ANCHOR
Investment Management, LLC

Q2 COMMENTARY 2023

July 3, 2023

Market/Index	2020 Close	2021 Close	2022 Close	2022 Change	As of 06/30/23	2023 Change
DJIA	30,606.48	36,338.30	33,147.25	-8.78%	34,437.89	3.89%
NASDAQ	12,888.28	15,644.97	10,466.48	-33.10%	18,793.66	31.79%
S&P 500	3,756.07	4,766.18	3,839.50	-19.44%	4,453.41	15.99%
Prime Rate	3.25%	3.25%	7.50%	4.25%	8.25%	0.75%
10-year Treasury	0.93%	1.52%	3.88%	2.36%	3.71%	-0.17%

The Debt Ceiling

Imagine you and your spouse sitting down at the breakfast room table and creating a budget for the next year. In that budget you decide that your household income is $100,000, but you are going to spend $150,000 and make up the difference by borrowing $50,000 from the bank. Both of you agree (the kids are in college and the house needs a new roof) and everybody is happy. Unfortunately, the two of you had previously decided to limit the family debt to $25,000. Now, even though both of you had agreed to borrow $50,000, you can't do so unless you amend the family debt limit to $50,000. What should be a simple conversation to raise the family debt limit to the previously budgeted $50,000, now becomes a huge fight between the two of you that takes months to work itself out. The kids are worried that they may have to drop out of college and the roofer doesn't know if he will get paid for the job. Finally, the day before tuition is due, you and your spouse negotiate a settlement whereby you will increase the family debt limit not to $50,000, but to $75,000, and one spouse will get a new car and the other gets a dream vacation. That's the debt ceiling argument.

In reality, there was no chance that Congress wasn't going to increase the debt ceiling, the effects of doing so would have been catastrophic and permanent. But the debt ceiling gives both Republicans and Democrats a "Doomsday" date whereby they can negotiate to the final hour. They can call the other side bad names and raise a lot of money from donors. In the end, the taxpayers lose as Congress tends to add more and more pork to an already inflated budget. The compromise they agreed to in May suspended the $31.4 Trillion debt ceiling until January 2025. This effectively gives Congress an unlimited spending budget for the next year and a half. Hold onto your wallets…

The Housing Shortage

We've got a big problem in housing. There isn't enough of it, and prices continue to rise due to scarcity. This trend has essentially pushed young, first-time buyers out of the market and limited them to being permanent renters.

In 1965, the average house sold for $20,000, 2.8 times the median household income of $6,900. The average homebuyer was 29 years old. Today, the average home sells for $437,000, 6.1 times the median household income of $70,784. The average homebuyer is now 47 years old. The average age for a first-time homebuyer is currently 36 years old, up from 31 in 1981.

Let's put this in context. Imagine your children or grandchildren as the average American. They make $70,000 per year and want to buy an average house that costs $437,000. First, they need to save 20%, $87,400, for the down payment. Then they would have ongoing monthly mortgage payments of $3,000 with taxes and insurance, or $36,000 per year. That's 60-70% of their after-tax income. It's an untenable situation.

Seeing this shift, large corporations and private equity investors are buying single family homes in bulk, pushing up prices even higher but raising rents accordingly. Homeowners are seeing huge increases in the value of their homes, but their children and grandchildren are being priced out of the market. We need more supply of single-family homes. In 2006 we built 1.65 million new houses. That fell to 446,000 in 2011, and we currently build only 1 million houses per year, 40% fewer than 2006 despite our population increasing by 10% in the same period.

The S&P 7

The first half of the year has been good for the markets. The S&P 500 is up 14% or is it? Standard & Poors did a study in May that tells a different story. The study showed that through May 16th, 7 stocks {Apple, Amazon, Alphabet, META, Microsoft, Nvidia, and Tesla} were driving all the market returns this year. Those seven companies, which make up 26% of the total weighted index, were up 44%. The 493 stocks that make up the rest of the S&P were up 1%.

Some of this is coincidence, timing, and cherry picking. Carnival Cruise Lines is up 111% this year, GE is up 64%, meanwhile the banks have not fared so well. But it is indicative of the excitement revolving around Artificial Intelligence (AI). All seven of these companies are heavy users of AI and potentially huge beneficiaries of, as author Michael Lewis calls it, the "New New Thing."

The Next Bubble

Most of us remember the 1990's internet bubble. We had a brand new technology that was full of possibilities, thousands of new companies created to take advantage of that technology, and a virtually unlimited supply of capital to invest in them. Internet stocks were all the rage and valuations went through the roof even though many of these companies had lean revenue and little profitability. In 2000 the bubble burst and the tech market crashed. AI's current path feels very similar.

Long-term, AI will enhance almost everything you do and will be a great tool. It's not there yet though. Since ChatGPT was announced in November there are hundreds of new websites and businesses touting that they too have AI. Microsoft invested $10 Billion in ChatGPT and angel investors and venture capital firms are investing billions more into other companies. Few, if any of these companies will ever reach profitability and the valuations will get more out of hand this time around because of the COVID stimulus money. There will be a lot of hype, a lot of money to be made, and a lot of money to be lost. Nvidia, the company that makes the microchips used to process AI, is up 173% this year. But it's currently valued at 213 times annual profits and 40 times annual sales. It's hard to invest at these levels. At Anchor, we will look to invest in good businesses, at good valuations, and plan for the long-term.

All of us at Anchor hope that you have a great Summer. We thank you for your trust and confidence and look forward to seeing you soon!

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