

WEEKLY WISDOM



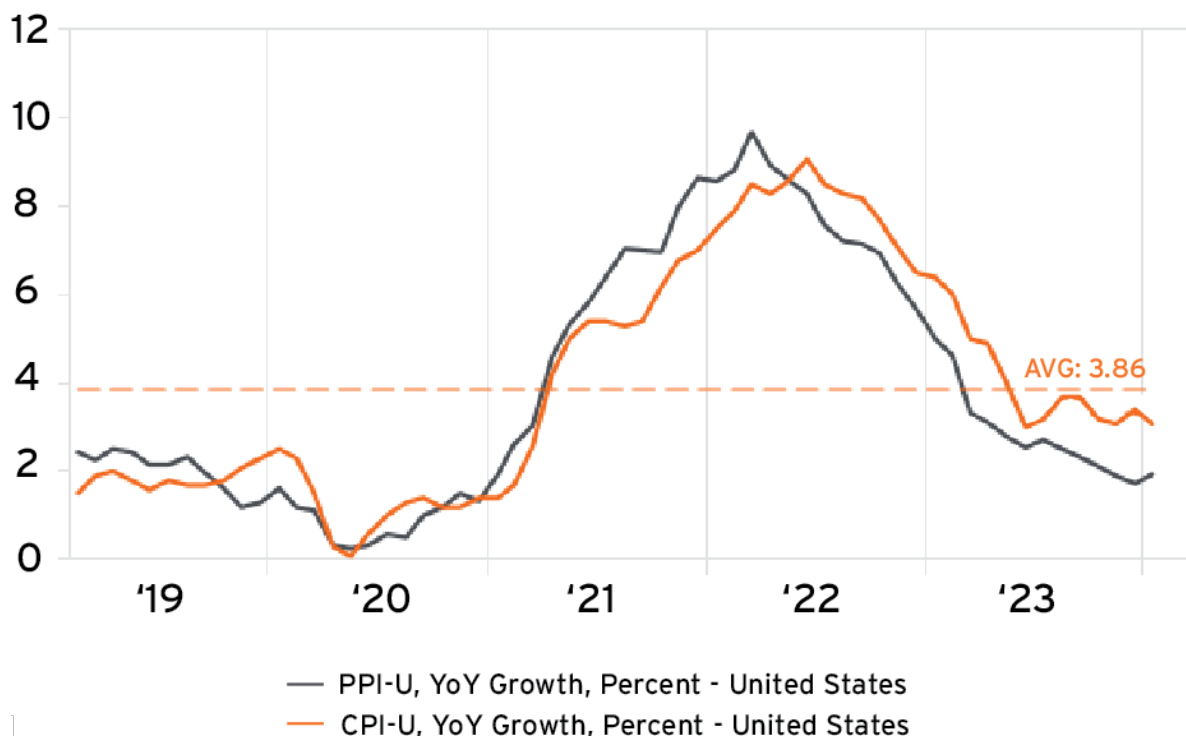
Economics & Earnings

February 23, 2024

Digging Into Data

Last week, we received important economic data from January, including data on inflation - both at the consumer price index (CPI) and producer price index (PPI) level as well as input on the consumer. The January CPI remained elevated at 3.1% y/y growth versus expectations of 2.9%. This is higher than the Fed's target 2% level. However, progress has been made - the peak was in June 2022 at 9.1% y/y growth.

Chart 1: United States, CPI & PPI Since 2019¹



In addition to the CPI, the PPI headline was hotter than expected for January, but excluding food and energy, the core PPI came in at 2%. While the “last mile” of inflation remains stickier than expected, there has been significant progress from peak inflation levels. The peak CPI

¹ Source: FactSet. As of February 20, 2024.

figure was 9.1% in June 2022 and the core PPI peak was 9.7%. We'd argue that the elevated inflation data is a direct result of stronger economic growth - with GDP levels running at 3%, above the 2% long-term average.

On the consumer front, the headline January retail sales came in below expectations at just a 0.6% y/y level but likely borrowed from December's 5.3% level around the holidays. Total sales from November 2023 to January 2024 are still up 3.1% y/y, which tends to be a more accurate indicator to smooth out the seasonality. We believe the consumer remains healthy owing to the healthy labor markets, higher wages and the lower y/y levels of inflation as a whole.

One data point to highlight in the retail sales report - non-store retailers (e-commerce) continued to display strength, rising 6.4% from January 2023. E-commerce is just 24% of total retail sales - we are in the early innings of this mix shift, which is one of the reasons we own Amazon ([AMZN](#)). This stock has been essentially flat for the last 3 years, but we expect it to reverse to the upside.

Consumer Earnings

We always watch consumer activity from the government data as well as from company specific results. Earlier this week, Walmart ([WMT](#)) posted a strong fourth quarter report, featuring 5.2% earnings per share (EPS) growth, 5.6% revenue growth, margin acceleration and e-commerce sales of over 26% y/y. Walmart was able to surpass \$100 billion in e-commerce sales in 2023, suggesting that its Walmart+ platform is resonating with consumers as another way to shop for their favorite products. Investing in this platform is finally bearing fruit for the big box retailer, as last-mile delivery costs are down 20% y/y, paired with a 17% boost in weekly active customers.

Home Depot ([HD](#)) also reported earnings earlier this week, beating consensus expectations on same-store sales, EPS and growing revenue by 2.9% y/y. Home Depot has been undergoing a "Year of Moderation," as it continues to invest to replace legacy technology systems, improve associate capabilities and increase its wallet share of the PRO customer. Home Depot's recent investment cycle is beginning to bear fruit in the form of efficiency gains. Six of Home Depot's categories drove the earnings report: appliances, plumbing, tools, paint, indoor garden and hardware were the best-performing categories. All are encouraging trends as we continue to believe housing activity is a secular theme through the upcoming years and easier comparisons are ahead for Home Depot.

Broad U.S. Spending

The U.S. housing industry is one of our favorite themes for 2024. We are 5 million homes short, 5 million millennials are first-time buyers and we've had 14 years of underproduction from the home builders themselves.² A long-term beneficiary will be the remodeling industry, as 38% of homes in the U.S. are older than 40 years old.³ This suggests that the private construction market will continue to see broad spending as consumers look to maintain their homes. We heard earlier this week that Home Depot is seeing a convergence in average ticket spend and transactions beginning to show life. These are both important measures of how consumers shop at its stores. The convergence of these two suggests there is a pickup in building activity within a healthy home market. The company should benefit from these trends as both the consumer and the PRO use Home Depot's platform for supplies.

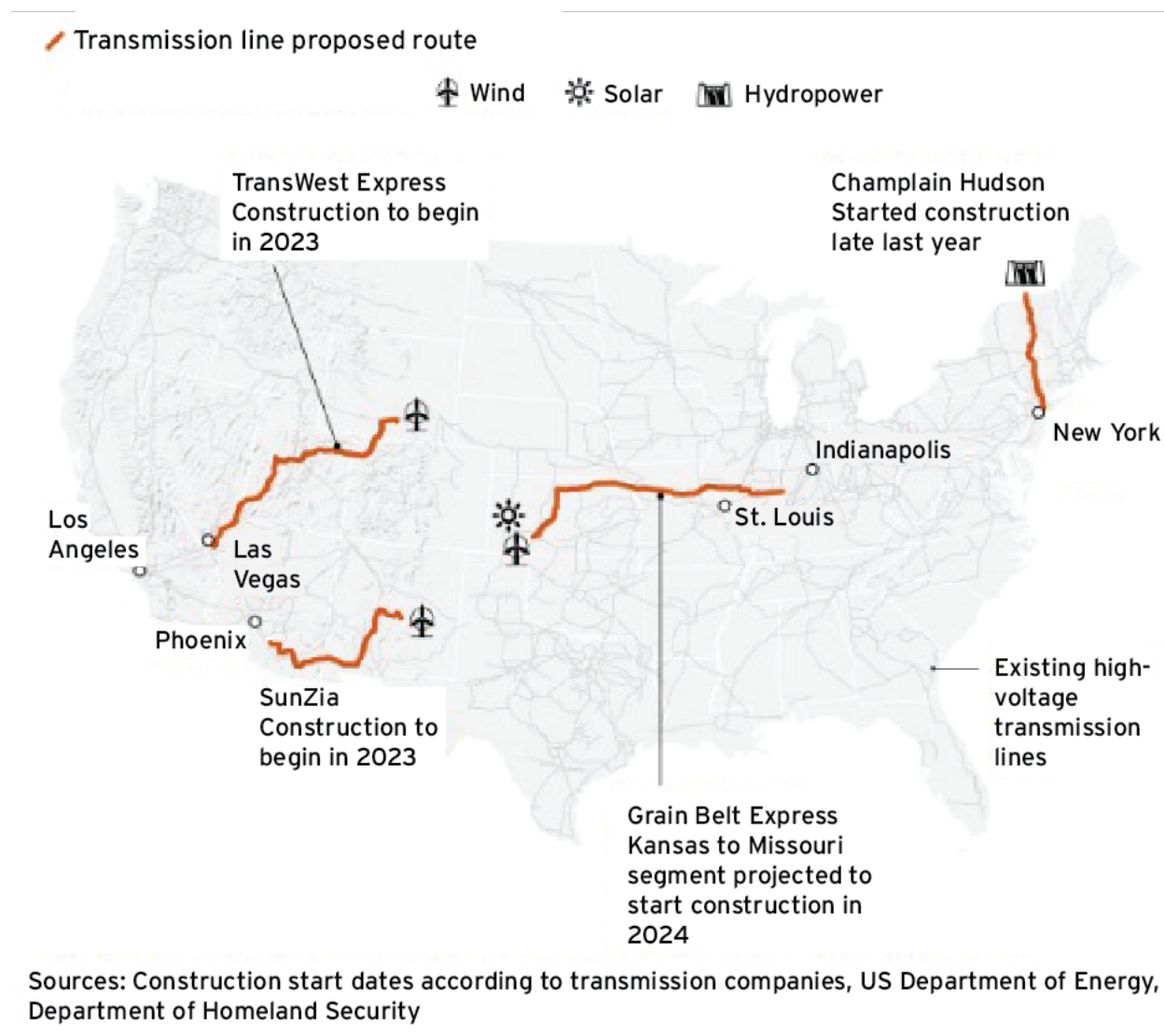
Infrastructure Promises, Coming True

² Source: [Axios.com](#). As of December 16, 2023.

³ Source: [Yahoo.com](#). As of January 25, 2024.

There is a simultaneous push to invest in America, whether through housing, infrastructure, clean energy or supply chains. We have highlighted this for over a year as one of our favorite themes in addition to housing. North America's energy transition will see \$4 trillion in investments between now and 2025. That's the long-term view. But the near-term view is equally as compelling - the White House's infrastructure package passed last year was \$2 trillion and includes \$220 billion in announced spending plans aimed at rebuilding America's infrastructure.⁴ In addition, the Biden administration has set aside \$21 billion as a commitment to modernize port infrastructure in the U.S.⁵ Ports in Baltimore, Washington and California have already begun to see federal money trickle in so they can begin their expansion plans. Expect more announcements to come especially ahead of the March 7 State of the Union address.

Chart 2: U.S. Clean Energy Infrastructure Map⁶



We are paying very close attention to the largest clean energy project in U.S. history: the SunZia wind farm. It has secured \$11 billion in financing and started construction as of late December. This is a 3.5-gigawatt wind farm in New Mexico paired with a 550-mile-long

⁴ Source: [WhiteHouse.com](https://www.whitehouse.gov). As of May 2023.

⁵ Source: [CNBC.com](https://www.cnbc.com). As of December 12, 2023.

⁶ Source: [Bloomberg](https://www.bloomberg.com). As of March 6, 2023.

transmission line that will carry electricity to Arizona.⁷ For context, this is the same amount of energy as three nuclear reactor plants. In addition, the U.S. energy grid requires a significant amount of investment, and this is just the beginning. One of our favorite names based on this theme is Quanta Services ([PWR](#)) - which just reported 21% earnings growth y/y and 30% revenue growth, handily beating consensus with higher 2024 guidance.

Stephanie Link's TV Schedule:

DATE	SHOW	TIME
Thursday, February 22	Halftime Report	12:00 p.m. EST
Friday, February 23	The Exchange	1:00 p.m. EST

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⁷ Source: [Bloomberg.com](#). As of December 27, 2023.



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