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Strategy Asset Managers Q2 2024 Market Update - A Strengthening Case for Optimism

Posted on July 10, 2024

On Wednesday, July 10th Strategy Asset Managers, LLC.'s Investment Team shared their analysis of the crucial factors that influenced financial markets during Q2 2024 and their expectations for the rest of the year.

Our Mid-Year Market Update examines the encouraging performance of the stock market, the continued strength of the U.S. economy, and the transformative impact of technological advancements.

Despite potential headwinds such as sticky inflation and market concentration, we remain optimistic about growth prospects and emphasize the importance of active management in navigating the evolving economic landscape.

Transcript:

I want to share that and pay respects to my colleague and partner, Greg Wertz, his

father passed away after a battle with his health, and we wish Greg and his father peace and onto the next journey there. But we're a very close group at strategy, asset managers, and we always talk about health, wellness and our well being and making sure that you focus on yourselves or ourselves, because if we're not healthy, then we really can't do much for for you. But there are a lot of lot of good things happening right now, and Joe Traba, Alex and I are excited to talk about the developments of the first six months of the year, and then what we see in the second half of the year. We are if you have not been aware, I have been invited on CNBC and now Fox, and have been commenting in Barron's and several different periodicals of what our opinion is. And so if you would like to look that up and follow that, you can see some of it on our website, as well as just Googling Tom Hulick CNBC or Tom Hulick Fox. But I was very pleased to say that strategy asset managers is being recognized as a leader with our investment commentary or economic commentary and our stock selection, and that wouldn't be possible without the you know, the genesis of the firm with with Bob Demichael, and the history that dates back to the firm to 2001 to where we are today, In 2024 still recognized as a top investment manager and in the the separately managed account strategies that we follow. And so that's our little commercial for everybody, but we we focus on you as the client. We are here to give you our insights and the encouraging performance of the stock market, the continued strength of the US economy, and the transformative impact of these technological advancements that you all have been participating with and also hearing about when you Turn on any program right now that is following AI and following the efficiencies that are improving our life and but we'll also discuss you know what the expectations are for the rest of the year and The importance of active management in navigating the the the markets going forward for the next six months, and then what, what is beyond six months? And so, in summary, kind of the bullet points that we're going to cover, and then I'm going to turn it over to Joe, we are going to cover why we think the stock market can continue higher. We are also going to talk about why the US consumer has been resilient, and are we expecting any type of change in consumer behavior? A third bullet point out of the five, we are we expecting better deals as the retailers cut prices. That's important, because I think everybody is exhausted themselves with the inflation discussion, and you're tired of paying these higher prices. And what does it mean on the inflation front? We're also then going to talk about what we're keeping an eye on, and that's always very, very important. Joe, Alex and I will go into detail of of the areas that we're keeping an eye on, and then, of most importantly, how is this going to impact you and what you can expect going forward? So this is where I'm going to transition over to Joe. And Joe, please take the mic.

Yeah. Thank you very much, Tom, and thank everyone for joining our call today, before we start going forward, I always like to look backwards, and we had a great first half of the year, and this is more on the technical side, but typically when you have a very strong. Then first half of the year, the second half bodes well. And this also goes great years are often followed by good years. So this is momentum, and momentum can continue higher. I think a lot of the psychology we get concerned with, oh, the market's making all time highs. It has to pull back. Well, it doesn't. And it continue can. It can continue to grow higher now, saying that one of the things we focused in on was we needed to see earnings grow. And earnings did grow in the first quarter a little over 6% and expectations for the second quarter are for earnings to continue to grow anywhere from six to 10% so that is encouraging. Yes, we're seeing a little bit it's dominated just by some of the tech companies, but we'll go through this and some of the other stocks that you do own and areas that were invested that have done very well year to date, and we're expecting them to continue to do well. Like Tom said, though we are entering the summer doldrums, this is typically where you have a lot of traders, and people typically leave the market. And I'm sure, just by speaking to a number of our clients, we've had a lot of people do international travel, so it's just something that we'll touch on in a little bit later as well. So this is just historically a slower time for the markets, during the summer, and that's when you can expect to see a little bit of a pause or maybe some profit taking. But that is needed when you've had a market sprint this higher, it's a pause. You have to digest these gains, and as long as what we've seen continues, we're pretty optimistic for the market, not just for the second half, but as we get into again, like Tom said AI, and what we're seeing, led by the United States, our advancement in technology, is just this is not what a lot of us have seen ever and I always remember the first call we did on Zoom. How many people did not do zoom, and now it's, you know, it's a part of our everyday lives. So just a few things to keep in mind as we get through this call, and we'll go back and forth and share with you some of the insight that we've seen, and I'll let you know how we've been able to take advantage of this. And I think a lot of when we do these calls is to share with you what we're thinking, but also our thought process and how we got invested. And then for you to know what like Tom said, what can you expect? And we'll get into that in a little bit as well. Joe, let's, let's, let's,

let's try to keep our answers down to to one minute, so that we can cover all the topics. And then we'll expand going forward so, and as we discussed earlier, so the the do you want to go in and talk about the bullet point we talked about, the stock market can continue higher? And do you want to transition from there into the consumer with

the technical update? Again, this is just pointing toward momentum, and yes, it can continue higher, and we gave you some of the stats that how it has done. One thing that's concerning is weakening breadth. That just means not a lot of stocks are participating, but momentum can continue higher, and we can expect to see, with earnings kicking off on Friday, more stocks participating. Now. Another thing we talked about is leadership and research and development, and that's just again, I think that's very important. Because when we looking at where bipartisan support for our political politics in the US, and also where money is going toward these are big areas for research and development and technology, but also infrastructure. Alex, do you want to touch a little bit on the manufacturing?

Yeah, so, you know, we're seeing manufacturing construction just explode right now. Spending is triple anything we've ever seen in history. You know, that's onshoring, electrification, automation, AI, those are mega trends that could go for decades. It's going to be trillions of dollars of investment, and we are positioning to be beneficiaries of that.

Joe, Alex, go back to what you were saying on the earnings front. I just want to ask the direct question, after a very positive first six months, where do you where do you see earnings in the second half of the year, especially with earnings season coming out right now?

Yeah, so technology has been led by the technology and and consumer. If you look at like the Googles of the world, that's advertising, and when you typically have good advertising, that means people are continuing to spend so we do see positives with both financials, industrials benefiting from AI and also, again, technology doing well. But it's also a third point that people are probably going to start seeing. It's an increase in their utility bill for electricity, and that's one area that. Continue to be invested in and like because, again, part of AI uses a ton of electricity with these data centers, and we're going to see that not just because of the heat and more people using air conditioning, but the demand for energy continues to go that's one part to look at, and we'll share with you some of the ideas that we've done there. But I think as long as earnings continue to move higher, you know, that's a benefit. And we'll get into the rate cycle where we're thinking a little bit later. For some other areas that we do think on the positive side, on the negative side for companies, retail, retail, as the consumers pull back, they're not spending as much on on items, which means they typically discount, and that's where, if you're going shopping now, you should start seeing more more things on sale, which is a good thing for us as a consumer. And then if we again, so looking at earnings, we do see the positives, but I also want you to know some of the negatives, and you know how

we're positioned. But also, you know, what does this mean for you when we talked about interest rates? I'll just touch on this briefly before Alex, and where we do see a positive is the next interest rate cycle. So we've been all talking about interest rates being higher for longer, or at least we have, and we do think the end of the year, as we're starting to see some of the jobs number come in weaker, meaning unemployment ticking higher. It's giving more credence for the Fed to lower interest rates. What that means for you? It simply means that you're, if you're looking to buy something or finance something, rates should be lower as we get into the end of the year.

Joe, would you touch a little bit more on So Jerome Powell was on air today, and you and Alex and I were talking about some of the, you know, the Jerome Powell speak and the, you know, the projection is for a, potentially a September rate cut. You want to comment on that?

Yeah, So if we look back at the beginning of the year, really the end of 2023 we thought their economy was strong enough not to have interest rates go lower, right? Yeah, that's a big part. It was supposed to be six rate cuts this year. We've had zero. So why are we saying now looks like the time it may be? Because, again, I think you're starting to see some of the data come in weaker and unemployment ticking higher, and that's the one thing the Fed is going to say. And like Tom alluded to, this is yesterday and today. The first time Jerome Powell, who has been very clear with the direction of what he's going to be doing. He's been telegraphing us, and he's being much more in the camp that we're looking now to lower rates, as opposed to being data dependent so much.

Yeah, so the economy is doing well enough up to this point where we haven't seen rate cuts, but now, as you said. Jerome Powell, it has been signaling, signaling that September could be the the time that a cut could occur, correct? That's correct. That's correct. Okay, let's, let's go in and talk about the next points that you you want to cover. Joe, yeah, so the consumer strength and a lot of us, when you look at how the US consumers continue to do well, and it's it's two parts. One, most people that own a home are in a locked in mortgage of below 4% so interest rates have risen. Their payment has not it's also their stock accounts have gone up. Their house has appreciated in price, and you have a 5% risk free rate of return. So it's been very well for the higher income earnings, and again, much more different than when we look at the overall picture for employment. But those the positives with households not being leveraged. And again, one of the main reasons why our economy has avoided recessions so far, yeah, it's, it's important to to to, you know, confirm that point that a lot of us think about. We're, you know, our wealth has

appreciated this year, whether you feel it or not, there's a strong likelihood in your portfolios, even outside of where we are with strategy asset managers, that you've experienced a better than average return the strategy asset managers, portfolios, whether you're invested in our growth portfolio or the dividend plus portfolio or our worldwide portfolio or market oriented you've done quite well this year, and you've exceeded the the averages that have historically been in the the. Seven and 8% range. You're probably well above that, at least with our portfolios. But this, this is also taking place. You've seen this with your home as well, and that is a positive for are those people who are looking to potentially retire or take money back off the table that three or four years ago, there wasn't much of a return in the fixed income markets. Now there's been a complete reversal, and there's opportunity out there because of the wealth effect and also for higher interest rates on the savings side. Do you want to shift over to Alex for just one more topic on the consumer strength? We get quite a few inquiries about the demise of the US dollar. And again, part of why our markets have done so well is because the US dollar has been extremely strong. And there's many reasons for the US dollar to remain strong. And even though we are seeing data coming in weaker, our economy is stronger than any other economy or developed economies out there, so we are in better shape than other places, and that's why assets and money continues to flow into our markets. Alex had talked about one of the things, I think, is not just the interest rate cycle, but also one thing, when we talk about politics, what the both sides do agree on?

And Alex, yeah, and I think, you know, regardless of who wins in November, we're going to continue to see tariffs against China, just like the 100% tariff that just got applied. You know, right now, China is trying to export cheap goods to simulate its economy, and everyone is responding to protect, you know, their domestic industries. And this is all a long term trend of decoupling between America and China. It's going to take many decades because we're so interconnected, but that is something that is happening, and ultimately, I think it's going to be very positive for America to, you know, bring all that manufacturing back.

Well, I would definitely agree with that, Joe, why don't you, why don't you talk about and, or actually, Alex, let's talk about energy for a little bit, and the importance that America's position as a leader in energy production, what this means for our clients. Yeah, you know, America is the number one energy producer in the world. Last year, we produced more barrels of oil than any country in the history of the world. And what this means is that if geopolitics geopolitical uncertainty rises in the Middle East, America has an advantage, right? We're insulated from that. So even with escalations with Iran and Russia, America can compensate for that with its own production. And that's what we've seen, you know, with oil prices remaining at fairly

reasonable levels, right? And then if you, if you sprinkle in alternative forms of energy, of which we'll talk about specific companies later, yeah, okay, well, you know, talking about Constellation Energy, you can talk about Emerson Electric, you can talk about energy, but this, this, this trend that we're seeing in energy independence and leadership is very important to the infrastructure updates that we're seeing. Is that correct?

Yeah, that's a great segue. So if you're in our worldwide equity and balance strategies, we bought Constellation Energy last year, and that's a nuclear power company, and simply stating, when you click on to Google a search and then you do an AI search, an AI search uses 10 times more energy than a simple click. So we're seeing demand for data centers just explode. And obviously as demand for data center grows, that's more energy needed, besides how much more energy we're using. And our infrastructure in the United States has not been updated in a very long time. So there's a number of bills that had bipartisan support to update not just our electric grid, but also our water infrastructure. So those are two areas that we're positive on going forward as well. And you know, AI can be, you know, another reason why electricity demand has gone so high, and that's like Tom mentioned Eaton, which we owned, Emerson Electric, these companies have done very well, and again, that's where they're starting to see money come through. Another company is Corning, which we own, our dividend strategy as well. And these stocks have again, it's not just one company, Nvidia that everyone talks about. There are other companies that are doing. Well, and that we again forecast to continue to do well, and that's important, because you do need to see. Brett, you talk about this downstream of AI and energy and infrastructure, and how you know the market can continue to rally. Would you just comment a little bit on kind of the downstream companies before we go into US leadership in R D for Alex, yeah. And then that's a good segue, because, again, when you have technology come in, now, companies are using that technology and become more efficient. And as you become more efficient, your profit margins, you know, go higher. So when we looked at that, it's, it's, again, you have to retrofit, getting a data center number one, but then companies using this technology to potentially have a better sales force, so to speak, when they're selling to clients, they'll know what they're buying right in front of them, and those a lot of efficiencies come from that. Another anecdotally we sent out in our commentary was the when you go for fast food? Well, we've talked about this. You can go there, and it's maybe one person that can be in or not in a fast food restaurant now, and the rest of it's you touch onto a screen to order what you want, or you use your phone, and then you pick up because it's all being made by by manufacturing electronics, A, B, B, n, y, is another company that we own that focuses on this as well. So we do see a lot continuing. Yep, yeah, yeah, Alex, let's,

let's talk about R and D spending and kind of the leadership that that the United States is demonstrating in this area.

Yeah, you know, this is where all of the AI innovation is happening, there's more expenditure here than, you know, China, Europe, Japan combined. Right now, R D expenditure is running at 1.5 trillion annualized rate, which is, you know, far above anything anyone else could compete with, far above anything you know, anyone else has even seen before. Yeah, it's that's an important statistic to be able to understand, because as the United States concentrates in research and development and the innovation continues, we we will continue to be a leader in technological advancements, and then other people could will follow. This has a very broad stroke across all the sectors that we follow, but manufacturing and construction in the United States is starting to explode higher. The energy industry is benefiting from this, the infrastructure industrial sector. Alex, do you want to talk about manufacturing and construction in the US?

Yeah, absolutely. So you know, alongside R and D, right, construction spending on manufacturing is by far the highest it's ever been, you know, and that's reflective of all these big trends we've been talking about with automation, artificial intelligence, electrification, those sorts of things.

And what are the companies that we own that are that we we have added to the portfolio that that would benefit in this area?

I mean, Eaton is a great example, right? They work with power grids. They work on electrification. These large battery products also ABB, which is a Swiss company. They're a global leader in robotics and electrification. So they're right, you know, at the cutting edge of all these trends that are happening, yeah, fascinating that, you know, these are ideas that come up that we were way in advance, entering into the year, and even last year, owning these companies, and now we're talking about them after a significant appreciation almost double what the S p5 100 is. Let's, let's segue into the S p5 100 year over year, earnings growth.

Joe, yeah, again, we look at their earnings for the first quarter, we're up over 6% and projections are for the remainder of the year anywhere from six to 10% higher. And when we look at that, obviously it's technology leading the way. But there's a couple of other names that we added. Now I mentioned softer retail sales, but we did add Dick's Sporting Goods to our dividend strategy, and that's done tremendous this year. And again, it's more and more people maybe getting out. But another factor that Alex had really mentioned a couple years ago was the weight loss drugs Eli Lilly, which we own everywhere, has, you know, done very well. And the

ramifications from that, I think, are pretty amazing. We have a couple clients that use intuitive, Intuitive Surgical which is in our growth portfolio, and that's robotic surgery. So these are things that are here now and that we're just going to get more used to seeing these types of electronics and how AI is being used in our everyday life. But it's helping us, and again, it's less than. So that type of surgery benefits, but it's also the benefits from when we look at healthcare on how that can really help that industry. And again, as more people get healthier, less procedures they need, and that benefits the insurance companies. So we do see, you know, when you when you look at the mainstream and then downstream, how these companies get affected, and how we're positioning your portfolios.

Yeah, this is, you know, I'll just throw in a little bit of a segue of advancements that are out there. Sadly, my mother had a stroke on Saturday, and she's, she's recovering from this, and it's a an uphill battle, but in the midst of the minutes that the stroke took place, and fortunately were in the area of major medical research area, she was administered care, and subsequently The technology advancements that were shared amongst multiple stat physician team members. It's there, there's now a higher probability of of success and survival and recovery in this area. And then the information sharing that gets out is is facilitated by advancements in the softwares that are there, communicating with hospitals, comparing notes on the frontal lobe of the brain. This is, these are things that five years ago, 10 years ago, didn't really take place. And now, if you, if you have the advancements of robotic surgery, not necessarily related Well, it definitely related to ISRG, which is, you know, one of our favorite, favorite companies. You You intuitive, surgical, you really have the the ingredients for an incredible advancement for for your life. And you know, using what we what we're seeing right now, as an experiencing so optimism there on the innovation and technological advancement side. And we'll move on to the the next topic. Sorry to segue into that. I just thought it was relevant and more more hope and optimism. So what are we keeping an eye on right now? Joe, yeah, and that spending has slowed. So if you particularly look for big ticket items, that's that's where you finance. And again, as you look forward with rates potentially being lower the end of this year or the beginning of next year, you know that should be an uptick in some of the big ticket items, but we're really looking at higher inflation. We need to see that inflation number go lower, that benefits all of us, unemployment that is continuing to rise. Now we just need to keep an eye on that. And then debt levels. And what I mean by that, you've seen people that were using their savings account that's been drawn down, and if you look at credit card balances and why, I mentioned this on Friday, that's when the big banks kick off earnings, and one of their biggest revenue growth has been in credit card financing. So credit card financing went from low 13% to double that. So people are paying

over 25% on their balances for credit cards. So that's one thing that we want to pay attention to, if they're servicing that debt or for seeing a higher level of delinquencies. Why that matters so much? Because we've talked about the US how strong the consumer has been, and if we start seeing the consumer weakened, all of these things, will start seeing higher unemployment, and again, less people spending to get more jobs layoffs. And that's that's where you know, obviously trying to avoid, and why Jerome Powell wants to lower rates before that happens. And these will allow these companies to finance or refinance. So those are the two big things that we're looking at going forward, and also the risks that we see going forward in the short term.

Alex, so what do you expect with the presidential election?

You know, there's a lot of on economic policy wise, there are some similarities, right? They're both big spenders, right? I do expect continued tariffs. You know, regardless of who wins. And you know, I expect there to be continuing pressure for lower interest rates no matter who wins, because that this point, that's the only way to reduce the deficit. So I would expect that irrespective, you know, of the outcome, yeah, okay, policies, not the politics, is what Joe and Alex and I have been saying for years, but specifically Joe and so it's a it's wait and see. The debate signaled some things. There are obviously some changes, and lots of things happen in the in the next, uh. A couple of months before the election, but we will. That is kind of the segue in what we can expect going forward. And I won't steal the thunder of Joe. So what can we expect going forward? Joe? Simply put, consumers are still spending. It's just getting softer. People are getting a little bit more cautious, so we're seeing the US economic data weekend, but we're still the best in the world, and that supported our US dollar. So simply stated, as long as the labor market holds up and consumers keep spending, so I want everyone to go out and buy something today, book a trip somewhere that continues to support their economy, and that's earnings growth, yeah, and it's just a slowing, slower pace than what it was before.

We've been talking, you know, we've been talking about, or the media, the talking heads have been talking about a 10% pullback, whatever number it is, volatility is definitely, you know, coming back. Will you comment on that?

Yeah, just, I mean, we've had a remarkable year. We haven't had really any one little small pullback. And typically in a 12 month period you get two 5% pullbacks. In an 18 month period you get a 10% pullback. So we just haven't seen that yet at all, and again. So that's where you're hearing more of these calls for a market to pull back digest some of these earnings. And if you're going to look for certain reasons, you have plenty with the geopolitics probably being number one, interest rates,

number two, and again, when you look at some of the consumer debt and potentially unemployment rates. So there are things that we're looking at, but I think you look a little bit longer down the road, AI is transforming how we do business, plain and simple, and what we do in the US, because all of these tech companies are made in the United States. And I always love Warren Buffett, never bet against the United States, and it's for that reason, once we start seeing the global world use more of our technologies, that should help their economies as well. So that's where I see the optimism and some of the things that we see that to keep an eye on.

If we see a 10% pullback and there's even a greater pullback in the tech names, would you be a buyer, Joe, or would you caution somebody that the the you know, the market is going to have a different reaction than the positive that we saw in the first half of the year? What do you think? Yeah, I mean, again, I still think we're in the early innings of just the technological revolution that we're in, it's been a couple years, and they don't just typically, you know, die out. They continue higher. And it's the adaptation from other companies. And just look at households, you know, how many people are now, you know, using this cars. You know, you go to China and you have driverless cars. You know, that's it's automated, and that's just going to continue. So that gets me optimistic. What we do look at on, on the pessimistic side is we just need to have people employed and being able to spend so any you know, pullbacks, I do think that'll continue, and you might see a transition once you have technology. It's now companies utilizing that technology that may benefit more. Yeah,

Alex, do you want to talk about the next interest rate cycle? About what you know, what to expect going forward? Yeah, I think, you know, I wouldn't focus on the very short term, three to six months, but long term, over the next couple years, rates absolutely have to go down. You know, the deficit is Social Security, Medicare, the military and interest rates. So, you know, you ask yourself, what, what's more likely to be cut interest rates or Social Security? You know, the answer is obvious. You know, they have to cut rates. It's not going to be those social programs. Sure, yeah, that's important. Joe, do you have any comments? Kind of closing comments before we summer up. Summarize everything, yeah. I mean, I think one people last thing is just to remember, this is summer months. If you have children or grandchildren that are out on vacation, remember to enjoy the moment and spend time with them, as we've kind of mentioned. You know, life is precious and short, and the portfolios have done well, and that should help you give you some reassurance, reassurance to go out and be with loved ones.

Yeah, that's a good that's a good point. I will, I will make a couple of comments that we didn't cover, though, a few of the things that we're also looking at is, what is the MNA mergers and acquisition activity look like over the next six months? And as interest rates start to come down, you'll see activity pick up. Why is this a positive? Well, it's really kind of where is the smart money going as interest rate. Come down. They've got to have their their money, go to work for themselves. And that's how we we look at things when we identify specific sectors that we're focusing on for the second half of the year and in the next year, Joe mentioned that we are optimistic still about the technology sector. We are definitely optimistic about the industrial sector, insurance has pricing power in there. But the healthcare sector, you will probably see a lot of activity in that because the advancements are mind blowing, and there are going to be a lot of companies that are going to transform our health care and hopefully the administration of it as well. But we are. We are positioning ourselves in the early stages of what I have been talking about as a next generation bull market, and we see a lot of optimism going forward, and that's what we we think that you should focus on. Don't worry about the short term, but the long term looks very good, and we've, we've demonstrated that with the first half of the year, with the the returns in the portfolio. And Joe, I will let you and Alex conclude, but I did want to get that point in. Yeah, and again, thank you for joining the call. And as again, as we start seeing interest rates potentially go lower, don't be fearful of that. That just means that you may be able to refinance something down the road, and that's a positive, because that'll help us continue to spend and then that's a big thing that we look at. Yeah, Alex, do you want to say anything in closing?

I just, you know, keep a long term mentality. You know, don't, don't focus on the short term emotional decisions and, yeah, keep that long term focus. Yeah, enjoy the summer months coming up, remember to reach out to your loved ones and communicate. Stay positive. Try to get that exercise in and have something to look forward to out in the audience, because life is precious, and we we just don't know what the next second is going to be but I'm very optimistic about the next six months, and so thank you for joining us. Have a wonderful, wonderful remainder of the summer. You will hear back from Joe, Alex and me before September and but we've had a positive first half and we're looking for an even better second half of the year. Thank you very much.