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Strategy Asset Managers Q4 Market Update: Opportunities and Challenges

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On January 23rd, 2025, our team at Strategy Asset Managers shared its 2024 Review and 2025 Market Update where we discussed our insights on why we expect more stock market gains but an increase in volatility.

Inflation has slowed, the job market is healthy, and Artificial Intelligence is rapidly transforming our world. With an incoming pro-business administration focused on deregulation, we continue to be optimistic on the United States.

Transcript:

We're welcoming everybody to the 2025 Strategy Asset Managers, market outlook, opportunities and challenges. And Joe Traba, Alex Hagstrom and I will try to go through what happened in 2023 2024 as well as where we see in 2025 and beyond. First, I'd like to address the the fires. That if you all don't know, Pasadena is one of the ground zero places for the devastating wildfires, and Altadena is an adjacent community, and we want to thank everybody for all the outreach and concerns surrounding these devastating fires, and it has

impacted several family members, friends and clients of the firm, and we want to extend our sincere condolences and prayers to all those people who did have something happen to them, and we've got a lot of support out there. And these fires are not over yet. We had another one pop up last night in Castaic, and now we're just hoping that the fire crews can contain them, but we've been in touch with all of our clients who have had been impacted by it, and we were evacuated myself for over six days. We did lose power, and we got power back from Southern California Edison, but it's sporadic. The winds are coming in. They're called the Santa Ana winds, and they are devastating sometimes. And when you have the winds and you have the fires or something that causes it, it's not a good combination, but We're truly grateful for all the first responders who were heroic in saving my house and also the lives of others and many, many structures, but we did lose 1000s of structures, and the community has surrounded we've been surrounded by a wonderful outreach of the community. And I just want to thank everybody for their compassion and understanding during a very, very difficult time. Sam is also an advocate for our clients, and we've been known to help support not only our institutional partners, but our private clients who need assistance, you know, potentially with information technology or fraud prevention during this time, or navigating the federal and state agencies and especially the insurance companies. So if you have a if you have a need in that area, or you know, somebody that has a need in that area, we're happy to step in and give some guidance. So now what I'd like to do is welcome everybody again to our call, but talk about, you know what? What we've really seen last week, or actually a few days ago, I was back in Washington, DC, and I was fortunate enough to attend one of the inaugural balls. I did get a chance to to have some high level communications over the last several months, not only from the Hoover Institute at Stanford, but through my connections with the upcoming administration. And I was, I was pleasantly surprised by some of the optimism that was that was definitely in the air over the last couple of days. It was very, very cold back in Washington. However, there was a lot of support, and I think it was bilateral support which which was nice. I do believe that we will see a lot of advancements. The business cycle will will continue on the next decade, the US, you know, will experience incredible breakthroughs in not only the technological areas, but if you look at biotech and pharma, and we've been touching on this for several calls, the reason I say that is because the advancements in machine learning and super computing can deliver these breakthrough science and technological advancements that are never seen before. I also was optimistic that the United States is going to resurface as a global leader with a stronger voice influencing global democracy and after several countries are are showing signs of failure under the socialism that they've been invoked. And then, you know, on the media side of things, you've seen a greater distribution of media outlets and certain social media will become the mainstream, and major news networks will succumb to their obsolescence. So these are things that we we. Doge is going to confirm that we you know, what we've known for decades, our government has wasted hundreds of billions of taxpayer dollars with the lack of oversight, accountability and transparency. But you know, by

reducing this complexity that we have and fostering accountability and aligning our incentives, we can create a smarter, leaner framework that promotes both stability and innovation and allows American Finance to thrive and lead the way forward. So I am very pleased to to bring to introduce Joe Traba. We had another very strong year with our strategies. The market outlook, we'll touch on that. But our our four separately managed accounts, as well as some of the passive strategies, outperform their indices. And as we transition into 2025 the stock market landscape reflects a mix of optimism and caution. And so following two years, strategy asset managers and also market robust performance, the optimism remains high, but with many positive developments already priced in, you should be prepared for a volatile path ahead. So I'm going to turn it over to Joe and take it away.

thank you Tom, and thank you for attending. We'll go through as we look out to 2025 I always like to just to take a step back and look at 2024 now, just because the calendar switches doesn't mean the market switch. So the landscape that we saw last year, the economic and the stock market landscape, was favorable, and that is still favorable. So there's a lot of positive trends that we still expect, and we see some opportunities as this year progresses. But like Tom said, because the markets have done so well the last two years, we need to see earnings. So this is corporate earnings really catch up. And when you have a higher valuation, a lot of it gets priced in for that growth. And that's what we need to see to continue. And it's the same thing with the administration. There's a lot of optimism based in and one thing we've always said, it's policy that matters, not politics. And we'll go through some areas that we saw as very optimistic last year, and we continue to expect to do well this year, but we'll also share with you some of the our concerns and what we need to see and why we think the market may have some turbulence as we get better clarification on a couple of topics. With that, we're just going to kind of stop in again last year, very good year. We are expecting earnings to grow. We'll get into that in a little bit as well. Bit as well, but we also do see some pockets of opportunities now, as this year started off with a very strong year, it's again continuation of like Tom was mentioning deregulation. We'll go into that, what that means and why the markets are so optimistic with that. We'll also touch on interest rates, our view on where inflation is heading, and where you should be invested as this year progresses. And this will be an open discussion with Tom, Alex and myself, so you'll hear from all of us as we go through each of these topics. Yeah, and one thing before Alex comes on, it's really with consumer spending. And one of the pillars that we've talked about last year was just the job strength that people getting back to work and people earning a higher wage and people spending. And that is, again, two thirds of our economy is based on the consumer spending. And we've continued to see that if you look at travel by airline, excuse me, that's been extremely robust. And domestically, we've started to see some international pickup. And you just have to go out and look at hotels we were talking about during the holiday season, how strong shopping going into malls? You know that that is a huge indicator of people coming back. So that has been optimistic for us, and we

continue to see that happen as this year progresses.

Yeah, absolutely. I'm sure you can. Hear me now, sorry about that. That was very strange. But the, you know, the biggest story by far in 2024 was earnings growth, S and p5, 100 earnings they grew 8% which is very strong, but it's projected to be even stronger in 2025 14% earnings growth, which is, you know, really astonishingly strong. It reflects all the tremendous advances in artificial intelligence, biotech industrialization, onshoring, really just a lot of positive things on the earnings front, on the interest rate front, they only ended up cutting by 1% last year, which was less than expected. Now, market participants think the rate cuts are essentially done. The reason for that is inflation is pretty much stuck around 3% the Fed target is two, so a little bit too high for them. With that said, going forward, it's going to be completely data dependent. If inflation does drop down to two or the job market deteriorates, we will see more cuts and vice versa, right? If inflation spikes, the job market remains strong, we might see the rate cut cycle essentially pause or even reverse.

Yeah, and one good point, as we look at there's a lot of talking heads. I call it. It's just people that are giving their opinions. And last year, when you look at the Market Strategist, there were, by and far number of the strategists expected low returns and even some negative returns. And if you've listened to our calls, you know we were not we were very much more optimistic and expected to see some good returns in which we got. So again, as we look at 2025 the Market Strategist are expecting, again, what the market averages, but rarely does, and that's low to mid single digit returns. So against that backdrop, you know, we'll go into why we see more positive and but also let you know at some of the negatives that we see out there. Now, Alex did touch on spending and job growth. And one thing you should know, if you've gotten a market letter, construction spending that has just skyrocketed, and we can go into some of the data center growth in the United States, how much has been spent there? And there's a reason why our economy and our stock market continues to really outperform the rest of the world. It's because we have technology here. We have more data centers than the rest of the world combined, and that spending is going to continue as we get into this year, we've seen a lot of joint partnerships announced the last end of 2024 and we're going to hear a lot more as this year progresses. It's we call it onshoring, or bringing manufacturing back to the United States. And that's not just with technology, but it's also with our energy. So those are two areas that we did focus in on last year. And again, it's kind of a second way of playing technology. It's the energy needed. And again, if California, that's going to be interesting to see how our utilities handle going forward. But we do think there's opportunities continue as the demand for energy simply increases. So that will be a topic, and we'll address that a little bit with our policy discussion in a little bit. But I did want everyone to be aware of it's not just technology. It's the industrials that are doing extremely well, and that has to do with manufacturing. Now, as

we talked about employees, you know, we've have seen the job growth, and yes, the big job is from the government, and we do need to see that kind of tail down and have it's a perfect need for technology to come in. And anyone that's gone to the, I don't like to pick on the DMV, but I will they, there's opportunities there for technology to really help increase, and that's one of our reasons that we continue to remain optimistic, because we see the adaptation of not just AI, but technology making our lives, you know, better, and looking at the different areas that can participate in that. So we've touched on the earnings growth, but also want to look at one of the areas. And Alex, you don't mind talking a little bit about the market concentration last year and how it sets up for this year?

yeah, you know, it's no secret the market is dominated by a handful of tech stocks. It is, you know, the most concentrated market in history, multiple 567, percent positions within the S, p5, 100, though I will say that a lot of it is justified by earnings. So yes, Google has an enormous market cap, but it also has an enormous amount of earnings. Same is true of Apple, right? Same is true of Amazon, while prior episodes of extreme market concentration have typically not ended well, I think this particular episode is different. In that respect, all of these companies are extremely profitable, and most of them have monopoly or oligopoly positions, and that's a key point to remember when you get historically, look at when these companies have gotten this large, what has happened to them, and it's been usually the administration comes in and tries to break up the monopolistic practices, and then you open it up to other companies. So that's something that we're paying attention to as we get into policy risk. And Alex, you want to go a little bit more on that?

Yeah, so you know, Tom mentioned, Doge, they have a goal to cut \$2 trillion of spending. I think there's a lot of popular support for reducing wasteful government spending. However, I think we're going to see politicians and Washington DC elites basically fight tooth and nail against any type of significant spending cuts. We're already seeing lawsuits. We're already seeing people trying to fight against this. And so even though the population knows that this is a severe issue that needs to be dealt with. You know, Washington is going to push back against that, and it remains to be seen how much they will actually be able to cut. And you know, keep in mind that the deficit, it's primarily social security, health care, the military and interest expense, and those first three items are very, very politically difficult to cut. They've already said that they're not going to touch Social Security. That's, that's off the table. But when you start dealing with health care in the military, there's, there's going to be some very powerful forces trying to stop that from happening.

Yeah, and that's okay. This is nothing new to our politics. We've seen this before in history, but it's again, this is going to be something that we expect to see some volatility as we get our government to come to a conclusion and kind of an agreement on some of these policies. Now, as we move forward, we wanted to share with you again why we continue to be

optimistic. And a lot has been made with the AI boom, the next industrial revolution, and how do we see the adaptation of this as it applies to other different sectors? And that's, I think, is very fascinating. And the opportunity is still here, but it's not just a US opportunity. This is a global opportunity that the rest of the world is going to adapt to as well. And the easiest for me to explain is just a car again, a person driving a car, a driver. That's the number one job around the world. Now we're seeing that already, if anyone's taken away mo of cars that are not having a driver. It's a computer generated car, and that's here, that is now. And we do think that'll continue and again, it's going to displace workers, but at the same time, it'll make us more productive and potentially more efficient. So just kind of keep that in mind, AI, it's a tool very much like the calculator when it came out, and we think this is going to offer a lot more opportunities as we see it get played out. The next part of why we're optimistic is the strong fiscal support. Now we've continued to see our government invest in our country, and that is going to continue, and you'll see potentially more manufacturing coming back to the US. And why that's so important. It's because not just those jobs are being created, but you have to look at the whole community where these new plants are being put in or refurbished, and that leads into, you know, better sales for not just restaurants hotels, but just everything else. And that's where we can see not just financials, but more smaller businesses participating. And again, that gets us optimistic going forward. Now, when we look at the momentum and those of you that we do have a qualitative portfolio, market oriented momentum was extremely strong last year, and it's participating again this year that is one favorite thing to look at. And when that's strong again, it's the leaders that have led continue to lead. So keep in mind, when you're looking at your portfolio, you know, free feel to give us a call if you need a second opinion on something you own outside of us, we'll be more than happy to offer that. But those areas that we continue to see growth, and it's backed by the data center growth, this is something we've harped on, really the last year and a half, and it's not just the infrastructure needed. Have the energy needed. But now we're seeing more and more companies, you know, going to this. Now this there's some bad characters out there, and we do see having internet security a number one concern. And again, we always like to make sure you always give us a call if you have a question about something, or a money transfer, anything like that. We've seen in LA County, with all the fires there's going to pick up in fraudulent activity for people asking to go fund me and things like that. So just take a deep breath. Call someone verify that's correct. But by and large, these are good things for our community, and we continue to expect growth to continue now. Tom, I just wanted to talk a little bit about, you know, as we look forward and come, our reasons of seeing a little bit more volatility, but the risk side, when you've had strong growth the last two years, the valuations and that just means the market has already risen in anticipation of earnings growth. So when Alex mentioned 15% earnings growth for this year coming from an elevated condition that just allows for more volatility if these earnings don't come into play. And it's the same thing with the administration, a lot has been baked in with with the market doing very well in looking

forward. And again, that is a good thing, because if we can get some more deregulation, it's good for the stock market, and it's potentially good to have more in the in the private sector versus public sector. So you want to see companies. And my last point tying this into LA it's been, obviously everything that Tom said, it's been devastating out here. But there's also the opportunity to see the public and private sector come together. That's the government and companies to offer a path forward and give people hope. And you need to have that, especially now. So I'm tend to be more optimistic. And these are some of the things that we're looking for, and again, that can relate into a potential explosion in the United in Los Angeles, of growth as we get building back Los Angeles and potentially stronger, smarter and better. So those are the things that we look at and when and how can that happen? So just something small case that we can see globally, but also in the United States, that's happening.

Joe, talk a little bit about the sector rotation that you saw in market oriented if anything, did it change? Or what are you going to be focusing on for stocks in specific sectors?

And that's a really good point, because so much has been made about technology, and technology does make up around 35% of the s, p, but when you break it down, it's just a handful of companies that are doing exceptionally well. Those are the big companies, and Alex mentioned some of them, and it's not the whole area. So having technology, it's not so much broad market exposure, but just owning a few names. The plus side is we've seen more companies and financials. And one thing we've always said, financials need to participate in a market rally. They don't need to lead, but they need to participate. And that's encouraging going forward and then seeing utilities and energy. These are two other areas that we are overweight relative to the s, p, and same thing with our market oriented hopefully again, it's looking more broader, and this may be more in the nuclear names as well. And the third point is really one thing that we really were overweight last year, and we continue to be. It's industrials, and it's easy to talk about like a Lockheed Martin, but it's more if you look at Eaton and Emerson, these are companies that are doing well. And I'll include a corning, which is in our dividend strategy, that's helping with the data centers. So those are some areas that you may want to overweight versus underweight, and again, being invested in the US. That's the number one point last year. We severely, I mean, really incredibly, outperformed the rest of the world when you look at IFA, that's Europe, and also looking at some of the Asia and also the emerging markets. So our markets did much better than any of those other places. And that's the strong dollar participating as well, right?

Joe also, let's talk about the optimism of the administration coming in and deregulating. Across the board, there's a there's a sense of a revival happening in the IPO markets. There's also a lot of optimism in biotech and. Can you touch base on that for you and Alex, it's really when we look at liquidity, and this is looking at the market flow. We've really not

seen a lot of liquidity, and that means new companies coming to the market, which traditionally has been an IPO, and it has been extremely low. It's also been from private investments that have held on to these companies and that had a liquidity event, which means the people that own this private company, they go to the public markets, and that's when they have their big payday. So what we're starting to see is some merger and acquisitions that what we've seen in the previous administration block a lot of these M and A we're seeing the new administration saying, No, we're going to allow more mergers and acquisitions. We're going to allow again, with the deregulation of the financials. That should help us seeing more IPOs, and this is probably more of the end of this year, and maybe a 2026 plate. But that's a good thing, because now there are more companies doing well and helping the market, and it's a liquidity area. As we get into healthcare, again, healthcare has not been a place to be invested. And that's again, looking at last year and the momentum that we follow, and just again, looking at where the administration is looking to cut costs. This isn't a favorable backdrop for companies in the healthcare, pharmaceutical or insurance side, but we did see them come up with increasing the rate that they reimburse the insurance companies. So that gives us hope, and like Tom mentioned, as we get better technology, maybe we see a cure for cancer coming up. These are things that are exciting, and there's a lot of money that's invested into it, but it's still in the investment stage. So those are some things that I think we can get wishful and hopeful for, and to see some solutions as well.

Alex, do you want to comment also on that? Yeah, so I think on a very high level, less regulation is always beneficial to smaller companies, because what happens is a process called regulatory capture, where these big giant corporations, they sort of work with the regulator to shut out smaller competition. So when you have regulation removed, it creates breathing room for these smaller competitors, these smaller companies, to rise up and do great things. And that's one of the main benefits of reducing regulation, is you do get new entrants, right? It's a very good point.

Why don't we transition into the last kind of main, main point on the active management side. Joe, does that sound good? That sounds good.

Go ahead. When we talk about active management, what is that? Well, you have to understand, most of the volume in the market, these are stocks being bought and sold, is what's called passive, and that's following a specific index like the S, p5, 100. So as money comes in, it's just buying those names in that portion. And what we've looked for is to start seeing better breadth, meaning other areas of the market, not just the top companies, doing better. And that's where we started to see utilities like last year and industrials do very well. And again, that's where you want to start seeing an active manager to be able to participate in those types of areas and not just follow the active or the passive management and buying

those big companies. So you start seeing other areas do well. You could start seeing, again, a need for active management and not just following the global markets as well. Well, that's, you know, it's like the private equity markets that are starting to swell again, with, with, with deal flow and, and so that's an important point to make. Alex, do you have any points to make on that as well?

You know, yeah, I think ultimately, like, you know, just, just a smaller regulatory environment, a smaller regulatory state, lower interest rates, all those types of things are going to they're going to boost private equity, they're going to boost small caps. They're going to, you know, allow those companies which have underperformed in this passive investing monopoly environment to hopefully, you know, change the structure of the economy to some extent, at least.

Yeah, let's, let's go into our final thoughts, Joe, and if you want to pat yourself on the back with some of the wins from last year, and then where you see into this year. And then the final thoughts, that would be good. I'd like that.

Yeah. I mean, we had a very good year last year. Our portfolios did exceptionally well, and a lot of the stock picks we've done recently have really outperformed. And again, it's always, I tend to be more. Humble and look at next, what we're doing next and and you have to in this business, but again, fueled by the technology. I mean, the optimism and earnings growth is huge, and that's where the traditional way of looking at investing might have shifted, because of the way our government's acting, and that just is allowing a soft landing, or, you know, the Fed put, and we've talked about this a lot, is that the Fed's not going to allow certain things to go bankrupt, like we saw in banks now. Will they allow that with the market as well? That's kind of what we talk about the Fed put. So that's also a powerful backdrop when you look at the market, how it currently stands now, but also as we look forward, continuing to see liquidity, earnings growth and people employed, and if we add in favorable government, that's going to continue to help deregulate and allow and boost the different parts of the economy that is again leading to people continue to be employed making a good wage, and that's how we rebuild so those are areas that we look for going forward, and why we're optimistic for 2025.

Alex, any final thoughts?

Yeah, I think, you know, we've already seen some geopolitical positive events with the Israel/Palestine war. There's a good chance that we could see progress in Ukraine. But I think what people aren't talking about is the potential for a deal between Saudi Arabia and the United States. The Saudi prince is a big fan of Trump right now, they have 4% of the world's oil production just sitting idle in order to spike prices. They could bring that online. They could really, really lower oil prices if Trump does make some sort of grand bargain

with them involving defense.

Yeah, that there are a lot of promising things that are, that are on the horizon in 2025 and I do think there's going to be progress towards some geopolitical intentions lightening up. And it's, it looks as though that we, you know, we have, we have a lot of hope out there. So I'm I'm going to keep my fingers crossed, and I do think that the administration change has sent another positive signal to the world that the United States wants to maintain its global leadership and lead, lead everybody else. So all right. Well, that concludes our call for today. We are thankful for all of the participants, and we will send out a summary, if needed. I hope everybody has a wonderful rest of January and happy 2025 and if you need any further clarification on any of the points that we had talked about, or if you're interested in some of the specific stock ideas that Joe and Alex and I have been talking about on CNBC and Fox and or some of the various periodicals, we'd be happy to talk to you and give you a second opinion on that. Everybody have a wonderful day. Take care. Thank you. Bye.