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INVESTMENT COUNSEL

DM MONTHLY REPORT
February 2024

PORTFOLIO ACTIVITY

In January, we opened a new position in Ametek, a global provider of industrial technology, and boosted our allocations to Canadian companies Kinaxis Inc. and Nuvei Corp.

FEATURE STOCK
Netflix (NFLX)

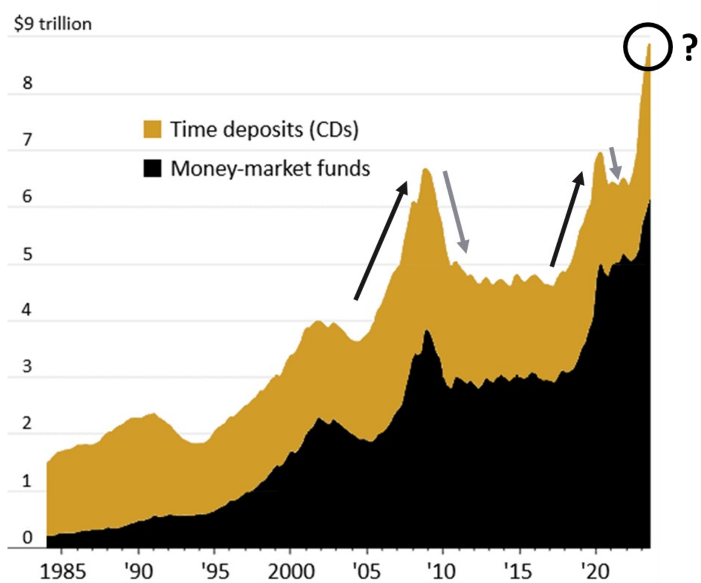
For the Q4-23 reporting season, earnings posted by the "Magnificent 7" group of stocks ranged from solid to spectacular, helping to propel the S&P 500 to new heights and confirming that, for the most part, these companies are generating the growth to support their valuations. While not officially part of this group, NFLX certainly carries a "new economy" profile and has generated a lofty return for its owners, with its shares climbing by nearly 60% in the 12 months to January 31st. Though the company exceeded estimates for revenue growth, its most impressive metric was the addition of 13.1 million new subscribers in the fourth quarter vs. expectations of 8-9 million additions. Management is now guiding toward earnings per share of $4.49 for Q1-24, while Wall Street had previously been forecasting a profit of $4.10 for the period. Whereas several rivals to the streaming giant appeared in recent years with great promise, they are now struggling to reach profitability and cutting content spend as a result. NFLX, on the other hand, is poised to invest even more heavily in programming, potentially widening the gap on its competition.

STOCKS MAKE NEW HIGHS, CASH BUILD CONTINUES

In our final quarterly report for 2023, we noted that alongside the equity market's prodigious rally, balances in short-term vehicles had swollen to unprecedented levels. This trend continued into the new year, with $182 billion channeled into US money-market funds in the first two weeks of 2024 alone, exceeding the previous record inflow for that period by more than 50%. At the same time, the S&P 500 continued its winning ways, with a January gain of 1.5% lifting the index to an all time high. One needn't look far to find reasons for the market's strength: real GDP for Q4 came in at 3.3% in the US vs. expectations of just 2%; 353,000 jobs were added in January, nearly twice as many as the median forecast; and, with roughly half of companies having reported, Q4 is shaping up to be the strongest quarter of 2023 for earnings growth.

Turning back to the oversized cash pile, some have said that it represents latent buying power for stocks and, if central bankers begin to cut rates this year as futures markets are predicting, its deployment could push stocks even higher. Others argue that this premise is too simplistic, that there is no such thing as "cash on the sidelines" because every dollar that enters the market (from a buyer) is matched by a dollar leaving the market (to a seller). While this is true, it says nothing about the prices at which these in/out transactions occur, which are generally determined by the relative motivation of the two parties. If rates do begin to slide and markets continue to create wealth, those with cash may start to feel more pressure than those holding stocks, forcing them to pay up to get their funds invested. Regardless, the prior two times that cash balances reached parabolic peaks – *at the beginning of 2009 and when covid took hold in early 2020* – it coincided with the beginning of notable equity bull markets.

Assets in money-market funds & CDs



Sources: *Federal Deposit Insurance Corp., Federal Reserve*