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Strategy Asset Managers Q3 Market Update - U.S. Fuels Global Growth

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On October 29th, 2024, Strategy Asset Managers shared their fourth-quarter outlook highlighting the resilient performance of U.S. stocks, the broad-based nature of recent market gains, and the positive impact of U.S. economic strength on global markets.

Despite potential volatility around the upcoming elections and concerns about government debt levels, we remain optimistic about corporate earnings growth and emphasize the continued importance of government stimulus in shaping the economic landscape.

Transcript:

And once again let me welcome everybody to the Strategy Asset Managers fourth quarter outlook. Today is October 29th. We are at 11:00 in the morning here on the Pacific coast and today's call will be about how the United States is going to continue to fuel global growth. And we are going to provide our guests with our optimistic fourth quarter outlook and discuss what you should know about the US

Elections. We will talk about the markets going into year end how they will be impacted by the results which will come hopefully in a little over a week. And then into first quarter. We will talk about what has been a catalyst of our markets for 2024 and continue into 2025. We'll have some comments on AI as well as a shameless promotion for my upcoming CNBC and Fox interviews. We've been getting spots, I should say regular on a monthly basis to help promote Joe's Alex and my outlook on the capital markets as well as how Strategy Asset Managers has been doing. I will say that the call is being recorded. We will also be able to send a summary over of the call today. If you would like a specific summary and a recording sent to you directly, you may talk to Michael Scott in our office and Mike can help you directly. So we're now going to talk about kind of the direction and highlight some of the strong performance of the U.S. stocks, the broader based nature of the recent market gains and the positive impact of the United States economic strength and global markets. And these are things that you have been hearing about with the various media sources or news sources that you've been subscribing to. But as we head into monumental election, they're all monumental. But as we come up nearing the November 4th election, we have a lot to talk about, taxes, geopolitical issues and furthermore the policies that hopefully will guide us into the next economic cycle that we are talking about. And I have been also promoting possibly this next generation bull market that we're in and a business cycle like we have not seen in years past or decades past. So I'm going to turn it over to Joe Traba, our Chief Investment officer and I'm going to have an interactive conversation with Joe and Alex.

And so Joe, I'm going to turn it over to you. Thank you Tom. So before we begin, I'd like to just do a quick review and this has been a terrific year to be invested in the stock market and we really attribute to a couple of different items where a lot of people were a little bit more less optimistic than us, but the wealth effect you have to remember the stock market continues to make record highs. Home prices have appreciated and we've had a massive fiscal stimulus. This has really been the catalyst for the growth in the United States. And what we're starting to see is potentially fueling it overseas. And it's really been underpinned by one big catalyst and that's the technological optimism. AI and what we said before on this, it's not so much AI, but it's what it's bringing to the table and it's really the need for power. And if you've been listening to our calls, we've talked about this and now you're starting to see this nuclear power coming back, infrastructure development. And this is a trillion dollar opportunity that's not just local. This is going to be global. You're going to see the rest of the world have to play catch up just like the United

States did in the last year and a half. So those are really the strong catalyst that we continue to see for the stock market and also for people that are homeowners. Now, one of the questions Tom had asked me is why can this market continue to rally? And why does he think this is the next bull market that we've been in? Well, it's really been simple. People are still employed and people are spending. We look at the service sector, that's remained pretty healthy. Unemployment has been relatively low. And when we look at access to capital and really think about corporations, they've still had easy access to capital at a really cheap levels for them to lend. So they've been able to get access and that's helped these companies continue to chug. Now one of the big catalysts or uncertainties is obviously the election in seven days. But when you look forward, just like every other election in the United States, that unknown will be a known. And then companies can act on how they're going to do their fiscal planning. And now another big item that we've looked at is how much cash is on the sidelines. And really think about this with not just the funding and stimulus that we've had, the uncertainty, You've had almost \$7 trillion in money market funds. Now, if we continue to see rates go lower, you know, you could see that money go out and reallocate it into the stock market. And that's really a big positive for us as we look out into 2025. But we really do fall back on what is the main driver of the stock market and its earnings, earnings, earnings. And we this week is a bonanza week. We have about 170 companies in the S P reporting. Most people are familiar with the larger cap names. That's the Google, Microsoft and Meta, Amazon among a few of them. So it really kicks off after the market today and really proceeds for the next three days. So we'll hear a little bit more of what they're saying. But it's the guidance, Tom, that we're hearing as well. And when we look at guidance again, this has been a growth year for earnings and it's expected to continue to accelerate into 2025. And I wanted to bring Alex to bring up a couple points on corporate earnings. Yeah. So you know, as Joe mentioned, earnings growth has been extremely strong this year, but 2025 is projected to be even better. It's now projected that earnings will grow 14% next year. That's really driven by the AI investment cycle, which is incredibly beneficial for earnings. Companies are investing tens of billions of dollars into AI infrastructure with no plans to slow down in the near future. Yeah, and when we look at the outlook for next year, obviously it's going to start with the US Election, Tom, and the updates that we're going to provide for you. And what we're going to tell you is what the market is predicting. And in the last about month we've seen a bump in treasury that's interest rates actually go higher after we had the 50 basis point rate cut. Obviously we have the geopolitical uncertainty and that follows it with the election uncertainty. And our big point is it's one of our big risks is the growing fiscal deficit and the debt problem that is looming regardless of which candidate wins the election. Now with elections,

the deficit and the spending and interest rates.

Alex, you had a couple of key points. Well, yeah. So with the election happening in less than a week, we've seen the odds of Republican victory rise fairly dramatically on prediction websites. As of right now, Trump is predicted to have a 67% chance of winning and there's a 50% chance that Republicans sweep winning the House, the presidency and the Senate. But regardless of who wins, both parties are committed to a lot of deficit spending. Keep in mind the deficit. It comes from Medicare, Social Security and Defense. Neither party is going to initiate any cuts in those programs without any cuts in those programs. The only way to reduce the deficit is going to be through lower interest rates. And that's really a big reason why you can expect rates to continue to trend downward so long as inflation remains somewhat behaved. And it has been right. Recent inflation rates have been 2.4. That is the lowest since 2021, that's allowed the Fed to begin its rate cut cycle once again. You can expect short term rates to continue to fall going forward. And both of those things, both the deficit spending and lower rates are stimulative and positive from an earnings perspective. Alex, I wanted to ask a question about the sources that you're using for the election predictions. Just so. Yeah, absolutely. The main one is what's called Polymarket and basically it allows people to essentially bet on elections and billions of dollars are being wagered. So this isn't, you know, one person moving the market with 100,000. These are multibillion dollar markets and that is the most reliable source of data we're going to have. Most likely that's going to be more reliable than traditional pollsters because they don't have any skin in the game. Right. They're not going to lose \$100 million when they're wrong, you know, but these people are, they're not partisans. Right. They're just trying to make money. Thanks, Alex. And then remember, I guess, the key points, it's the, it's the policy, not the politics that matter. And Joe and I have said that all along with Alex. We will have an eventual winner. And whether it's a majority for one side or the other or a balance, we'll find out in a very short period of time. But Strategy Asset Managers has done a very good job at navigating through 2024 with the different sectors that we've overweighted and underweighted, for that matter. And the question that comes up is, are we still discussing a recession and all throw that out there to Joe right now or should we go into something else? Joe? Yeah, I want to talk about the recession and then just follow up on one quick topic and that's betting. Now, no matter what your opinion on betting, you can look back when Disney pretty much started allowing sports betting and you no longer have to be in Nevada or Las Vegas to gamble. Online gambling is here. And if you looked at Robinhood, which people thought it's just stocks where you're able to pump up, well, now they're doing gambling bets as well. And who can win the election. So this is just something that is continuing. And for people that have, you know, children at home, you know,

we have to be more prepared because they're going to start seeing that you can bet on almost anything. And that should have, you know, a little bit of a pause when you start looking at what you kids will have access to. Now, getting back to Tom's point. We don't use betting for, for any of our, our companies at all. Full disclosure there. But I mean it does, like Alex said, when you traditionally look at more of a talking point. Yeah, it's a talking point. Yeah. And that's all. My point is to bring it up. But when we look at a recession, this is something that a lot of economists had really thought last year we would be in one and this year as well. And like we said, why have they been, you know, wrong? It's because of the wealth effect. When your stock portfolio continues to go up, your home price continues to go up and interest rates are relatively low. You know, that's a really good elixir for people to be employed and to see some wage growth. So that's the expansion that we've seen and it's really been led by technology. But the next phase, and we started to see it this year, it's really the infrastructure build out and how I like to think of this and really look at your daily activity. What if we start having more driverless vehicles that's gonna have to redo the road so that these cars can navigate the different types of roads that they're on and the same thing with their infrastructure. So that's a tremendous build out. In order to have that, you have to have the infrastructure, not just the roads, but the technology. The telecommunications have to be in line. So that's a real big catalyst. And we're just talking in the United States. This is something that's going to be globally and we've harped on this before, the number one job in the world is a driver. Well, what if we start moving that to something else? You know, so that's what you have to start looking at because that's where the world's going. Technology doesn't go backwards, it continues to move forward. And like Tom said, the United States is the heart of this technological revolution that we're in and that is not going to slow down. So Joe, is the market expensive right now? Yeah. And this is obviously a question that we go back and forth a lot with earnings growing and with interest rates where they're at. You know, you have to have earnings continue to grow. Like Alex mentioned, we should start seeing double digit growth next year. And you know, that gets us more optimistic. And it's also when we look at the stock market, one of our big catalysts is that it's not just technology leading the way. You are seeing financials participate and that's a key component for this market to have a lasting effect, which it has. And again, a lot of the banks just reported earnings and they've been pretty good. So I do think, you know, as long as earnings can continue and rates stay low, this is going to continue to fuel the market growth. Can you talk a little bit about this? The so called Fed put. The Fed put. And explain what the Fed put is to the audience we've been discussing that. You want to pick this one, Alex? Oh, yeah, absolutely. So that just refers to the general idea that any market selloff, any bare market is going to be met with extreme government intervention to essentially stop the stock market from going

down to reverse that movement. And we've seen it in every single bear market since 2008. We've seen the Fed react immediately in 2020. They went so far as to actually buy ETFs to buy bonds. So they really, really don't want there to be any kind of significant sustained bear market. And they have a lot of tools to prevent that. And that's being done in China at this point with the massive stimulus that's there. Would you talk a little bit about that? And has been influenced by the US as a leader in this area. Yeah. I mean this is just unheard of and unprecedented what China's unleashed as far as a stimulant. They've managed to give out money to families so that they have more than one child. They've managed to give out money to municipalities. So think of all the cities. They managed to give out money to corporations and then obviously to their banks. So, and then allow a lot of the property to continue to have access to capital. So it's really a bazooka that they've unloaded on not just one sector but on across the board. And more critical, they're also changing policy so making it easier to own assets in their country. And if you really think about what are they trying to do. Well, they're trying to have a economy like the United States where you have spending continuing on in your state, in your country. And they don't have that yet. So it's not sustainable though. You know, I mean, if you go on, if we, if we kept handing out the money like we've done in the last five years, I mean we should, we should make a key point on that as well. It's not something that's sustainable, but it's, it's, it's stimulative in something that's anemic over there. Yeah. When the government hands out money, it tends to go into inefficient unproductive uses where it's wasted. And that's why traditionally capitalist economies do better than top down economies is capitalism allows that money to go to corporations like Google and Nvidia and go places where it's going to fund real innovation rather than, you know, just wherever some bureaucrat wants it to go. Right. And I think a really good point on that is also when we talk about the market efficiency, you really think of what we just mentioned was the need for energy. And there's been a lot to have been made and our government spent a lot for green energy to make sure that we have what, solar, wind, all these different forms of power. But what did corporate America say? No, we need nuclear because that is 247 and there's no lapse here. And that's why you saw Microsoft firing up an old nuclear plant. And that's why you're seeing, you know, not just Amazon but other companies, Google looking to have nuclear reactors on a smaller scale. That is something that can sustain and enable. to have this massive demand for energy. Well, I think on the energy side just you know, if the United States could get back on the track of using what we have here and even with liquid natural gas and nuclear, that sends signals all over the world that you know, some of these other projects that are with solar and wind are very costly and consume a lot of time and really aren't where we should be concentrating our efforts in energy down the road. Let's, let's go over and talk about interest rates and you know, why are lower interest

rates going to be good for you as a, as an investor at Strategy Asset managers? And typically when we look at lower interest rates, you know, first I just think of what does that mean to you? And we've seen this, you know, massive raise in interest rates really to on the credit cards. And now that started to come down. And when we look at your mortgage rate, you know you had a lot of people refi under 4%, a lot of people closer to the 3% level and that's keeping them in their home because they can't, you know, if you move out to something else you're going to be close to 7%. And when we had the 50 basis point rate cut, that's half a percent, you did see interest rates go down. And what's been interesting the last month again they has the markets come back and meaning it's now about a 7% on a 30 year mortgage. So typically lower rates, it's easier to access to capital, it's easier for companies to borrow. And just kind of think of it your household as well. Those are all things that help propel the stock market and lending. So that's the big thing to look at. And we've talked a lot about inflation in 2024. And now the inflation rate, no matter or wherever you look, can be between 1.9 and as high as 3%, depending upon who we look at. Alex, do you want to comment on that? Yeah, absolutely. Still. Yeah. So, you know, we're, you know, we're definitely at the lowest rate of inflation since 2021, when this big inflation spike happened. And it's at this point driven almost entirely by housing. There's been really not much decline in housing prices given how much rates have risen. And essentially the entirety of that 2 to 3% that Tom mentioned is coming from shelter. Yeah, let's. Joe, did you want to say something or just with interest rates, you have to remember when you look year over year and you really go back to Covid and what prices were then to what we see now. So even though we see inflation flat, it's not going lower. So your cost of goods when you go shopping is gone up tremendously in the last couple of years. Right now we're looking at kind of a new. A new standard of what that cost will be. And that's why you've seen some rage hikes to kind of balance that. Let's talk a little bit about the benefits of continuation of government stimulus in areas that we've invested in. Yeah. And the first one is obviously what it did with semiconductors. This is chips technology. And now what we're seeing is not just a domestic boom, it's a global boom and the need for more, faster chips. And one practical example is cars. But when you really look at it, it's the data center growth. So you have this massive amount of information out there, and you need the servers to be able to access, for everyone to have access. And that's where the giant demand for energy comes from. But also think of language. We're talking on this call right now, mostly in English, but you go around the globe and all the different types of communication and different languages can now all be universal with AI. So that takes obviously a lot of data. But the future of being able to communicate, you know, is a little bit simpler as technology improves. So that's why I think the boom and is will continue with when we look at the technology. But now you go into infrastructure because

you need that in order for the technology to work. So it's two part components and that's where we see, you know, this isn't just something domestic, it's going to continue globally. Yeah. I mean, when you assess the current infrastructure and energy infrastructure and general requirements for the explosive or growing AI industry and you must have a public private partnership in place to

develop a sustainable plan. I was at the Stanford Hoover Institute last week. We heard from Jensen Huang, who's the CEO of Nvidia. And there are, there are active discussions and there have been active discussions to explore ways that the policymakers and the regulators can ensure how we can actually manage the demand that's in place. And earlier in the year on some of the media platforms that I was talked about, strategy, asset managers, Joe and Alex and I had talked about Constellation Energy Group, Duke Energy, Nvidia, those are names in our portfolios. But the connection between those energy and CHIP AI companies are very relevant to where we're going down the road and we'll be able to expand on that later. But it's important to understand this is a rapid technological advancement that is going to require an overhaul to the energy industry and you're participating with the companies that we own. Let's go to the next question, Joe, that we have. What can I do to prepare for year end and the planning side of things? What can we expect? Yeah, and this is a really good, you know, you've heard from us and what we think is going to happen going forward. But what can you do to help control your situation? And the first thing is we always do our tax loss harvesting and the next couple of days we'll be sending that out to everyone. And this is just making sure that your accounts that we manage or accounts elsewhere is to make sure you're taking advantage of tax loss harvesting. And the next point is, what we've hopefully relayed to you is that we do see the deficit is a very large amount and it's probably going to get larger next year. Well, there's only two ways that can get addressed and it's one, raising revenue, which means raising taxes or cutting expenditures. And right now cutting expenditures is now we're talked about on either side. So we do think in the next couple of years you really should look at not just sunseting of some of the loopholes or gains that we had, but really start being prepared for higher taxes down the road. Alex, do you want to just make a couple comments on the rising deficit, the debt problem? Yeah, I mean, absolutely. In the long term, it's insane, it's unsustainable I will say that if they do cut interest rates significantly, it will improve the deficit. But given that it comes from Social Security, Medicare and Defense, there's really no way politically that any of those programs are going to get cut regardless of who is in power. So we can expect the deficit to grow and to continue to grow going forward. And in the very long term, I think it's quite inflationary, right. If you're looking out 5, 10, 15, 20 years, it's going to end up being inflationary simply because they're going to have to print a lot of the money

to pay this stuff back. But that is maybe a longer time horizon. What. So what, you know, from our outlook into the fourth quarter and the sectors that we're concentrating in, let's, let's talk some specifics. Joe, we're, that's not one of the questions, but I'd like to ask, you know, where, where are we going into the fourth quarter? Are we, are we emphasizing, are we still emphasizing technology, energy, industrials, healthcare? Yeah, it's been a really, I mean, you, you listen to us We've been pretty consistent throughout the year and nothing's really changed. You continue to have technology, you know, lead the market. You've had industrials obviously building out and that's participated. We did talk about utilities and the need for energy, and that's been the sleeper where we've had quite a bit of overexposure and that's done well for us. I think that'll continue. But what we've seen is now financials and don't think just large banks, think of insurance companies. So a lot of these insurance companies, with some of the recent natural disaster and hurricanes, what do they do? They raise prices. So that's a windfall for them going forward. And the insurance companies are doing well. And with a lot of cybersecurity, what have the insurance companies come up with? It's a new product to sell, is now you need cybersecurity insurance. So it's a whole new division for insurance companies. And these are healthy because as a capitalist country, we should find new ways to drive revenue. So that's again another positive part. Healthcare has been interesting because it is under attack from one side a little bit more than the other. But drug pricing, where we've been more positive is with the weight loss drugs. And I think that is going to continue and we'll see that kind of make its rounds through how we, you know, kind of eat and again, potentially continue to as a country. And one thing Tom heard Me say this before we exported, you know, fast food, so we exported people eating a lot more junk food than they should have. And now we might be exporting weight loss drugs. You just take a pill and, you know, you can lose, you know, 15 pounds. So just something that happens in the United States does go global. Yeah. Alex, do you have any comments on that? Because we did talk about the weight loss drugs and their impact on, you know, what's the downstream impact of anything from Dick's Sporting Goods to, you know, potentially the, you know, the, the engineering of food in the future. Yeah, I mean, I think GLP1 drugs, you cannot overstate how big they are. You know, you could say this is the most important healthcare innovation since, like smallpox vaccines, polio vaccines. Right. We're talking about an illness that affects 40% of the population and this, you know, basically stops it in its tracks. So it's going to change everything. Right. Healthcare wise, food consumption wise. And it's here today. Right. This isn't even a prediction that in the future they'll invent something to stop obesity. It's here today. The only thing that is preventing them from giving it to that 40% of the population is the inability to make enough. Right. They're just trying to ramp up production as fast as they can for all the people who

could benefit from it. Yeah, We've been exposed to some transformative technologies. Just in 2024, we can talk about the robotics element and the efficiencies of robotics and the two companies that we follow closely, Intuitive Surgical and Abbas, two radically different companies. Intuitive Surgical makes precision surgical, Cyberknife, for example. And ABB is doing robotics in Europe as a global company. But I would like Joe to talk a little bit about the importance of that across the board with the companies that we own. It's innovation and it's really when we looked at not just AI, but technology and how one, you have to don't be afraid of it, you have to embrace it. This is sometimes scary for people because it's changed, but that's what technology does, it moves forward. And we try to look for companies that identify this and are using it to their advantage. And there's going to be winners and there's going to be losers. And the one thing I would say to all of our guests on this call is to don't be afraid of it. And you're seeing it rolled out with your phone. And this is just, again, it's Waymo, which is supported by Google, it's in different cities, but that's driverless taxis. So it's here already. And that's just, I really think the beginning of what we're going to see going forward. And that should be exciting. Yeah. And you know, Elon Musk is now, you know, investing significantly in household robots. And that's something I think for me personally and for everyone. How amazing would it be to have a robot cooking, cleaning, doing laundry and that, that innovation, you know, it's, it's within sight. Right. It's something that's going to happen in our lifetimes and it's going to make all of us so much happier and so much more productive. Yeah, some of, some of the. Did you want to say something and I'll comment. Joe. Yeah, just quickly when you think of healthcare and like Alex mentioned one practical use so he could have someone clean his house, you also think of hospitals and the need for, you know, nursing. So there's so many different applications that we're not here yet but you can see it coming and that's the thing that you just have to start thinking what is going to be down the road. And that's. That was my point. Yeah. I mean down the road is it's could be this afternoon, it could be tomorrow, it could be. next week and next quarter and then. And so on the, I think summing things up and kind of the optimistic viewpoint with the election coming up, we, we are going to continue to be more optimistic in our outlook. We've positioned the portfolios very well in 2024. We've outperformed the indices and that that were compared against and that is what our job is as an active manager at strategy asset managers. And we, we know take it very seriously when we look at all the different sources of economic data as well as investment research to make the decisions to select the companies that we manage. And Joe and Alex and I have done a very good job at leading the group, you know, this year and we'll continue with that going forward. Joe, do you want to conclude with anything? Yeah, just with the uncertainty out there surrounding the elections we've seen. If you remember a few years ago, we had over a thousand

point swing down day then up when Trump was first elected. So I want people just to don't be motivated by fear. Make your decisions and sound mind and not by fear. And a lot of people are, you know, well what if this happens and

everything, you know, goes, goes and explodes? You know, be a little bit more practical and know that our country, every four years we have seamless election and that's going to continue. Yep. Well, let's if Alex, do you have any closing comments? Yeah. I think, you know, on the election because the market, the market is assuming that Trump is going to win and pricing that in. We could definitely see short term volatility in the event of a Harris victory. But, you know, long term, I think

that's something that people will get over. And I think these more extreme policies that we hear about during campaigning, they tend to fall by the wayside. They tend to not actually be implemented. Very good. Well, that will conclude our call for today, Tuesday, October 29th, it's 11:38pm Pacific Time. We want to thank everybody for joining us. And the call is recorded. We will put that this up on our website shortly. If you want a summary of the call, we'll send it off to you. And thank you very much for joining us today. Have a wonderful fall and happy Halloween. If you're, if you're going to be handing out candy or participating with your children or grandchildren, it should be a fun day. And then go Dodgers. That's what I got to say. Go, go Dodgers. All right. Thank you. Take care.