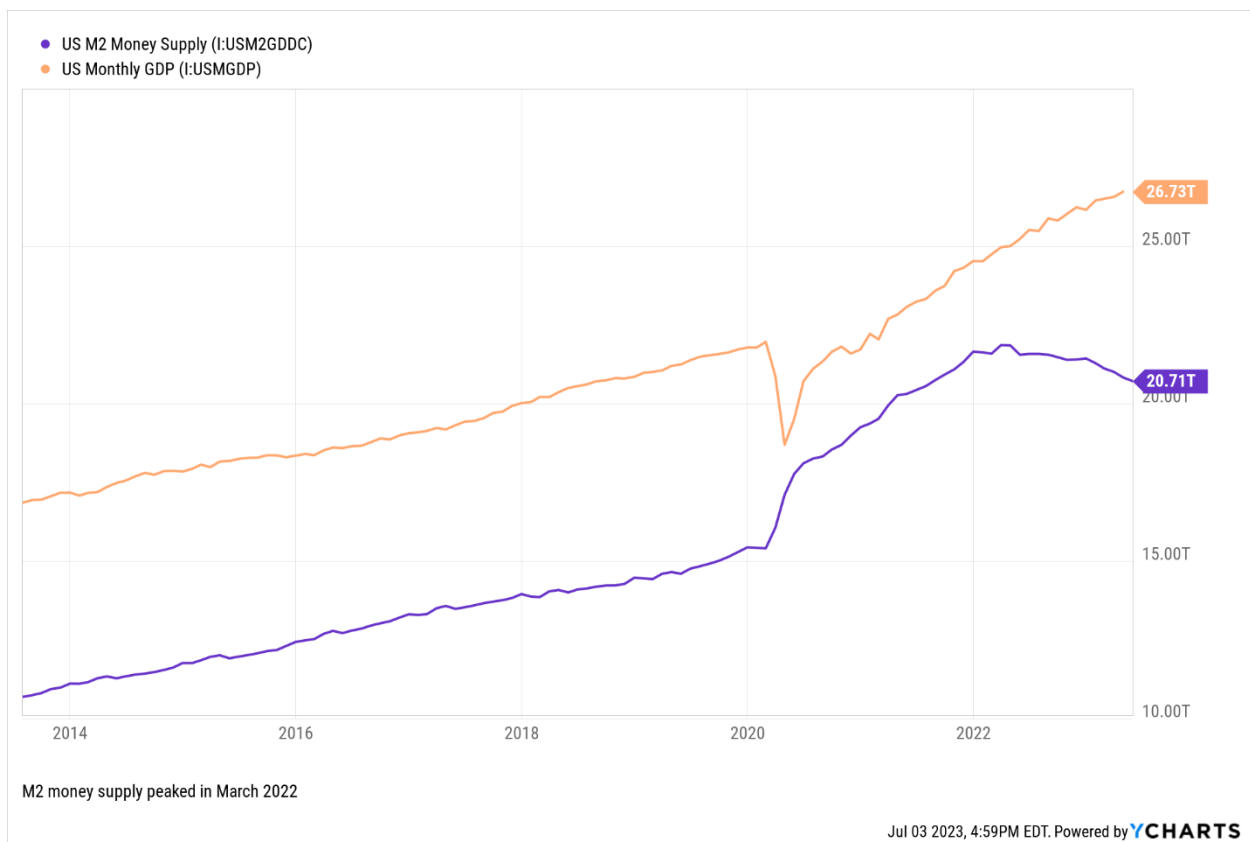


## Mixed Signals

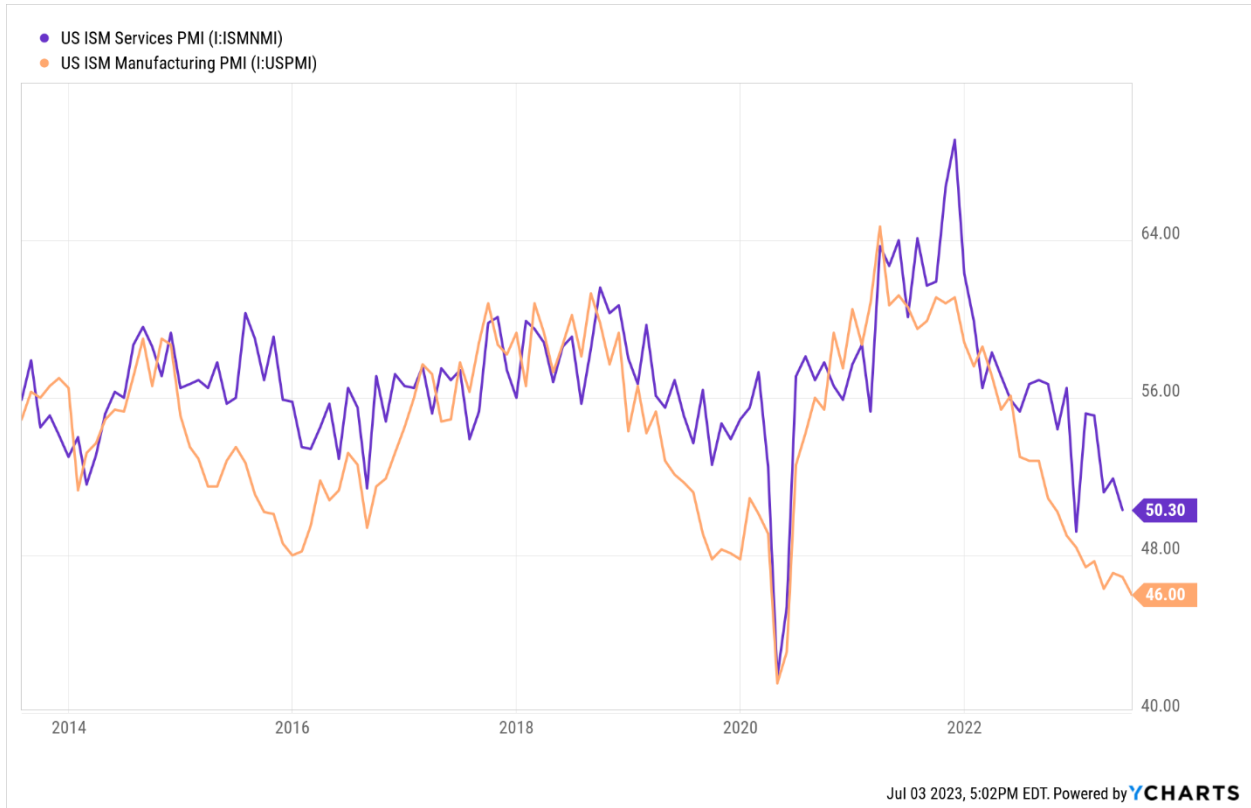
Robert G. Kahl, CFA, CPA, MBA

<https://SabinoIM.com>

US economic indicators and financial markets appear to be sending mixed signals to investors. Normally, there is a high correlation between M2 money supply and US GDP. However, since M2 money supply peaked in March 2022, the two economic indicators have been going in opposite directions.

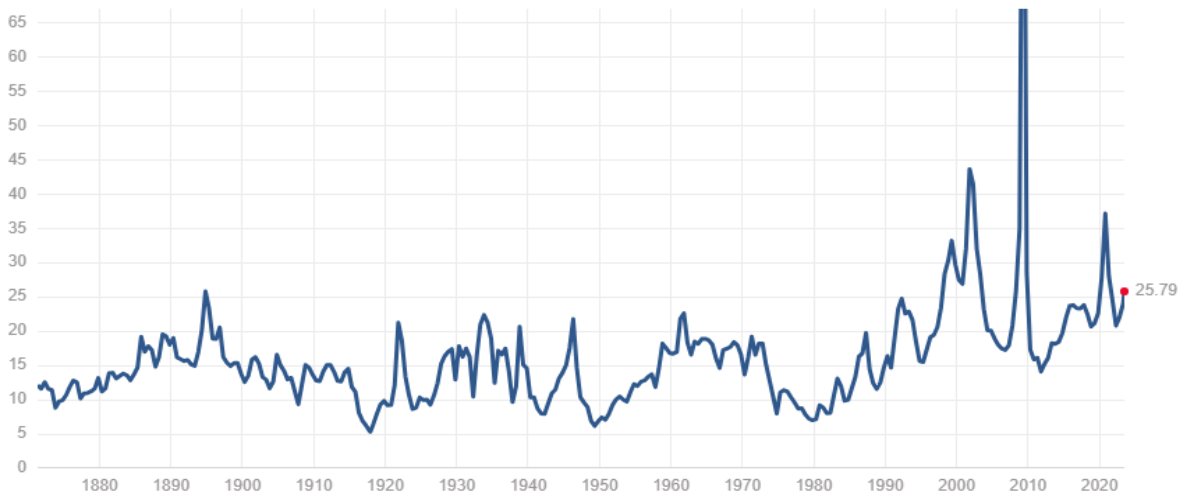


The ISM PMI (Institute for Supply Management – Purchasing Manager Index) indices for both manufacturing and services have continued to decline through May 2023.



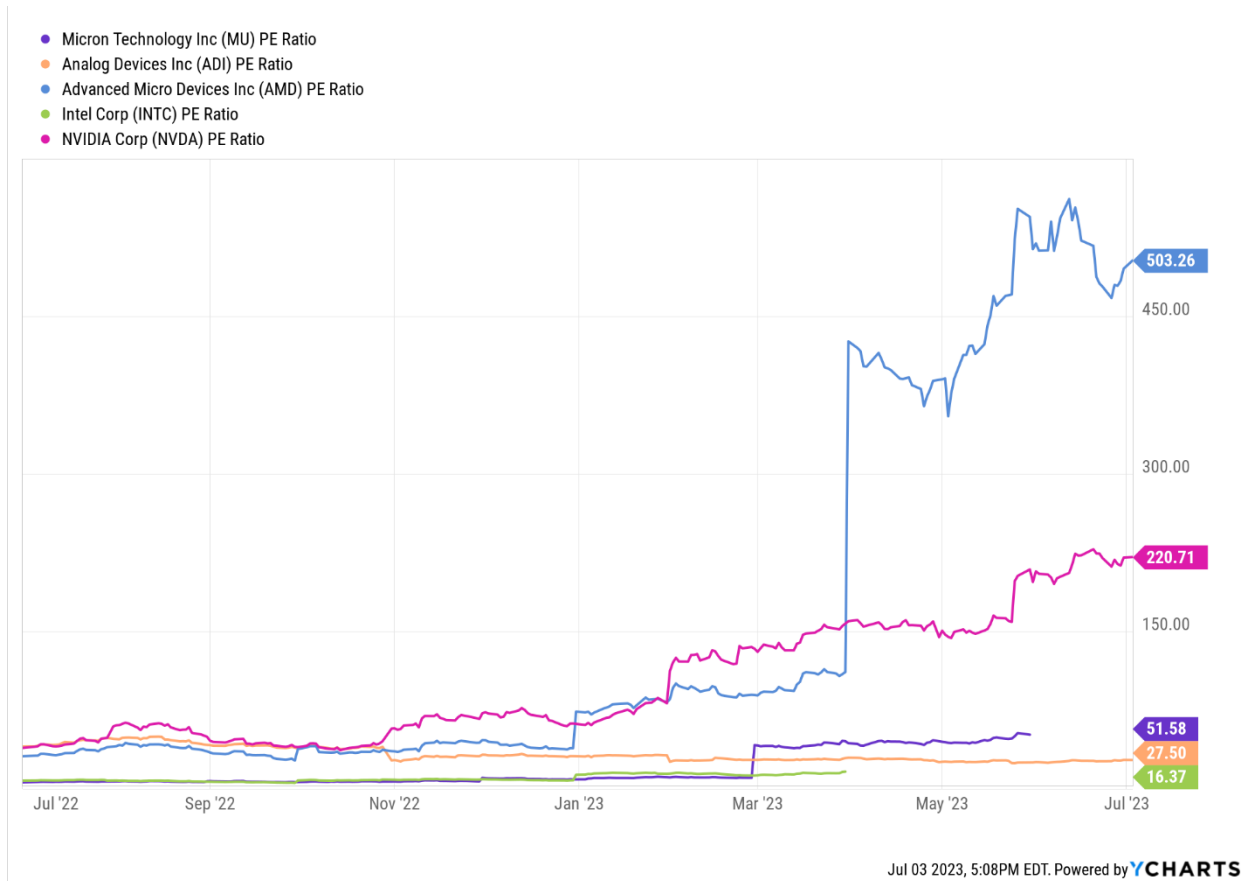
Despite some economic concerns and higher interest rates to compete with low dividend yields on many stocks, the S&P 500 has maintained a high price/earnings ratio at 25.8 compared to a mean of 16.0 since 1871. The dividend yield of the S&P 500 is currently at 1.5% compared to a mean of 4.3% over the same period.

**S&P 500 Price/Earnings Ratio  
based on trailing 12 months of “as reported” earnings**



The PE ratios of semiconductor stocks have been a different story.

### PE Ratios of 5 Major Semiconductor Companies



While semiconductor stocks have been a hot sector this year due to much hype about artificial intelligence, it is certainly not reflected in their year-over-year growth (or decline) in revenue. Only one of the five major semiconductor stocks listed below has had positive revenue growth during the last reported four quarters.

### Quarterly Year-over-Year Revenue Growth 5 Major Semiconductor Companies

Symbol	Name	Report Date	YoY Revenue Growth
MU	Micron Technology Inc	5/31/2023	-56.5%
ADI	Analog Devices Inc	4/30/2023	+9.8%
AMD	Advanced Micro Devices Inc	3/31/2023	-9.1%
INTC	Intel Corp	3/31/2023	-36.2%
NVDA	NVIDIA Corp	4/30/2023	-13.2%

7/3/2023

Fixed income markets have some similar anomalies as illustrated in an article by Simon White, Bloomberg macro strategist, titled "Credit Spreads and Real Economy Are Increasingly at Odds." High yield credit spreads have been stable even though bankruptcies have been rising and more states are reporting high unemployment claims. The full article is here: <https://www.zerohedge.com/markets/credit-spreads-and-real-economy-are-increasingly-odds>.

For now, a conservative asset allocation seems best with an emphasis on stocks at attractive or reasonable valuations, fixed income with good credit quality, and some precious metals bullion to hedge against a lower US dollar. I'll have more to say on that topic next month.

Enjoy your July 4 holiday! If you have any questions or comments, please contact me.

Sincerely,  
Robert G. Kahl  
CFA, CPA, MBA