

The logo for Strategy Asset Managers, featuring the text "STRATEGY ASSET MANAGERS™" in a white, sans-serif font, centered within a white rectangular border. This logo is set against a dark blue background that fills the upper portion of the page.

STRATEGY
ASSET
MANAGERS™

Market Trends and Investment Strategies on Squawk Box Asia

Posted on February 14, 2024

Tom Hulick, CEO of Strategy Asset Managers, discusses market dynamics, investment strategies, and economic indicators in a detailed segment on 'Squawk Box Asia.'

Transcript:

Let's bring in Tom Hulick now, CEO of Strategy Asset Managers, for his take on this selloff. Tom, great to see you. You're of the opinion that this is a healthy correction. If it is, then what are you buying?

Thank you for letting me be here today. It is healthy for the market to sell off. We've had several months of the market going up almost 20% since the October lows. The CPI number really tells us that the economy is stronger than we expected. So, what are we buying here? We're buying healthy companies with strong balance sheets, not leveraged, and strong cash flows. For example, like Waste Management; trash is cash. We like companies like that, strong balance sheet, strong cash flow.

How concerning was it that small caps and the Russell got hit so hard, down at one point by almost 5%?

Once again, we go back to not focusing on the near-term data. We look out a ways. We expect there to be rate cuts eventually. Interest rates are high, inflation is still sticky around 3%. This impacts small cap companies, and if you're overleveraged, just like a consumer, you're going to feel the pinch. It certainly looks like, as far as rate expectations go in the market, that the expectations are paired back to maybe around three to four cuts this year as opposed to five to six only a few weeks ago. But at the end of the day, isn't that just what the Fed was telling us to be more likely?

I think you're spot on. We were telling our clients at Strategy Asset Managers that we didn't expect a rate cut until the June or July quarters, but the market got ahead of itself expecting a rate cut as early as March. We don't see that's going to happen. The CPI data that came in today at 3.1 versus 2.9% is definitely higher than expected, but inflation has been sticky at this level for several months. It's been seven months at this level around the 3% range.

If you break down the inflation number, though, it certainly seems there's a bit of a bifurcation is back to around pre-COVID levels, and then the services side, you know, things like wages, eating out at a restaurant, insurance costs, auto insurance, health insurance have just gone through the roof. Do you think that bifurcation will continue?

I do. I'm experiencing it out here in Los Angeles just as much as everybody's experiencing across the US and globally. If inflation sticks at this level and wages go up, does it really impact you that much? I'm not sure. So, what we tell people is the expectation is that you don't want to be leveraged at this level with high rates, pay down your credit cards if you have balances on them, try not to be as leveraged, and it's the same thing for companies in that position. Small cap companies are experiencing more of a pinch than some of the stronger balance sheet companies in the large cap area.

Tom, how then are you approaching growth and Tech, which was overbought, valuations very rich heading into this CPI number, and next week, how critical is Nvidia's earnings given its sheer market cap now and waiting, and if they do not deliver, then is that going to be a catalyst for another sharp pullback?

We don't know what the results are going to be for Nvidia first of all. We own Nvidia in our growth portfolio at SAM, and if the numbers, I don't think the numbers are

going to come in less than expected. I think Nvidia is going to outperform. We hold Nvidia, we also hold several of the names of what was formerly the MAG 7, now it's down to basically the Fantastic Five, but that's part of the active management role, you know, we're seeking out these companies and doing the work to find out what the next leader in the technology sector is going to be. We feel Nvidia is in that space, we also feel Broadcom, BR
CM is going to be a leader in the area, we obviously like Microsoft too. Those are three of the ones that we own right now.

Tom, thank you for those specifics. We will continue this conversation with you. Tom Hulick stays with us.

Well, let's get now to our guest who's waiting in the wings, we have Tom Huck from Strategy Asset Managers. Thank you so much for joining us once again, Tom. It seems like a fitting place to kick off with what's going on in the bond market. Do you see the 10-year continuing to march higher and maybe even bumping up against 5%, and what would that do to the stock market?

We have an interesting perspective on the 10-year treasury, and we actually think it's going to go the opposite direction over a period of the next several years, and the reason being is we think that the market is going to shift again to more positive for equities. Whether it's at 5%, four and a half, or 4%, we do know that the US economy and the global economies are bound to continue to improve. Let's talk about the US economy. The CPI number that just came out indicated that inflation is sticky at this level at 3%, but we've seen that for the last seven months, no change there. So what does this mean? Maybe you could shift into a higher quality Equity portfolio for your stock portfolio even if you're bullish on the medium to long-term for equities. Tom, in the short term, do you think that while the market recalibrates its expectations for rates, that there could be maybe like a week or two, even more, of Correction?

I do think there will be a week or two more of Correction. I was talking to my analysts today about some of the historical information that happens in February, and for the last four years, the last two weeks of February have been a negative period for the market, and it's healthy to have these types of breaks in the equity markets. The market's not linear; it doesn't go up all the time, but as we focus on the long term, we are just about ready to enter into a Next Generation bull market. I mean, you're probably going to experience a rip in the value sector of the markets, and people just are not talking about that. The market's broadening out right now, and we're seeing that as The Magnificent 7 goes to Fantastic Five, and then there are other companies that are participating like Eli Lilly, Waste Management.

Tom, you run a global portfolio. International hasn't outperformed the US in about 15 years. I want to play you some sound from Jeff Gundlach about how he is positioning in the global markets, particularly in the Emerging Markets, then I want to get your thoughts. First of all, Tom, here's Jeff.

I've always recommended India, and I'm more bullish than ever. They're the strongest economy in the world with the best demographics, so that's a pretty good one-two punch. Now, I was surprised how conservative you are: 40% bonds, 25% cash, 10% real assets. I guess the rest stocks, that's a pretty conservative portfolio. I think, yeah, if you ask me, you know, I'll give you slightly different answers on the hour of the day that you ask me these things because the markets move, but I could see having 30% in stocks frankly, and I would have 10 in Japan, 10 in India, and 10 in an equal-weighted US.

What do you think, Tom? Are there better opportunities outside the US?

Well, one, I think the US is the place to invest right now, but going outside the US, we're avoiding China. We're focusing a bit more on the India area and also on Mexico and Canada. Europe, if you want to discuss Europe, I do think that there's a potential for the market to snap back in the European countries, but for now, we're focusing on the US. There's a lot of reshoring that's going on, and that's the benefit of taking away the supply chains that were subject to pressure overseas, and now we're bringing it back to the US, Mexico, for example. These markets are what we're focusing on.

Understood, Tom. So when we talk about quality and buying the dip and going for Quality names, then how would you define quality? What sectors, what companies are you looking at? Is it the names that have been left behind by the growth and Tech story? Is that where the opportunity still lies? Industrials, Metals, energies, energy, Healthcare. This is a momentum market right now, however, we think it's going to broaden out. Strategy Asset Managers has been a value manager for a long time, so we focus on cash flow, strong balance sheets, limited leverage, if any at all. The companies that we're focusing on right now, for example, Eli Lilly, positive earnings report, Waste Management, positive earnings report, Broadcom, on technology sector there, but we do think the market's going to broaden out, and that's going to happen over a series of several years.

Tom Hulick, thank you so much for joining us today from Strategy Asset Managers.