

2023 Market Outlook

Posted on March 21, 2023

Transcript:

Tom Hulick: Good afternoon, everyone. This is Tom Hewick, the CEO of strategy. Asset managers will start probably in 1 min. We're allowing people from the waiting room to join us. So please stand by.

Tom Hulick: Okay, let's get started.

Tom Hulick: Joe Trava, Alex. Hagstrom and I will

Tom Hulick: we'll cover the 2,022 recap of what took place. We'll talk about key points for 2,023. Joe and Alex will

Tom Hulick: we'll cover a majority of the of the the outlook, as they always do. But you know, in 2,022 is obviously a tough year for stocks, international stocks, bonds, and the momentum

Tom Hulick: in the markets was was very low. However, Strategy, asset, managers model portfolios did very well

Tom Hulick: outperforming our indices.

Tom Hulick: and we maintained a four-star Morning star rating, which is quite an accomplishment for the group. We're excited to to share that with you.

Tom Hulick: Joe Trava. We'll talk about the the 2,023 points that we have, but our theme will will come back to

Tom Hulick: excuse me for my phone going off.

Tom Hulick: It'll come back to being made in America, and Joe will will comment on that. And how important that is to see all the manufacturing that's starting to

Tom Hulick: increase in in in the United States technology improving. And, Joe, why don't you kick it off with that

Tom Hulick: intro?

Joseph Traba: Yeah, thank you, Tom. And again.

Joseph Traba: as we do every year, we kind of reflect back at the previous year, and look at the opportunities ahead.

Joseph Traba: as we

Joseph Traba: that Tom mentioned last year was a difficult environment.

Joseph Traba: You, don't have many years. With this many asset classes were lower.

Joseph Traba: and as we prepare for 2,023 I just want everyone to know just because the calendar flips doesn't mean our strategies do.

Joseph Traba: Now, when we look back at

Joseph Traba: 2,022

Joseph Traba: one of the big reasons why our strategies did do well. It was the sector rotation.

Joseph Traba: As we know, technology has been a leading theme, not just for the Us. But globally.

Joseph Traba: And technology really

Joseph Traba: took it in the shorts last year.

Joseph Traba: and some of the areas that did well, obviously energy.

Joseph Traba: But also when you think about defense companies

Joseph Traba: and those 2 areas were bright spots and actually were positive last year.

Joseph Traba: Now you also look at more of the defensive sectors, like utilities and staples.

Joseph Traba: and, as we've seen, has technologies gone lower at the overall market cap

Joseph Traba: for the S. And P. 500. You're going to see some more shifting as this year progresses, just as the Smp rebalances.

Joseph Traba: So again for us. It was the sector rotation, and being on the good end of the group, sectors that did well, and obviously being underway things that did not do so well.

Joseph Traba: One of the big themes that we talk about going forward is that

Joseph Traba: Why do we see opportunity?

Joseph Traba: And again we focus in on 3 principles. Right now it's employment.

Joseph Traba: credit.

Joseph Traba: and spending.

Joseph Traba: and those 3 are pillars of strength.

Joseph Traba: and that remains healthy and in good shape in the United States.

Joseph Traba: Now we know a lot of people are talking about an imminent recession

Joseph Traba: that everyone is thinking is going to happen this year.

Joseph Traba: We do know the global economy is slowing.

Joseph Traba: We also know that big technology

Joseph Traba: and media

Joseph Traba: are cutting jobs.

Joseph Traba: Just yesterday Facebook announced 11,000 job 11,000 job cuts.

Joseph Traba: But we also know when we look at employment, it's historically low.

Joseph Traba: Credit is still available.

Joseph Traba: That's by visa, mastercar, even American express.

Joseph Traba: And we also know inflation is cooling.

Joseph Traba: Recently we saw the inflation numbers come out, and actually we're down 3 from the peak.

Joseph Traba: So again, we know people want to get out and travel anyone that's been on a plane or tried to go to a hotel, the short staff.

Joseph Traba: And again, that is going to continue, especially as China reopens.

Joseph Traba: Now I want to just briefly touch on. As Tom mentioned, one of the big themes that we see is made in the U.S.A.

Joseph Traba: Now.

Joseph Traba: why do we say that? But just kind of again. Look back what happened during the pandemic.

Joseph Traba: We had a complete mess in global supply disruptions.

Joseph Traba: and what we started to see

Joseph Traba: when we listen to earnings, calls it's Cap. X, which is capital expenditures. And this means where companies are investing.

Joseph Traba: and we saw a huge

Joseph Traba: going forward, companies starting to invest

Joseph Traba: back manufacturing in the Us.

Joseph Traba: And when you kind of think about this, it makes sense. You saw tremendous

Joseph Traba: advancements in technology. Think of automation and robotics

Joseph Traba: as labor costs have risen, it makes more sense for companies to continue

Joseph Traba: with manufacturing and getting

Joseph Traba: AI involved.

Joseph Traba: So we do think not just machinery. But when you think of plants, capital projects.

Joseph Traba: This is great for our economy, because these are good paying jobs, so we also can see a boost with energy prices.

Joseph Traba: so as energy costs in the Us.

Joseph Traba: We saw from a year ago of, you know, actually skyrocketed. We do think at this area that benefits America.

Joseph Traba: The last point I want to make out is, what areas does this benefit, and we can kind of think anecdotally, it else it helps supply.

Joseph Traba: We've already seen with technology and and the zoom call that we're doing. Now

Joseph Traba: we talk about the health care. I have a couple of calls next week with my doctors.

Joseph Traba: So again, these are just innovations that have happened.

Joseph Traba: And then you also look at going forward. What can happen?

Joseph Traba: And you can continue to see, not just spending in the public sector, but also the private

Joseph Traba: One of the big things that we're looking at is our grid. The electric grid modernization.

Joseph Traba: We know that we've had huge power outages in in Dallas as well. So you could see infrastructure spending on these areas that need improvement.

Joseph Traba: and also just on our reassuring supply chain disruptions.

Joseph Traba: A benefit is, if we start saying the Us. Dollar

Joseph Traba: not go as much as it did last year. Go up as much

Joseph Traba: that's going to help companies that manufacture the Us. And export

Joseph Traba: overseas.

Joseph Traba: So we could see a boom again in manufacturing as input costs.

Joseph Traba: I think, commodities and labor transportation all head lower. These companies, Aren't going to lower prices. They're going to maintain their prices and get their margins back up.

Joseph Traba: Just a few things I want to talk about. Alex is going to talk about the economy and certain risk we're looking at

Joseph Traba: Alex. You? Wanna

Alexander Hagstrom: Yeah. So one of the big economic stories over the last half years been the fall and inflation, and year over year inflation has declined for 6 consecutive months.

Alexander Hagstrom: It peaked in June of last year at around 9.1, and it's now down to 6.5,

Alexander Hagstrom: and if gas prices and housing prices can remain near where they are today, we will continue to see that year over year. Rate decline

Alexander Hagstrom: in 2,023 use car prices which were a huge factor in the inflation spike have been normalizing real rapidly. They're now down 14 on a year over year basis. That's the biggest decline in history.

Alexander Hagstrom: Retail inventories are at the highest levels we've ever seen, so you can expect the prices of goods to decline this year. You know the fall inflation has been positive, and in many ways not just for consumers.

Alexander Hagstrom: but because it's allowed long term interest rates, including mortgage rates, to start falling. Now keep in mind that long term rates are not directly controlled by the Federal Reserve. That's why they've been able to fall, despite the fed continuing to hike, and those falling long term rates have been a huge factor in this recent rally.

Alexander Hagstrom: Now with inflation and long term rates starting to fall. One of the biggest worries right now is the debt ceiling, especially because there's been a lot of misinformation put forth by the media regarding it. It's been framed by some as a situation where the Us. Is at risk of defaulting on its debts.

Alexander Hagstrom: That is 100% false. There is no risk of the Us. Defaulting on its debt.

Alexander Hagstrom: The debt, ceiling, debate is actually a debate over whether the budget should be balanced going forward.

Alexander Hagstrom: and if by some chance there was no increase in the debt ceiling, the government would just be forced to cut its future spending, it would not

mean defaulting on the debt that's already out there.

Alexander Hagstrom: But of course, with all that being said the debt ceilings been raised 78 times since 1,960. We've seen this exact same scenario play out time, and time, again, and it is overwhelmingly likely that a deal will eventually be reached sometime this year to raise the debt ceiling for a 79 time

Alexander Hagstrom: I know that doesn't make for an exciting news headline, but that's definitely what you can expect to happen sometime later this year.

Joseph Traba: Yeah, and that's a good point. I mean some of the risks that we see for the markets. It's interest rates if they stay higher for longer.

Joseph Traba: and we look back. At last year

Joseph Traba: we had talked about one of the things we were

Joseph Traba: looking for looking at is the potential resetting of expectations.

Joseph Traba: And that's what happened, as the market had to reset higher interest rates.

Joseph Traba: Now that we've seen that

Joseph Traba: it's good for people that are savers not so good for people that are

Joseph Traba: lenders or people that are on the opposite end.

Joseph Traba: What we can see is, this is just again a risk, if credit continues to tighten.

Joseph Traba: and we would then see unemployment potentially rise.

Joseph Traba: And then this would be spending declining, which then lowers corporate earnings.

Joseph Traba: Now one thing that we just looked at anyone looking for a new car.

Joseph Traba: This is the highest amount on record for people paying over a \$1,000 a month

Joseph Traba: for their vehicle.

Joseph Traba: This is not a house payment. This is their carpent.

Joseph Traba: and again

Joseph Traba: for us.

Joseph Traba: as we see prices starting to cool, and we've seen the use car market really come down.

Joseph Traba: And again he's starting to see a little bit with new car prices

Joseph Traba: coming lower and we'll talk about that a little bit later.

Joseph Traba: but that those are some things that have us concerned and are tracking.

Joseph Traba: Because if you start saying

Joseph Traba: credit, Titan. Then the lending

Joseph Traba: that also spreads over, and you could see, not just companies, but also households

Joseph Traba: not being able to service their debt.

Joseph Traba: We're not in that case right now. And this is just from the calls that we've listened to.

Joseph Traba: Credit is still available.

Joseph Traba: and, more importantly, people are servicing. They're paying down their debt.

Joseph Traba: So that's where we see it right now. But again, that's a risk that we can see going forward. Joe and and Alex. Let's talk about the dislocation with the government data that that we we see.

Tom Hulick: And that's that's a key point that we bring up in our meetings that that should be should be shared with the with the group.

Alexander Hagstrom: Yeah, I mean, yeah. So excuse me. Yeah. So you know the government data specifically, the jobs data. It is extremely strong right now, and it

it's not data that

Alexander Hagstrom: has ever been, you know, consistent with a recession. That being said, these data series, they are, they are heavily revised, and often they lag. And you know one great example is housing inflation right? We all know that housing prices are going down, but according to the government. They're making new highs every month. So that's that lag which you see the good thing about that is.

Alexander Hagstrom: it's going to push inflation down in the back half of the year, because the house price declines that just happened are finally going to be registered.

Joseph Traba: and it's important. When you look at shelter index that's housing. It's also 2 components. One is people that are on mortgages. And again, most people are on fixed mortgages. Not variable.

Joseph Traba: So, even though we've seen this huge increase in rates.

Joseph Traba: It's not affecting them. They're fixed.

Joseph Traba: The other part is we actually saw on the short end. The 30 year probably touched around 7 for a 30 year mortgage, and it's down close to around 5 and a half percent.

Joseph Traba: So with that again. These are just dislocations that you see with the market, and it's a

Joseph Traba: a lagging effect

Joseph Traba: that as this year progresses you'll start saying rent prices, as they normally do lag anywhere between 6 to 9 months.

Tom Hulick: Joe. Let's talk more about some of the positive catalysts that we see for for 2,023, and and I know that we've been talking about the made in America. You know that some of the trade agreements that are going back and forth between Mexico and the United States, and how that's going to impact us manufacturing and and also us equities.

But let's let's go back and talk about the positive catalysts.

Joseph Traba: Yeah, so some of the things that we're watching for in 2,023 it's really

our theme is to keep it simple.

Joseph Traba: So we do think this is going to be a much easier near to navigate because we're going to be on the back end of inflation.

Joseph Traba: Last year inflation continued to go higher.

Joseph Traba: This year we see inflation go the other direction.

Joseph Traba: We also look at the effect on interest rates as we were dealing with higher rates

Joseph Traba: this year, the markets actually expecting maybe a couple more rate hikes. And then, as you look at the latter half of the year rate cuts.

Joseph Traba: so it's a very different dynamic that we're seeing for this year, first, last year.

Joseph Traba: Now one of the things that we're constantly asked is, well.

Joseph Traba: where do you see opportunity? And last year we went into energy and more of the materials. And again, some of the defense.

Joseph Traba: This year we're looking a little bit more with the manufacturing, and again it's the consumer coming back.

Joseph Traba: So those are good things that will when you talk about

Joseph Traba: just consumers traveling. You also think about, You know, energy and manufacturing. This helps Middle America

Joseph Traba: you start seeing small caps do a little bit better

Joseph Traba: and anecdotally Think about a restaurant

Joseph Traba: that didn't have any manufacturing here all of a sudden you have a plant now that's being built.

Joseph Traba: and you have people that need food.

Joseph Traba: So it's those types of of

Joseph Traba: opportunities that we could continue to see happen in in 2,023, both

domestically

Joseph Traba: and also internationally.

Joseph Traba: So a lot of talk and and january has been a very strong month for the markets.

Joseph Traba: We've had a very good rally, and it's also with today as well.

Joseph Traba: and a part of that is again, it's

Joseph Traba: resetting of expectations.

Joseph Traba: As we said, the beginning of this year. Expectations were low, just like they were in June when the markets were down close to 30.

Joseph Traba: We didn't panic.

Joseph Traba: and we gave people reasons why to be optimistic. And we've seen a big.

Joseph Traba: you know. Rally, that's again been up and down, but definitely. We cooped some of that losses.

Tom Hulick: Let's talk a little bit about active, active management, and why it's so important now for the last decade and beyond passive index index funds significantly outperformed, active management. But there there is a kind of a pendulum shift back to the active management. Advisors are very relevant at this

Tom Hulick: stage, with the allocation in their clients portfolios that includes strategy, asset managers.

Tom Hulick: and what the opportunities are ahead!

Tom Hulick: We got a couple more people coming into the waiting room. So we'll accommodate that

Tom Hulick: our clients and friends in Dallas are experiencing an ice storm. It's cold on the east coast, and

Tom Hulick: hopefully, we'll

Tom Hulick: send some good weather your way.

Tom Hulick: Okay, let's get started.

Tom Hulick: Joe Trava, Alex. Hagstrom and I will

Tom Hulick: in the markets was very low. However, Strategy, asset, managers model portfolios did very well

Tom Hulick: outperforming our indices.

Tom Hulick: and we maintained a four-star Morning star rating, which is quite an accomplishment for the group. We're excited to share that with you.

Tom Hulick: excuse me for my phone going off.

Tom Hulick: It'll come back to being made in America, and Joe will comment on that. And how important that is to see all the manufacturing that's starting to

Tom Hulick: increase in the United States technology improving. And, Joe, why don't you kick it off with that

Tom Hulick: intro?

Joseph Traba: Yeah, thank you, Tom. And again.

Joseph Traba: as we do every year, we kind of reflect back at the previous year, and look at the opportunities ahead.

Joseph Traba: as we

Joseph Traba: that Tom mentioned last year was a difficult environment.

Joseph Traba: You, don't have many years. With this many asset classes were lower.

Joseph Traba: Now, when we look back at

Joseph Traba: one of the big reasons why our strategies did do well. It was the sector rotation.

Joseph Traba: As we know, technology has been a leading theme, not just for the Us. But globally.

Joseph Traba: And technology really

Joseph Traba: took it in the shorts last year.

Joseph Traba: and some of the areas that did well, obviously energy.

Joseph Traba: But also when you think about defense companies

Joseph Traba: Now you also look at more of the defensive sectors, like utilities and staples.

Joseph Traba: and, as we've seen, has technologies gone lower at the overall market cap

Joseph Traba: So again for us. It was the sector rotation, and being on the good end of the group, sectors that did well, and obviously being underway things that did not do so well.

Joseph Traba: One of the big themes that we talk about going forward is that

Joseph Traba: Why do we see opportunity?

Joseph Traba: credit.

Joseph Traba: and spending.

Joseph Traba: and that remains healthy and in good shape in the United States.

Joseph Traba: Now we know a lot of people are talking about an imminent recession

Joseph Traba: that everyone is thinking is going to happen this year.

Joseph Traba: We do know the global economy is slowing.

Joseph Traba: We also know that big technology

Joseph Traba: and media

Joseph Traba: are cutting jobs.

Joseph Traba: But we also know when we look at employment, it's historically low.

Joseph Traba: Credit is still available.

Joseph Traba: That's by visa, mastercard, even American express.

Joseph Traba: And we also know inflation is cooling.

Joseph Traba: So again, we know people want to get out and travel anyone that's been on a plane or tried to go to a hotel, the short staff.

Joseph Traba: And again, that is going to continue, especially as China reopens.

Joseph Traba: Now I want to just briefly touch on. As Tom mentioned, one of the big themes that we see is made in the U.S.A.

Joseph Traba: Now.

Joseph Traba: why do we say that? But just kind of again. Look back what happened during the pandemic.

Joseph Traba: We had a complete mess in global supply disruptions.

Joseph Traba: and what we started to see

Joseph Traba: when we listen to earnings, calls it's Cap. X, which is capital expenditures. And this means where companies are investing.

Joseph Traba: and we saw a huge

Joseph Traba: going forward, companies starting to invest

Joseph Traba: back manufacturing in the Us.

Joseph Traba: And when you kind of think about this, it makes sense. You saw tremendous

Joseph Traba: advancements in technology. Think of automation and robotics

Joseph Traba: as labor costs have risen, it makes more sense for companies to continue

Joseph Traba: with manufacturing and getting

Joseph Traba: AI involved.

Joseph Traba: So we do think not just machinery. But when you think of plants,

capital projects.

Joseph Traba: This is great for our economy, because these are good paying jobs, so we also can see a boost with energy prices.

Joseph Traba: so as energy costs in the Us.

Joseph Traba: We saw from a year ago of, you know, actually skyrocketed. We do think at this area that benefits America.

Joseph Traba: The last point I want to make out is, what areas does this benefit, and we can kind of think anecdotally, it else it helps supply.

Joseph Traba: We've already seen with technology and and the zoom call that we're doing. Now

Joseph Traba: we talk about the health care. I have a couple of calls next week with my doctors.

Joseph Traba: So again, these are just innovations that have happened.

Joseph Traba: And then you also look at going forward. What can happen?

Joseph Traba: And you can continue to see, not just spending in the public sector, but also the private

Joseph Traba: One of the big things that we're looking at is our grid. The electric grid modernization.

Joseph Traba: We know that we've had huge power outages in in Dallas as well. So you could see infrastructure spending on these areas that need improvement.

Joseph Traba: and also just on our reassuring supply chain disruptions.

Joseph Traba: A benefit is, if we start saying the Us. Dollar

Joseph Traba: not go as much as it did last year. Go up as much

Joseph Traba: that's going to help companies that manufacture the Us. And export

Joseph Traba: overseas.

Joseph Traba: So we could see a boom again in manufacturing as input costs.

Joseph Traba: I think, commodities and labor transportation all head lower. These companies, Aren't going to lower prices. They're going to maintain their prices and get their margins back up.

Joseph Traba: Just a few things I want to talk about. Alex is going to talk about the economy and certain risk we're looking at

Joseph Traba: Alex. You? Wanna

Alexander Hagstrom: and if gas prices and housing prices can remain near where they are today, we will continue to see that year over year. Rate decline

Alexander Hagstrom: Retail inventories are at the highest levels we've ever seen, so you can expect the prices of goods to decline this year. You know the fall inflation has been positive, and in many ways not just for consumers.

Alexander Hagstrom: but because it's allowed long term interest rates, including mortgage rates, to start falling. Now keep in mind that long term rates are not directly controlled by the Federal Reserve. That's why they've been able to fall, despite the fed continuing to hike, and those falling long term rates have been a huge factor in this recent rally.

Alexander Hagstrom: Now with inflation and long term rates starting to fall. One of the biggest worries right now is the debt ceiling, especially because there's been a lot of misinformation put forth by the media regarding it. It's been framed by some as a situation where the Us. Is at risk of defaulting on its debts.

Alexander Hagstrom: The debt, ceiling, debate is actually a debate over whether the budget should be balanced going forward.

Alexander Hagstrom: and if by some chance there was no increase in the debt ceiling, the government would just be forced to cut its future spending, it would not mean defaulting on the debt that's already out there.

Alexander Hagstrom: I know that doesn't make for an exciting news headline, but that's definitely what you can expect to happen sometime later this year.

Joseph Traba: Yeah, and that's a good point. I mean some of the risks that we see for the markets. It's interest rates if they stay higher for longer.

Joseph Traba: and we look back. At last year

Joseph Traba: we had talked about one of the things we were

Joseph Traba: looking for looking at is the potential resetting of expectations.

Joseph Traba: And that's what happened, as the market had to reset higher interest rates.

Joseph Traba: Now that we've seen that

Joseph Traba: it's good for people that are savers not so good for people that are

Joseph Traba: lenders or people that are on the opposite end.

Joseph Traba: What we can see is, this is just again a risk, if credit continues to tighten.

Joseph Traba: and we would then see unemployment potentially rise.

Joseph Traba: And then this would be spending declining, which then lowers corporate earnings.

Joseph Traba: Now one thing that we just looked at anyone looking for a new car.

Joseph Traba: for their vehicle.

Joseph Traba: This is not a house payment. This is their car payment.

Joseph Traba: and again

Joseph Traba: for us.

Joseph Traba: as we see prices starting to cool, and we've seen the use car market really come down.

Joseph Traba: And again he's starting to see a little bit with new car prices

Joseph Traba: coming lower and we'll talk about that a little bit later.

Joseph Traba: but that those are some things that have us concerned and are tracking.

Joseph Traba: Because if you start saying

Joseph Traba: credit, Titan. Then the lending

Joseph Traba: that also spreads over, and you could see, not just companies, but also households

Joseph Traba: not being able to service their debt.

Joseph Traba: We're not in that case right now. And this is just from the calls that we've listened to.

Joseph Traba: Credit is still available.

Joseph Traba: and, more importantly, people are servicing. They're paying down their debt.

Joseph Traba: So that's where we see it right now. But again, that's a risk that we can see going forward. Joe and and Alex. Let's talk about the dislocation with the government data that that we we see.

Tom Hulick: And that's that's a key point that we bring up in our meetings that that should be should be shared with the with the group.

Alexander Hagstrom: Yeah, I mean, yeah. So excuse me. Yeah. So you know the government data specifically, the jobs data. It is extremely strong right now, and it it's not data that

Alexander Hagstrom: has ever been, you know, consistent with a recession. That being said, these data series, they are, they are heavily revised, and often they lag. And you know one great example is housing inflation right? We all know that housing prices are going down, but according to the government. They're making new highs every month. So that's that lag which you see the good thing about that is.

Alexander Hagstrom: it's going to push inflation down in the back half of the year, because the house price declines that just happened are finally going to be registered.

Joseph Traba: So, even though we've seen this huge increase in rates.

Joseph Traba: It's not affecting them. They're fixed.

Joseph Traba: So with that again. These are just dislocations that you see with the

market, and it's a

Joseph Traba: a lagging effect

But let's let's go back and talk about the positive catalysts.

Joseph Traba: So we do think this is going to be a much easier near to navigate because we're going to be on the back end of inflation.

Joseph Traba: Last year inflation continued to go higher.

Joseph Traba: This year we see inflation go the other direction.

Joseph Traba: We also look at the effect on interest rates as we were dealing with higher rates

Joseph Traba: this year, the markets actually expecting maybe a couple more rate hikes. And then, as you look at the latter half of the year rate cuts.

Joseph Traba: so it's a very different dynamic that we're seeing for this year, first, last year.

Joseph Traba: Now one of the things that we're constantly asked is, well.

Joseph Traba: where do you see opportunity? And last year we went into energy and more of the materials. And again, some of the defense.

Joseph Traba: This year we're looking a little bit more with the manufacturing, and again it's the consumer coming back.

Joseph Traba: So those are good things that will when you talk about

Joseph Traba: just consumers traveling. You also think about, You know, energy and manufacturing. This helps Middle America

Joseph Traba: you start seeing small caps do a little bit better

Joseph Traba: and anecdotally Think about a restaurant

Joseph Traba: that didn't have any manufacturing here all of a sudden you have a plant now that's being built.

Joseph Traba: and you have people that need food.

Joseph Traba: So it's those types of of

Joseph Traba: and also internationally.

Joseph Traba: So a lot of talk and and January has been a very strong month for the markets.

Joseph Traba: We've had a very good rally, and it's also with today as well.

Joseph Traba: and a part of that is again, it's

Joseph Traba: resetting of expectations.

Joseph Traba: We didn't panic.

Joseph Traba: and we gave people reasons why to be optimistic. And we've seen a big.

Joseph Traba: you know. Rally, that's again been up and down, but definitely. We cooped some of that losses.

Tom Hulick: Let's talk a little bit about active, active management, and why it's so important now for the last decade and beyond passive index index funds significantly outperformed, active management. But there there is a kind of a pendulum shift back to the active management. Advisors are very relevant at this

Tom Hulick: stage, with the allocation in their clients portfolios that includes strategy, asset managers.

Tom Hulick: and what we selected for our specific portfolio. So let's talk a little bit about active management. Why, that's going to be very important going forward.

Joseph Traba: Yeah, and it and like, we kind of touched on the sector location. And it was really technology that had been driving not just the U.S. Markets. But the global markets and what we've seen is a reshift

Joseph Traba: into other areas. These are other sectors and other companies. And if you're just sticking with the index. You're going to continue to be overweight, these companies that Aren't doing so well.

Joseph Traba: and that's where active management can add

Joseph Traba: companies that are again, maybe not be as large and market cap

Joseph Traba: as the index, and can go international as well.

Joseph Traba: So different areas to shift out of the benchmark that gives much more opportunity for active managers

Joseph Traba: to again go out of just the normal benchmark.

Joseph Traba: and one other point to be made when we say, Keep it simple

Joseph Traba: for those of you that have been following a company like that bath and beyond

Joseph Traba: You've had a tremendous increase in what we call the junk names or dash for trash in the last

Joseph Traba: a month and a half month, and change.

Joseph Traba: And what? Typically this is good for the overall breadth of the markets, but it for us it doesn't have sustaining power, because these companies are still ultra leverage. And again, just because rates aren't going up as much, they still have that to be paid.

Joseph Traba: So again, return to high quality, which did well last year, and we again expected to do well this year

Joseph Traba: again, with ups and downs of a normal market cycle that should

Joseph Traba: again

Joseph Traba: help. And if people are again another opportunity that we did not have

Joseph Traba: a year ago was fixed income, and that's a big point, and and we'll talk about this just briefly.

Joseph Traba: If you look back. A year ago, anyone that had a bond or a money market rate. You were earning close to nothing.

Joseph Traba: and that's

Joseph Traba: us treasury. And again, so that's very safe.

Joseph Traba: so that gives you just a little bit more of a balanced approach which you may not have had last year.

Alexander Hagstrom: You know. What is there get? When is it coming? Do do they have to refine it? That kind of analysis is is critical now.

Tom Hulick: Very good

Tom Hulick: sector sector rotation was important at last year. It's also even more important this year. Let's talk a little bit about the sector rotation.

Joseph Traba: Yeah. So One of the things that we saw again last year was technology which was the largest sector, and that that really underperformed.

Joseph Traba: and the sectors that were smaller weights I mean, energy is more than doubled.

Joseph Traba: and the S. And P. Just because of the price, appreciation.

Joseph Traba: and another one that you kind of think of. They they call it the consumer services or communication services. That is another area that shrunk.

Joseph Traba: and with the rebalancing. And this is going to happen with the S. And P. This year it's going to get a little bit smaller as well.

Joseph Traba: So what does that mean for active management? What sectors look well

Joseph Traba: again. We continue to see a shift toward some international that looks attractive.

Joseph Traba: And again, if you have manufacturers, why is that, Joe? And let's talk a little bit about specifically. Why, why we see some opportunity. International.

Joseph Traba: Yeah, it it's again. It's the expectations. The worst case scenario, I think, was priced in. And you're starting to see the worst case scenario not happening. So you're getting some.

Joseph Traba: I'm not saying certainty, but you're getting.

Joseph Traba: People are getting out again and working, and this is helping both corporate America and also overseas, and a big part of that component is financials.

Joseph Traba: So when we look at

Joseph Traba: the financial shape of not just our clients, but the companies

Joseph Traba: it's the same thing. Some countries that have their finances in order have a tendency to do better.

Joseph Traba: and when we look overseas we're starting to see just today the Ecb that's euro.

Joseph Traba: So typically you see this happen, and then in the Us. And then you see it overseas.

Joseph Traba: So that's going to be kind of a shift

Joseph Traba: where we starting to see what's happening here

Joseph Traba: happening overseas. And again, I think that's a positive catalyst, As this unknown is no longer not known, these certainties are getting priced in, as we do know how they're going to do, and then that's how companies can prepare.

Tom Hulick: Now, if you have any comment.

Alexander Hagstrom: and you know and I think foreign stocks, that's another area where it's essential to have someone picking stocks for you right, because these are, you know.

Alexander Hagstrom: sort of Socialist type economies in many sense, so over very long time horizons. They don't do as well as the United States. So you really need to pick the right companies that can thrive in that sort of economic environment.

Tom Hulick: Good. We we talked a little bit about real estate as a sector, and let's let's just review what our position is on

Tom Hulick: like industrial, commercial, residential, just review, and then, as a sector in general. Most people have real estate in their portfolio, whether it's their home or they. They're in a passive investment

Tom Hulick: through a fund or a limited partnership, and or beyond. So let's talk a

little bit about that, Joe.

Joseph Traba: and a part of that is having mark to market.

Joseph Traba: and what we could start saying this year, as

Joseph Traba: we just get a cooling off in interest rates, home prices, stabilizing, and again that could be something down the road that is in a much better situation.

Joseph Traba: So right now, when we look at prices of homes, we know they're going lower, but it's been very stable on their on. When you look at the industrial side.

Tom Hulick: So it's it really is geography specific. The the the the I guess, where I was trying to get at was When we talk about real estate as an asset class.

Tom Hulick: we have reduced our exposure in commercial, industrial, real estate, passive investments, or some of the limited partnership allocations that we have there, and that is a that is an active management decision

Joseph Traba: and a couple of years. You know that that's not the norm.

Joseph Traba: So again, we think it's. It's just a settling down, and and that's where again we think prices aren't going to be going up like that, just because everything went up skyrocketing during the pandemic.

Joseph Traba: and again, so it's a reshuffling and and getting into the new cycle. Yeah. A shortage of inventory also in the housing market, you know we'll keep prices, you know, relatively

Tom Hulick: stable. I don't see a precipitous decline in in home values in any of the the the geographical areas that we we have a majority of our clients.

Joseph Traba: Yeah, I mean, it's always geography region, right? It's location location. But we're seeing when you look at just

Joseph Traba: the Us. In general prices have slipped.

Joseph Traba: and again, with mortgage rates going lower. You've actually seen

Joseph Traba: a little rebound in that as well. And this is just really preliminary data.

Joseph Traba: But again

Joseph Traba: not just with

Joseph Traba: shelter, which is the largest percentage people spend their income on, but also when you look at just spending habits in general

Joseph Traba: and the best place to look at that right now is the banks with credit cards. That's what their big revenue generators are, and they're not seeing any big, meaningful delinquency rates. Some of the the

Joseph Traba: the more aggressive cards did.

Joseph Traba: but all in general people are servicing their debt. But this is something we're paying attention to.

Tom Hulick: they could stop. What is your what's your outlook?

Joseph Traba: the last couple of years, and you should expect that in a normal market cycle for it to cool off.

Joseph Traba: Tom has experience with trying to to sell a car as well. But these are things that are real, and and you are starting to see prices come in.

Joseph Traba: which I think, as inflation cools off, rates should cool off.

Joseph Traba: and that will give some stability to prices.

Tom Hulick: And that's, you know, obviously a shock or a dislocation in the market. So if you're being forced to sell, you have to

Tom Hulick: pay the price of the discount that somebody will pay you today if you can wait it out.

Tom Hulick: Then you could see a reversion back to a mean or some normalization of of prices which we're we're seeing, and that that takes time. Timing is important, though, and timing is where I want to ask the next question to Alex and Joe.

Tom Hulick: The markets are forward looking.

Tom Hulick: The markets are forward-looking. We're in January, and by the time that we see the the indices start to to track and gain more confidence.

Tom Hulick: The horse is left the barn type of thing. So let's talk about timing

Tom Hulick: and being invested and being invested in the right sectors.

Tom Hulick: and even talk about fixed income in that opportunity as well as we are

Tom Hulick: reposition clients as

Tom Hulick: bonds come due, and by higher yielding, fixed income instruments.

Joseph Traba: Yeah, and that's a that's an important point to make.

Joseph Traba: The stock market is not the economy. The stock market historically

Joseph Traba: So we we can expect to hear more negative economic data.

Joseph Traba: and again have some reasons that we could start seeing the stabilization, and you know, beginning of the third quarter, and that would, you know, bode well for not just the

Joseph Traba: economy, but obviously the stock market as you get some stabilization there. But that is a a good point to remind everyone. The stock market

Alexander Hagstrom: that have made it through recessions in the past. And so, if and when the economy does turn up, their stocks are going to, you know, Rally very strongly.

Tom Hulick: so should I use all my bed bath and beyond coupons right now

Tom Hulick: She might not have any inventory if anyone's been in a bed bath and beyond. I I experienced that

Tom Hulick: there there is a shortage of inventory out there, but it is catching up all right. So in summary we talked about

Tom Hulick: and we we talked about those sectors it's also important to have an a good perspective

Tom Hulick: with inflation and interest rates.

Tom Hulick: And we think that that inflation is tapering. We know that interest rates are probably peaking.

Tom Hulick: Is that correct, Joe?

Joseph Traba: Yeah. And again.

Joseph Traba: again. Rates are heading lower and that's. Just how the yield curve works

Joseph Traba: the longer duration are lower than the shorter duration.

Joseph Traba: And that's where we see rates, you know, settling.

Tom Hulick: as you've seen in January

Joseph Traba: kicked off. Well, you want to talk a little bit about that. Historically

Joseph Traba: you're seeing more again. The breath is improving. More stocks are participating. That's a healthy sign, and as you take out, you know these lows, and the price goes above it. You just get people more confident and like, Tom said, If you don't have to sell

Joseph Traba: and the assets keep coming up. You know you're not a for seller. You can withstand the price fluctuations and look for a better day.

The last thing is, you know.

Joseph Traba: we always are optimistic. We know conditions right now are mixed, but we do know conditions will improve as we get more certainty

Joseph Traba: regarding earnings, Inflation

Joseph Traba: interest rates, and obviously the geopolitical. It's it's always up and down.

Joseph Traba: But I know that the march climbs a lot of worry, and we know a lot of the the unknowns right now

Joseph Traba: and again. I just think as we get more certainty, people are going to feel better, and that's going to help the the markets Good earning season. How is it shaping up

Joseph Traba: the the best word so far? And then we have a couple of big bell others right now, Apple just reported.

Joseph Traba: and it's done better than fear.

Joseph Traba: So what I mean by that the expectations were for a complete collapse.

Joseph Traba: We're not getting that

Joseph Traba: we can see backwards. Companies did better than expected, which they typically do.

Joseph Traba: They lower future guidance so that they can beat those numbers.

Joseph Traba: So the the preliminary data has been better than feared we are seeing a slowdown in

Joseph Traba: earnings, and that's the forecast for next year.

Joseph Traba: But again, that's just the next quarter.

Joseph Traba: There's just a again some access that need to be trimmed, and that's what we're definitely seeing. So I don't want people to get concerned when they just see the tech earnings.

Joseph Traba: You know there is many other sectors to look at

Tom Hulick: and talk a little bit about dividends and the health of dividends for us corporations and our specific portfolios.

Joseph Traba: pricing power

Joseph Traba: and cash flow.

Joseph Traba: and you know an a. Totally. When I go to the pump to fill up gas in my car. I like to own those companies as their prices keep going higher.

Joseph Traba: and and that's the same thing. When you. You know what?

Joseph Traba: When you go shopping, which companies can raise prices.

Joseph Traba: That's very key, because, as we've seen, input, input, costs

Joseph Traba: head lower, they're not going to lower costs or lower prices for us. So those companies have good margins, and those are the companies you want to

own.

Joseph Traba: and it's also like Alex mentioned.

Joseph Traba: Cash flow is keen, especially when you have this type of environment.

Joseph Traba: These companies do not need to borrow money.

Joseph Traba: but if it's low enough, they did.

Joseph Traba: You know they They're very well capitalized.

Joseph Traba: So those are the companies you need to own

Joseph Traba: again as we get through this short-term cycle where you're seeing a lot of the things that did really badly last year. Pop up.

Joseph Traba: Remember, if your company goes bankrupt.

Joseph Traba: you're a shareholder. You do not get anything.

Joseph Traba: So that's just something to keep in. We're not in any of a company. One of the companies that we own are in danger.

Joseph Traba: but we do look at dividend safety, and that's why I like the cash flow, and we have seen a number of companies that we own also raise their dividends. That's a healthy sign.

Tom Hulick: Good, good, Alex. Do you have any comment?

Alexander Hagstrom: Yeah, just, you know. Stick to high quality, low leverage, good business models, good management. Just stick to those fundamentals, and regardless of how the economic environment evolves, They're going to be okay over the long term.

Tom Hulick: Good. Okay.

Tom Hulick: Not here. I'll tell you that. Let's hope we've got a lot of rain out in Southern California much needed for us, so

Joseph Traba: Our market outlook will be distributed. Joe, would you like to comment on that? We'll be distributing it up tomorrow? So I expect an email, and

it'll be posted on different various websites. And let us know if you'd like to copy as well.

Tom Hulick: Very good. And if anybody has any follow up questions, feel free to reach out to your advisor.

Tom Hulick: or feel free to reach out to us directly, and we will be happy to to speak to you, or set up a time to to follow up with you.

Tom Hulick: Thank you very much, and happy February to everybody.

Joseph Traba: Thank you.

Tom Hulick: Thank you.