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SAM September Market Update: Mixed Messages & The Path Forward

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Transcript:

Welcome you all and we're grateful for you joining us today for our third quarter market update with Strategy Asset Managers mix messages in the path forward. My name is Greg Wertz. I'm a director with Strategy Asset Managers located in one of our three East Coast offices up in Westport, Connecticut and today's platform will be moderated by our CEO Tom Hulick who will be joined by Joe Traba and Alex Hagstrom, our two senior portfolio managers who will discuss their outlook and kind of answer some questions. They're sure there's plenty out there that we may have in this environment what they see not only in the year end but into next year. I would just ask you and remind you to please keep yourselves on mute through the call but there will be a Q&A session at the end of the call and you'll see on the bottom of your screen there's a chat box you could also use or just unmute yourself at that point. So with that, Tom, I hand it over to our CEO Tom Hulick.

Appreciate that Greg and welcome everybody to our call today and there are a lot

of mixed messages that are being delivered whether you're listening to it on the social media channels as well as going across the board with the major networks and we're going to try to unwind some of that information for you today and give you some confidence going into the fourth quarter. The topics that we're going to cover today are the key economic indicators that we are seeing. We're also going to talk about what the major risks are ahead of us and what higher interest rates really mean and how long they are going to be there for us. Is the labor strike that we're experiencing right now out of the West Coast going to continue to impact us and also the UAW strike? Will labor strikes impact the economy? We'll also touch based on government shutdowns. Alex has got some interesting facts about that. Is the dollar still King and what's going on in China and the diminishing power there and also our infrastructure super cycle that we're seeing right now. I'm going to introduce Joe Traba, our senior portfolio manager, and we will have a dialogue about all the things that are concerning us and what you should be aware of going forward.

Yeah, thank you Tom and again thank you everyone for listening as we've known there are a lot of what we're hearing just with media out there and really focusing on some of the risks so we hope to give you a little bit of balance view of what's occurring and also when we look forward. It's always important to know where we're at and where we came from so when we look back at last year we had a market that was down severely and we've got this big rally in the first half which was led by a few stocks now as we kind of look forward we do have a little bit more of a mixed view but it doesn't mean that the markets are going to head lower. We do think again there are some opportunities and some stocks that have not participated in the rally that we could start seeing a leveling up and again money rotate into some of those stocks. And I think what's important to remember what's different from previous times when we've had these rate side periods and also what have we seen with what opportunities are available for you and I think one of the biggest asset class has been with higher interest rates. We've seen the US dollar strengthen but also what does that mean for us it means your money market with higher interest rates has a very attractive yield so what we've previously seen with lower rates is the risk off and people went into more the dividend paying stocks but now with rates where they're at that has been an attractive cycle and an investment that people have put money into now again as Tom mentioned we do have a little bit more of a mixed economic data that's coming out but we also going to share with you some facts historically when we are at the end of a rate side hike what ends up happening 12 months down the road so a few things that we want people to know now. We have seen free high frequency data that is slowing and this really started at the end of August and into September and so far just a couple of

days in October what does that mean it just means the effects from higher interest rates and also think of gasoline prices they went above 90 that is a tax on every consumer and that does increase spending for those types of goods now the negative with that when you have higher inflation and what we're seeing now is people pulling back and one of the buzzword that we were hearing is Revenge spending and that was really think of coid and the people wanting to get out they needed to get out and they spent they savings accounts were down we did see money go credit cards and now with where rates are at and inflation it's a cooling off period that Revenge spending has slowed down and we continue to see that not just in some of the higher frequency data that's for fast food people spending in money on that that's come down but two other you know antidotes that we've seen is credit cards people are spending Less on their credit card and that kind of makes sense just think of servicing that it used to be maybe 10 12% people were paying on interest rate for the credit cards and it's doubles so you are paying more just to service or have access to that credit so those are a few things that we are seeing the slowing coming down and the consumer does have stress that we're definitely seeing now what does this also mean for the riskof sentiment well we've had a big rally in the first half again with some of these big stocks and what we traditionally see is a little bit of profit taking and again right on Q the second half of September which is seasonally the weakest period of the year was down and we're seeing a little bit of that in October but when we look at where the Market's been from its high to its low you know you traditionally have a 10% correction every 18 months so again we're right kind of on that support technically we also know that the concentration risk as we mentioned before when you look at indices is very high so we all always want to know what you own so when people are looking at you know the different benchmarks know that some of these are very concentrated in a few stocks so this doesn't mean that these stocks are going to go lower and have a big correction it just means they may tread water and you see other parts of the market do better as we go a little bit forward one of the positives that we continue to see do well is when we look at employment employment has been extremely strong we've seen a little bit of a Slowdown recently on the week toe data but you don't get significant downturns when you have full employment and as Tom mentioned we'll get into a little bit of the labor strikes now we have seeing again some of the big Hollywood out here in California and again UAW strikes more back east and we do expect to see more and again it's a direct result of things costing more and Kaiser Hospital they're going on strike now so we do expect to see that again as people want more rages what we do also see is the power of AI being more of a tool and we had mentioned this earlier we're not afraid of AI and we know technology moves forward and what I mean by that people were nervous about our calculator that that was going to make us you know less intelligent well we've known that's a

tool and we can see that with AI pretty clearly and it was brought to our attention you kind of think of a company that wanted to advertise would have to one hire a not just the advertising agency but you had to hire actors you had to hire production set you had to find a location all of these were added cost and what can you do now you can use AI and again with the help of people to help figure out what you want it cuts the cost dramatically so you think of a hair stylist that was doing the hair for the actors same thing with makeup a lot of these jobs I'm not going to say that they're going to go away way but it's going to be in less demand there'll be other types of jobs that will be in demand and that's Again part of our we've spoken about is the reshoring of the United States of America or if you want to call it the refriend and what I mean by that you've seen production for decades lead the United States and what have we seen recently is jobs and production manufacturing coming back to the United States that's powerful and that is not something short-term this is multi-e that'll take if we keep growing at the clip we're we're growing at and these require a different skill set for jobs so we do think there is opportunity there but people are going to have to learn a different skill set these are some positives that are coming and are here now so again unemployment continues to remain low and historically you know you don't get significant disruptions or recessions when you have people working and people spending what we do know the FED as a direct result of the FED raising rates that's crimping what we're seeing now with not just inflation but also people spending and again that's what they wanted to see happen their next kind of what the FED out want was to start saying unemployment TI higher and we do think that's kind of the next you know leg that we'll see we also have to understand that the stock market is looking down the road so we may hear further economic data that's not that good but we might start seeing a stock market stabilize and start moving better and the one thing that it stock market like likes in all of us as well you like certainty and right now we have a batch of uncertain not just data that's coming out just unknowns and we can look at that with the two things we've spoken about before inflation interest rates but also with our government and we'll go into a little bit more detail on all of those but I do think you know media we've spoken about this before their job is to sell and get people really hyped up on one way or the other you know it's kind of boring to talk about you know the main state which is happening so we do know a lot of the risks better out there but there are quite a few positives that people should be aware of and again one other thing that we looked at with the stock market we know with this recent downturn and having two consecutive quarters of earnings not growing this is going over year over year we do look forward and again not just the fourth quarter which we're in now but also next year and this is important because earnings and valuations do matter and that's where again we think the opportunity lies moving forward valuations outside

of a few companies is at historic norms and some things are even cheaper now we also do see going forward earnings increasing double digits in 2024 so with the healthy data that we've seen from the economy you know we are slowing but again there's a reason why the FED raised rate so much we do have a strong economy now we start seeing some weakness there on the economic indicators that Tom was referring to but again one of the leading indicators is jobs employment and then you look at production as well and those two areas remain pretty robust.

Yeah, Joe let's talk a little bit about the economy right now and segue over to Alex.

I don't think the economy is very weak at this point I mean you're seeing economic data that that could Propel us into a next cycle going forward the markets should react to that soon and maybe we are at the cusp of something great for 2024 although we've got a lot of headwinds. I want to transition over to you and have you talk a little bit about your insights into shut down in the strong US dollar in China also.

One interesting point that we've seen and this is recently we talked about an inverted yield curve but now we pretty much have a flat yield curve and again why is that? Well like Alex mentioned with the government shutdown the treasury they had to issue close to 1 trillion in debt this is really recently and it really affects the longer duration bonds so what we've seen is the yields have now come on r with the short duration and again it's Supply demand in one aspect meaning that we just issued a bunch of supply and we no longer have one of the biggest buyers of our debt was ourselves,

So that's because of quantitative easing time and again raising rates so that's where we're at now. Two points to look at is historically and you go back to 1984, we've had six great high cycles and all the one of them you look 12 months post that last rate hike the markets are positive and on average double digits going out 12 months from that last rate hike. So really points toward, yes now you have a risk of alternative with the money market deal promet mentioned but longer term we know stocks outperform inflation and now that's just how history works so we do know short term if you are looking to use funds you know you do have an alternative and that's one of the reasons why some of the traditional Safe Haven assets have not been that in the recent time period because again of the risk off but longer term history does tell us the stock market does outperform especially when you're at the end of the rate hikes. Jo, let's talk about the sectors that we've been repositioning clients into and can we touch on that? Yeah, no so absolutely so we know again it's two sectors that have led this market and these are the two most beaten down sectors from last year technology and then some of our

communication services and they were down tremendously last year and they've rebounded this year. Typically what you get when the Market's bottom is the things that have done the worst, they do well but then you get a leveling off so again technology is here to stay but I think there's going to be new leadership and what we mean by that it's money has rotated into these stocks a little expensive there's now other areas and we have been mentioning some of the Industrials as you said with production manufacturing coming back to the US. I think of some of the electrical companies as we redo our power grid these are companies that again longer term this is where the government's putting money in and we do see opportunity there and also when you look at AI who is one of the biggest beneficiaries it's our Healthcare System as well so we do think that is one area that again is traditionally more of a safe haven as people continue to use medication but with some of the new developments we've seen with medication and Alex can talk about one of his drugs that we mentioned with weight loss and the effect that we've seen on that so there are dislocations that we're going to see in the market but it's also there's going to be opportunities and these are just some of the areas that we are repositioning and again we think with the friend sharing and that's really manufacturing coming back to the US it does benefit not just America but also our borders and that's with Mexico and also with Canada so that's a shift from overseas with Manufacturing in Asia to coming home or closer to home. Alex, yeah and I think you know many of you may have heard about Ozempic and other similar drugs in the news but this is a weight loss drug and people who take it basically lose 20 to 25% of their weight it's incredible to see how technological progress solves problems and a lot of people believed that the Obesity issue in America was intractable and unsolvable and it's still very early in the history of these drugs but it does look like there may be a solution to and of course that'll have knock on effects obviously as Americans become healthier there should be beneficial effects throughout the economy from that. Let's talk about some specific names that we've invested in and where we see things fourth quarter and into 2024. Yeah so again going into where the markets are at we've had a pretty good rally in the first half and again what we're looking for is just a rotation and what I mean by that some of the stocks and again these are the top apples and Microsofts, Google that have done very well just to take a breather and you start seeing money rotate into other segments of the market and again I do think software that's a big beneficiary of AI it's not just individuals it's companies that need to do a better job of reinventing themselves so I do think that type of positioning is going to do well but we also do see again with the rebuilding of our infrastructure as a tremendous opportunity and those are areas that are not just shorter term it's a longer term and that's coming of the a couple of the themes that we've positioned and again with medicine and just how we get medicine I think that's always been a staple and especially as the

consumer gets a little bit more crimped with their discretionary spending it does go back to Staples on what they own and the last point of that is as we've seen higher price increases especially if anyone goes shopping do we ever see those prices go lower?

No, what do they do? They make share the page so you're buying less of a good but those prices remain high and this is a fact because we've seen earnings, their margins are better so they may not be selling more product but their margins are getting better because their import costs have gone lower just something to keep in mind as we see higher prices for longer. Alex, let's talk a little bit about some of the talking points that we've had in our meetings recently and I'll just tee you up with the McDonald's reference that we discussed. Yeah absolutely so one of the high frequency data points that we follow is traffic at McDonald's and it's seen a very marked deceleration over the past few months and I think one of the biggest drivers of that is the spread between the cost of eating at home and eating in restaurants. You probably noticed it yourself but even a low-quality fast food meal seems to cost more than high quality food cooked at home. So I do think restaurant prices will need to potentially deflate or disinflate to some extent in order to draw people back and Ozempic also relates to that and the Walmart CEO in fact yeah for sure and the Walmart CEO just recently he called out of them he said that they have already noticed people buying less junk food just off the few million people who are on it already so this could be a very permanent shift away from a lot of the incredibly unhealthy destructive foods that Americans eat far too much of and what's interesting with McDonald's they actually it's a franchise business and their clients are people that own the McDonald's locations and they raised their franchise fee by 1% so again it's this trend that we're talking about and you keep an eye on these types of things as they move forward. Well there's definitely not, I personally know a few people who have benefited from Ozempic and it's changed their life. Diabetics, obese cases, it's not readily available for that at this point but it is something that is probably going to be repurposed into that area to contribute to a healthier society. I mean the health and wellness sector is growing enormously as we know it, longevity, how are we going to improve our own lives and we have seen incredible breakthroughs in medicine, robotics, the way that surgeries are performed, how AI is helping out. We had a conversation recently with a client who shared information about their medical condition, a very serious medical condition and right away, Joe, myself and Alex were able to contribute some current information that changed an outlook and shifted them into another direction and that is just because of the developments that have taken place in multiple areas of healthcare at this point and it's revolutionary and you've seen it probably you've even personally experienced it maybe you've gotten a knee replaced or a shoulder

surgery recently or you had a heart procedure or you had a diagnosis that at one point was not very promising and now there is something that can contribute to the success of managing it or even reversing it these are things that we're seeing right now and Strategy Asset Managers does a very good job at identifying the individual names as well as sectors that we can manage portfolios to so it's a, J wants to say something I can see. Yes, yeah I mean it's really the power of our network you know a lot of us know us as a money manager we're top money manager at that but it's also it's who we deal with I mean our clients are our family and one of the great things with Tom is that he has a great network and when something comes up ask us we have people that are specialist in different areas that can help and one of the big things Tom and I know doing multiple ironment we're not afraid to do the work and part of that also is looking forward our mind is a powerful mechanism and having positive just positive momentum a positive mindset it's hard sometimes you get distracted and you get overwhelmed and talking to people about it especially in our group on the research side of things we when we collaborate we can generate more ideas and it's just seeing something the simple is saying something from a different lens a different point of view correct and that's one of the great things that we do is we all have diverse opinions and I always say that the best decisions are made by the most diverse group of people that are allowed to say what's on their mind because you just see things from a different lens and I think that's critical especially now when there's just one predominant view of the negative that's coming out there where things are going and again you need to balance that out we always talk about if you're going to watch TV make sure you watch if you're going to watch Fox that you have to watch CNBC just having a little bit of balance. Sure, sure, Joe, we've got to talk about where we're going to go from here and kind of the concluding remarks so I'll turn that over to you. Yeah like we said expect some turbulence in the short term, volatilities come back again as the uncertainties of trajectory of interest rates and inflation but we do again look forward when these unknowns are known and we are seeing interest rates you know we think will start cooling off and we may be at the peak already and why we say that well gasoline had one of its sharpest declines in over 35-40 years and that was just a couple days ago not in California yeah and don't move to California, California gas prices were higher than they were in Hawaii so we were approaching 8 you know so that's kind of cooled off so we expect that to again continue because it's a tax on everyone but the other one is in one of the high-frequency data is people using their credit card that's dropped 11% this is very short-term data that we're seeing so we are seeing the consumer pull back and again think you think that that's because the consumer is maxed out well it gets the low maxed out on their debt it's I just look at how you're going to spend your money before you were spending it on discretionary and that was the Revenge spending we talked about you were going to get out you were

going to go see a show I think it's now kind of cycling to more of the durables these are the Staples that you need and sure still going to have people that want to get out for the experience you can look at any concert or football game so it's just me yeah I don't want to digress to that area so you think the markets are going to take a breather? I think they are and now we're seeing that right now now why am I not more pessimistic and thinking that we're going to see a 2008 meltdown that's a good question but I'll give you some answers when you looked at dislocations in the market and that means if you go back to 2008 any of these meltdowns you did not have price discovery meaning if you trying to sell a specific investment it kind of went into this abil and you weren't getting accurate pricing especially on derivatives this market has acted extremely calm you've had a perfect market meaning there's been zero disruption so I don't see any of that occurring now and yes lending's gotten tighter but it just means you have traditional ways of borrowing so anytime that you have these big crisis lending freezes up and there's no lending going on we still are seeing it it may not be through the traditional banks but it's still occurring so I think those two things along with full employment doesn't get me as negative as what other people are hearing you know you do have to focus in on that yeah Alex do you have a comment on that yeah I mean there's there's always going to be cyclical ups and downs in the markets and the economy but I think the long-term secular outlook fueled by AI Robotics and the integration of AI robotics remains extremely bright yeah we've seen a lot of private equity deals coming up and that's because there's a lot of cash on the sidelines with these private equity firms and not enough deals to chase after and that to me signals that there is another cycle happening and some of the smarter money is going after the private sectors that are there that will contribute to the success of some of the publicly traded companies that we own Joe you want to talk about that a little bit yeah and that's a great point because it really what we touched on briefly was bankruptcies and the headline of a company going bankrupt like Bed Bath and Beyond and potentially WeWork, you know that sounds extremely negative but when you kind of think about this these companies probably maybe we thought they already weren't bankrupt but what happens with the cycle you take about you take companies that were not profitable for lowering prices you're removing them from the equation and you're getting the other companies to take over that demand and they're going to be healthier and they can raise price so that's the cycle that Tom's referring to is when when you do see bankruptcies don't be afraid of it you know look at what sectors are going to benefit it's just you know it takes a little bit of time for that to play its way through but we know the government is not going to support these companies like they did just a couple years ago and that does give us a better view longer term.

Okay, well, Joe and Alex do you have any other concluding remarks before we sum everything up? No, I think that's a good point. Alright, well, thank you very much. Thank you. Alright, thanks everybody for joining us we really appreciate it have a good day!