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Strategy Asset Managers Q1 2024 Market Update - Continued Strength & The Return of Active Management

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On Wednesday, May 1st Strategy Asset Managers, LLC.'s Investment Team shared their analysis of the crucial factors that influenced financial markets during Q1 2024 and their expectations for the rest of the year.

Our first quarter Market Update delves into the broadening stock market rally, the resilience of the U.S. economy, and the critical role of active management in navigating uncertainty.

Despite persistent risks such as inflation and geopolitical tensions, we continue to identify investment opportunities and employ strategies to manage risk in this dynamic environment.

Transcript:

Welcome everybody to our May 1st Mayday Market Outlook call with Joe Traba, our

Chief Investment Officer, and Alex Hagstrom, our Senior Portfolio Manager. First, congratulations to Joe Traba for assuming the title and responsibility as the Chief Investment Officer, long overdue, and we welcome that. And Alex, for assuming greater responsibility on the portfolio management side for the group. If you have not been following, I have been granted opportunities on CNBC in the last several months, Bloomberg Barons speak. Our economic commentary and Investment Management directions have gained some significance because we've been positioning our clients with what you need to be doing, how you should be thinking and where things that you should be knowing, how to keep the portfolios going. The stocks that we've had in our portfolios have had strong earnings reports. We are using that as a signal for what we see out not only six months but 12 and 18. It's important to know some of the economic data that we see today and we've got the Fed that has just announced an unchanged interest rate. We're going to launch right into Joe Traba to talk about why he's still encouraged by the signals that we see, and then we'll address the sticky inflation number at 3%, employment numbers, geopolitical risks but it'll all be covered today. Our answers are going to try to be 30 seconds to 1 minute so it's just not long and drawn out and I'm going to try to interject in between to keep things moderated. So Joe, give it a go.

Just to let everyone also know the call is being recorded so we can have a replay of it as well. And as Tom mentioned we had a fabulous first quarter, the equity market had a very strong quarter and what was more encouraging for us was the market breadth, meaning we saw relative strength in other parts of the market and it wasn't as narrow as last year and that was extremely encouraging. We'll go into this as we go through this call but for us, you know, it's always look back a little bit before we can look forward and that is the encouragement that we're seeing. The last point that I want everyone to know, you hear a lot of talk that's out there but the markets will eventually follow earnings and so far with about a little over 50% of the companies reporting we've had very good earnings reports, we've had earning growth and sales growth so those are just some good things to know and we'll go into the details in a bit. So you know with the encouraging numbers that we've seen from the earnings reports from the technology sector, the industrial sector, health care, and insurance sectors. I want to throw the question to you Joe, talk a little bit about the broadening of the market, the broadening of the market. And first, the 10 largest companies in the United States make up 32% of our market cap which in turn makes up 60% of the global market cap. What I'm trying to say is here the United States continues to be the leader in innovation and you can look at how much we are spending on technology and that's one of the reasons why these companies are so large. We are really the forefront leaders in the world when it comes to technology and specifically with AI. So that was pretty much the theme

last year where those companies continue to deliver strong earnings and what we're seeing this year is either secondary plays or a couple of new trends which we'll go over in a little bit but that gets us encouraging that what we're seeing in the US with efficiencies can broaden to other sectors as they get more efficient and also into other countries as well. So just a glimpse of what we'll talk about.

Joe and Alex I don't know if Alex is going to cover the statistic but I talked about this the other day on CNBC on the amount of spending that the US in comparison to other countries. Alex I'm just going to throw it to you for the statistic on AI spending alone. Basically in 2023 you know here in America we spent seven times as much as Europe, more than seven times as much as China and you know this has been going on just in 2023 but for many years so this is where AI is happening you know not in any other country so it's important to note that as we look at the amount of spending that's going into or the focus into AI why that is important and what that means for the companies that we follow. I'm going to segue into kind of some of the technical aspects of this and then follow up with AI innovation. Joe has some interesting statistics about the stock market continuing to rally so on the talking points there you want to give those and then we'll feed into the other AI component and where we see typically when you have we've had two strong quarters in a row but when we have the first quarter up over 10% to start the year the balance of the year ends up a strong positive correlation to being positive and the actual median gain is higher than what it was in the first quarter. So again we always know history doesn't repeat itself but it often rhymes and I think the leadership that we've seen will continue but we'll see some other parts of the market do well. Okay that's good so and then usually when you have an election year there's also some data points that people can draw off of during an election year. And we've mentioned this in previous calls as well but it does work mentioning a lot of angst gets put into having a new president and where some of our concerns and we'll get into this in a little bit both presidential candidates as of today are both known candidates we've known what they can do and what you typically see is the reaction to having a president it removes the uncertainty and now we have an orderly transition to a new president and that's when the market you know has historically rallied off of that news. So when you when you look at some of this historical data that we do and these are the technicals that we look at we also we draw upon in history like a strong first quarter performance and the broadening of the market is encouraging for the direction of the market in the next several quarters and then you throw in the decision of when the Federal Reserve is going to cut rates or become neutral or stay neutral or the word that you don't want to hear is hike as David Kelly said today to CNBC.

So let's talk about what's happening with interest rates and this has been really the key if you go back a year you've really seen interest rates kind of materialize and and stop going higher and you can look at your money market rate so now we have a 5% money market rate and that's been there for about almost a year and that is good for savers but when you look at the other side people that are lenders or need to borrow we really look at the consumer and think of credit card debt credit card you know used to be 10 to 13% interest you're paying it's now double that and when you go to corporations it's the same thing so the cost of capital has definitely increased and that is can be worrisome if you continue to see it like Tom mentioned if you continue to have hikes it just gets harder and harder for people to lend so that's the overleveraging that is getting reduced or drained from the market another part with the inflation is when we really look at what it's doing to not just the United States but to the global market and Alex actually has some key points here. So you know as we know inflation's been stuck at 3 and a half percent for 10 months but the big driver by far has been housing and house prices have stayed at all-time highs even with mortgage rates above 7% at 7 and a half percent and the biggest reason is you now have a third of all transactions basically being all cash no mortgage and so what's happened is the interest rate sensitivity of the market is not what it was and that's been the big impediment for the fed and why you know they haven't been able to get inflation down is you know house prices just have not responded yet. Okay that's an interesting figure go ahead Joe what were you say it's also an interesting point when you look at when we go into the data and Tom was going to allude to this in a little bit when we look at employment and its full-time jobs are actually decreasing and you're seeing a big increase in part-time jobs so when we look at the correlation to housing or home pricing vers full-time employment it's a strong correlation so we're starting to see both of those tick lower and again that that makes sense because people that have been in their home they're not going to sell it because they're afraid to go into an interest rate that's you know maybe three times as high as what they're paying so that we do again that's part of the stickiness of the housing market which is keeping inflation at these levels.

Yeah there's definitely a softening there that we need to focus on the labor markets Joe and the increase in manufacturing out there if the labor market is so tight and then we start to see a signal which we're not of layoffs major layoffs what happens if we start to see layoffs and that that's a key point right there Tom's you know this is what he spoke about on CNBC as well one of the key points for us and this has gone on for you know over two years was the labor market you just don't get deep recessions when you have full employment and as we continue to go through this we continue to see people having jobs and that's been a big Catalyst because it's

people spending and what you look at is Wages wages have gone up and if you really think of a household if you've got your stock portfolios doing well they're going up you have money markets yielding 5% that's doing well your home price has gone up so when you look at the financial situation of your household it's done very well yes other things are much more expensive to buy but when everything is is going up that helps you be able to spend more so like Tom said what are we looking at well if inflation continues to rise interest rates were to rise like Tom said that hike word everything would cost more and then you could start seeing some either defaults or or companies not hiring people and potentially going the other direction with layoffs but we're not seeing we're not seeing that right now correct that is correct yeah we're not seeing that so that that's kind of a risk that we see out there but for right now the economy is doing pretty well correct yeah and you also brought up a good point with AI and how much is being spent I beg to anyone here if if you're a computer software engineer you are in high demand and when you do look at just the global landscape and you hear AI taking jobs away but it's also programmers are just in such huge demand and they continue to get gobbled up well you can also you know there's a there's I'm going to segue over to Alex really quickly if if you think about the the jobs that could be taken away from AI innovations I think the labor market could potentially absorb that into other areas and for example if Micron builds a plant in Syracuse New York and takes a defunct manufacturing plant and asks workers to come in to help build chips you can definitely train somebody to put together automobiles in the same fashion that you could train somebody to make chips so I think that the labor market could potentially absorb it down the road yeah especially if we continue to see this trend of manufacturing coming back onshore right those you know jobs are going to be moving from other countries back into the US so yeah you know even if globally AI is taking jobs it doesn't mean that the US can't add jobs you know as all these companies come right back yeah it's a good point I mean the US can add jobs and so we'll watch that the next talking point that we want to expand on is the strong dollar Alex do you want to talk a little bit about the strong dollar and why so you know the this is something we've talked about a lot just to counter a lot of the sensationalist negative headlines on the dollar right the dollar remains the strongest major currency in the world as we said earlier this is where AI innovation is happening you know this is the place where you want to be with the rule of law and with 5% interest rates we're just seeing money flow into the United States and you know there's no reason that it would stop other than you know the FED drastically cutting rates Joe do you want to expand on that a little bit yeah it's I mean it's really a function of we've raised rates so high and our currency anyone that is traveling overseas your dollar is going to go a lot further and when you have currency pricing as we do in the United States it just helps all our assets here so

that's been a big tailwind for for us and also for companies domiciled in the United States which is why again not just our GDP has been resilient and it's been the leader in the United States.

Alex has some good stats and we'll go over that in a little bit but it's also what we've seen after covid and I you know have to bring that word up every once in a while you just saw this big demand for onshoring meaning manufacturing coming back to the United States and and this isn't just a couple pattern this is multi-year it's taken a long time for us to move these jobs out now we're going to bring these jobs back in and it does help with both South America and Canada so we do have some beneficiaries here with both of the onshoring or reshoring and again like Tom said your your old industries are getting revitalized like a GM plant and is now making batteries and you then look at the secondary plays of that plant that City now is going to have the higher demand for housing for restaurants hotels you know and that's the secondary and third plays you get when you have this increase of capital spending both by the companies and by our government and that gets us you know optimistic not just for the short term but a little bit longer term as well let's let's talk about the broadening of the market and kind of the signals that the earnings reports gave us last week we were focusing on how well meta Google Microsoft would shed some signals on how things are changing rapidly and I wanted to talk and leave you kind of with this softball joke about you know the quality of the earning reports and why it's important that the companies that we own as an active manager are outperforming yeah and it's really the first quarter we had a number of our portfolios not even not just perform well but they outperform the major markets and it could have been on our growth side on our value side and it is a function of stock picking and when you look at last year you just had to own the top stocks and you would have done that's it you didn't have to own the other 490 stocks and what we're seeing now is again companies that have that positive cash flow different trends that we'll highlight a little bit today and that's been one of our big themes is is the energy demand because of AI and we'll go to that in a little bit but that's where we're starting to see again a little bit more on the industrial side again that's increased efficiencies and just broadly thinking a couple years ago companies put a lot of money into their businesses and you can think of hiring more people higher wages the infrastructure build out and now they're seeing their margins improve meaning they don't have to increase costs their input costs meaning commodities have you know actually dropped a little bit and that's helping them keep their prices which they raise at that level so their margins improve and that's a big thing you like companies that have pricing power and that's a big key point positive cash flow diversified business pricing power is key industries like the health care industry or insurance industry sectors we're seeing pricing power I'm

sure we've all seen the updates to our homeowners policy or our health care skyrocket in our eyes that's pricing power we don't have a choice we need insurance healthcare you nailed it right on the nose and that's one of the tops these companies are going to to earn so much money on the efficiencies from AI that we see and actually could turn turn you know very positive for for the health care industry you know that's a bigger a bigger discussion down the road I don't want to go down that side right now Alex let's let's have some of your comments kind of broad-based on yeah I do think you know with these big trends you know the second order effects are going to be huge as well and like Joe mentioned you know electricity demand like these AI data centers they cannot have their needs met by the current power grid it's going to have take a ton of investment into natural gas electricity infrastructure maybe even nuclear and there's going to be very specific companies that benefit from that trend and benefit from that buildout and you know we see a lot of opportunities in those those specific areas right now what's the when do you think the FED is going to cut rates Alex?

I mean so the the market expectations they've been they've been all over the place you know the current expectation is that there will be a cut by by November I mean it's it's really hard to tell in the short term I mean our our indications are that you know inflation is not going to decline materially in the next few months but you know with that said when you look out you know longer term when you look out multi-year periods the size of the deficit is eventually going to leave them with no choice you know they're they're spending more on interest payments than defense and that's just not something that the government is going to do year after year after year eventually they're just going to have to cut no matter what basically yeah let's talk about the impact you know so the government with high debt levels and how does that impact you as the client out there yeah I mean look you can expect that you know there's going to be inflation right like the inflation target is two it might not ever get back to two right you know 3% might be the next 2% so you've got to be invested in assets like you guys mentioned pricing power you know companies that make money when inflation goes up you know hard assets and you know you can't just put your money you know inside your couch when you're in an inflationary environment like this and the government's spending money at this rate yeah we've been talking to clients about you know positioning in the higher interest money markets for example or when a bond matures going into an individual bond rather than a bond fund to allow for for flexibility there and can we talk a little bit about the bond market Joe and Alex yeah I mean this is like we said for about a year now we've had 5% you know plus interest rates and everyone kept thinking the rates were going to go lower and again just being with shorter durations meaning that treasuries and and corporate bonds maturing sooner even able to clip a over

5% interest annually where if you're in a bond fund you're going to see the price go down as the rates go higher so that's just one of our key elements when we're managing the fixed income side you know we are more than happy to take a 5% interest and again until we start seeing more signs of a potential slowdown and we're not seeing that drone apologist in his prepaid remark said the economy is doing fine jobs are still strong and he's a consensus builder so I don't expect to see rates go lower unless we see some unforeseen event Alex you have any follow up on that no no I think you know that's that's accurate right like with the jobs market strong as it is with the economy doing fine you know there's no need for them to cut in the short term right they can prioritize the inflation mandate at this point in time you know in the short term you know obviously like look out multi year you know they're going to have to they're going to have to end up prioritizing the deficit at some point as as other countries like Japan have been forced to do as we as we digest this new business cycle and the economy remains resilient and strong and we're encouraged and we're encouraged is the stock market going to go higher Joe yeah and one of the new trends we didn't really touch base on yet was the weight loss drugs and again this this is part of our catalyst you know we're not just looking at AI to to get us get the markets moving higher but it's also the weight loss drugs and you can have your own opinion on it but the benefit of people losing weight is gigantic and when you think of the income that's going to be generated from these companies no pun intended there with the gigantic that's thank you but bum but when you really do look at the positive benefits of that and and what we are talking about is like Alex mentioned the secondary plays you know if you're G have less people going into the hospital to have surgeries or you know less treatments and and potentially they can save on their money so you look at this spending habits in the shift that we're seeing and we do not own directly Starbucks which reported earnings today and a couple of other companies and they're down pretty big because I think we're starting to see this shift people are a little bit more cautious now what they're going to spend on and maybe a \$8 cup of coffee isn't as much as what they you know are willing to spend so you look at what are those funds going to potentially it's getting outside maybe they've lost some weight and want new wardrobe so it's those types of things that we're looking at and this is not just isolated the United States this is something globally that will be played out yeah let's let's talk about the significance of the glp drugs and we can refer to AIC or Monaro and what they're what they're doing to an individual and and and as we've seen the commercials we've seen a lot you know for for jarian and for OIC and and and you haven't seen any for Manjaro at least as much as I but these are very positive positive signs of the of the bioengineering biotech and then going into you know the pharmaceutical side of things of where we have we have progressed so much in such a short period of time and now there's there's so much hope for those

people who are challenged in these areas of having diabetes or having a weight issue and that then goes Downstream into the next thing so tee that up there and talk about that Alex and Joe yeah so I mean this is you know these glp1 drugs I mean this is completely transformational right this is you know a treatment that is incredibly effective for a condition that affects 43% of Americans and you know this is gonna it's going to ripple all throughout the economy and with any change like this there are going to be big winners but also big losers so it's absolutely critical to be positioned in the correct companies for this and you know Joe mentioned Starbucks a lot of their business is selling you know 900 calorie drinks loaded with you know fat and ice cream and sugar and those business models they could really be under attack as you know weight loss drugs spread to more and more of the population yeah it's really interesting when you when you think about it it's a gut suppressant so if you're not craving an app you know you don't have that appetite you know it's proven you're just not going to you know eat as much U but we look at okay so potentially you have some cost savings what are you going to be buying and I think those are the things and same thing with AI you just have to kind of change your perspective and look at how these things can benefit you and who they're going to benefit and for me that gets us exciting and it's answering Tom's question earlier you know why why I optimistic with the stock market it's because of these innovations and they happen in the United States and that's why again we all live here and yes we have some problems that we all need to work out but we eventually do and again that's my optimism going forward there's a couple of trends that we're really highlighting that I think people should be optimistic with and again I always say you got to have a balanced view you'll hear maybe a lot of negativism neg negative comments on the on the media balance that out with some positives and if you need positives call us we'll give you them yeah let's talk about the adaptation and go back just for some more encouraging words you know we talked about how the glp drugs are changing the landscape for the health care industry and also the insurance industry and potentially the retail industry if you think about clothing and then Health and Wellness and the ability for somebody to to change their their thinking as well as to get into better habits and to create the the habits that are there the glp drugs are Inhibitors to you know reduce your appetite as an appetite suppressant and also assist with your A1C levels and as that as that goes Downstream into these other areas it's it's very similar to a comparison in the AI if you don't ad ad apt if you don't adapt to the the technology innovations that we're seeing in the AI space you're going to be left behind so there are some very encouraging signs in multiple sectors with the the leadership that the US has has maintained in advancements in biotech bioengineering and Healthcare and then also using the technology that we we have available to improve the opportunity for for Innovation I'm I'm very encouraged in that area um you want to

say something Joe yeah and I mean you combine that with energy and this is a stat you know Alex and I go over quite a bit this isn't the 1970s when when you see these super spikes in oil prices demand is going higher but what's happening Supply the United States we are the largest you know producer of of both oil and that gas and that's encouraging as demand continues to go we're not going to see so much pain with prices going higher because again we've through advancement in technology we can do horizontal drilling and again those are just some things that get get us more positive where these other negatives you know the risks that are out there we see more positives than than those risks currently Alex do you want to add to that yeah I mean one invention that you know I'm I'm really excited about personally are these fully automated self-driving vehicles which are already operational in some cities and you just think about you know how many lives are going to be saved right how many people die from car accidents all these injuries like this is you know this is a real big deal once fully automated driving is instituted it's going to be way saf safer than than human drivers and you know hopefully our insurance can can finally go down right once you know once these technologies are implemented sure we we've talked about the economic environment and the the sticky inflation we we touched base on Jerome pal you know inflation is still too high and we're going to keep rates where they are and the economy is doing well I mean the US dollar is strong the econom is resilient and and doing well the the the risks that we see out there are are important to point out and then we'll go back and we'll conclude on why we're still encouraged so let's talk about the risks out there Joe yeah I mean the two Forefront is obviously when we look at interest rates you know typically when you keep raising rates you know you're trying to cool the economy and our economy has cooled a little bit but it still remained strong so what if rates continue to go higher you know everything gets more expensive and that has Ripple effects like Tom alluded to you potentially can start seeing companies do further cutting and you've already seen that at restaurants where they can only hire a couple of people and maybe they're going to be open for just a few hours so you know those have Ripple effects if interest rates stay higher that's going to mean inflation can continue to remain higher and then that's a drag on the consumer and also businesses which then you start the spiral of job layoffs and then that's that you're not working you're not spending and and that kind of is the engine for our economy the second part is we mention a lot with the geopolitical and political tensions you know what could cause a ripple effect to make this a full trade war or for Energy prices to really go skyrocketing when we get into the elections just go over this briefly we alluded to this earlier both candidates are known and we don't have right now A a majority in either house or Senate and that gives us no policy change so I'm not looking for any policy change but if you were to get any of those super majority you know you could get a policy change so just a few things that

we're keeping an eye on yeah Alex you want to add to that yeah I mean I would say you know you know the biggest risk longterm is is definitely another spike in inflation just as a consequence of all these all this deficit spending and I would say the second biggest is that even though the economy in aggregate is performing well there are segments that are really struggling especially poorer people and and more leveraged businesses they are you know they are doing poorly even though maybe the bulk of the economy and and in aggregate it's doing well.

Yep, that's right those are good points to add the let's go back and let's end on a positive note and why we're encouraged we we did Cover the questions of the the Federal Reserve and staying neutral right now and the potential for rate cuts to happen much later than expected we did say that we're still encouraged with the the market in the next a couple of quarters and probably even several quarters I've actually said I'm encouraged that we could be in the you know the beginning of a longer stage bull market Market which you know could you know could be the next decade but we'll we'll we'll see we'll see if that takes place you know with those risks out there what's next for the economy well Jerome pal you're going to be reading about it or listening to it or hearing about it um you know today for the next couple of days inflation is is very sticky at this level and we're not going to Pine on who's going to win the election because it's always policies and not the politics but it is a very divided in environment right now which is a risk out there but but why are we encouraged Joe yeah and again we mentioned and highlighted a few areas that we see with Innovation and and that should be all of us should be you know using AI as a tool just like the calculator was a tool and is you know these are things that get us optimistic with our future and and again with the health care side you know benefiting I do think that translates into more more people having other things to do which can stimulate the economy as well so I see a lot of points for stimulants for our economy and then you combine that with AI and deficiencies and and Manufacturing coming back to the US that's another big Catalyst that's positive so those are you know those are some good things that are coming out there and and for us it's just making sure active management we mentioned a couple companies you know that we do own it's also more importantly which companies we do not own and again that's a key element of not just investing but giving you the safety that you know you can continue to live your life the way you want for the forceable future and and that's the thing that we feel most grateful for our clients and us having that ability to do that for you Alex I so encouraging words yeah I mean it look it it always comes back to technology you know that's what's been been driving the market up for centuries at this point and we're continuing to see it you know the the pace is not slowing down we're getting these you know truly transformative inventions like glp1 drugs and Ai and they're probably going to keep

coming yep and so you know just to conclude we we what you should know you know the market performance was very strong in the first quarter you experienced that and you should expect to see volatility you should expect to see some profit taking out there we talked about the profit taking and the market trading sideways for a little bit and you know we expect the market to continue to broaden out and we're seeing that that's very encouraging and you know participation in these rallies happen with active management like Strategy Asset Managers and active managers do we're we're very happy that we've had a strong first quarter you you've got a 5% risk-free rate out there a strong economy but we are encouraged we're still encouraged for the remainder of the year.

If you have any follow-up questions for the team at Strategy Asset Managers or you have outside advisers that can contact us directly stay positive and we'll look forward to talking to you in another month or so and you can also refer back to um Joe or Alex or myself if you would like to talk privately either with us or with your advisor thank you very much we're gonna sign off now. Take care, thank you.