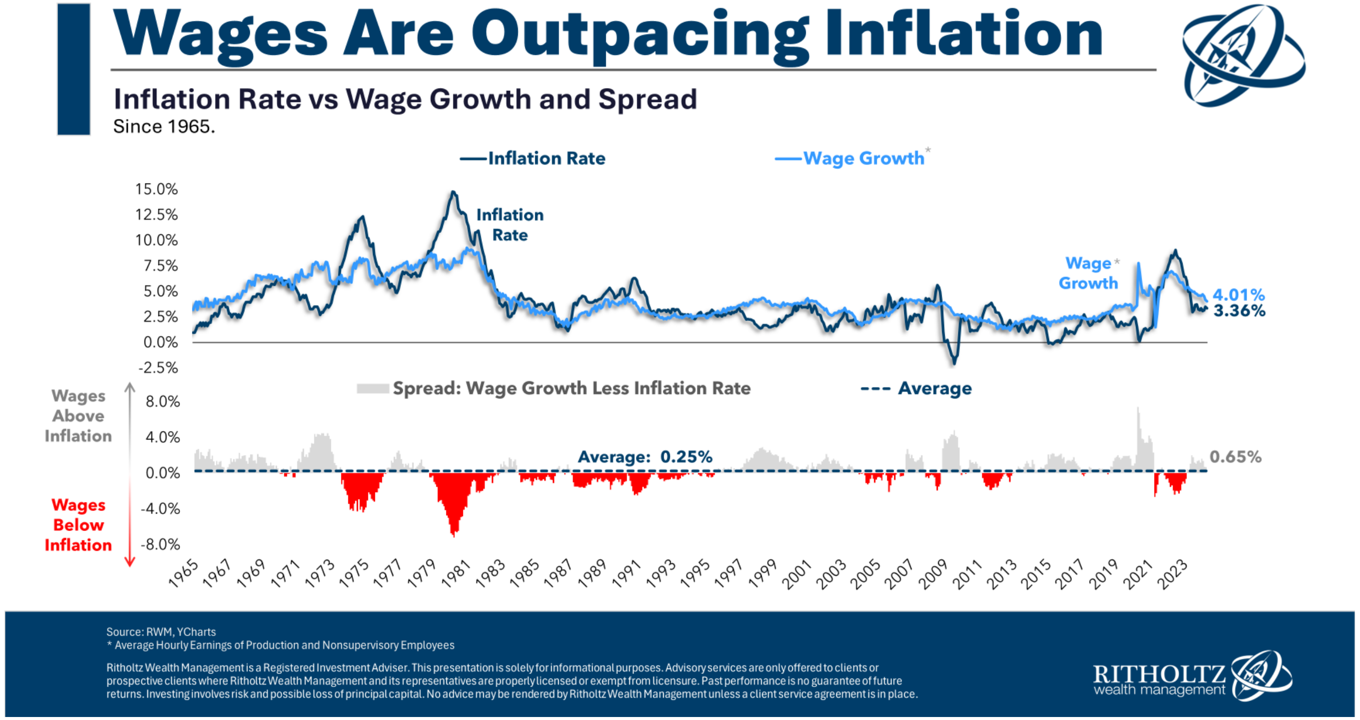


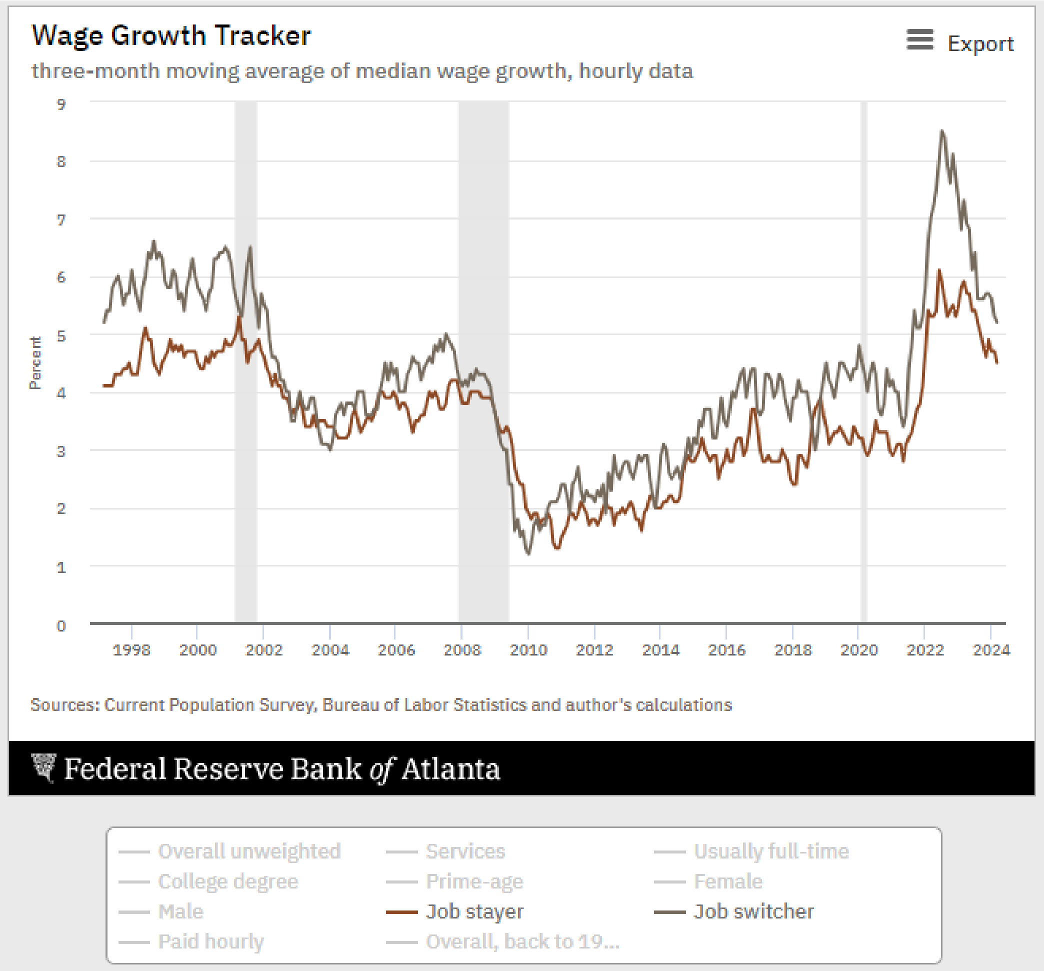
In 2023, the average household in each income group could purchase the same bundle of goods and services that it purchased in 2019 with a smaller portion of its adjusted income after transfers and taxes because such income increased more than prices did from 2019 to 2023.

Incomes are Outpacing Inflation, Cont'd

These two charts show hourly earnings, as opposed to weekly in the slide before. Below you can see how closely earnings tend to track inflation.

On the right is a similar series but broken up between job stayers and job switchers. It's interesting how big of a gap there was in 2022. This explains much of the increase in earnings especially in the lower income and younger cohort.





Profit Margins Approach All Time Highs

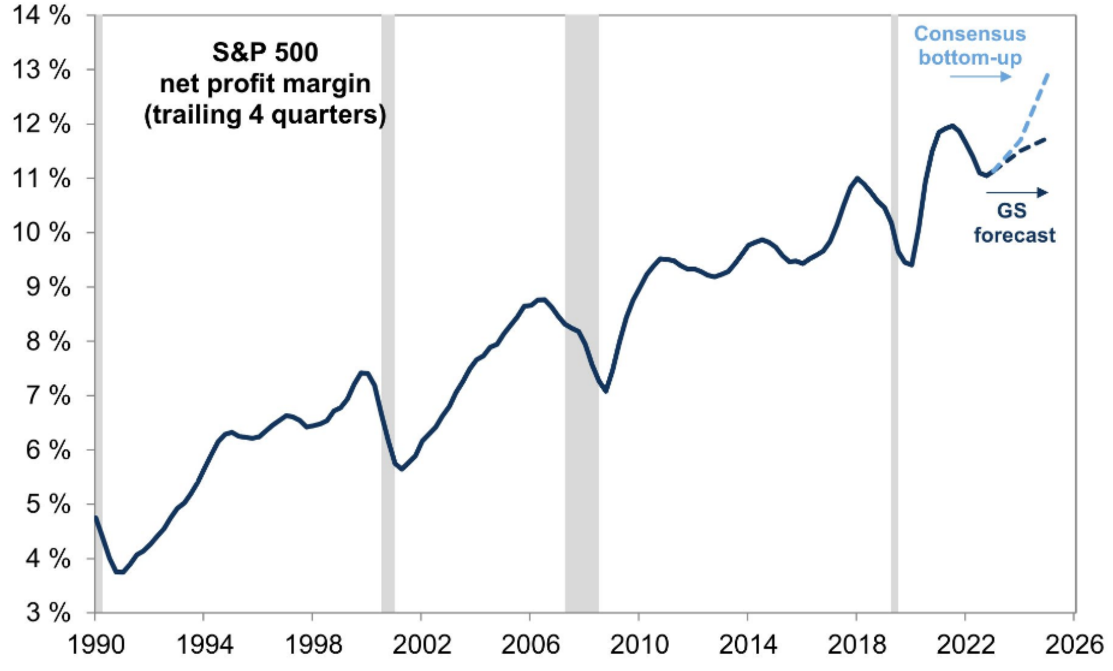
Profit margins are forecasted to pass their 2021 high in the next year. There are a lot of possible reasons for this. Efficiencies due to technology, possibly AI, although most of the real impact is likely in the future. Some companies took advantage of global inflation as an excuse to raise their prices, even if their input costs went up by less.

For larger companies, their debt was refinanced when rates were lower. So some may be earning more on the cash on their books, than what they pay for debt. This series was thought to be mean reverting in the past, meaning it should come down at some point. But 35 years is a long time to have consistent increases in margins.

Goldman Sachs

Path of S&P 500 margins: up and to the right

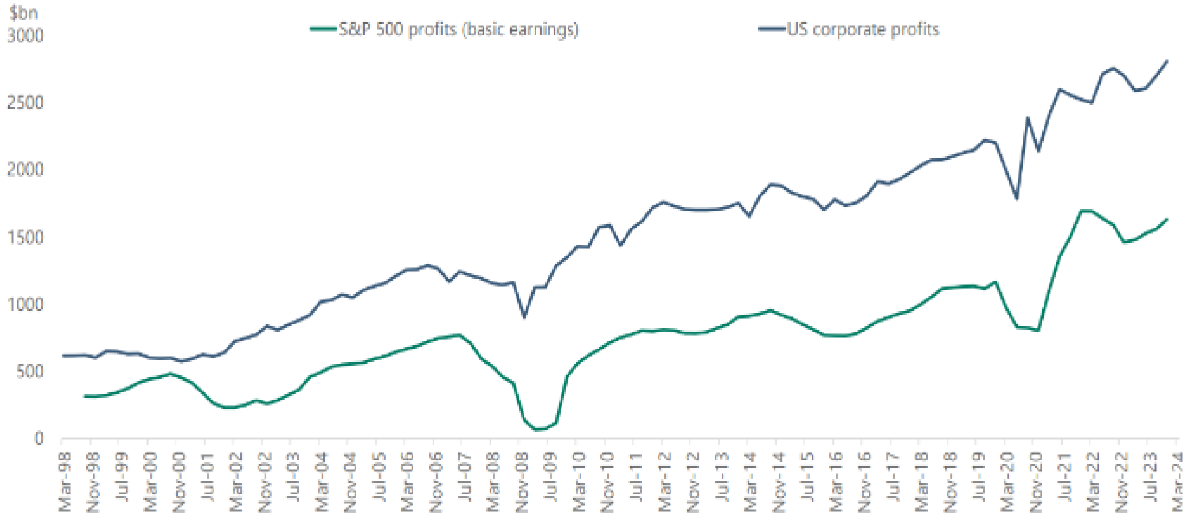
We forecast limited margin expansion in 2024 and 2025



Source: FactSet, Goldman Sachs Global Investment Research.

Global Investment Research

S&P500 profits make up half of economy-wide corporate profits



Source: S&P, BEA, Haver Analytics, Apollo Chief Economist

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OPEC Starting to Crack

OPEC+ (Organization of Petroleum Exporting Countries), headed by Saudi Arabia and Russia, has historically had a lot of power and influence over global oil prices, as they were the largest producers in the world. Simply by increasing/decreasing production, they could cause prices to go down/up. That is starting to change. The US now produces much more than both Saudi Arabia and Russia (green chart).

OPEC has been purposely reducing oil production, in an effort to get prices over $100 a barrel. However, due to the strong US production, and some help from a slowing China amongst other things, oil has struggled to go above $80 since prices spiked in 2022. In OPECs latest deal, they signaled that production may increase by 500k barrels a day by December, and 1.8 million barrels by mid 2025. If this occurs, it will be difficult for oil prices to increase in the years ahead.

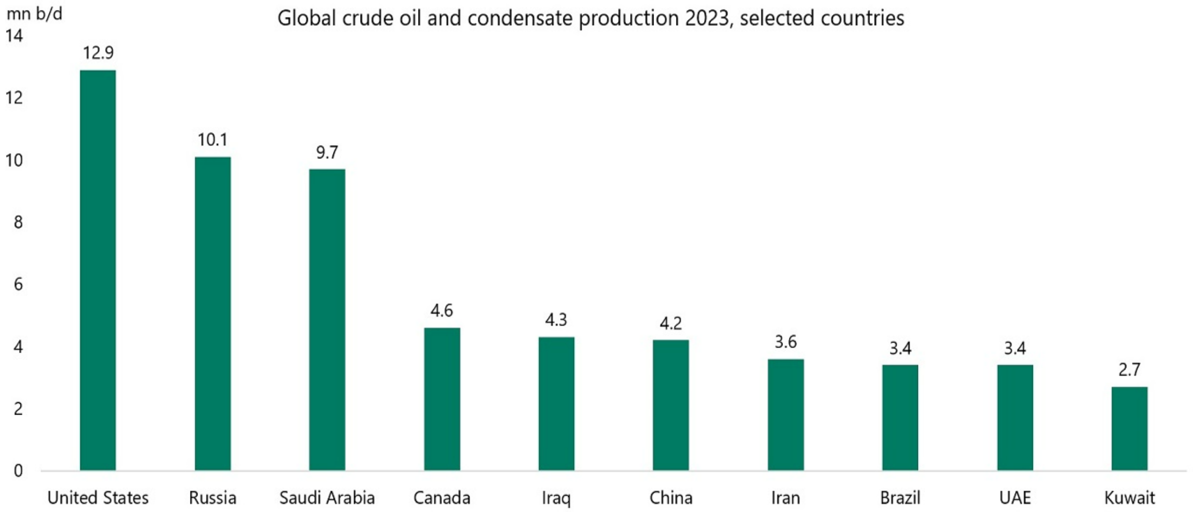
The Triple-Digit Target

Under the leadership of Saudi Arabia, the OPEC+ cartel has tried to push global oil prices toward $100 a barrel. Now, it appears it's reversing course

Source: ICE Europe Ltd

APOLLO

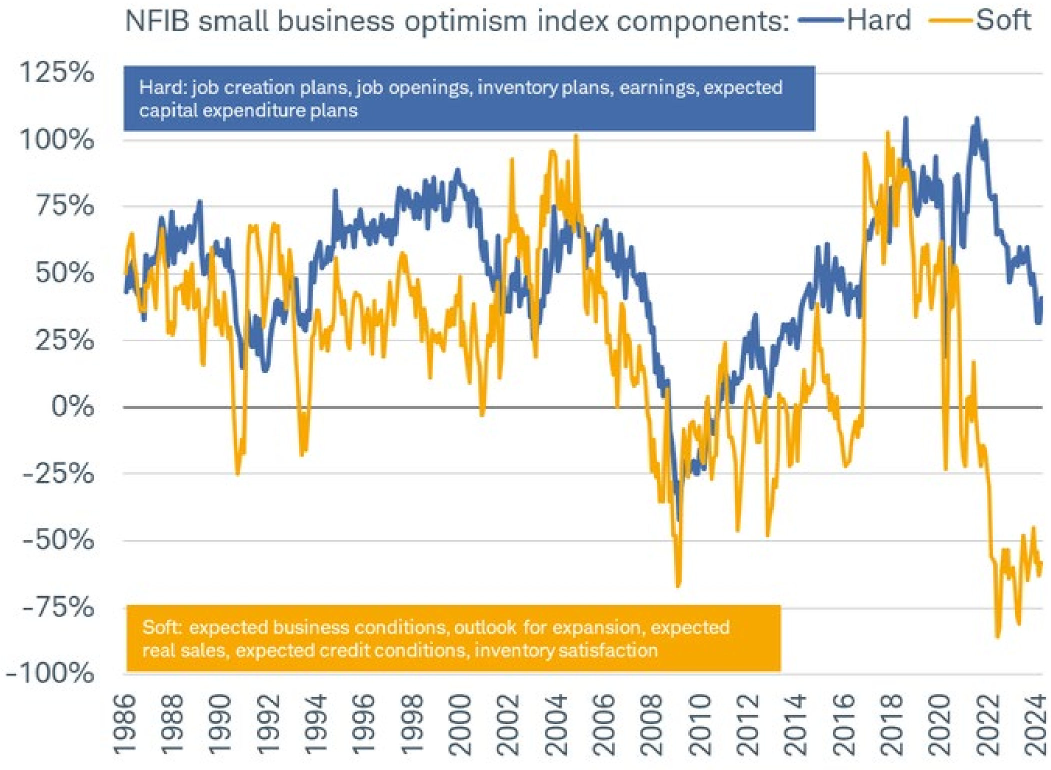
The US produces more oil than Russia and Saudi Arabia



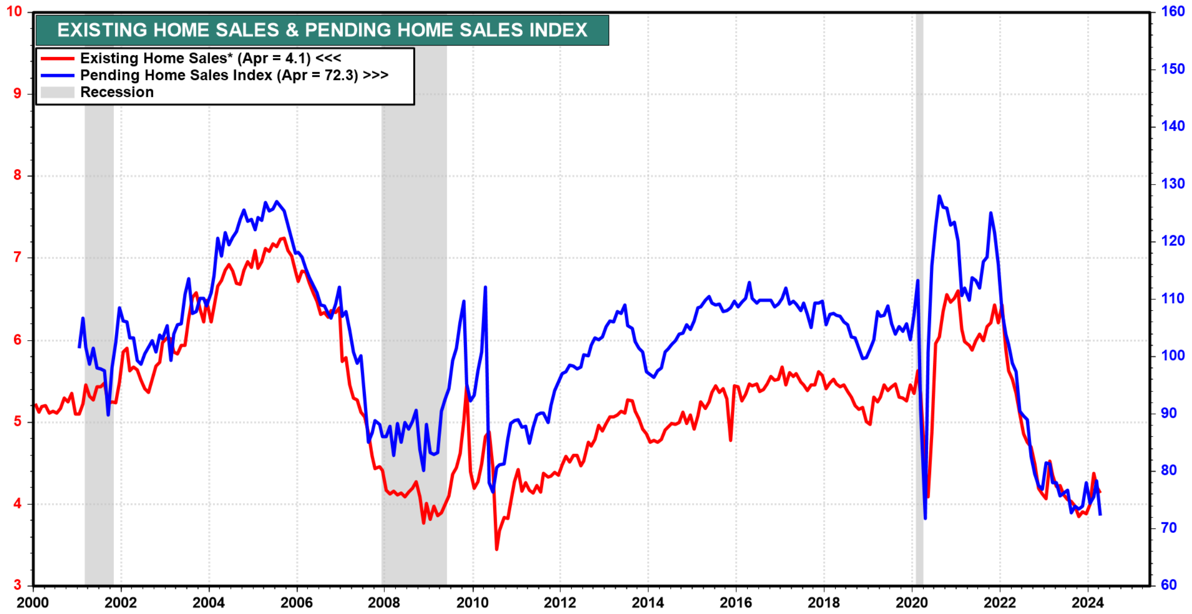
Some Economic Data is Mixed

One area of the economy that continues to be terrible, is the housing market. Existing/Pending Home sales data came out last month amongst the weakest in history. People simply are not selling their homes, as no one with a current low mortgage wants to trade it in for a higher one. New builds have picked up some of the slack, but even with that home transactions are way down.

On small businesses, it's a bit of a mixed bag. "Hard" data, aka things that are measured, have been pretty good. However, "soft" data, aka survey data/outlook/business expectations, are currently the worst in history. This is an issue plaguing many surveys, as respondents "feel" worse than what the hard numbers would suggest.



Source: Charles Schwab, Bloomberg, NFIB (National Federation of Independent Business), as of 4/30/2024. Hard and soft represents the sum of their respective components.



Source: LSEG Datastream and © Yardeni Research.
*Million units, saar

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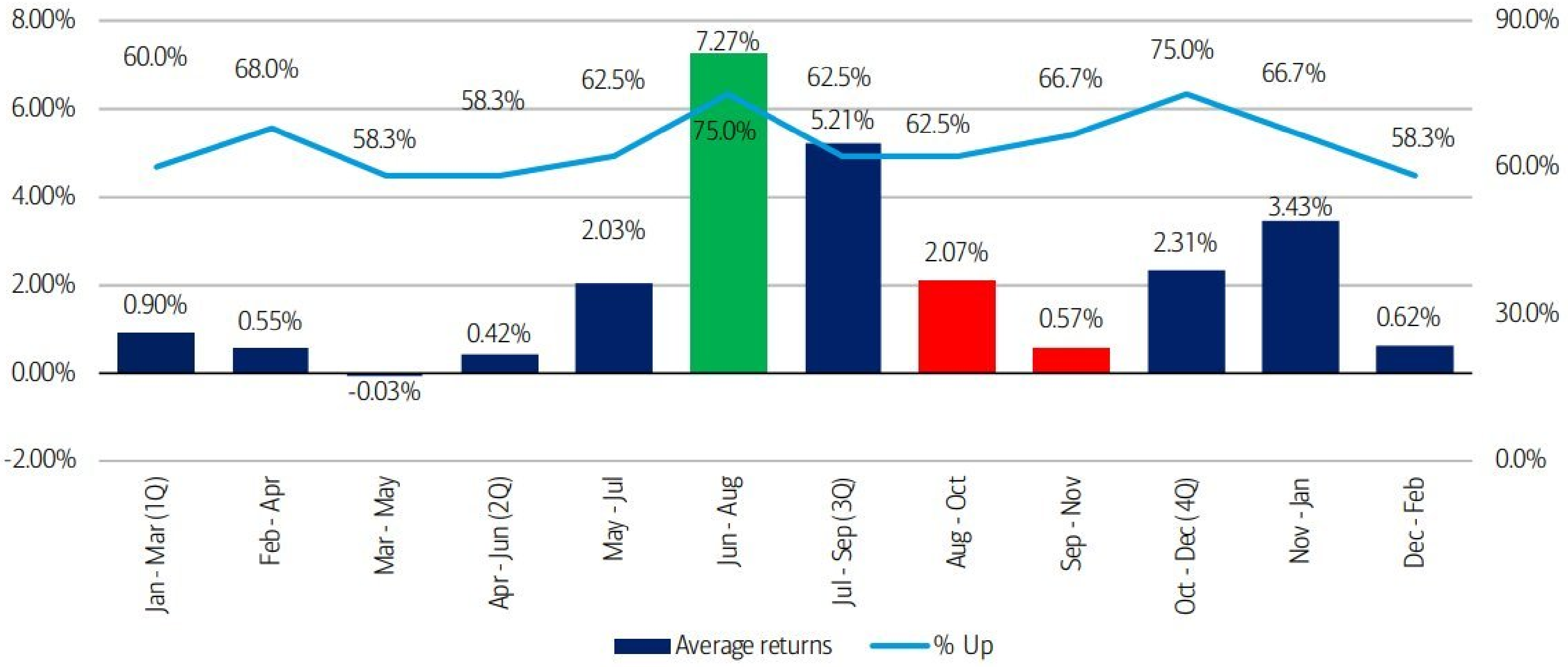
Historically Good Season For US Stocks

Chart 2: S&P 500: 3-month seasonality for Presidential election years (Year 4 of the Presidential Cycle) back to 1928
June-August is the strongest 3-month period of the year in Presidential election years with the SPX is up 75% of the time on an average return of 7.3%.



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Bank of America looked back at all elections years and found that the 3 month stretch from June to August is a fantastic time for US stocks. Perhaps it is the incumbents trying to boost the economy before voters hit the polls, or maybe it's hopeful voters envisioning change for the better after the election.

Or its completely random. It's very hard to say, but interesting to note just how much better the next few months are vs the rest of the year. I'm not sure its tradable, but it is interesting!

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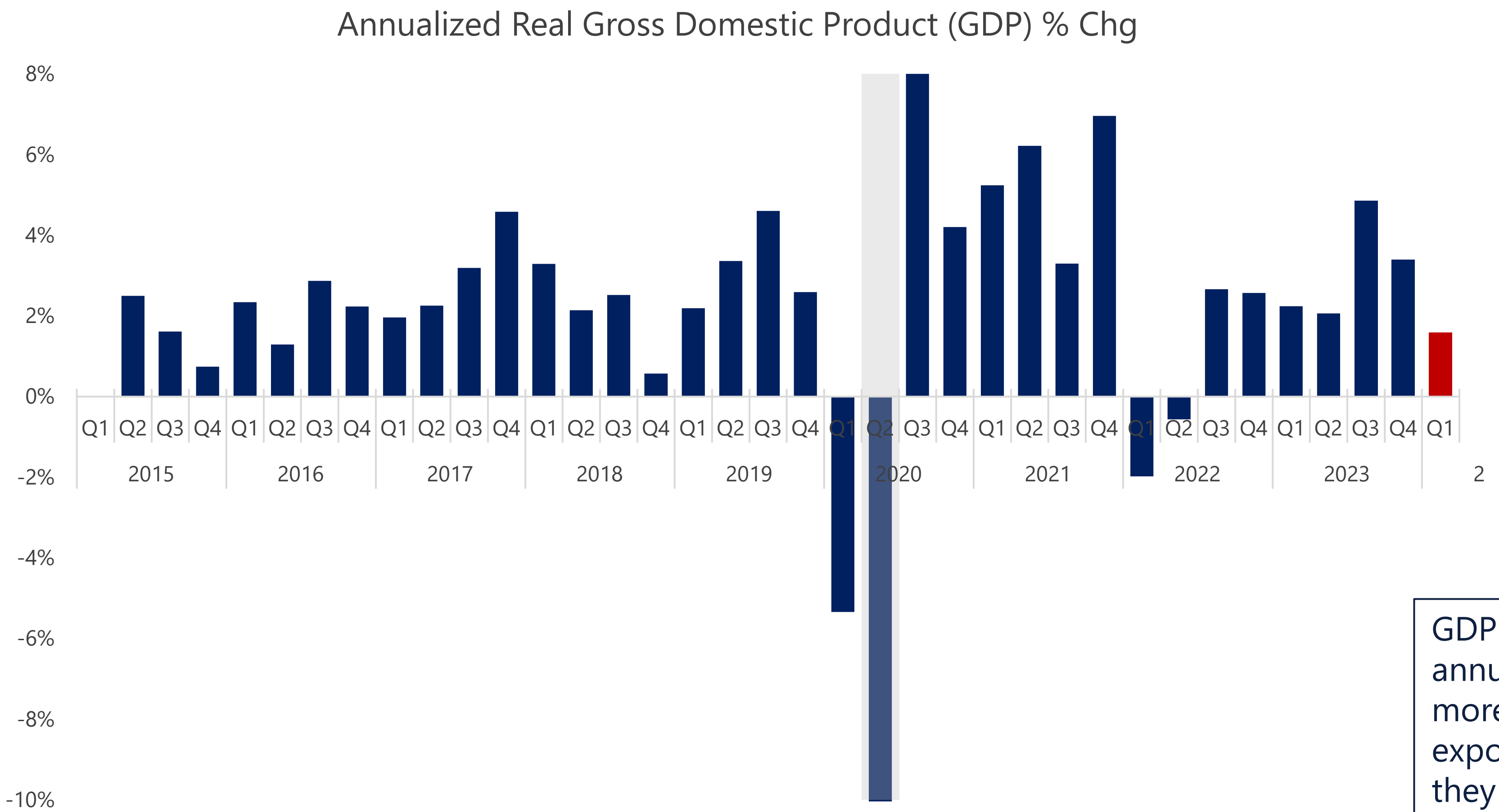
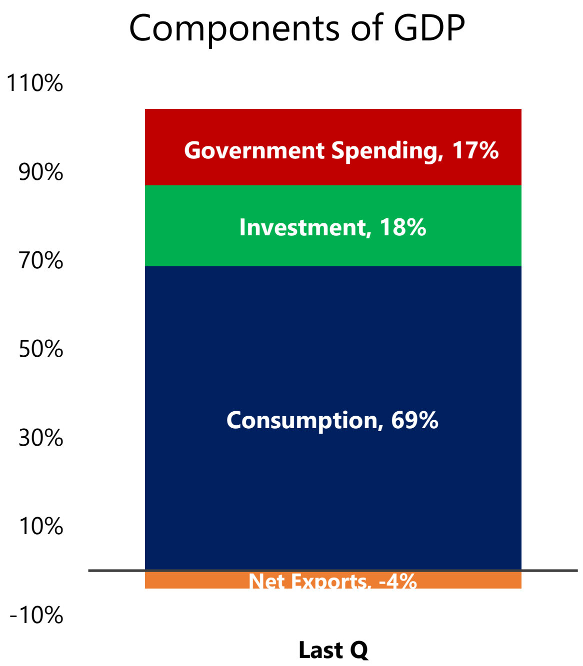
WJ State of the Economy

US Economic Growth at 1.6%

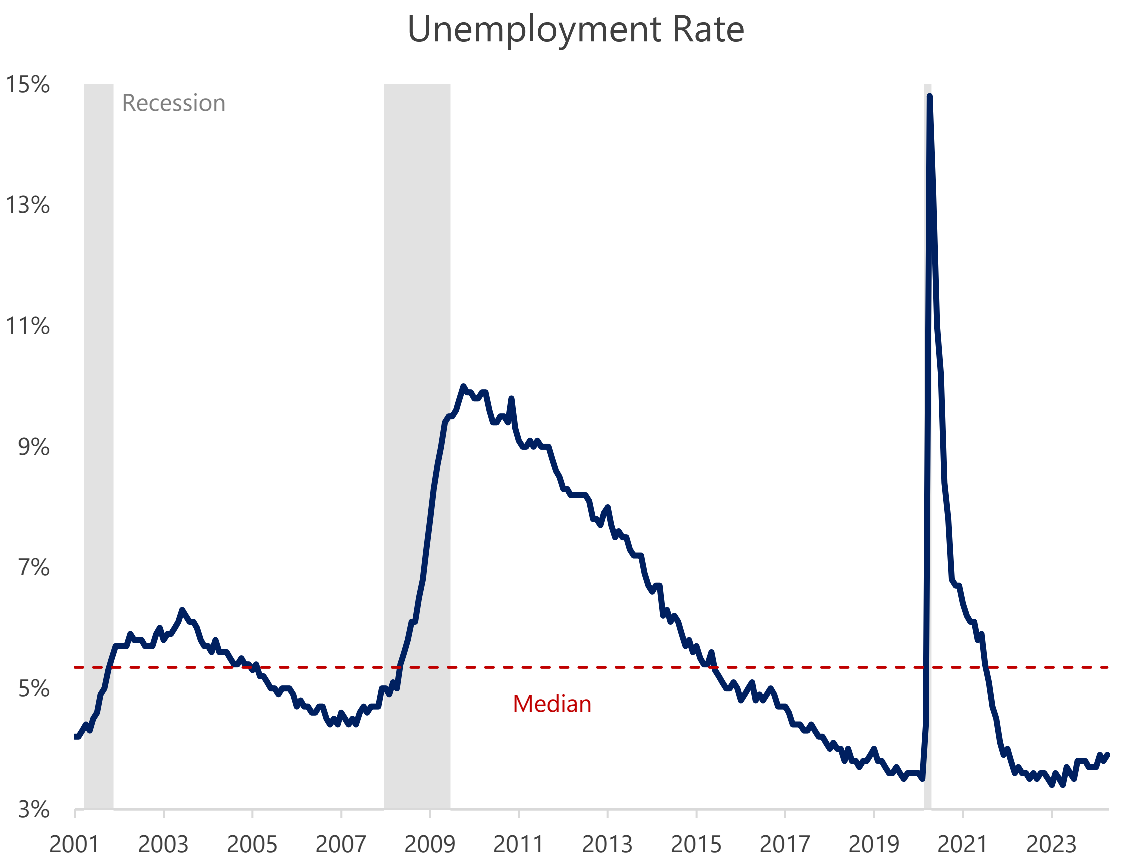


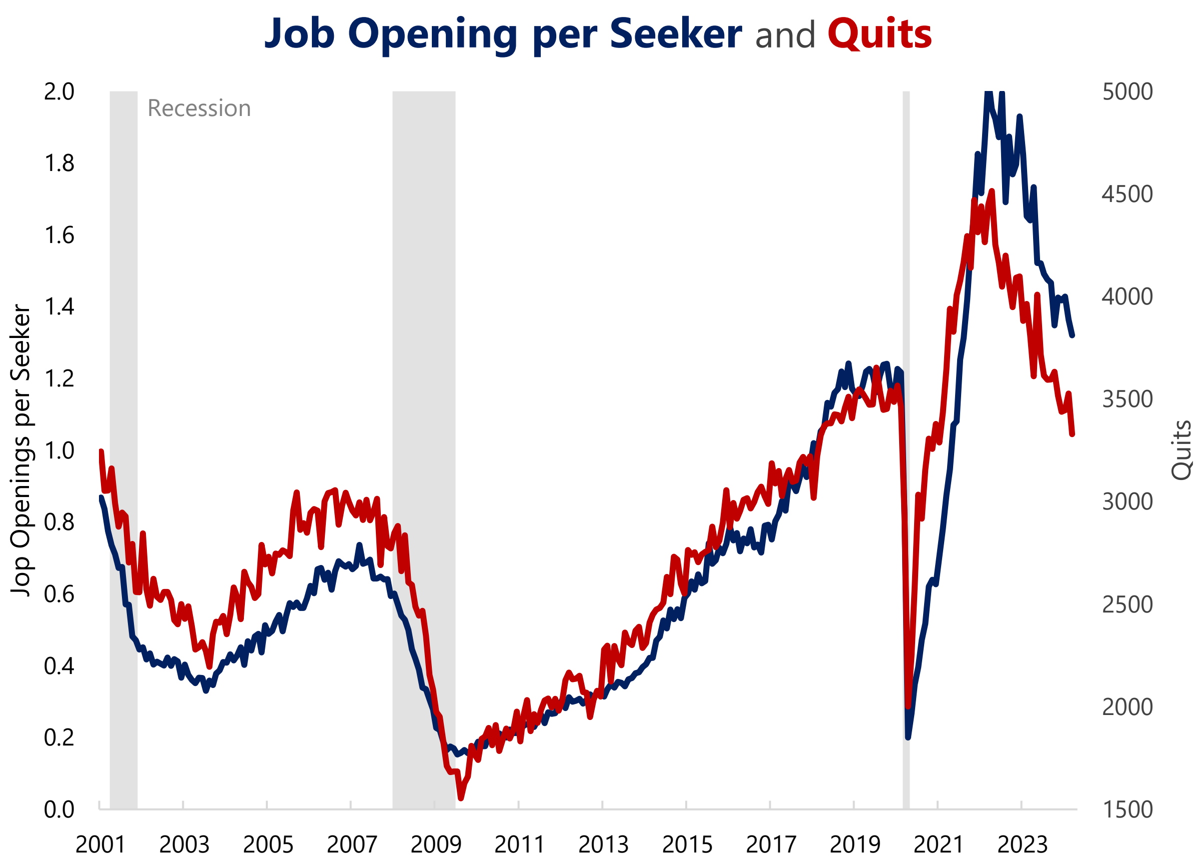


GDP came in below expectations, at an annualized 1.6%. Some of this is from the more volatile components, like inventory and exports, being lower than average. However, they were above average in the high prints last year as well.

Source: Federal Reserve Economic Database (FRED). Real Gross Domestic Product (left). Components from U.S. Bureau of Economic Analysis, "Table 1.1.6. Real Gross Domestic Product, Chained Dollars" (right). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

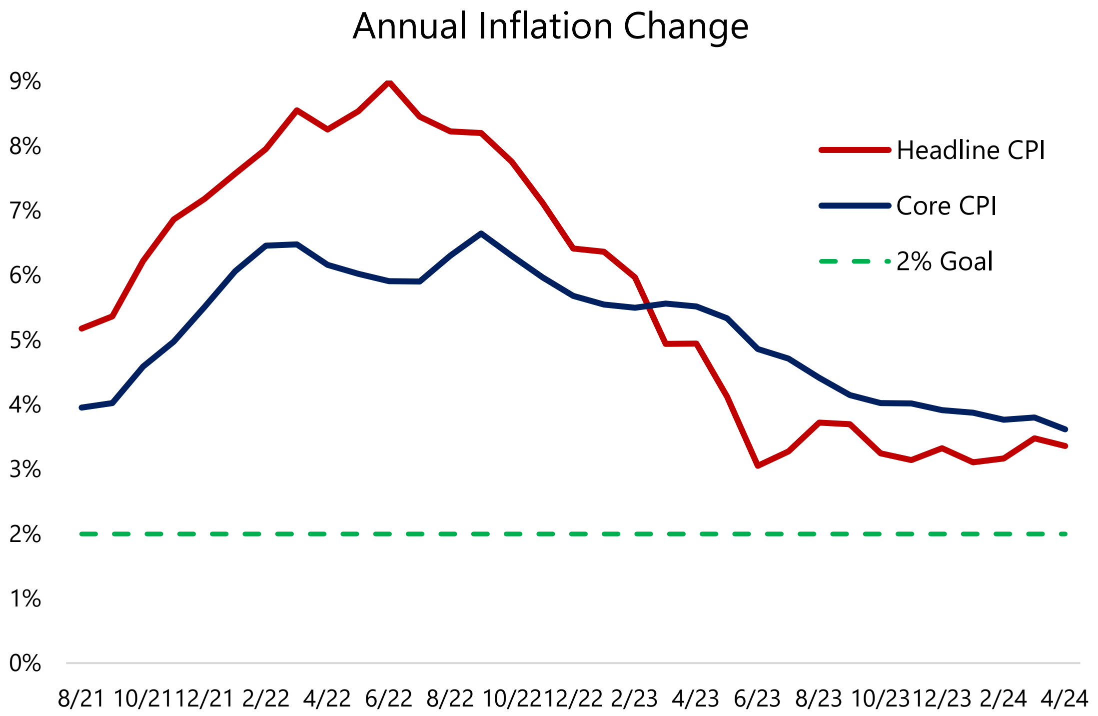
Unemployment Rate Up, Quits and Job Openings Going Down

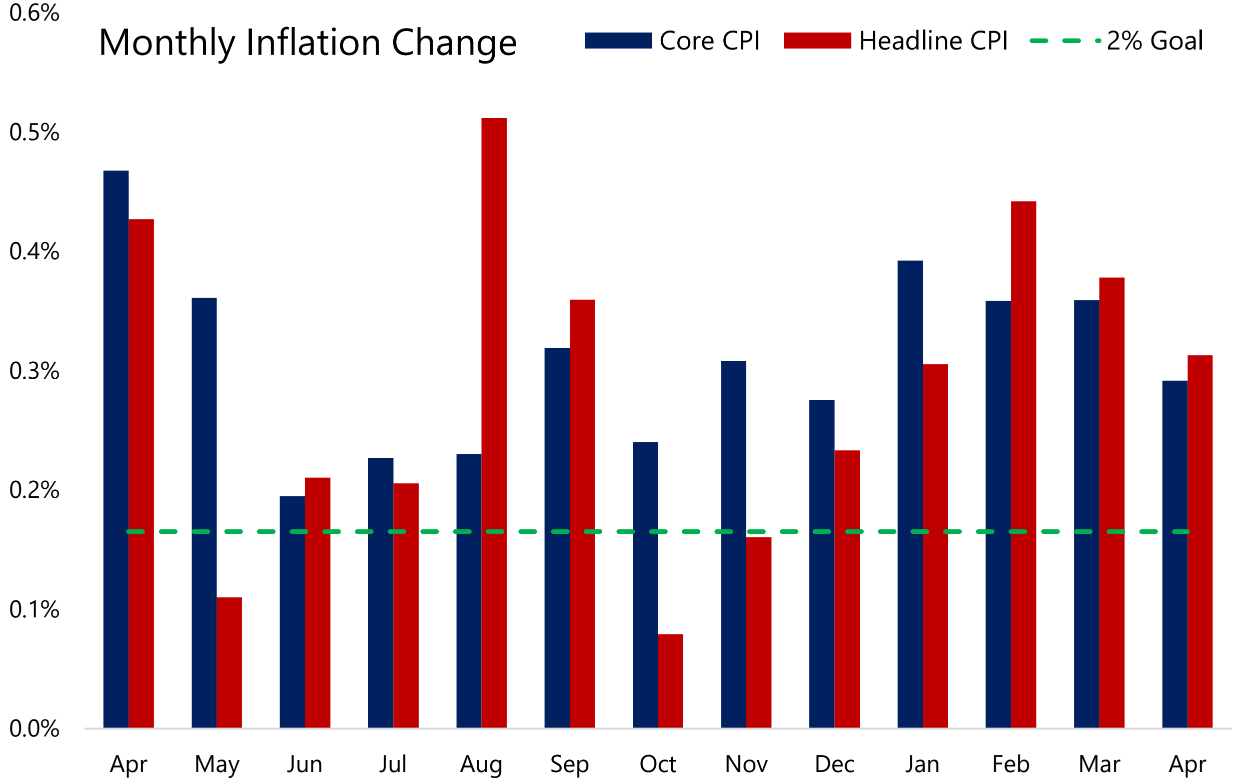




Source: Federal Reserve Economic Database (FRED). Unemployment Rate (left) and Job Openings: Total Nonfarm divided by Unemployment Level as well as Quits: Total Nonfarm (right).
Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

Finally, a Better (but not great) Inflation Report





After 3 bad inflation prints to start the year, we finally got one that "met" expectations. It wasn't better than expectations, and the expected number is still higher than it needs to be for inflation to get back to 2%, but its at least in the right direction. Not shown is PCE, the Fed's preferred inflation metric. It also came out better and is approaching that golden 2% that we're trying to get to.

Source: Federal Reserve Economic Database (FRED). Consumer Price Index. Annual CPI Forecasts are made by WJ using past month over month CPI data and extrapolating forward with different growth rates.

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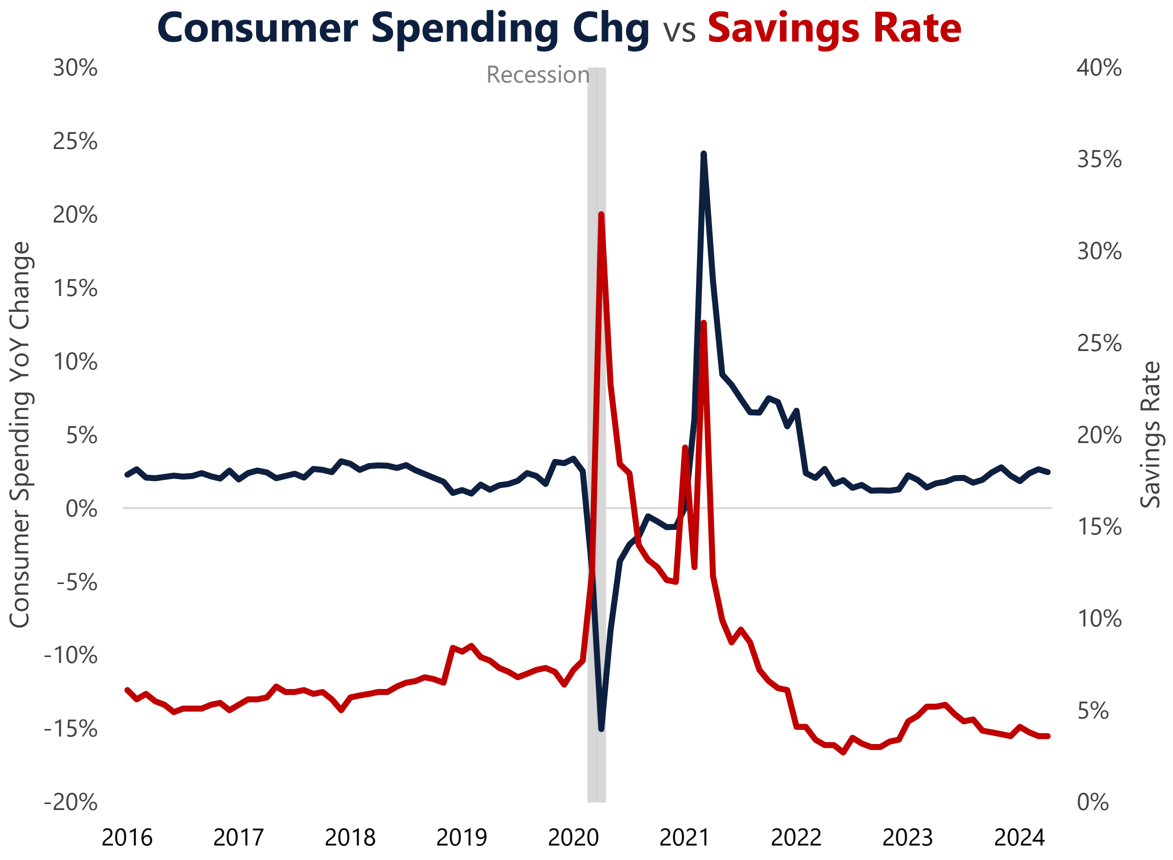
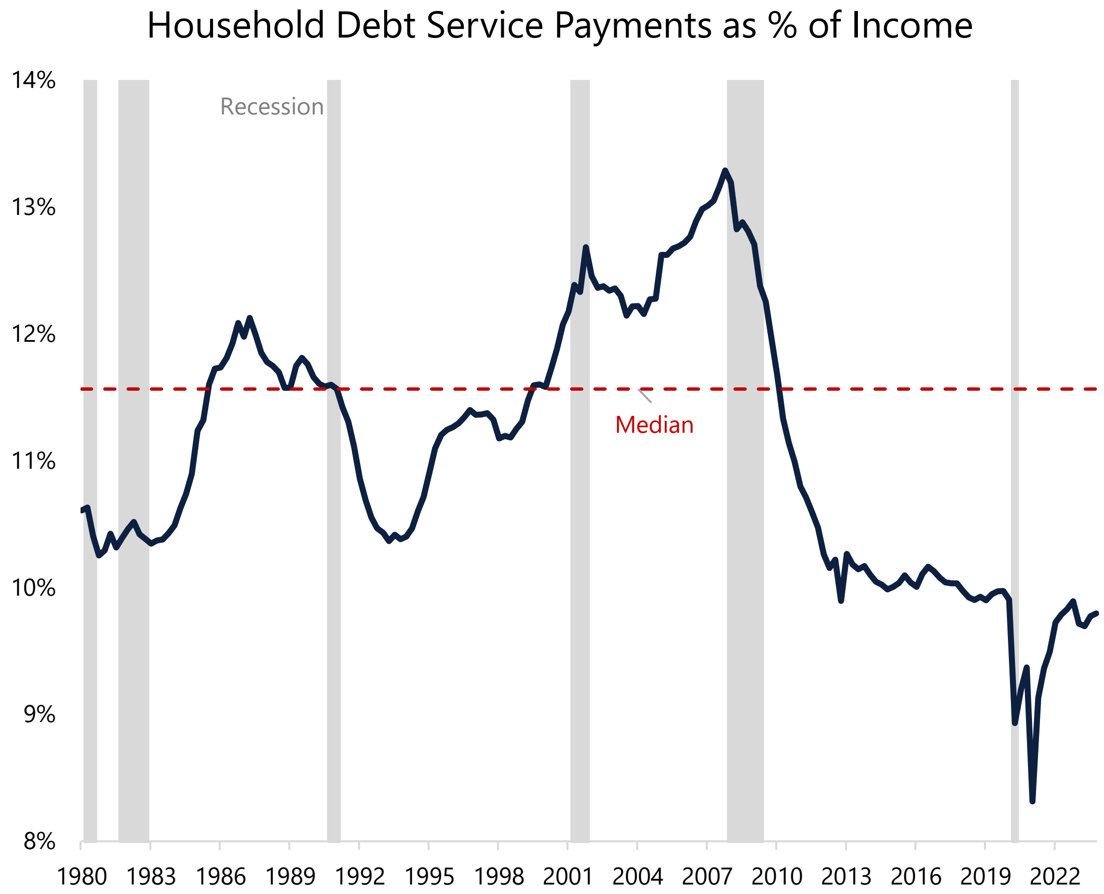
Household Spending is Still Strong





Source: Federal Reserve Economic Database (FRED). Personal Saving Rate plus Real Personal Consumption Expenditures (left) and Household Debt Service Payments as a Percent of Disposable Personal Income (right). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

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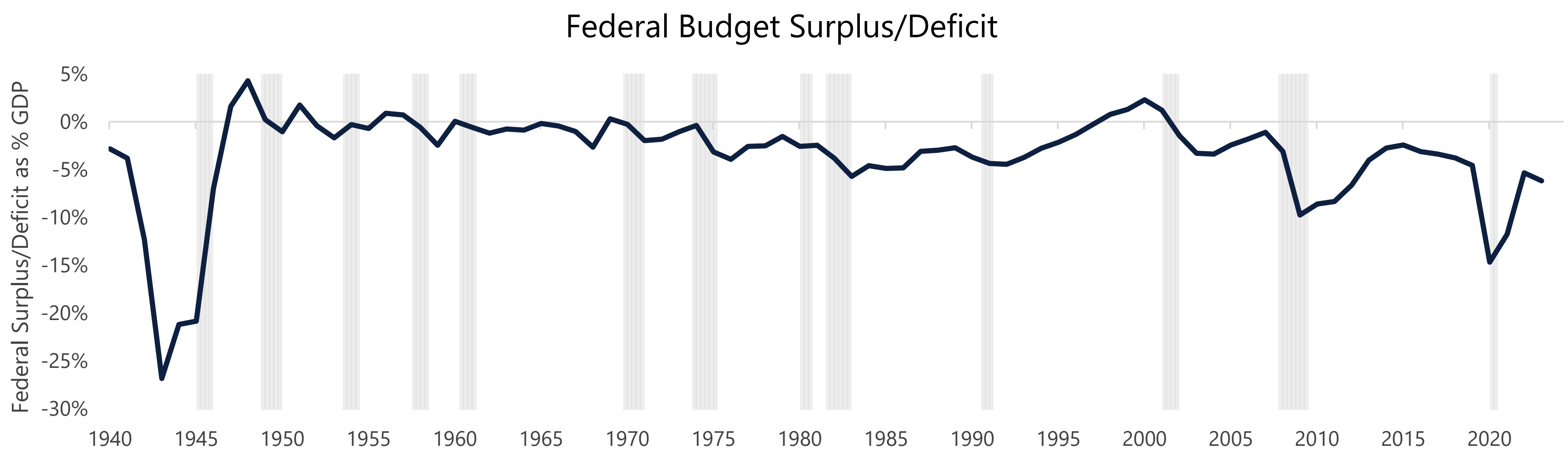
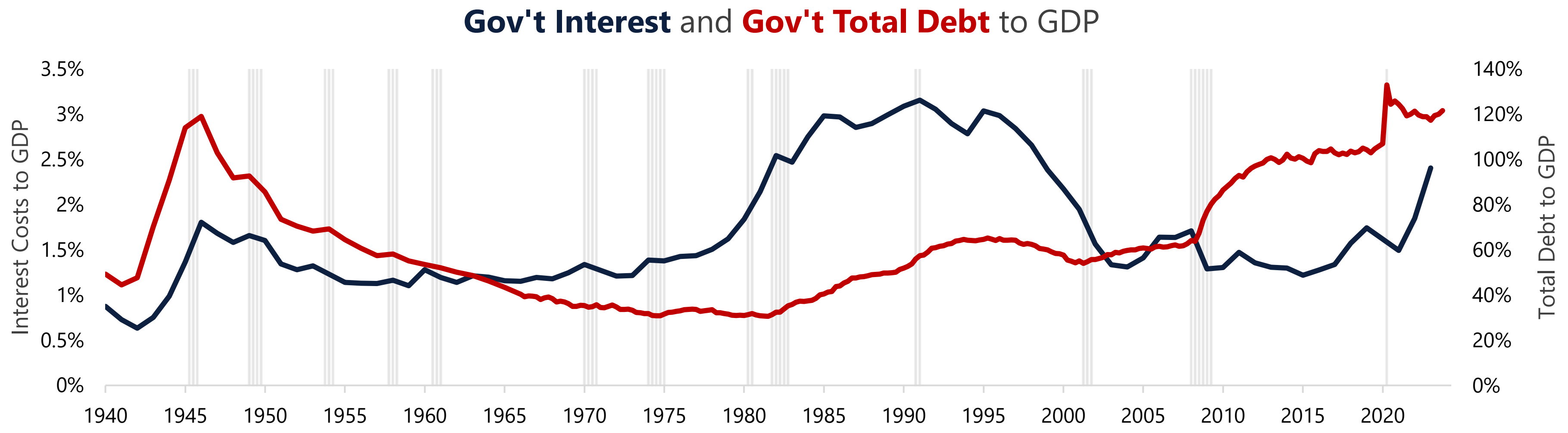
Government Budget Deficit Increased





Source: Federal Reserve Economic Database (FRED) Federal Surplus or Deficit [-] as Percent of Gross Domestic Product (top) and Federal Debt: Total Public Debt as Percent of Gross Domestic Product plus Federal Outlays: Interest as Percent of Gross Domestic Product (bottom). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

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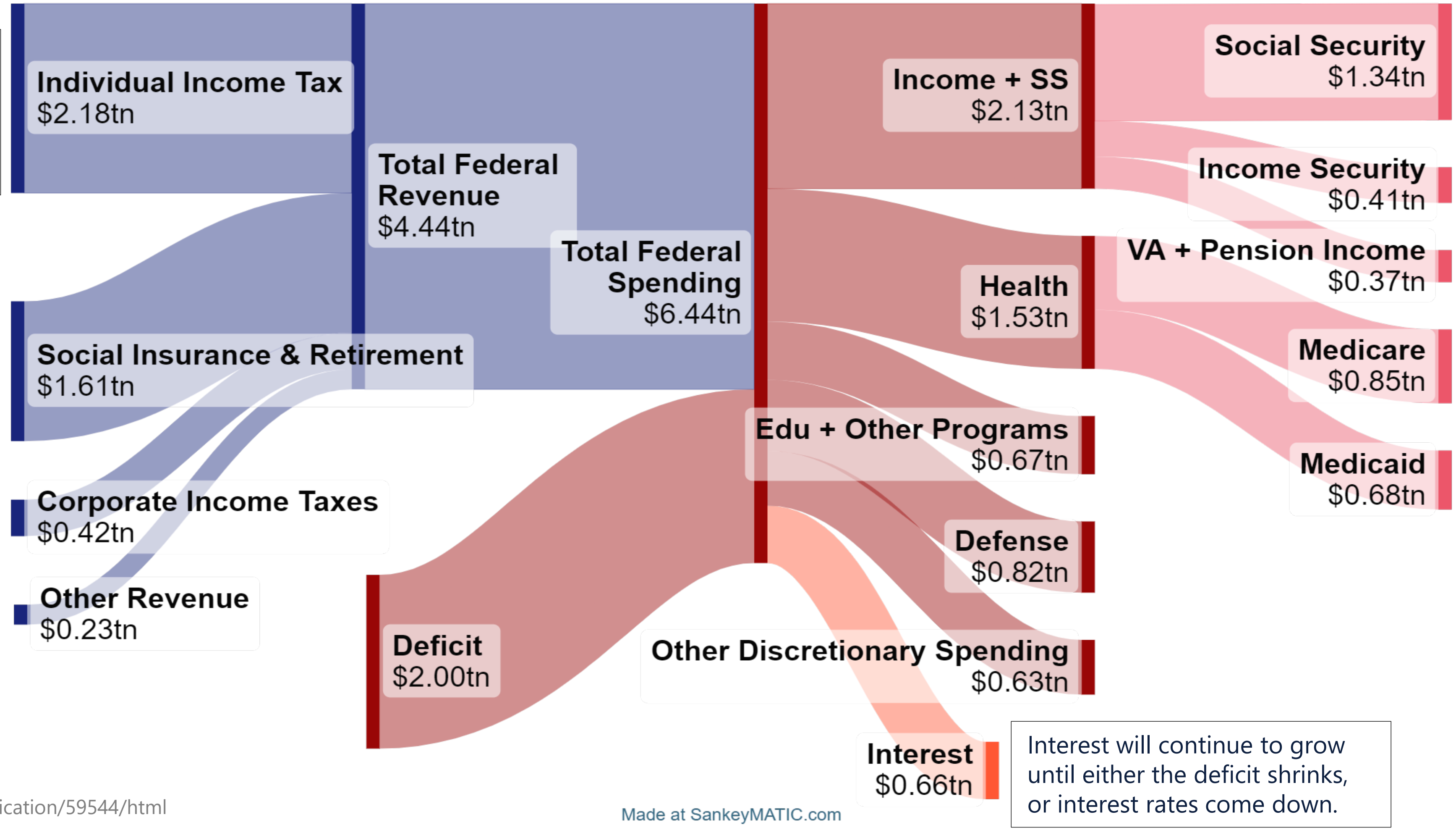
Government Expenditures 2023

This is a new chart we've made that we'll update as new expenditure/budget data comes out. It's an in depth look at how the US makes money, and how it spends it. On the spending side, the top 3 categories are known as "mandatory spending" and are unable to change without major reform. That leaves "Defense" and "Other Discretionary Spending" as the two categories congress can change on any year.

Income taxes receipts were lower than budgeted, partly due to a bad 2022 that produced low capital gains taxes.



Social Security and Medicare are forecasted to grow rapidly as baby boomers enter retirement. Other programs will fall as a percent of spending.

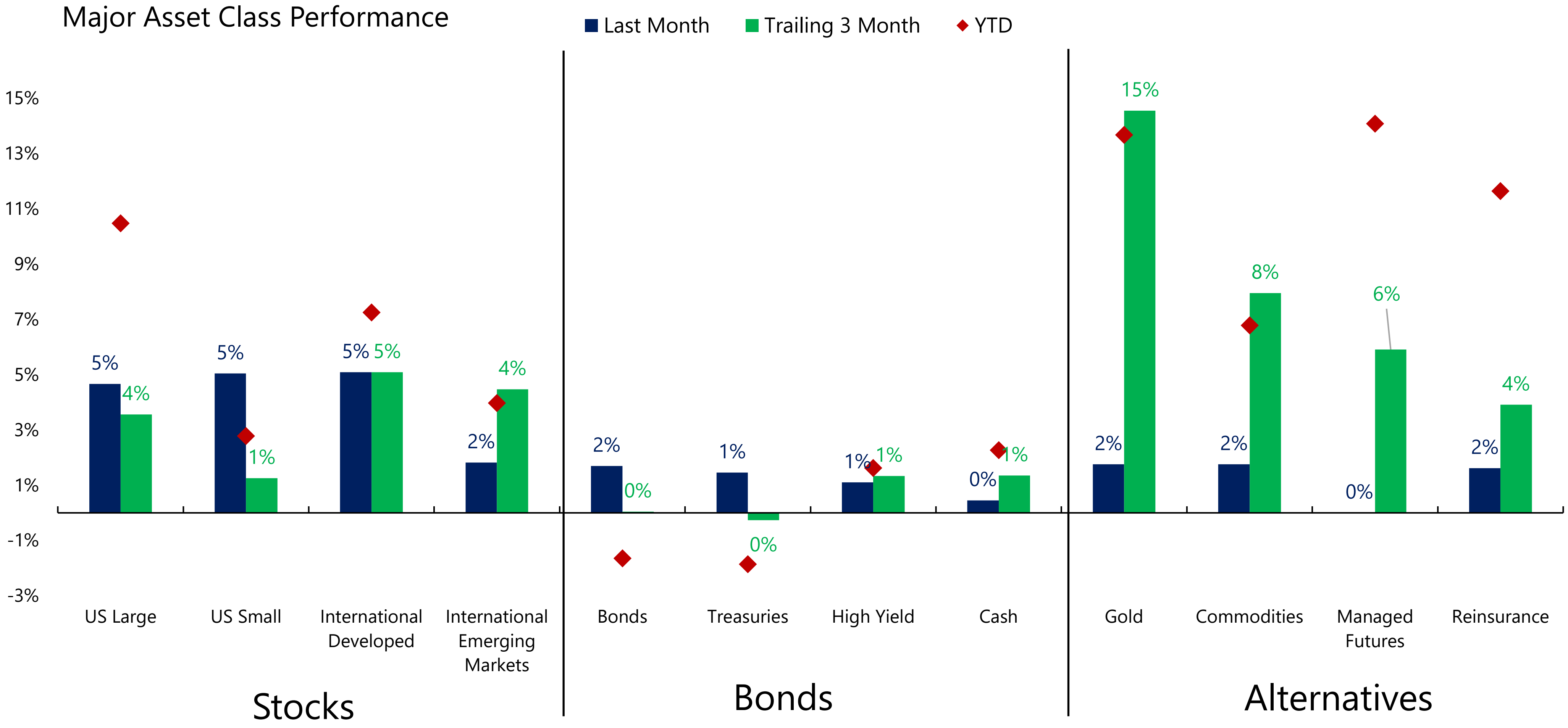
A major part of "other revenue" the last decade has been Federal Reserve Remittances, Where the Fed pays the Treasury any interest it makes over what it pays. With the Fed Funds Rate high, this income has gone away, but could return if rates went down.

Interest will continue to grow until either the deficit shrinks, or interest rates come down.

Source: https://www.cbo.gov/publication/59544/html

WJ State of the Markets

Bounce Back For Stocks, But Alts Still Lead



Source: Morningstar Direct. Categories in table are represented by (left to right) iShares Russell 1000 (IWB), iShares Russell 2000 (IWM), iShares Core MSCI EAFE (IEFA), iShares Core MSCI EM (IEMG), Bloomberg US Agg Bond TR, Bloomberg US Treasury TR USD, Bloomberg US Corporate High Yield TR USD, IA SBBI US 30 Day TBill TR USD, SPDR Gold Shares, Bloomberg Commodity TR USD, CISDM CTA EW USD, Stone Ridge Reinsurance Fund

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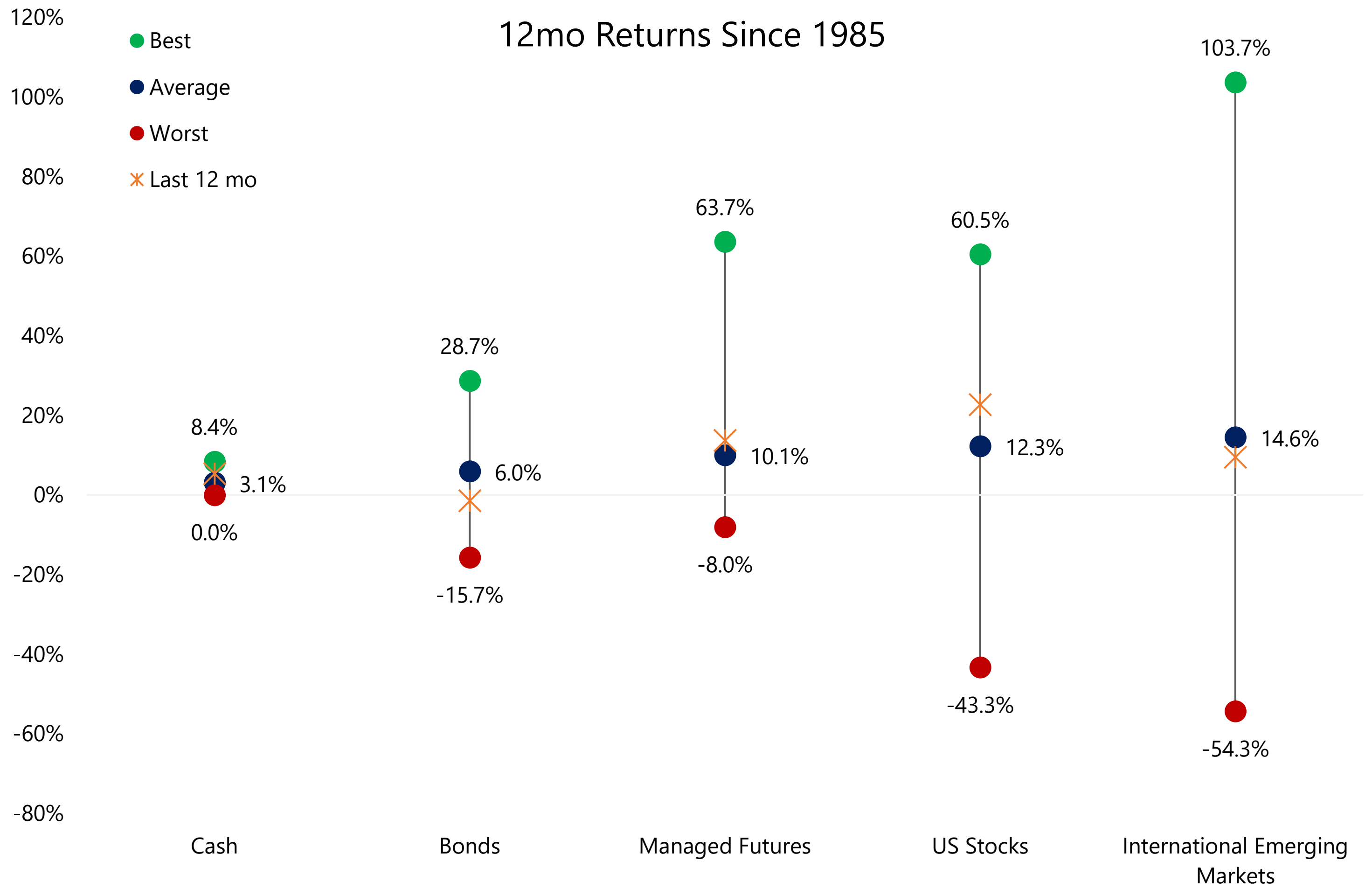
Historical Asset Class Return Range



This chart shows the range of 12 month returns historically, by asset class. As you'd expect, the riskier investment leads to a greater potential gain, as well as loss.

The X on the line represents the last 12 months.

Source: Morningstar Direct. Categories in table are represented by (left to right) IA SBBI US 30 Day TBill TR US, Bloomberg US Agg Bond TR USD, CISDM CTA EW USD, iShares Russell 1000 (IWB), iShares Core MSCI EM (IEMG). Historical data starts at common inception in 1985.

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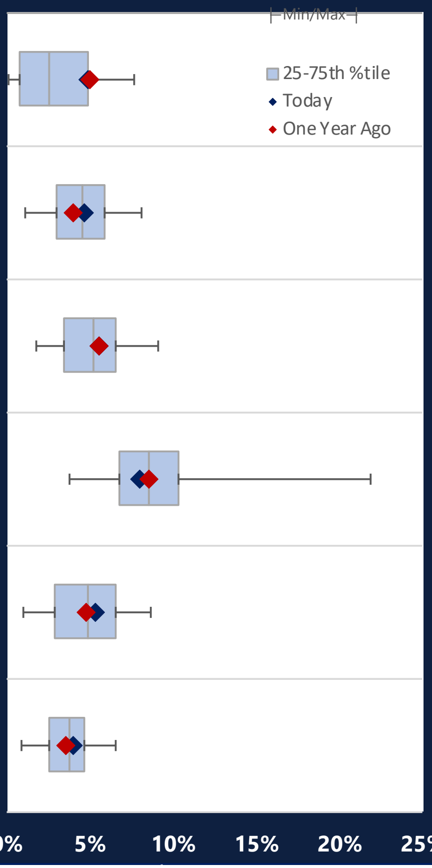
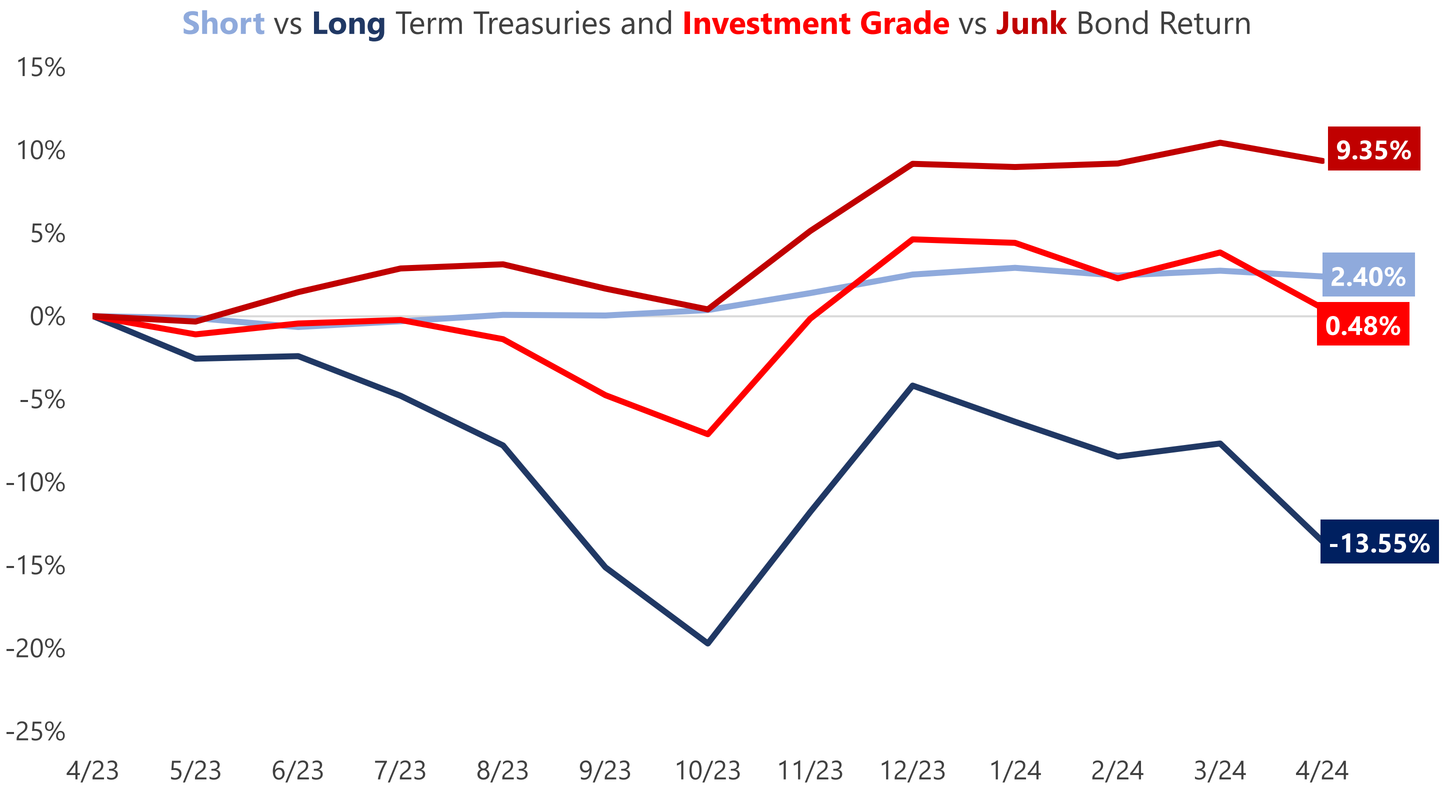
Treasury Bonds Continue to Struggle

	Yield (%)		
Bond Type	Last Month	Last Year	Change
ST Treasury	4.9	4.96	-0.06
LT Treasury	4.7	3.94	0.76
Investment Grade	5.52	5.48	0.04
High-Yield	8	8.5	-0.5
Mortgage-Backed	5.34	4.78	0.56
Municipal Bonds	3.93	3.52	0.41

Yield History





Source: Morningstar Direct. Categories in table are represented by (top to bottom) Bloomberg US Treasury 1-3 Yr Yld USD, Bloomberg US 20+Yr Yld USD, Bloomberg US Corp Bond Yld USD, Bloomberg US Corp High Yield Yld USD, Bloomberg US MBS Yld USD, Bloomberg Municipal Yld USD

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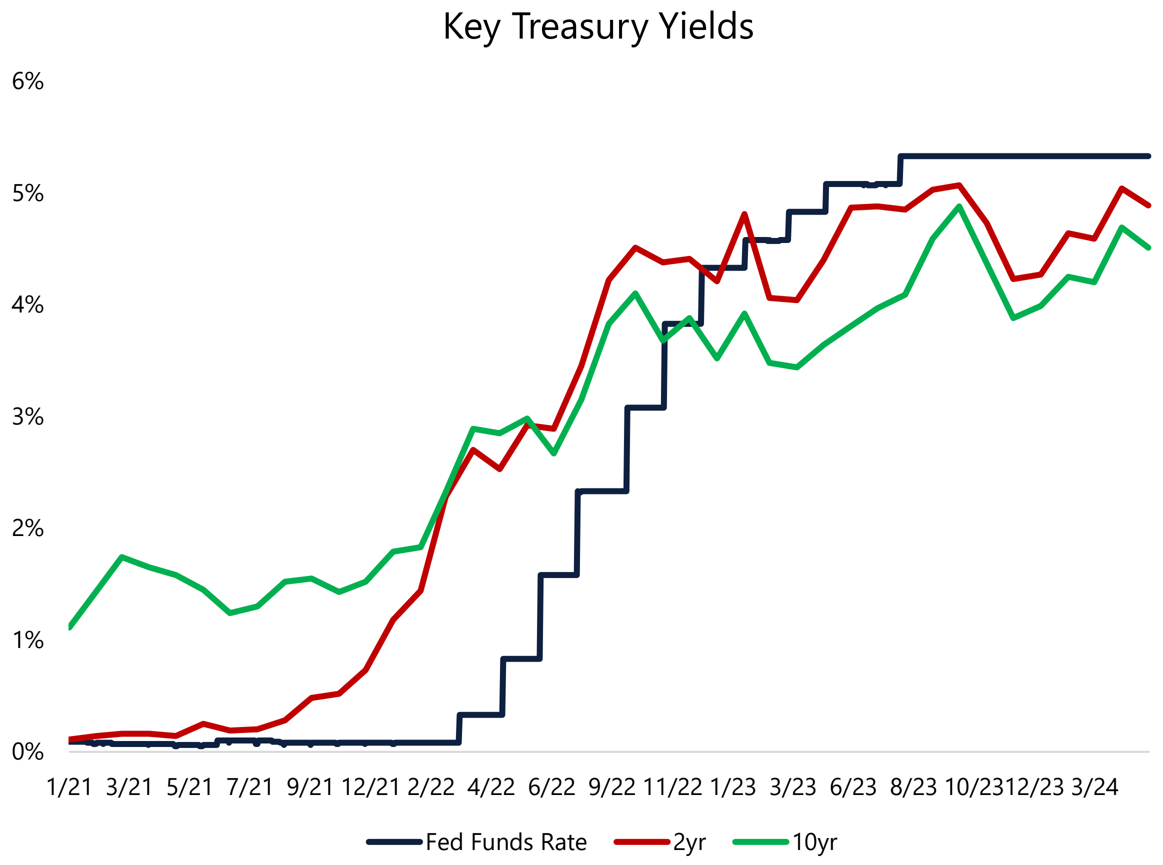
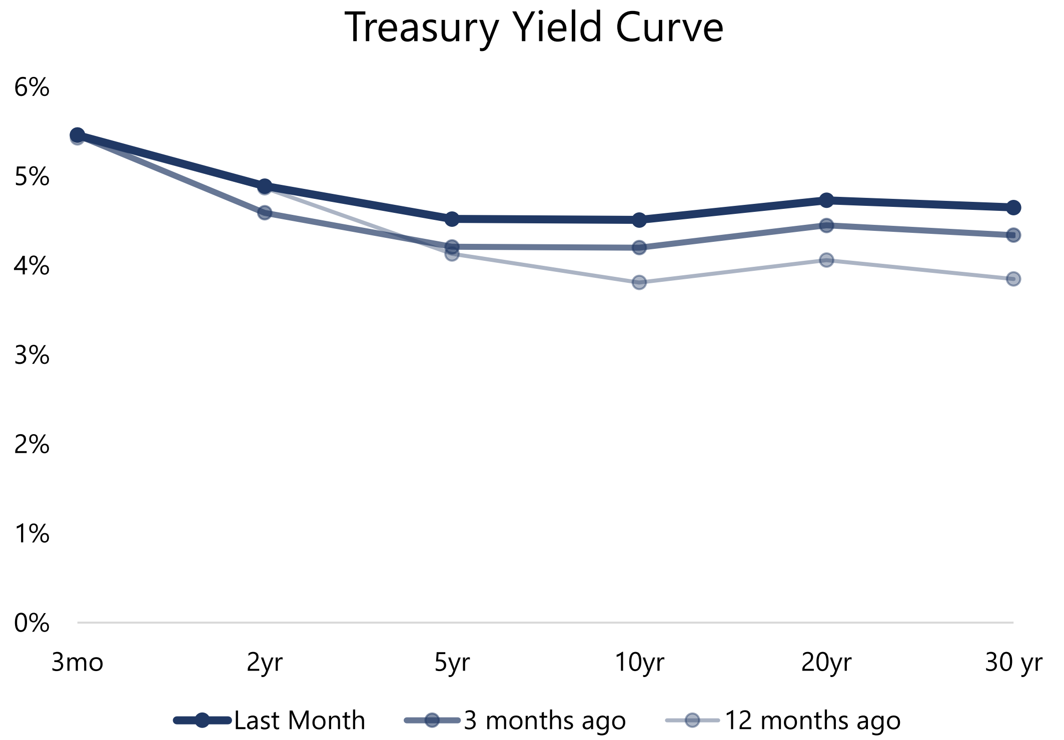
Rates Mostly Unchanged Over the Last Year





	3mo	2yr	5yr	10yr	20yr	30 yr
Last Month	5.5%	4.9%	4.5%	4.5%	4.7%	4.7%
3 months ago	5.5%	4.6%	4.2%	4.2%	4.5%	4.3%
12 months ago	5.4%	4.9%	4.1%	3.8%	4.1%	3.9%

Source: Morningstar Direct. USTREAS T-Bill Cnst Mat Rate 3mo, USTREAS T-Bill Cnst Mat Rate 2 yr, USTREAS T-Bill Cnst Mat Rate 5yr, USTREAS T-Bill Cnst Mat Rate 10 Yr, USTREAS T-Bill Cnst Mat Rate 20 Yr, USTREAS T-Bill Cnst Mat Rate 30 Yr. Effective Fed Funds Rate from FRED Database.

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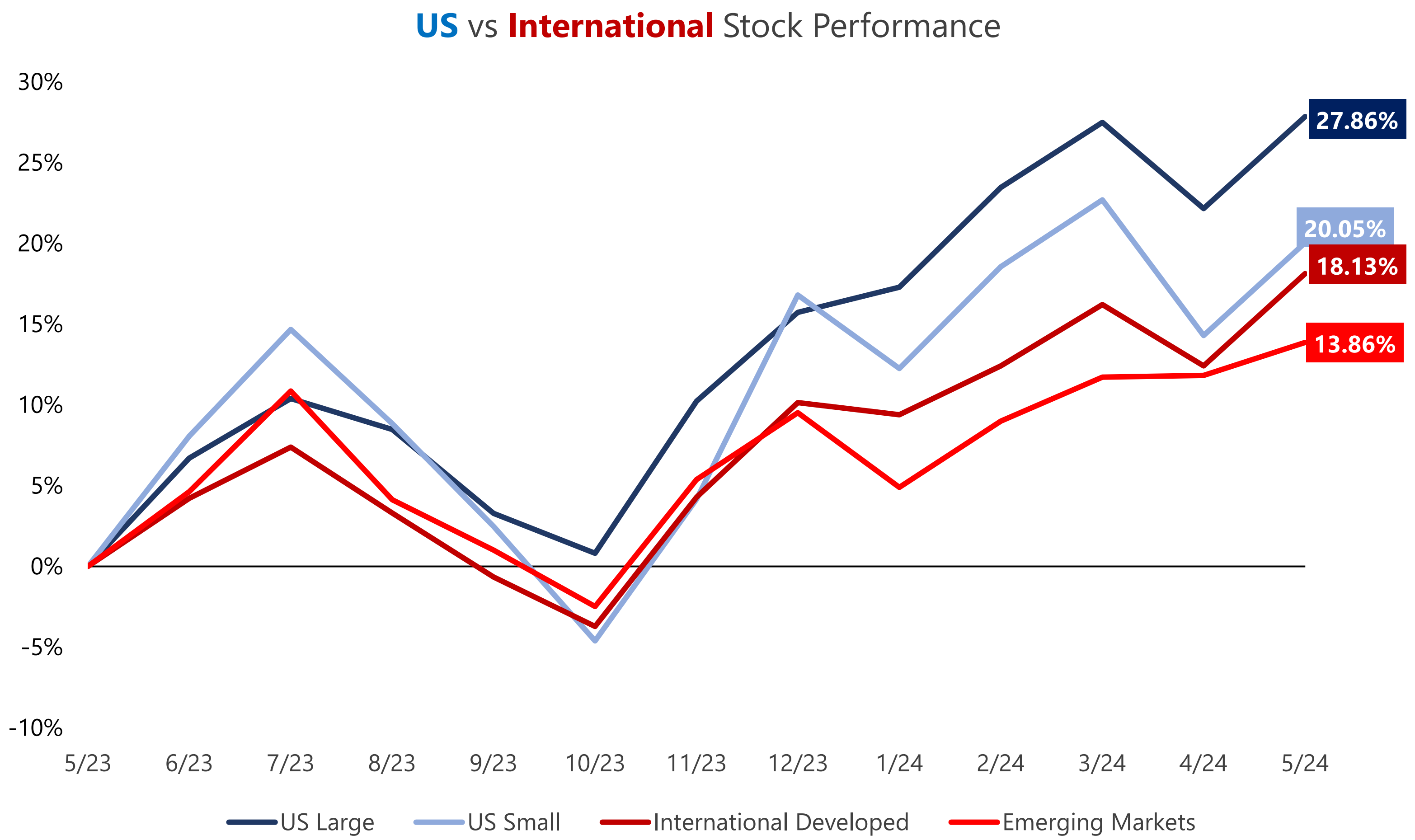
Growth Led Bounce Back For Stocks

	Stock Type	Last Month	Last 3 Months	Last 12 Months
Core	US Large	4.7%	3.6%	27.9%
	US Small	5.0%	1.3%	20.0%
	International Developed	5.1%	5.1%	18.1%
	International Emerging	1.8%	4.5%	13.9%
Other	US Value	3.2%	3.7%	21.5%
	US Growth	6.0%	3.2%	33.4%
	Nasdaq	6.4%	2.9%	30.8%



Source: Morningstar Direct. Categories in table are represented by (top to bottom) iShares Russell 1000 (IWB), iShares Russell 2000 (IWM), iShares Core MSCI EAFE (IEFA), iShares Core MSCI Emerging Markets (IEMG), iShares Russell 1000 Value ETF (IWD), Russell 1000 Growth ETF (IWF), Nasdaq 100 ETF (QQQ).

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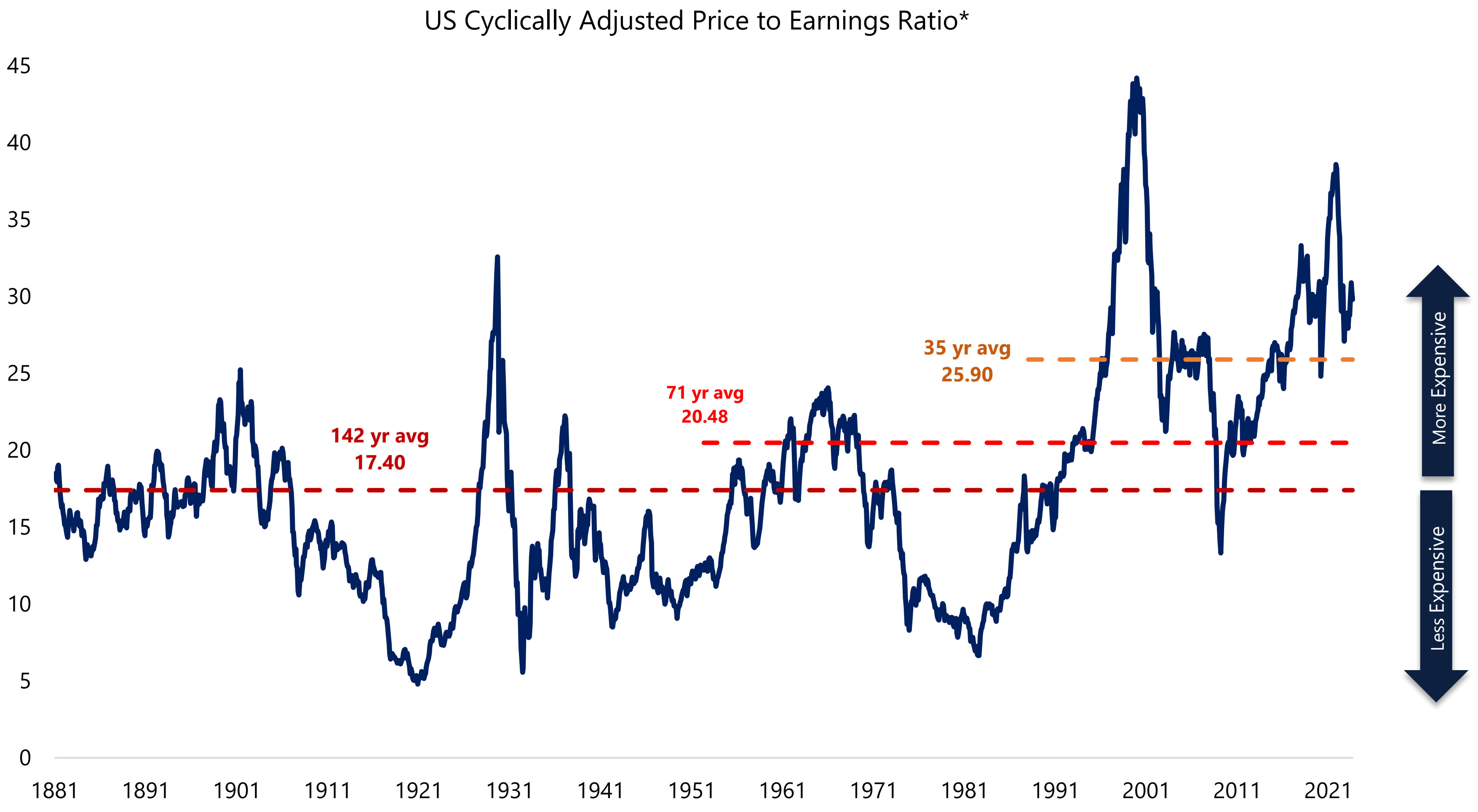
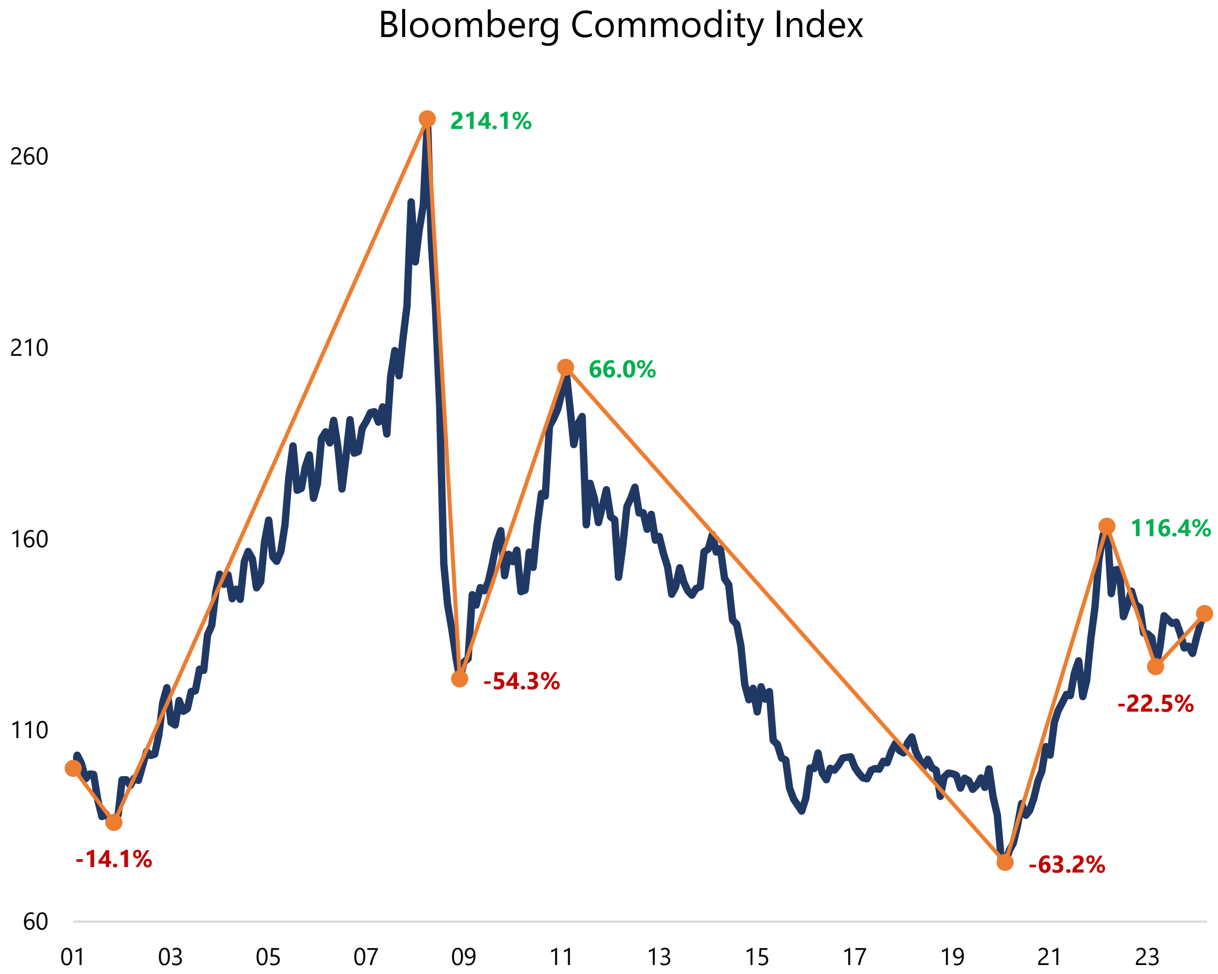
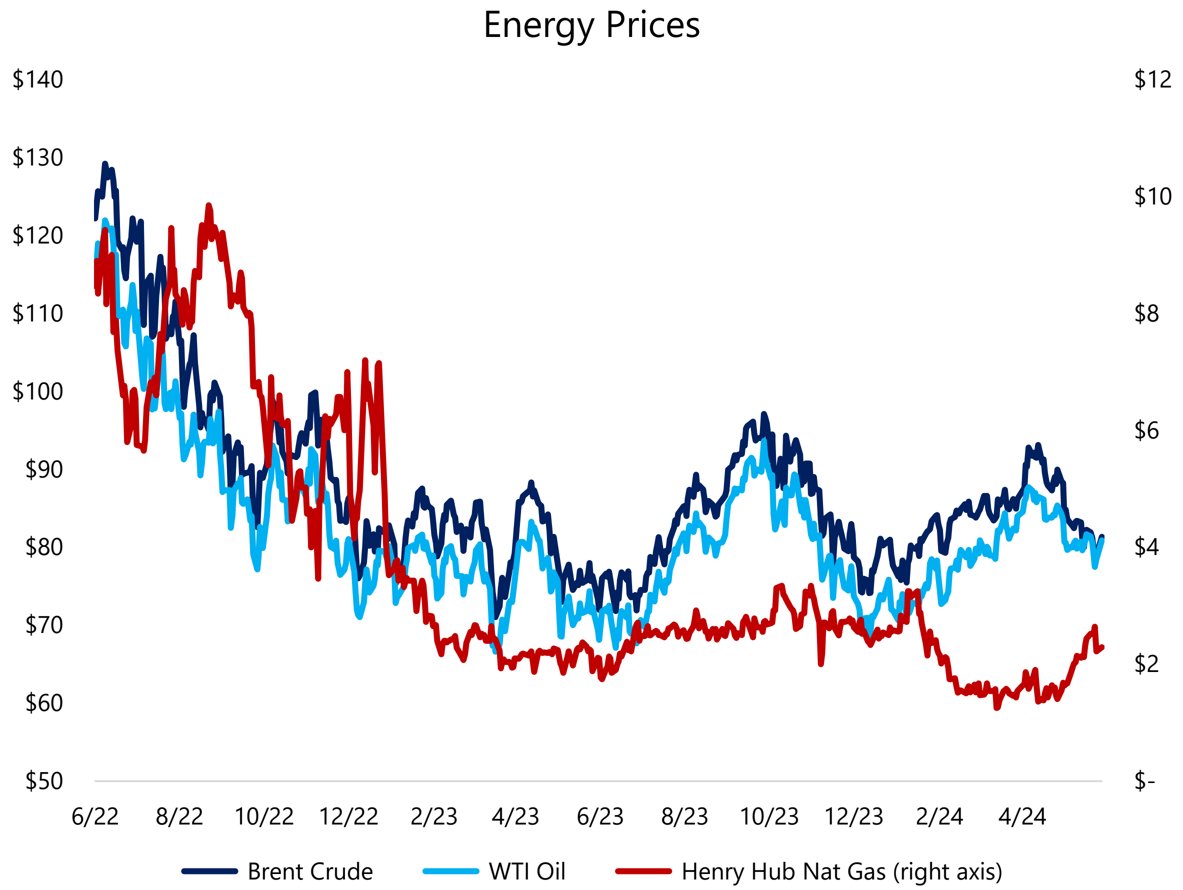
US Stocks Valuation Still High



*CAPE or Cyclically Adjusted Price to Earnings Ratio takes the current price and divides it by the last 10 years average earnings for the S&P 500 and adjusts it for inflation. It is thought to be more predictive of future returns than trailing 12 month or Forward PE.
Source: Data and CAPE Ratio were developed by Robert Shiller using various public sources.

Commodities are Stable, Oil Coming Down





Source: Bloomberg Commodity TR USD (left) and Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma, Crude Oil Prices: Brent – Europe, Henry Hub Natural Gas Spot Price from U.S. Energy Information Administration (right)

Periodic Table of Asset Class Returns

Through Last Month End 5/31/2024

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	5 Yr	10 Yr
Trend Following 20%	Reinsurance 8%	US Small Stock 22%	Intl Emerging Stk 37%	Cash 2%	US Large Stock 31%	US Large Stock 21%	US Large Stock 26%	Trend Following 22%	Reinsurance 44%	Reinsurance 12%	US Large Stock 15%	US Large Stock 12%
US Large Stock 13%	Bonds 2%	US Large Stock 12%	Intl Developed Stk 27%	Bonds 0%	US Small Stock 25%	US Small Stock 20%	US Small Stock 15%	Reinsurance 3%	US Large Stock 26%	US Large Stock 10%	Reinsurance 10%	US Small Stock 8%
Reinsurance 11%	US Large Stock 1%	Intl Emerging Stk 10%	US Large Stock 22%	US Large Stock -5%	Intl Developed Stk 23%	Intl Emerging Stk 18%	Intl Developed Stk 12%	Cash 2%	Intl Developed Stk 18%	Trend Following 9%	US Small Stock 9%	Moderate Blended Port 6%
Bonds 8%	Cash 0%	Moderate Blended Port 6%	TAA 19%	Moderate Blended Port -8%	TAA 20%	Moderate Blended Port 13%	Moderate Blended Port 11%	Bonds -12%	Moderate Blended Port 17%	TAA 7%	Intl Developed Stk 8%	Reinsurance 5%
Moderate Blended Port 8%	Intl Developed Stk 0%	Reinsurance 6%	Moderate Blended Port 17%	Reinsurance -6%	Moderate Blended Port 20%	Intl Developed Stk 8%	TAA 10%	TAA -12%	US Small Stock 17%	Intl Developed Stk 7%	Moderate Blended Port 8%	Intl Developed Stk 5%
US Small Stock 5%	Trend Following 0%	TAA 5%	US Small Stock 15%	TAA -8%	Intl Emerging Stk 18%	Reinsurance 7%	Trend Following 5%	Moderate Blended Port -15%	Intl Emerging Stk 12%	Moderate Blended Port 6%	Trend Following 7%	TAA 4%
TAA 5%	Moderate Blended Port 0%	Intl Developed Stk 2%	Bonds 5%	US Small Stock -11%	Bonds 8%	Bonds 7%	Cash 0%	Intl Developed Stk -15%	TAA 12%	Intl Emerging Stk 4%	TAA 6%	Trend Following 4%
Cash 0%	TAA -4%	Bonds 1%	Trend Following 2%	Trend Following -13%	Trend Following 4%	Trend Following 3%	Bonds -1%	US Large Stock -19%	Bonds 6%	US Small Stock 3%	Intl Emerging Stk 4%	Intl Emerging Stk 3%
Intl Emerging Stk -3%	US Small Stock -4%	Cash 0%	Cash 1%	Intl Developed Stk -14%	Cash 2%	Cash 0%	Intl Emerging Stk -1%	Intl Emerging Stk -20%	Cash 5%	Cash 2%	Cash 2%	Bonds 2%
Intl Developed Stk -5%	Intl Emerging Stk -14%	Trend Following -6%	Reinsurance -11%	Intl Emerging Stk -15%	Reinsurance -4%	TAA -2%	Reinsurance -5%	US Small Stock -20%	Trend Following -3%	Bonds -1%	Bonds 0%	Cash 1%

Disclaimer

PAST PERFORMANCE IS NOT A GUARANTEE OF CURRENT OR FUTURE RESULTS. Examples and historical information included in this presentation do not, nor are they intended to, constitute a promise of similar future results. Specific client portfolio allocations, risks and returns can and may deviate from these examples depending on accounts and types of investments available through each account. Future market views by WJ Interests, LLC may vary significantly from the historical examples presented herein and no one receiving this summary should assume that WJ Interests, LLC will be able to replicate successful views in the future.

Moderate Blended Portfolio is for illustrative purposes only. It is calculated by taking a weighted average of the following asset classes and represents a moderate risk portfolio incorporating leverage and the asset classes in the table:

28%	US Large Stock	iShares Russell 1000 (IWB)
6%	US Small Stock	iShares Russell 2000 (IWM)
21%	Intl Developed Stock	iShares Core MSCI EAFE (IEFA)
6%	Intl Emerging Stock	iShares Core MSCI Emerging Markets (IEMG)
41%	Bonds	Vanguard Total Bond Market (BND)
-18%	Cash	Morningstar USD 1M Cash TR USD
4%	Reinsurance	Stone Ridge Reinsurance Fund (SRRIX)
6%	Managed Futures	SG Trend Index, PIMCO Trends (PQTIX), Virtus Alphasimplex (ASFYX), Standpoint (BLNDX)
6%	TAA	GMO Benchmark Free (GBMIX) and Strategy Shares Nwfnd/Rslv Rbt ETF (ROMO)

Assumes annual rebalancing. All data represents total return for stated period.

WJ Interests
WEALTH ADVISORS