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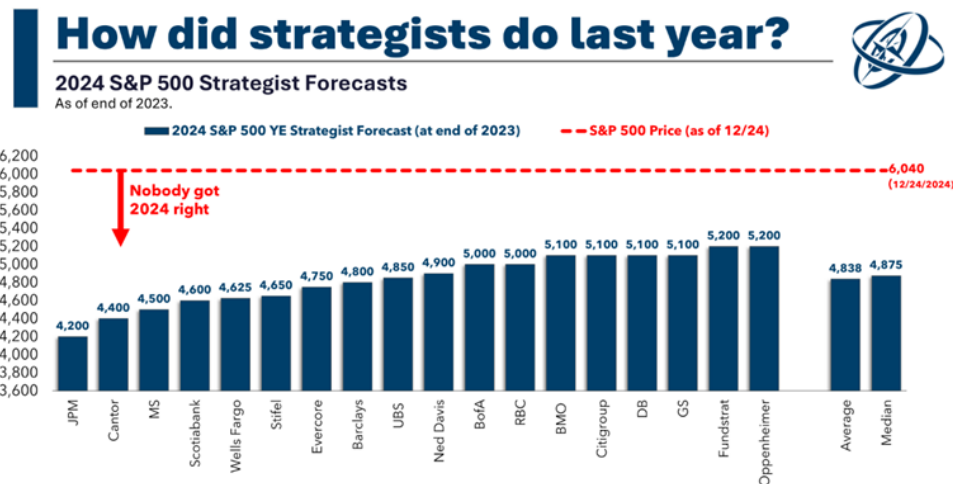
Where Trust And Confidence Are Paramount TM

The observations in this newsletter are the views and opinions of Raymond F. Saleeby Jr.

Market Update

Artificial Intelligence (AI) had a dramatic acceleration between 2022-2023 due to the emergence of ChatGPT. ChatGPT created public awareness of AI capabilities that most people did not believe was possible. However, most investors would consider 2024 as the year of AI. In fact, in 2023-2024, many forecasters predicted a severe slowdown or recession, but AI helped propel the economy and avoid the severe slowdown.

Many times, when you have a spike in inflation the Federal Reserve responds by hiking interest rates and trying to cool down the economy. However, they often make mistakes and cause a recession or severe slow-down that can increase unemployment. Typically, the stock market goes down when the economy suffers. After a horrible 2022 when the Nasdaq was down 33% and the S&P down about 20%, the stock market has had two great years. In 2023 and 2024 the US economy's real GNP grew to be 2.8%-2.9% respectively. That is why I believe economic forecasters are like stock market forecasters where they are good at interpreting current data yet horrible at forecasting the future. In fact, I believe it is a lot easier to predict the future than the timing of it.



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I believe when we talk about the years 2023-2024 being great years for the stock market, we need to qualify those results and acknowledge that they were certainly skewed by the Magnificent Seven stocks. "Listed below are the weightings that the Magnificent Seven names hold within the SPDR S&P 500 ETF Trust (NYSEARCA:SPY), which mirrors the returns of the index:

- Apple (AAPL) 7.31% weighting.
- Nvidia (NVDA) 7.04% weighting.
- Microsoft (MSFT) 6.25% weighting.
- Amazon (AMZN) 4.17% weighting.
- Alphabet (GOOG) (GOOGL) 4.06% weighting.
- Meta Platforms (META) 2.62% weighting.
- Tesla (TSLA) 2.28% weighting."²

Market Update (Continued)

Today the Magnificent Seven make up one-third of the S&P index which is up from 21.9% in 2020. Overall, they have gained 63% in 2024 and accounted for over 50% of the gains in S&P in 2024 as well. “Nvidia alone, with its 171.2% return, produced more than one-fifth of the entire market’s gain in 2024.”³ “Nvidia (NVDA) alone would have reduced the index’s return by 5.2% (in 2024) and 10.2% (since October 2022),’ Jonathan Golub, chief U.S. equity strategist at UBS, wrote in a note.”⁴ “Since the October 2022 lows, the big six tech stocks returned 145.4%; the S&P 500 (SP500) 70.1%; the S&P 500 ex. the big six returned 48.3%; small caps (IWM) returned 36.6%, and EAFE (EFA) 46.8%.”⁴

In its long history, the stock market has gone through cycles of heavy concentration of industries before. In 1812 it was financial stocks. In the 1900s it was railroads. “Big Tech Is So Dominant the Stock Market Would Have Been Flat for 2 Years without it”.⁵ “Big Tech stocks have fueled most of the S&P 500’s gains over the past several years.”⁵ “To DataTrek Research co-founders Nick Colas and Jessica Rabe, the Magnificent Seven will once again determine what sort of year the S&P 500 has, and how large-cap stocks perform compared with small-caps and other countries’ indices. On a price return basis, the S&P 500 is coming off back-to-back strong years of 24.2 and 23.3 percent gains, respectively. In fact, by DataTrek’s calculations, the index would have barely registered a gain without the Magnificent Seven.”⁵

The S&P 500 falls flat without Big Tech

The benchmark index would have had mediocre years without the Magnificent 7, according to DataTrek Research.

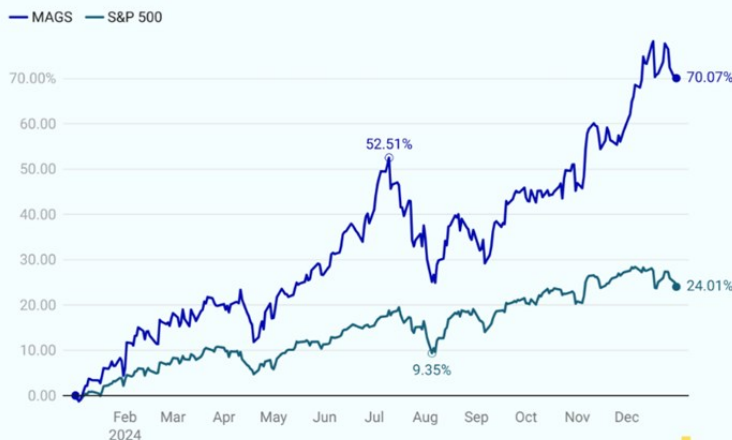
Year	S&P 500	S&P 500 ex-Mag 7
2023	24.2%	4.1%
2024	23.3%	6.3%

Price return basis for 12-month returns 2023, 2024
Table: Phil Rosen, Opening Bell Daily · Created with Datawrapper



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Magnificent Seven vs. S&P 500 in 2024



12 month market data up to December 31, 2024
Chart: Phil Rosen, Opening Bell Daily · Source: Bloomberg · Created with Datawrapper



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“Over the past decade, the market capitalization for the Magnificent Seven has grown close to 800 percent. The rest of the S&P 500 has seen its market cap increase by about 150 percent.”⁵

Market Update (Continued)

As we begin 2025, I believe there are valuation concerns. Many investors believe the Magnificent Seven are overpriced. But only time will tell whether they will grow into their earnings and valuations. Other stock valuations are alarmingly high as well: companies such as Palantir Technologies and Cava which I believe are trading at substantial price to earnings ratio, sales, and valuation. Plus, several meme stocks and cryptocurrencies have excessive trading valuations. However, that does not necessarily mean the stock market cannot go upward. There is incredible enthusiasm regarding President Trump's chatter about 1) reducing regulations, 2) reducing taxes and 3) cutting waste, which generally is bullish for stocks and allow for more innovation.



We are certainly in exciting times right now due to AI innovation advancing productivity for ourselves and businesses. “What investors should worry about, though, is overvaluation.”³ “The S&P 500 is trading at about 22 times what analysts expect its constituent companies to earn over the next 12 months. That’s far above its average, since 1990, of 16.4 times expected earnings, according to Strategas Research Partners.”³ “The Magnificent Seven traded this week at an average of 43.3 times what analysts expect them to earn over the next 12 months.”³ “And with 10-year Treasurys yielding 4.4%, up sharply from last fall, the relative risk of stocks is higher than it has been in years.”³

We saw a little weakness as December 2024 unfolded. We face higher interest costs on our government debt that we accumulated over the last eight years during President Trump and Joe Biden’s administration which means less funding available for other initiatives. I think we saw a market sell-off of the Russell Index and a few other indexes on fears that President Trump would implement his immigration and tariff policies which would increase inflation. Plus, investors saw the 10-year treasury yield jump from 3.6% in October 2024 to 4.8% in January 2025 which is in direct competition with stocks. This also increases the risk that the Federal Reserve may have to raise rates if inflation goes higher.

On the bright side, I believe our country has a great opportunity not only to lead the world economically but to potentially flourish in a new golden era due to the AI revolution. The Magnificent Seven tech companies are spending tens of billions of dollars this year to capitalize on this technology. A lot is being spent on AI data centers which need electricity and other natural resources to power. I believe our government has allowed the Magnificent Seven companies to operate as monopolies due to the threat of China’s government policies and competitive practices. If we lose this AI battle, we will not lead the world in the coming decades and will not be as prosperous.



Defense Innovation

Over the last two years, we have learned a lot of lessons on war and how our defenses might operate in the future. One must ask... are we in good, bad, or great shape for future wars? I believe the potential war that worries the United States the most is between Taiwan and China.

In the past, our defense industry was primarily driven by five major contractors. Many of these contractors are providing services on a cost-plus billing basis which can lead to expensive and uncontrollable costs. In many cases, there is no incentive for the contractor to be as efficient as they might otherwise be. Plus, I believe the private sector has not been able to help in the last several years in enhancing national defense capabilities. Very few smaller public and private companies have contributed to innovation in the defense industry until recently. What changed? The Ukraine's desperate war situation has led to innovative solutions for their drones and military combat. And AI may enhance our defense capabilities even further. Our government defense will have to be more efficient and effective in the development and implementation of weapons. In other words, more emphasis on software than hardware.



Taiwan is crucial not only to the United States but to the rest of the world, including China because of their global semiconductor and technology supply chains, and because they are the global center for the production of advanced chips. While the U.S. government is preparing for a potential conflict over Taiwan, no one knows if its enough. Logistically, China and Taiwan are far away. Obviously, Taiwan could fend off China if they use the North Korean approach of using nuclear weapons as a deterrent, but the world does not support that approach. I believe China is envious of Taiwan because they are mostly a democratic society with incredible innovation and economic growth, whereas China has gone the other direction in the last few years and has not been rewarding innovation and wealth.

A major concern is our ability to react to the conflict on a timely basis. Right now, according to the U.S. Navy, China has 200 times the capacity for ship building as the United States. This is obviously a concern. Many experts have said if a war occurs between the United States and China, we will run out of ammunition in a couple of weeks. Most experts agree we need to spend more money on our defense, but we also need to spend it more wisely and efficiently to target the right areas. We need to engage the private sector to help accelerate AI and innovation, foster competition, and improve efficiency and effectiveness. We are spending approximately \$850 billion (2.7% GDP) in yearly defense spending, however as a percentage of the GDP it is almost half of what it was in 1980 (5.15% GDP) and almost one fourth of what it was during the Korean war (11.3% GDP). In the past, we were only concerned about engineering the best and most effective weapon. However, we have learned from the Ukraine war that it might not be the best viable (benefit/cost) solution with our existing defense spending approach. In many cases, you want high volume and lower cost, not the best with low volume. This is true with drones, missiles and ammunition which we will need an abundant supply of for the next major conflict.

Defense Innovation (Continued)



Over the last two years, the war in Ukraine has taught us a lot. The Russians thought they would take over Ukraine in three days, yet the Ukrainians were able to act quickly, innovate and adapt to take on the Russian aggression and their vast military resources. The Ukrainians had to think outside the box. A lot of their drone innovations are certainly ones that modern warfare must seriously consider. Right now, the Ukrainians have limited fighters, so they are using drones for reconnaissance and attack on their front lines. Also, there is a growing trend for autonomous weapons in water, land, and air. I believe traditional, highly engineered military

weapons were good between 1980-2000, however we have learned that we might not have the right equipment, or enough of it. Counter-drones, lasers, and jamming equipment all are being utilized in the Ukraine war. In my opinion, future wars eventually might be fought by robots, autonomous aircraft, and swarms of drones and gamers might be our future heroes defending our country.

Business Insider recently published an article about advanced technologies that we may not realize exists. The article states, "...on February 19, 2024, sailors aboard USS Gravelly used an unspecified 'Non-Kinetic Weapon system' in multiple successful non-kinetic engagements against drones in combat, according to another document. It said these non-kinetic engagements were 'not only proving non-kinetic weapon systems work underway, but changing the way the Surface Navy fights wars at sea.'"⁶ This technology was used against the Yemeni rebels. You can read more about it via this link <https://www.businessinsider.com/us-warships-defeated-drones-without-shooting-changing-how-they-fight-2025-2>.

Technological advancements in our national defense often led to commercial applications such as drones. Drones are not just for real estate analysts and hobbyists. They will increasingly be used for delivering fast food, medicines, supplies...

- "In years past, some Chick-fil-A operators would climb onto restaurant roofs to study traffic flows. These days, the chain sends out traffic-analysis teams that use drones to capture aerial footage, which team members splice with video from kitchens and drive-through windows to create roughly hourlong videos for store owners."⁷
- "According to PwC, drones are completing about 14,000 deliveries a day globally, or a total of five million-plus in 2024, moving \$250 million of goods. In 10 years, PwC estimates, those numbers will soar to 800 million deliveries a year, with a value of \$65 billion."⁸
- "'We want to be delivering 500 million packages annually across the globe by drone by the end of this decade,' an Amazon spokesperson told me. As for Walmart: 'With over 4,600 stores located within 10 miles of 90% of the U.S. population, Walmart is uniquely positioned to execute drone deliveries at scale,' a company spokesperson emailed."⁸

Conclusion

In conclusion, AI is and will change the world. Eventually, it will make our country and lifestyle a better place. I believe AI will also change the economy and capital markets. An AI investment will potentially make companies more efficient and thereby more productive with labor. It can also lead to expanding corporate profit margins and profits. However, it is difficult to know who the winners and losers will be. Thus far, the market appears to be betting on the Magnificent Seven who have the massive capital needed and as good of a chance as anybody to make a difference in AI. However, I'd like to point out that shortly after the internet started to flourish during the tech bubble in 2000, some dominant leaders such as Intel and Cisco never reached their glory nor achieved high stock prices again. So, it is not so easy to see who the winner and losers will be today, but the leaders generally have a better chance to make it happen.



I disagree with the consensus that AI will not cause a massive disruption in employment. I believe every company and employee will feel the effects of AI going forward. I believe millions of Americans will be displaced and not have the opportunities and skills to be in the new economy. Therefore, there might need to be more government support and assistance for them, or further hostility may ensue.



In addition to AI, we have also seen a revolution in GLP drugs. These are the weight loss drugs that have the potential to help many other conditions and applications to improve our lives. They could potentially lead to higher productivity, happier lifestyles, and a higher quality of life. Elon Musk said "Nothing would do more to improve the health, lifespan and quality of life for Americans than making GLP inhibitors super low cost to the public. Nothing else is even close," he said. GLP inhibitors are a medication that treats type 2 diabetes and obesity."⁹

We are in exciting times where AI will enhance our lives and GLP drugs will hopefully extend them. That is not to say there won't be obstacles and negative consequences along the way. Let us hope for a healthy and prosperous 2025. Thank you for your continued support, loyalty and friendship.

Optimistically Yours,

Raymond F. Saleeby
President

Footnotes

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Did You Know

Common types of financial fraud

<https://www.kiplinger.com/personal-finance/common-types-of-financial-fraud>

How your home can shelter you from taxes

<https://www.wsj.com/personal-finance/taxes/homeowners-taxes-benefits-credits-guide-1fbf1fac>

Charles Barkley says he was an ‘idiot’ when he first got rich, owned 3 or 4 luxury cars – then Dr. J gave him a reality check. Here’s how America’s car obsession is driving us broke

<https://moneywise.com/managing-money/budgeting/charles-barley-says-he-was-an-idiot-when-he-first-got-rich-owned-3-or-4-luxury-cars>

Sweeping review suggests weight-loss drugs’ effect on 175 conditions

<https://www.washingtonpost.com/health/2025/01/20/weight-loss-drugs-ozempic-wegovy-health-effects/>

Weight-loss drugs studied for potential impact on addiction (video)

<https://www.nbcnews.com/nightly-news/video/weight-loss-drugs-studied-for-potential-impact-on-addiction-231227973873>

Bloomberg Businessweek: Supply Chains, Women’s Health (podcast)

<https://www.bloomberg.com/news/audio/2025-01-24/bloomberg-businessweek-supply-chains-women-s-health-podcast?sref=Ro2vIlyD>

Dementia cases in the U.S. will surge in the coming decades, researchers say

<https://www.nytimes.com/2025/01/13/health/dementia-cases-us.html>

Bill Gates isn’t like those other tech billionaires

<https://www.nytimes.com/2025/01/30/technology/bill-gates-tech-billionaires-memoir.html>

10 of the most memorable Super Bowl commercials

<https://www.forbes.com/sites/michellebruton/2025/02/01/10-best-super-bowl-commercials/>

Stylish workout clothes are expensive. A marathoner’s guide to shopping smarter.

<https://www.wsj.com/style/fashion/stylish-workout-clothes-expensive-marathoner-guide-to-shopping-smarter-1fddf1c6>

The most expensive restaurant in every state for a bucket-list meal to remember

<https://www.msn.com/en-us/travel/tripideas/the-most-expensive-restaurant-in-every-state-for-a-bucket-list-meal-to-remember/ss-AA1rBDmH#image=1>

The average cost of owning a car is up almost 50% over the last decade. Here’s what you need to know

<https://www.msn.com/en-us/money/companies/the-average-cost-of-owning-a-car-is-up-almost-50-over-the-last-decade-here-s-what-you-need-to-know/ar-AA1v1UAg>

Yes, you really should toss that black plastic spatula

<https://www.wsj.com/health/wellness/black-plastic-spatula-health-risks-6fddfda>

This February,
may you spend
time with people
who add joy and
laughter to your
beautiful life.

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