MONTHLY NEWSLETTER

Market Report – Titan Investment Management LLC

August 2, 2023

Executive Summary:

Earnings Review -

- Over 84% of S&P companies have reported 2Q23 earnings. Of these companies 79% have beat on bottom line and 65% have beat on the top line. This is above the historic average and indicative earnings strength continues to show resolve.

- While earnings and revenue have been strong, the guidance for 3Q23 has not been as good. Fortunately, these outlooks have largely been confined to Energy and Materials, which have seen declining commodity prices through 2023.

- Strength is emanating from Consumer Discretionary and Financial. This has turned the tables of 2022, which saw Energy and Materials dominate in terms of results on higher commodity prices. This is indicative of a strong consumer taking on loans and making discretionary purchases.

- A unique takeaway from this earning season is the price declines seen by firms who have beaten expectations. Fundamentally this makes little sense and why Titan views a handful of these firms as near-term opportunities.

Economy & Inflation -

- GDP grew at an annualized rate of 2.4%, well above the estimates and long-term growth expectations. Personal consumption and business investment continue to shine and indicate a resilient economy.

- Consumer Price Index (CPI, inflation) is at a 2-year low and has materially slowed through 2023. However, the war with inflation is not over as the bulk of this disinflationary pressure has come from oil, metal, and agriculture prices.

- Personal Consumption Expenditures (Fed's preferred measure of inflation) also came in at a 2-year low. However, it places more weight in housing and is proving to be more sticky given home prices and the cost to finance a home.

- CPI is on deck as it comes out in early August. It has come in much lower in the previous months, but expectations show a possible increase in CPI. However, Core CPI (which excludes volatile items such as food and energy) shows signs of slowing.

- Nonfarm payroll employment rose by 187,00 in July, a much lower number than months passed, but kept the unemployment rate unchanged at 3.5%. In addition, wage inflation hit 4.4% and all else equal provides room for the Fed to hike if inflation were to move higher.

Fed Expectations

- The Fed raised rates by 25 basis points (0.25%) in July as they are still pushing for their long-term inflation goal of 2%. Given the absolute level of inflation remains above the goal, but inflation is trending in the right direction puts the Fed in a difficult spot.

- As of now the market does not expect any more rate hikes with a rate cut taking place in March 2024. The inflation print that will hit this week will have a meaningful impact on this expectation. It will increasingly come down to home prices and rental agreements.

- Home prices have been in decline since June of 2023. All else equal this is a good thing in terms of combatting inflation. The Fed will be incredibly detailed with its review as it seeks a "soft landing" for the economy without causing any sort of housing or banking panic.

This newsletter was designed in a slightly different format as the overall strategies and narratives taken from our 2H23 Investment Themes remain unchanged. Titan will continue to look towards Technology, specifically AI and how will it shape the world around us.

As always if you have any questions, do not hesitate to reach out.

Ethan Claycomb, MBA
Titan Investment Mgmt. LLC

TITAN INVESTMENTS

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