June 2023 Double Eagle Partners Investor Letter - “The Big Six”

> *"The test of a first-rate intelligence is the ability to hold two opposing ideas in mind at the same time and still retain the ability to function." – F. Scott Fitzgerald*

This quote, attributed to a great man that experienced the roaring Twenties and subsequent market crash, is something to which I aspire. And now more than ever because of my desire to correctly decern the economy and the markets while balancing my fiduciary duty to you, my partners.

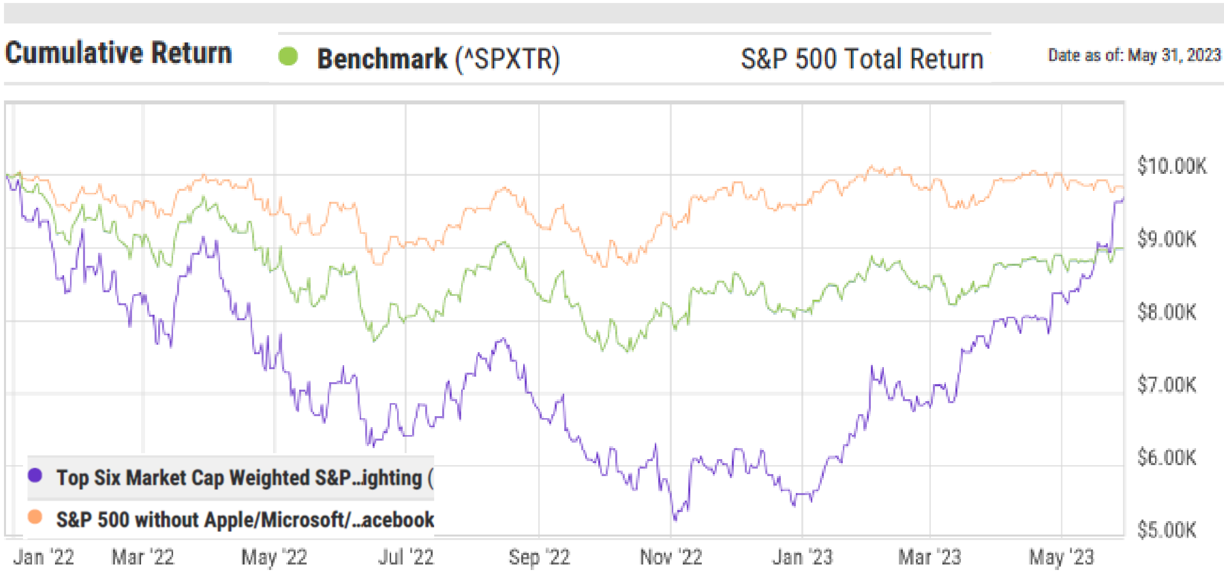
I am trying to hold two ideas in my head right now. One, the premise that I have been espousing for months now that a recession is looming just around the corner, and two, the fact that the markets have recovered from last year’s drawdown and a handful of large cap stocks are at new 52-week highs.

My recession obsession comes from 37 years of practical Wall Street experience and my recent observations about the current bond market. The U.S. Treasury bond yield curve has been inverted for months now, usually a harbinger of an impending recession as I pointed out in last month’s Investor Letter. That fact combined with the recent decline in almost all commodity prices, especially copper and oil (one is used in new construction and the other’s price is driven by global demand for energy), also point to an imminent recession.

But maybe it will be different this time? That is the signal that we may be seeing from “The Big Six” mega-cap tech stocks (Apple, Microsoft, Amazon, Google, Facebook, Nvidia). The returns of just these six stocks have pulled the S&P 500 into positive territory this year. Without these six stocks, the S&P index would be DOWN for the year. As a matter of fact, the Dow Jones Industrial Average is down 0.70% for the year, and would be far worse except for the fact that Apple and Microsoft are Dow 30 components.

In the chart below, I have graphed the S&P 500 going back to January 2022, and compared that index to itself without the aforementioned “Big Six” stocks. I have also overlayed the chart for the performance of the combined “Big Six” all by themselves. Had you only been invested in the “Big Six” since Jan. 2022, you would have experienced a rollercoaster ride of being DOWN 48% at one point in November of 2022, only to end up at the same point that the entire index is currently valued at today. Had you not been invested in the “Big Six” but rather a portfolio of the other 494 companies in the S&P 500, your returns would have been the same with a much smoother ride. This is the benefit of portfolio diversification.

The effect of "The Big Six" on S&P 500 returns



Whenever the “Big Six” are outperforming the broader index by as much as they are today, it typically leads to marked outperformance in the broader S&P 500 over the following three, six and 12 months. This is because of what is referred to as “narrow market breadth,” when just a few stocks are leading the market higher and many, many laggards need to catch up. That may be even more so today as the “Big Six” are still in the process of bouncing from very oversold conditions last year. The “Big Six” also may be overshooting to the upside, while the index of the residual, lowest market-cap stocks remains oversold. Therefore, the remaining 494 stocks of the S&P 500 have the potential to rally if the Fed stops raising interest rates this month and the recession is not too deep.

Either way, I will try to continue to function with these conflicting signals in my head, but my primary focus remains to provide value to my partners, as each of you might define it. My reputation is my brand and I consider you to be my marketing partners for this brand. I would appreciate your help by telling your friends and family about the value we are creating together at Double Eagle Partners.

Kind Regards,

Jim Claire, Managing Partner

Mobile: 704-472-8488

Web: www.doubleeagle.partners

Email: Jim.Claire@DoubleEagle.Partners