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Strategic Insights on Inflation and Market Trends w/ Tom Hulick on Squawk Box World

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Tom Hulick, CEO of Strategy Asset Managers, provides expert analysis on inflation trends, equity market performances, and the impact of AI on industry sectors in a detailed discussion on ‘Squawk Box World’

Transcript:

Let’s discuss more what’s happening in the equity space with our next guest, Tom Hulick, CEO of Strategy Asset Managers. Good morning, Tom, good to have you on the show. First and foremost, I just would like to clarify something you said in your notes that caught my attention. You suggested that when you think about inflation, you don’t expect it to drop below the 3% mark. What do you mean there, and what does this mean for the Fed?

First of all, thank you for having me on today. Good morning. From my position back in January, we told our clients that you should feel encouraged about the 2024

forecast, and one of the key points that we made was that inflation was going to be very sticky around the 3% mark. In the first three months of the year, the US market experienced a broad-based rally, and not a lot has changed there. Inflation is sticky; it's going to remain at this 3% level, and I think that's going to be the new norm for inflation. When it comes to performance in the equity space thus far, April seems to be setting a different tone from what we saw in the first quarter of this year. I was just wondering whether the downturn performance we have seen so far is the narrative that's going to dominate the rest of the year.

It's a good point. The key themes that you should focus on as we approach the upcoming earning season and the second half of 2024 are how some of the mega-tech stocks, like Microsoft, Meta, and Amazon, and other sectors are going to validate the strength of the US economy and the next generation bull market that we're going into, and possibly how that is going to bleed over into Europe. We've got very strong data points that are going to contribute to a very successful earning season in the next couple of quarters.

So, Tom, you're expecting a strong earning season. We've seen a change in leadership in the markets ever since the clarity around rate cuts has just gone away. As you mentioned, Tech under quite a bit of pressure, you're also expecting volatility from geopolitical tensions, rising oil prices, even the election in the US. When you're talking to your clients, where are you advising them to find opportunities when it comes to the markets, and then also, how do you view bonds? You're seeing a rise in competition from short and medium-term bonds.

You've definitely seen a broadening of the stocks participating in the rally, and it's not just the Magnificent Seven anymore, which were the 2023 leaders. We told our clients to expect that with the US economic strength. We're looking at other areas, and today on your program, we saw the CEO of ABB, Bjorn Rosengren; robotics is an area that should continue to dominate discussions, including with the AI domination and the technology revolution there. So we're looking at other sectors outside of technology that could be Industrials and Healthcare. But we do see the broadening of the market being an important factor for the strength going forward.

That's an interesting take right there. I was actually speaking to a managing director of an investment bank; they said clients are taking some profits when it comes to Tech but they're nibbling at cyclical sectors like Industrials. Right now, you're kind of advocating for both a cyclical sector like an industrial and also a non-cyclical like healthcare. I mean, is that portfolio protection? Do you see big upside when it comes to healthcare? Why on both sides of the fence?

It's a good question. I really believe that the healthcare sector is going to benefit from the efficiencies that we're seeing in the AI revolution. I do think that the industrial sector is going to participate as you've seen with ABB's earnings. Tomorrow, we're going to get Intuitive Surgery that's going to come out, ISRG, that's another company that we own along with ABB. I really do think that there's a rotation, and there's a welcome rotation into other sectors in the market, and we'll see that with the relative strength of the earnings that's going to be coming out. Under the bond sector, I'm going to focus more on the equities right now.

Understood, so it sounds like you're pinning a lot of your hopes when it comes to earnings and also this rotation when it comes to this AI story. I want to talk to you about something that's not directly impacted by AI: Commodities. Right now, with the rally in Commodities, does it change the way that you advise clients to balance their portfolios? I mean, right now doesn't seem to be the time for the traditional 60/40.

You're absolutely right. So if you go back and you start to talk about how AI is really changing everything, it's changing the oil industry, it's changing the energy industry, and we believe that these are the early stages of this next generation that we're going to see all these innovations which are going to create greater efficiencies across the board. So, what does this mean? It really means that the market is going to experience a broadening, as I said earlier. I do think that the market will see a positive year, given an election year in the US, and also, there is a history behind data that shows that if the market is led by a market-weighted, let's say the Magnificent Seven, the following year is also a positive year. So, we're still looking for a positive year with the overall markets.

Alright, big show me quarter when it comes to AI. Tom Hulick, CEO of Strategy Asset Managers, thanks for being here. We appreciate it.