

Everyone Hates Mcflation

As we are enjoying what looks like the “Buy In May and go Hooray” mantra for this month versus the historical axiom of “Sell in May and go away” it is clear that the range of opinion on the economy, markets, interest rates, inflation et al... is by far and away the trillion dollar bet or forecast.

Let’s just take an on the ground look at inflation or as coined this month Mcflation, or Inflation Bellgrande or Chick a flation! Pick your poison. The chart below shows the reality of select items in USD! If you are like us, you are likely feeling a bit of indigestion from the Beefy 5 Layer Burrito!

Average price increase of 80.1%. That is the reality we have just been through.

History tells us for the most part that once prices increase it is very difficult for them to come down. We know at nauseum that the FEDs target is 2% but we are very unlikely to get to negative 2%. For us to get to a negative 2% inflation rate it would likely take a recession of some magnitude. While most are now forecasting the perfect soft landing for the economy the potential for a recession is likely not ZERO. It is also just as likely that the price of the Big Mac will not come down any time soon or ever. Now we may see a Mini Mac at the same price in the future or some sort of a \$5 meal, but inflation my friends remains part of our lives.

McDonald's price increases			
Menu Item	End-of-2019 price	Mid-2024 price	% Increase
Medium French Fries	\$1.79	\$4.19	134.1%
McChicken	\$1.29	\$3.89	201.6%
Big Mac	\$3.99	\$7.49	87.7%
10 McNuggets	\$4.49	\$7.58	68.8%
Cheeseburger	\$1.00	\$3.15	215%
Average price increase across these 5 items: 141.4%			
Taco Bell price increases			
Menu item	End-of-2019 price	Mid-2024 price	% Increase
Beefy 5-Layer Burrito	\$1.69	\$3.69	118.3%
Nachos Bellgrande	\$3.29	\$5.89	79%
Spicy Potato Soft Taco	\$1.00	\$1.19	19%
Cheesy Bean And Rice Burrito	\$1.00	\$1.19	19%
Crunchwrap Supreme	\$3.49	\$5.29	51.6%
Average price increase across these 5 items: 57.4%			
Chick-fil-A price increases			
Menu item	End-of-2019 price	Mid-2024 price	% Increase
Deluxe Chicken Sandwich	\$3.65	\$6.55	79.5%
8 Chick-fil-A Nuggets	\$3.05	\$5.99	96.4%
4 Chick-n-Strips	\$4.39	\$7.85	78.8%
Medium Waffle Fries	\$1.65	\$2.99	81.2%
Large Milkshake	\$3.15	\$5.19	64.76%
Average price increase across these 5 items: 80.1%			

Source Zero Hedge

AI



Source Imperial News

Is the total addressable market going to be dominated by a few companies? Consider that the market was estimated at 200 billion in 2023 and is expected to grow well beyond 1.8 trillion USD by 2030. Robots can do a lot, even make mixed drinks 😊 (sorry part of this was written on a Friday). The question posted above is being bantered around at the scale and scope of AI. Trust us, we are not professionals on the AI boom, but it currently is clear that the major players are dominating the marketplace or are the early winners. Without mentioning any names in the space (mostly to protect the innocent) some of the major names of the Magnificent 7 continue to attract more attention post earnings than others. One recent earnings release highlighted the following:

Record quarterly revenue, up 18% from Q4 and up 262% from a year ago

Record quarterly Data Center revenue, up 23% from Q4 and up 427% from a year ago

These numbers are not normal and likely not perpetually sustainable (427% growth year over year over year) just from an operational perspective. BUT maybe they are? Maybe the forecast of total addressable market, is wrong, and it is \$4 trillion USD? Maybe China comes with a bazooka stimulus package and reflate their economy? There is a laundry list of potential factors that could play into this sector and change the scope and depth more than we know today. One thing that will also likely happen is margin compression. Where there are these types of dollars being moved around you can bet your bottom dollar it will attract more players.

Final Thoughts

We are about to get into some election theater this summer and fall. The posturing will include lots of promises (lies 😊) that are going to be tabled. For example, Don Trump suggested in a rally in the Bronx this past month that he would make New York great again with spending! On the other side of the docket Joe Biden has promised to finish the job! We are not going to post our blue or red opinion on the outcome but regardless of the wiener, I mean winner, elected it will make for some interesting debates on live TV.

What is better for the market? The lay of the land suggests that the RED camp is generally a bit more pro business while the BLUE seems to want to save the world. Our suspicion will be that we should have more clarity as this election rolls forward. One bit of current news is that defense seems to be getting lots of air time with all that the world has going on?

Summer is upon us, it's an Olympic year, election year and inflationary year. Enjoy the onset of the warmer weather and thanks for reading if you made it this far! 😊



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