MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

MAY 31, 2023

DEBT CEILING: A SPENDING PROBLEM

As we write this article, it appears that Washington politicians have arrived at an agreement to raise the Federal debt ceiling. The considerable media fear mongering about this situation really just concealed the larger issue facing authorities, the actual amount of spending.

Government debt has reached staggering levels, growing by the trillions over the past several years. Total US Government debt now exceeds $30 trillion. Additionally, tax receipts are expected to fall and interest rates have risen sharply since last year, putting additional pressure of the fiscal deficit. Yet, the need to spend on many different areas, including defense, infrastructure, healthcare and clean energy is very strong. Suprisingly, it seems with all the concern around the debt ceiling, the most likely path forward is even more deficit spending.

It is worth noting that the current plan to raise the debt ceiling does not include a cap or a limit, but instead reference a date…after the 2024 elections. Once a limit of government spending has been removed, it rarely is put back into place. Given the path chosen by authorities, decades ago, spending might be the best path forward.

BROKERAGE SCAMMERS

Scammers are using increasingly sophisticated techniques to steal money from unwitting citizens. It is important for one to always remain alert and be skeptical about any communication received, whether it is an email, text message, pop up window or even a phone call.

The lastest scams affecting brokerage customers include a pop-up message alerting the user that their brokerage account has been compromised. The customer is then directed to call a number to reset and resolve the situation. In the process the scammer is given access to the customers account and can easily withdraw funds.

Do not respond to sudden pop-up messages on a device appearing to be from any financial institution. Be very careful in opening or responding to any text or email from a financial institution, especially if it is asks for any personal information. If in doubt, call our office and our staff will be happy to assist you in determining if the communication is a scam. Be safe and be vigilant!

ARTIFICIAL INTELLIGENCE MANIA

The arrival of ChatGPT from OpenAI has launched an absolute investment craze in any company that has exposure to Artificial Intelligence (AI). AI is a technology that attempts to mimic human thought and intelligence, applying it to various business applications. Some analysts predict that the AI market will eventually be worth trillions of dollars.

One of our holdings, C3ai has definitely been caught up in the excitement. This holding was a disappointing performer last year, being down about 75% from our original purchase price. However, we added shares near the low in the market and it has now tripled off the low. At the time of this writing, C3ai closed up more than 30% on the day.

We are likely to take action in selling a portion or even all of our position in the firm as the gains have come far too quickly and the valuation is reaching frothy levels at this point. Artificial Intelligence surely will play a big role in the future and we intend to be invested in it.

ENERGY UPDATE

The firm has a decent size position in energy. After a considerable run last year, energy has been one of the worst performing sectors this year and our accounts have suffered. The release on the Strategic Petroleum Reserve(SPR) by the administration in an attempt to bring down the inflation numbers and concern about global weakness has brought oil and natural gas prices down in the near term.

We are maintaining our positive outlook on this sector and expect better performance later in the year. Global demand for oil hit an all-time high in March at 103 million barrels per day, surpassing the 99 barrels pre-pandemic. China, India, and most of Southeast Asia are in the forefront of the increased demand. The release of the SPR is coming to an end and we expect growth in demand to continue as the year progresses.

PRECIOUS METALS BEGINNING TO SHINE

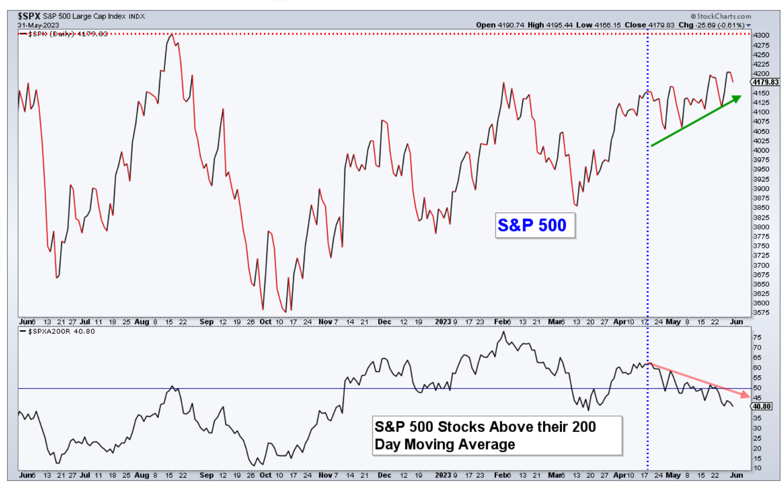
We are maintaining our bullish outlook for the precious metals complex. Gold and silver have had a good start to 2023 as both are up over 20% off of recent lows, with gold nearing all time highs.

Investor perception is key in the precious metals complex. Investors seek safety in gold for differing reasons over time. It is sometimes seen a protection from banking problems, other times it is a hedge against geopolitical risk, and finally it is sought as an inflation beneficiary.

Volatility, or the movement of price, is higher in precious metals due to the shifting of investor interest. For example, a certain set of investors might hold gold for geopolitical reasons, then sell after the perceived risk dissipates. Then, another set of investors begins to buy for a whole different set of reasons, pushing prices higher again.
We prefer to stay a steady course, adding on weakness over the long term. As 2023 continues to unfold, we believe that a convergence of situations will give gold and silver a powerful boost.

TECHNICALLY *Speaking*

We wrote last month about how aggressive sectors of the market were not confirming the advance in the S&P 500. Unfortunately this lack of market breadth continues, even as the S&P has marked a new 2023 high. How can the market be moving higher and be unhealthy at the same time? The answer is simply in how the indexes are calculated. The S&P 500 (and others) are cap-weighted, so the larger the company, the bigger impact it has on the index. So if the largest companies are doing well (think Apple, NVIDIA, etc..), then the "market" can still go up even though the smaller companies are dropping.



A different measure of market participation we can use is to look at the amount of stocks above their 200-day moving average (i.e. they are in an uptrend). The chart shows the S&P in the upper window and the lower window displays the percentage of stocks in the S&P that are above the 200-day MA. The most recent advance that started in early March looked promising as the number of stocks over the 200 day rose with the market. However, in mid April, the percentage began to fall precipitously even while the market continued upward. We will want to see this recover in order to have more confidence in a further advance. If we do not see more stocks participating, then breaking above resistance at 4300 on the S&P will be very difficult.

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