Marble Harbor Investment Counsel, LLC
Third Quarter, 2024 Letter

We are pleased to send an excerpt from our quarterly client letter that discusses our current thinking. We welcome your thoughts.

Sincerely,

Paul Davis, L.J. Harrington, Eric Robb, Daniel Rosenblatt and Howie Cowan

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For some time now you have heard us lament and pontificate about the extreme concentration in the stock market. Over the past 18 months or so, most of the market's return has derived from a handful of technology companies. Over the past three months, this pattern has started to change, and the S&P 493 performed better than the Magnificent 7. It may not be the end of the market's concentration, but perhaps this rotation is getting back to a more normal right-side up pyramid. Your companies fared well during the period.

We have also discussed the ebbs and flows of inflation in the economy. Our opinion has remained that the recent bout of inflation was caused by the disruptions inherent in restarting the global economy after COVID. Wage inflation in the U.S. was not caused by people not wanting to work but by baby boomers retiring en masse, decreased productivity and fewer immigrant workers. As production rebounded, and immigration buoyed the workforce, inflation fell. The Federal Reserve now feels comfortable starting a cycle of interest rate cuts.

One area of inflation that will be more persistent comes from wages. Over the past several years, those who are amongst the lowest paid in our country have experienced rapid and sustained growth in their pay that far exceeds inflation and far exceeds the wage growth of the highest paid. The effect: a growing economy. Consumer consumption comprises approximately 70% of the U.S. economy. When those earning $10 an hour receive raises that take their pay to $20 or more an hour over the span of 2 or 3 years, they have far more disposable income. This wealth effect will persist for years to come.

In the last twenty years, we have rarely seen the current combination of GDP growth and low unemployment with subdued inflation. We should be celebrating, yet neither the media nor consumer surveys reflect the strength of the economy. It is likely due to the disorienting shock of inflation that Americans recently lived through but hadn't experienced since the years-long inflation of the 1970's. (Who still has their "WIN" button?) Every week at the grocery store shoppers buy milk and eggs costing a lot more than they did before the pandemic, even though their wages have grown more than the price of goods, and groceries actually comprise a modest portion of people's budgets. And even if their wages have grown, they see that as something that was earned, and not as both a cause and a result of inflation in the wider economy. They have "earned" their raise, but the economy must be poor because the prices of certain frequently purchased items are higher than before. Welcome to the "Vibecession," where people are actually better off than they were but feel as though they are not. It's hard for any individual to see that on average U.S. wages have grown faster than inflation – unless you're an economic data nerd like we are. Prices are higher than before the pandemic, but once again we have low inflation. Prices are still rising and not coming down. If prices came down markedly, that would be deflation, and it might be a sign of real economic trouble. Folks may say they want lower prices, but they definitely don't want what often comes along with them.

We are heartened to see diminishing market concentration, and this trend may allow companies like yours that are driven by cash flow and carry a relatively high dividend yield to shine. The strong economic backdrop is highly supportive of your companies and should allow them to continue to grow their revenues, earnings and dividends. We'll take it.

Sincerely,

Paul, Eric, LJ, Dan and Howie

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