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Strategy Asset Managers January 2024 Market Update - Be Encouraged - Strong Employment and Household Finances Backing Growth

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Automatic Video Transcript:

Welcome everybody to our first market update call of 2024 we appreciate you joining us today. You know Strategy Asset Managers since 2001 has been known for helping financial professionals and the wealthy families achieve a level of freedom beyond what they thought was possible and as a result of that our clients today are not only building their legacy but they're living enjoying that legacy so today we hope we can answer some questions for you on the market front our call will be moderated by our CEO Tom Hulick who recently has been on CNBC and Bloomberg expressing some of these thoughts and opinions into the new year and we'll be with Joe Traba and Alex Hagstrom our two senior portfolio managers as Tom referenced the call is being recorded please keep yourself muted there'll be a Q&A at the end

should you want to unmute or you can hit the chat button and ask questions of these guys so with that I hand it over to Tom take it away thank you Greg and welcome everybody to our February 1st 2024 update yes you heard correctly that I have been on two major programs as of the last 30 days CNBC Asia CNBC has invited me back for a follow-up and also Bloomberg Daybreak I was on last night this is all as a result of the commentary that we've been putting out and being in touch with several institutional sources that we were invited to come on as a guest to these programs so you may see additional media from us and we are excited to be at that level and relevant with our thoughts the investment team today is going to update you on our forecast what happened in January and we're going to provide an analysis on how the markets have really shifted in the first month of 2024 and on these thoughts that we'll share with you we're really encouraged for what is ahead and I'm going to turn that over to Joe the first question is why the stock market can continue to rally Joe and then I'm going to go to Alex yeah just to be quick here we do believe just because the flip of the calendar year doesn't mean things have changed we had a strong foundation for the markets and that continues to be the case but two positives that we continue to see people are employed and households are in good shape so those are the two things that we really want to focus in on and we'll get into a little bit of the positive historical bias for January as the call continues Alex yeah so historically the market has tended to perform really quite well in election years we looked back to 1928 the average S&P 500 return was plus 12% and one of the big reasons for this is that politicians more than anything they want to get elected so they pull out all the stops they do everything they possibly can to boost economic growth in those election years hey Joe you know we've been talking about the strong consumer and some of the indicators of interest rates declining inflation coming down for months now what's different yeah so if anyone was paying attention to yesterday the FED did announce that they are not raising rates or nor cutting rates and they're definitely not GNA raise rates Joe let's go back on that they're lowering rates and when are they going to do this well again I don't control the market so we'll let people know what's going on so the expectations is for six rate cuts this year after what the FED spoke yesterday and now the expectation was a March rate cut and now it looks like it's going to be in May so what we've seen with that and yesterday the markets were lower after the announcement and we're seeing a rally again today so this is critical we're in the middle of earning season and we'll hear from quite a few companies after the close today but that's one of the reasons why we continue to remain encouraged good so Alex let's go back over to that fed chairman pal reiterated this view in the subsequent press conference that he had yesterday and then the percentage of the investment community economic community that believed we were going to have March rate cuts shifted you talk a little bit about that yeah so the market had

thought there was more than a 50-50 chance that the cutting cycle would start in March after the comments yesterday they rised it down to 37 to 38% but he did leave the door open if inflation data continues to be positive and the last few months of inflation data have been very very positive from the fed's perspective and what they look at specifically so if that continues to surprise to the downside they could they could end up starting the cutting cycle in March right so the markets weren't really happy with the fed chair pal comments and what does that mean Joe for for you out there as our client what does that mean for them yeah so it's if people does it really does it really make a difference whether it happens in March or June or and that's right you have to look at on a daily basis that's what the markets are doing but the longer-term trajectory is still the same and that's what we try to keep people focused in on and not look at the day-to-day news clips that are out there and really look at the longer term and that still remains fairly optimistic and our view okay Alex any comment on that yeah I think long term we know that rates are not going to stay at these levels the cost of interest on the debt is now more than the defense budget and that's just not sustainable over years and years and years at some point over the next couple of years they're going to get rates down and they're going to get them down a long way just in order to make the debt actually sustainable in any way so interest rates coming down in 2024 will be a point that we will discuss and we do see rates being cut by the Federal Reserve probably in the June July area but not in the March area is what we see so what are the areas of the market we want to focus on right now or what are we focusing on Joe for the for the portfolio management side yeah and what's been really interesting is we've touched on this before but it's companies that had big capital expenditure and what I mean by that think of all the hiring people have done and also think of when we look at AI how much investments were done in that and so far we've heard from a few of our companies that we've owned they've had really good progress with excuse me with margins and what I mean by that they did these big infrastructure spends and now they're seeing the fruitions of that spending and that means their margins are better and that's really been I think a key point so far that we've been missing the last couple of years that's coming back online Joe let's talk a little bit about the specifics on the companies that you were referring to Microsoft has got to be one of them a lot of our clients own Microsoft full disclosure strategy asset managers owns Microsoft right that's correct and one of the so Microsoft did report pretty good earnings yesterday just expectations were quite high for it we'll have more earnings out after the close today but what we've seen is the initial AI is a company like Microsoft and now what we're looking for are the secondary plays these are companies that have done the spend on AI or technology and now are seeing the positive aspects of it with better margins and what I mean by that the Cisco is one of the companies and it's the other Cisco the SY the food distributor the

other Cisco still that from Tom but what we're seeing is their adaptation of innovative technology and how they go about dealing with clients they have data up on their fingertips and they can show their clients what they've spent and it really has increased their relationship with existing clients and they're seeing better margins with you know less volume and gaining traction so that's one area um so Alex I'm going to go over to you on some of the earnings announcements that have come out and the companies that we own can you comment please um yeah you know so look earnings overall they haven't been super positive but a lot of our companies are able to raise pricing they have margin power they operate in oligopoly positions or monopoly positions and those are the types of high-quality companies that you need to own in an inflationary environment you need to own companies that have pricing power and so those companies have been largely immune to what's gone on over the last few years whereas other companies in commodity businesses those are the ones that are really really struggling from an earnings perspective thank you the big question that I was asked several times are what's happening beyond the magnificent seven stocks the 493 other companies that make up the S&P 500 I'm going to tee this up for Joe there's definitely a broadening of the market I saw Bob demichel on the call today and Bob is the preeminent expert investor pointed this out that you know it's not sustainable to have the market continue in the path of having seven stocks lead the rally but however if that happens the subsequent year could be a positive year because the market's broadened out is that right Joe that's absolutely so typically there's two things that will let everyone know when you have a gain of over 25% in one year the following year you still average a gain of over 10% and this is data since I think 1950 the other part is again just think of I go backwards before you look forward and what I mean by that in 20122 tech and the magnificent 7 were destroyed you had very big drops in share prices so you had a rubber band effect rubber band effect in 2023 so now you kind of look at okay they're back to where they were what else can now happen and exactly what Tom said you start to see money going into other areas of the market that did not have that participation last year well you don't want to avoid these companies but you know that you're probably not going to get the earnings that are expected out of them except for the Microsoft out there Amazon reported and it wasn't as positive as people anticipated but once again there are other companies that strategy asset managers owns intuitive surgical for example or Cisco for that matter Broadcom these are companies that we find that are not part of these magnificent seven that make a difference in somebody's portfolio and thank you for doing saying that so the broadening of the market is important you wanted to say something Joe yeah just when people we've gotten so used to just owning the different benchmarks but when you look at diversification you have to realize some of these companies just a few of them three to seven of

them make up anywhere from 30 to you know 50% of an index so you know we're not expecting that to continue and again that means other areas of the market will start performing better and let's talk about that know yeah let's talk about that Alex and Joe what areas of the market are participating with the broadening of the rally I think you know one area of the market that has a very very bright future is infrastructure specifically because there's been basically multiple decades of underinvestment in America and it's going to require trillions of dollars to modernize for America to become self-sufficient and private investors are going to be a huge part of that and people who invest in the right companies for this infrastructure buildout should be very very well rewarded Joe yeah one of the companies that we do own in our dividend portfolio is Corning and they released and had a very positive reaction and their expectations for this year is the continued buildout and and that's important so what we've seen is companies had huge inventories and now their inventories are drawn down and they need new hardware that's important because software has been leading but after a while all of us can relate to this when your computer is running slow or your phone for whatever reason starts cutting out on you you know that's the upgrade cycle and we're expecting a pretty decent upgrade cycle in 2024 we talked about reshoring a lot and build back America and regaining independence for energy independence all these positives that would contribute to a buildout of the infrastructure in the US greater independence relying upon China for example China is definitely slowing down we don't want to be beholden to supply chain disruptions in the future can you talk a little bit about the reshoring Joe yeah we'll go into two parts there but what we've seen before is everyone remembers when we only we wanted to keep all manufacturing at the cheapest location wherever that was and we kept the better paying jobs while now what we're seeing and again covid was an accelerator to this is these jobs and manufacturing coming back not just to the US but also to our neighbors in Mexico and Canada that bodes well for the Americas and we think this will continue we're just starting to see again this is 10 years of offshoring now bringing it back and that really does benefit not just production manufacturing but companies that make industrials that's another area that we like Alex if you can go into the other point with oil yeah you know talking about technological innovation America is now the largest producer of oil in the world one of the largest exporters in the world and that makes us completely unique for a great economic power there's no other country like this China Europe Japan these are all large energy importers importing from us but here in America we are largely self-sufficient and when you get these price spikes like you got in Ukraine our economy is much better able to tolerate it yeah that that's important to point out we have a couple of guests on the call that that are directly related to the oil industry and whether you're from where my grandfather grew up in Bakersfield or or you're from the Texas area energy

independence and the regaining of energy independence is paramount to the success of the I would say the next 10 years of this cycle this business cycle that we're going through so thanks for pointing that out we do see a robust economy still going on in the Texas area we're seeing a resurgence of things happening in the oil industry in general in our area and I would say our area is the the Central Valley Bakersfield area will it continue probably so let's let's go switch over to investing in an election year Joe and the expected volatility that happens you are you are quoted as saying it's the policies not the politics the policies not the politics yeah and that's that's a big point to to really remember as we get inundated with election data that's going to be coming out remember that we still have a pretty divided Congress House and Senate no super majority and this is something that we've said for a few years you just can't get anything new past which means we have a relatively business-friendly what we're seeing right now and there's no big change that we're expecting and that's huge for companies yep Alex you're yeah and I think so regardless of who wins they're both pro deficit spending politicians we've seen the deficit go up but I would say on a higher level one of the best things about America one of the reasons this is a preeminent economy is that politicians are not able to destroy private business and that innovation and that success that keeps going whoever is in Washington however incompetent they may be right there's a lot of a lot of checks and balances in place and let's hope that we don't get inundated by you know millions of advertisements that come on um and everybody will laugh at that but your phone now is the next avenue for you to be annoyed at all of the ads there coming out for vote for me vote for him don't vote for him etc um so we covered the investing in election year um we did talk about you know the policies really matter not the politics um stock market participation is definitely broadening we did talk about that Joe let's um let's ask the the question um about the economy and the economic strength and boosting global growth yeah so what's an interesting fact is the United States has technology and a large part of our economy is obviously in these tech companies if you look at any other country no one else comes close to the amount of technology exposure that our country has that's a big reason why our markets have done considerably better than a lot of the global markets and what we're seeing now just as companies adapt to better technology and get better efficiencies and better margins we should start seeing that with countries as well so as we know deficits are large in our country but they're even larger overseas so we do think from what we've done as we all know America usually gets it right not the first time or the second time but usually by the third time and that's where I think we will continue to be in that position and you'll see other countries following suit with what's happening here Alex any follow-up on that yeah you know us just to reiterate clearly in a dominant economic position you should disregard any of these headlines you know China's ditching the dollar

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Russia's ditching the dollar none of those things can ever materialize in the near term the dollar is going to remain the reserve currency America is going to remain the largest economy and that is for the foreseeable future we we talked about the tight labor market Joe do you want to make any comments on that yeah and one of the pillars of strength in the United States has been exactly what Tom said coming out of covid you had a huge surge of of people getting back to work and companies not being able to get you know meet production as fast as possible we're in a much better situation now but there still are certain segments of the market and in companies that are still need more hiring and we can see that by wage growth so wages have gone up we know deficits and people's credit card payments have gone up as well but to meet that we've seen better wage growth so that combined with a potential increase in productivity that we've seen from some of the economic data gets us you know more positive with 2024 Alex do you want to talk about the us being the largest producer in the world oh yeah of of energy yeah you know touched on that a little bit but you know you can't you can't underestimate the importance of that and the level of self-sufficiency that we have in America though it is not complete it's not something that any other major economy enjoys and even if there is another energy price spike it shouldn't on its own be able to the US economy since the Drillers will benefit and their profits will flow into the economy let's talk a little bit about the US dollar and is it still the safest place to be Alex oh yeah you know a absolutely like I know you know when you live in the the US you don't focus on what's going on in other countries but every problem that we have in the United States the other major economies have it much worse when you're talking about out-of-control debt it's much worse overseas when you're talking about poor demographics low birth rates it's all much worse overseas this is by far the preeminent currency Joe yeah just I mean it's 2.7 trillion in debt and these are bond insurances that are going out by sovereign countries that's the largest we've ever seen and to Alex's point you know we're starting to see our country and politicians rein that in which would lead to us again dollar being the preeminent currency but you should start seeing that overseas as well we we've got um where do you think we are in in this new business cycle or um what I said was the this kind of next-generation bull market the potential for us to have a decade long expansion period that eclipses what we've seen in the past where where are we there Joe yeah and again I'm going to go back at history and and what we've seen is anytime we have these dramatic events that occurred like a covid it's an accelerator to change and then you look at the post effect from it and we've always mentioned the Spanish flu and then what happened afterward so again it's just this what's recently happened it's the speed is so much faster but that does get us optimistic with not just the technology but also the onshoring and like Alex said production coming back these are long-lasting and kind of think about it if you're in in middle America

and now you have a factory that's that's booming with well-paying jobs think of all the other areas of the market that benefit in that area you have housing you know hotels restaurants places to go out and and eat or drink you know it's those are all the secondary and third plays from from getting production back here and that gets us you know optimistic looking forward okay we we've we've talked about our you know the optimism that's out there but we we cannot deny that there are there are several risks ahead of us and this was something that that you know strategy asset managers has made it a point of talking for years to our clients about you know what are the risks and what are we focused on on the risk side of things Joe yeah so two points and Alex will go into a little bit more on the deficits but that is like anyone we kind of think of a household and what happened during covid you were able to use you know credit cards and you got an ex added to it and and interest rates were low and weren't paying you know potentially some of the bills you kind of fast forward and a lot of that free money is gone and you're now stuck with these deficits and the only way to get out of it is obviously you make more money and pay it down or you you know foreclose on it and you don't pay it off and you go bankrupt so that's something that we have been paying very close attention to is not just the deficits but foreclosures and bankruptcies and we are starting to see a little pickup there in bankruptcies but people are still paying their bills um so that is encouraging but those are two areas that we're really focus in on yeah and I think of resurgence in inflation we are seeing several indications that inflation may be bottoming and may start to accelerate in the middle of the year and another large spike in inflation would be extremely difficult for the government to deal with because they just they just can't keep rates this high with this much debt and with the deficit so large let's dig into the that a little bit more what what do you mean specifically by some type of of of catalyst to having inflation out there I was at the Hoover Institute this last week at an at an offsite John Cochran a notable economist said the United States is not prepared for another shock a supply side or supply chain shock Taiwan um being taken over by China increased volatility in the Middle East maybe the United States doing something against Iran and if we have a supply chain disruption we will definitely see a surge in inflation is that one of the shocks that you're thinking of yeah you know what we're seeing in the Red Sea that's going to start contributing freight rates are up about 100% in the last six months eventually that's that's going to filter in and you know they were able to set rates at 5% this time in order to fight against inflation that's not going to be possible in three 5 10 years simply because the government is going to have to fund social security they're going to have to fund defense they're gonna have to fund all these programs and high rates are just not going to be possible for them right Joe we've got two minutes left um so let's let's actually talk about the the potential um any any other risk that you're seeing yeah just quickly banks so there was a

community bank in New York that did buy significant assets from signature bank if anyone remembers that from last year and they are seeing again hemorrhaging in office space and that is something that is another risk that we're looking at going forward yeah so those are some of the risks I mean it is a shock when you see somebody announce like New York community bank that they are experiencing a stress um and could that be a contagion out there um all right our concluding thoughts um Joe you want to cover the concluding thoughts on expecting volatility and geopolitical unrest yep and that's that's part of being in an election year you know we expect volatility to reemerge we got a little bit of that the end of last year but that's just how contentious you know presidential elections you know are and if anyone remembers you know when Trump was first elected the day right before you had massive volatility but I want people to remember internals of the stock market and the foundation in the economy are good and again strategy asset managers that's what we do we're well positioned and your portfolios are as well and it's also important to remember it's not just what you own but it's what you do not own and that is as important Alex you want to have a thought on that too concluding yeah I think the way to mitigate these risks is through the ownership of high-quality businesses so if there is a resurgent inflation cycle if there is something geopolitically you own a high-quality company which is able to make it through able to raise prices and able to continue being profitable if these risks do materialize our final thought you know the strong start of January and the resilience of the stock market in 2023 has positioned you as an investor to participate with the remainder of the year in a positive direction by by owning the companies that we own in our portfolio for our clients so we we do know that you are well positioned you know to capitalize off of the active management that is being performed here rather than a broad-based index that you hear about on a daily basis the S&P 500 so there there are positive signs out there Joe I'm gonna ask just one last question we're we're one minute over what what inning if we use baseball since spring training is coming up what ending of the next business cycle do you think we're in so that's an interesting question and I go we're kind of like in in the second game now we had a double header so we had the first and now we're in the second game so that's how I look what inning did we lose the first did we lose the first game it was a rain delay now we're going into the second second game but I do think again because of where technology is you just have to look at the changes everyone's done and I just keep harping back on being able to do a zoom call this is every day that everyone does it and it just gets us excited for not just technological advancements but medical advancements as well yeah we're we're in another cycle Alex do you think we're in a in in another business cycle or a second inning or second game I mean that that that stuff's always difficult to say but I but I'll add that on an individual company level every company has their own business cycle so

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if you choose the right company even if there is a business cycle downturn their business might be turning up their business might be growing secularly and you know over the long run all these cyclical ups and downs they pale in comparison to the secular trend upward which is driven by technology that's a great point to end on I I will thank everybody for being on the call today I will remind you that we have our our market outlook that was just distributed through email to to you hopefully you've received it or pi picked it out of your spam folder um we are not going to have any questions today we will ask that if you do have any followup to reach out to Joe Alex myself or your advisor um and this is a month where you should be organizing yourself for tax season and planning in the year ahead don't feel don't be shy about reaching out to your team and getting organized for the year ahead right now it's 11:34 we're going to end the call thank you very much for participating today we're grateful to be able to be speaking to you have a wonderful Groundhogs Day tomorrow the month of February and um have a good good day can I add one last point you sure May I'd like to welcome and we're excited to have a new employee Victor Martinez joining all right so we should we we have our newest addition to the the strategy asset managers team we brought on Victor Martinez from a major a major investment firm and we're grateful there and we also have Tim McNeely who joined us as well two wonderful additions and Cassandra Whitney so the firm is expanding we're we're looking forward to a positive 2024 perfect thank you thank you everybody for joining us signing off