



Strategy Asset Managers Year-End Summary and Outlook for 2024

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Autogenerated transcript:

I'd like to say happy holidays, Happy Hanukkah, Merry Christmas, and happy New Year coming up and welcome to the strategy asset managers Year End Market Outlook. The time is 11:02. Gary Rosas is recording the call. We will have an audio transcript for you, probably delivered by tomorrow. We're going to use the OpenAI chat GPT transcript and Otter technology that we use for our calls to summarize the call on one page for you. I think you'll enjoy that. I am Tom Hulick. I'm the CEO of strategy asset managers, and with me today are Joe Traba, our senior portfolio manager, and Alex Hagstrom, our portfolio manager. We are here today to give you our Market Outlook for 2024. The past year we experienced a lot of things: higher interest rates, inflation, Global turmoil, big gains in tech stocks hopefully you owned a lot of them, and a lot of these things were linked to the growth in AI. So today you're going to hear from Alex, Joe, and me about our Outlook and on the economy, interest rates, stocks, bonds, and your Investments for the year ahead. We're also going to discuss Chairman Jerome Powell's comments yesterday, what you need to

know as an investor or as a consumer, and as we review those items today, you're welcome to ask any questions. We have a live call. I would just ask that you perhaps use the chat button at the bottom to send in your comment, and I will be monitoring it, look at it, and try to insert it into the queue. Yes, yesterday we had some dovish comments from Fed Chairman Jerome Powell. The mention of rate cuts came in his comments, and that's not customary. It's potentially three cuts, maybe as much as 150 to 200 basis points, occurring sooner rather than later. What does that mean for you? What does that mean for your Investment Portfolio? What does it mean for the economy? Let's go to the opposite side of that and why was there such a big miss in 2023 with the market expectations. Why did the consensus, and these are economists, investment strategists, miss what happened in 2023? Is that going to occur again in 2024? We'll cover that. And what did strategy asset managers do and say to our clients at the beginning of 2023? Joe's going to talk about that, but really it goes back to following the facts, not following the herd. And we're delighted that you're here today. So thank you again for joining us. Just as a recap, a couple of days ago the CPI number came in at 3.1%. Inflation has bounced around since June of 2022 at this 3% level, but it really seems to be stuck here for now, with the current CPI number at 3.1%. And you all know that technically the FED mandate is to get inflation down to 2%. This may be a period at this 3% level that we're going to experience for several months, maybe a couple of quarters, but just know that in June of 2022, inflation was at 9% and it's since fallen and kind of buoyed at the 3% level, and that peak to where we are today is about a year and four to five months. So in my view, and we talk about this a lot at the firm, inflation has stabilized at this level. It's currently at a level higher than the FED mandate, but at this new normal. While the economists out there debate whether we will now avoid a recession and experience a softer landing than predicted, we think so. Joe is going to talk about that. Is inflation going to be stuck at 3%? We're not quite sure. But once again, the FED mandate is to get that below 2%. Alex may comment about why that number is set at 2%. It's kind of an arbitrary number, but we will cover it. And what happens if interest rates remain higher for a longer period of time than expected? But we don't think that's going to happen. In my opinion, but Joe's opinion is that it will. So are we going to see rate cuts mid-2024? Are we going to see rate cuts as early as the first quarter? We will talk about that today. You also should be aware that interest rates peaked at the 10-year treasury bill, closing at the end of the day on October 19th, 2023, at about 4.99%, and since then rates have come down, and the 10-year treasury bill is around 4.21%. It's actually lower today. That's a rally in the bond market. But what does the FED do in this case when there's been that type of an adjustment in the bond market? Normally you don't cut rates when unemployment is around 3.7%. However, rate increases can happen, and we'll discuss that. So we are looking for rate cuts in 2024, rather than an interest rate hike in 2024. There's

no reason to really stimulate the job market when the job market's so tight, you're near full employment, and there are still shortages of service workers, healthcare professionals, qualified tech engineers. So what if the technology revolution is setting the stage for this next generation bull market that we've entered in, beginning now, beginning in 2023? You're going to be surprised. There's innovation, there's a lot of change in attitude, perspective, there's a lot of hope going into the end of the year, and election years, as Joe and Alex will point out, historically signal a 10% return in the S&P 500. So you should know that the market is broadening out, and we also believe active management will outperform in 2024. You can also expect the small and the mid-cap stocks to continue to outperform. Joe's going to discuss, and so will Alex discuss the difference between an equal weight S&P 500 versus the market cap weighted returns that we experienced. The market had a strong year in 2023. Did you participate in that? Did you follow what strategy asset managers were recommending to you? We'll find that out. Joe, I'm going to go to you and turn it over. Yeah, thank you. And again, appreciate everyone being on the call. And before we get into 2024, I always like to review what we came from because that is important. We remember 2022, the markets were in turmoil, and these large cap stocks were down over 30%. So what we witnessed was a rubber band. The things that go down the most popped up the most this year, and now we're kind of basing and seeing other parts of the market that have not yet participated do well. And I really want to mention that because as we began this year, it seems like such a long time ago, but the banking crisis that we went through, if you remember this, in March, kind of came to a crux. What is going to happen happened. The regional banks, and we said, you know, the government, we're going to rescue these regional banks, and they did. So people were made whole, and more regulation on the banking industry did ensure. And that is a big part of what happened. It provided comfort to people knowing that it wasn't going to escalate and see a bigger contagion. And that is critical with what happened in the beginning of the year. Now we did see quite a bit of, like Tom mentioned, a lot of items that have happened this year. We had turbulence with not just the banking crisis, the debt ceiling standoff, you know, we did have an earnings slump and again, two other items that we've spoken about, inflation and interest rates. So there was a lot of risks that we navigated through 2023. And I think the biggest one is everyone assumed that a recession was inevitable this year. Now is that going to come in 2024? We'll go into that a little bit. But I do want to remind everyone, you know, for when you look at the market, you have cycles, and you kind of have to know where we're at. Twice this year, we've had pullbacks in the market, in March and in October. And we know in October, there was a lot of people that were very concerned about the market and things really progressing. And again, I do appreciate everyone listening to what we had to say and remain calm. And

conversely, what do we get? We got a huge rally in November and also in December. And that is a big part of what this market's been doing. And we know the market looks ahead. So some of the data or what you hear, we just want to make sure people know the facts. And one of the biggest pillars that we saw of strength was the labor market. And again, you don't get significant pullbacks or recessions when you have full employment. The other part of that is when you do have strong employment and you have people spending, that's critical because that allows GDP or growth to continue. That's consumption, and 70% of our economy is based on people spending. So that was a big catalyst that we saw this year, where I think a lot of analysts were negative or wrong, was with the amount of interest or people's ability to spend.

Typically, when you get rate hikes like we just witnessed, we have to remember we came from zero. So just normalizing the effect, I think that wasn't really factored into some of these projections, and what we are seeing now is, we all know inflation's real. Yes, the CPI number went from 9 to 6, or 3, but anyone that goes shopping, your bill is at least 30% higher, and that is going to stay. So we do think there are different parts of the market that are going to be affected by inflation longer, and we'll go into some of the positive and some of the negatives that are going to come from that.

But again, we did see a tremendous amount of shifts in the market, and I think the biggest one is cash. We went from earning 0% to earning 5% on a money market. And I think as we progress into next year, you're going to see some of those money market rates go lower because that's just a function of what's happened with the market, and you're going to see more money go back into the stock market, and mostly we see areas that have not yet rallied. And I think the other part does favor extending duration on some of the fixed income, and we'll go over this in a little bit.

But again, as we look at 2024, again we expect inflation to kind of remain at these levels, and the headline number may go lower, but with that, we also think interest rates again, that is a very big moving target, but we do think as next year progresses, if you have a strong economy, if you have people employed, it's hard to reduce interest rates. That is a stimulant, and it's hard to provide a stimulant when you have a good economy, and that's one of the reasons why I think inflation will remain at these levels and also interest rates may not go down as fast as everyone is expecting, and that might be more of a second-half story.

But we are seeing companies adapt, and that's a big component when you look out. If you have policy, not politics, that are positive for businesses, they know how to prepare, know how to do some projections as we go out.

Now, that is going to be on the opposite side, with are we going to end this free period of free money. And what I mean by that, when you lower interest rates, we all felt this, it just think of a consumer on their credit card, you had rates below 10%, they increased your buying capacity or your limits, and then what happened this year, they didn't increase your limit, and you're paying twice as much in interest. That is an expense, companies have the same expense as our households, so that is going to be a factor, and that is a risk that we're looking at in 2024.

Just as we said this year, so you do see savings accounts coming in lower, meaning people have less in their savings account and a little bit more in their credit cards. Credit card debt is at the highest it's ever been, and that is something that we need to be paying attention to. But the other part of why we're optimistic for 2024, it's again a little bit of a catch-up trade or mean reversion. What I mean by that, the things that did not do as well this year, and think of the big seven stocks, they got hit really hard last year, bounced up this year, and the things that did really well last year, they're doing okay this year, but I think that's the broadening that we'll see, and it really makes sense when you look at both valuation. Is the valuation for those stocks much lower than the overall market, and those big subit, it's also comes into how are these companies going to make money because that's what the market always comes back down to earnings, and you can go which companies and which products are you purchasing. We know margins are bigger, and companies do not lower prices, so those are good companies we'd like to owe, but as a consumer, those prices are higher, so those are just a few things that we see going forward.

And I did want to mention a little bit about interest rates, this is volatile on a daily basis, what we're seeing. At one point, it was expecting to be five rate hikes, then it went down to four rate hikes. This number is going to be oscillating, and one of our what we like to say is, you really have to know the facts, and know your audience, and I think Jerome Paul yesterday did a good job of really lowering people's expectations for rate hikes. Conversely, we know that there is a huge deficit our country is running, and typically when you have this good of employment, you should be running a surplus, not a deficit. So it does bring a lot of headwinds that we see down the road that our government is going to have to do, is the only two ways I know how to lower a deficit is spending, it means you spend less, or you raise taxes. So that's one part we want to make sure everyone is aware of, taxes that's in an election year, it's hard to get anything past, but that is something that will be on the horizon, and you should expect higher taxes as in the next couple of years, just because we have to get ourselves out of this deficit.

Now the big positive, we went over this yesterday, you just had the employment

report, and again another strong strong data that's coming out. You also had retail sales that was better this month over month in November. So the confidence out there is really strong, and again kind of a contrarian indicator is how much cash people have on the sidelines, and it's close to 20%. So what that means is usually you start seeing that money get into the market. It's the seasonality factor that's very positive in the end of December, kind of call it the Santa Claus rally, and then as we head into January, the January effect is money getting put into the 401ks. So it adds a lot of positive catalysts along with it being an election year, which typically is a good year. No coincidence, what do government officials want to do? Get reelected, and what's the best thing they can do? Get the markets to look good.

So those are a lot of positives. Now, some of the risks that we see, again, higher inflation, higher interest rates, and what we do look at going forward is, if you continue to see rates where they're at, you know, companies are going to have to lay off people, and then you get a labor market that's not as strong. And the other component is disposable income. If you have inflation staying at these levels, we all know this, you're going to be spending the same amount of money but buying less product, and then you go into borrowing, and that's where we've talked about interest rates on credit cards. So those are some of the headwinds that we see. Yes, there are geopolitical risks. There always are, and we have successfully navigated this for a number of our clients for almost 30 years. So we appreciate you allowing us to guide you through this, but I do think some of the big catalysts going forward are, two points, and I'm going to bring Alex in on this.

Thank you. An interesting tidbit with easy money, and you really look at the period, what does that mean, borrowing at zero percent, and now going up to, you know, 5%, 8%, 26%, that does have an effect on your spending, and that's something that we'll see going forward. But a positive is, what we're really excited about is a healthy consumer, and Alex, do you want to go a little bit but some?

Yeah, you know, to me, the most important story of 2023 from a long-term perspective, it is these weight loss drugs. We're continuing to see the tremendous efficacy of OIC Manjaro, other weight loss drugs. These are generally referred to as GLP1 drugs, and I think that they have the potential to completely transform the entire country from a health perspective. Keep in mind, right now, 40% of Americans suffer from obesity, and the evidence is suggesting that these GLP1 drugs allow obese patients to lose 15 to 25% of their total body weight and to keep the weight off so long as they keep taking the drugs.

In addition to that, the drugs themselves have been around for years, being used to treat other medical conditions, so doctors do have a good understanding of the side

effects. They work by basically significantly reducing your appetite, your food consumption, especially the consumption of junk food, sugary drinks, and the ripple effects from this through the economy, through society at large, are going to be incredible just due to the sheer number of people with obesity and the tremendous efficacy of the drugs themselves. It wouldn't surprise me if we eventually saw 10 to 20% of the entire population taking some form of GLP1. It wouldn't surprise me if the total amount of food consumed by this country fell by 5%, even more. These drugs, they are a solution to what is by far the number one health crisis that faces our country today. You could say this is the biggest problem that faces our country, and you know, scientists have essentially developed a solution.

And these types of technological advances are the reason why the stock market has tended to trend upwards over time.

When problems present themselves like obesity, human beings innovate and create technology to solve these problems. It's very easy to be negative if you watch the news or focus on the short term. But when you take a step back, you can see that the trend is clearly upwards in our quality of life, for our economy, and for civilization as a whole. And I think GLP-1 is just a perfect example of this in action. You can expect to see the health of America transform completely over the next decade.

Alex, and Joe, let's talk a little bit about the stocks that we own that are participating in these developments.

Yes, and it's not just the direct stocks, but also the secondary effects. For example, obesity leads to several medical complications. If you have less of that, you have fewer medical procedures, which benefits companies like insurance firms. Then we look at retail and consumer discretionary as areas that could benefit. After COVID, there's been an explosion of people wanting to get out, and when you feel good, you want to look good.

That's a great point, Tom. This technological revolution is transforming industries, and that has been a positive for healthcare. We're looking forward to more cures and innovations in the future.

Absolutely, and it's not just a United States theme; it's global. The potential impact is very large, and not just in the short term but longer term in nature.

Problems get solved. For instance, 20 years ago, America was the biggest oil importer, completely dependent on the Middle East. Now, thanks to technological

advances, we're a massive oil exporter. This shows how problems like energy dependence can be turned into strengths through innovation.

And let's talk about the Magnificent Seven stocks and the broadening in the markets. These stocks led the market last year, but now we're starting to see other areas of the market catch up. This is a mean reversion, technically speaking. So far, these large stocks have participated, but now it's time for other stocks, which have not yet rallied, to perform better.

Energy is another important topic. Everything needs power, and as we see manufacturing coming back to the United States, there's a need for more power and better grid solutions. This reshoring is a long-term trend that took years to develop and will continue to evolve.

Yes, and as we implement more robotics in manufacturing, it becomes more efficient to keep these operations onshore. The future clearly lies in robotics and AI.

In the next couple of minutes, we'll summarize what we discussed and then shift into our conclusion. The risks include rising consumer debt, sustained higher interest rates, and potential geopolitical conflicts. But the opportunities we see are in the technological revolution we're experiencing and the resilience of the US economy.

Joe, over to you for the final part of our discussion.

Thank you, Tom. As we conclude, I want to reiterate the importance of knowing the facts and not getting swayed by the noise. It's easy to be pessimistic, but it's important to look ahead and see the positives. We have numerous positive catalysts, such as the ingenuity of the American people and the innovation in technology and healthcare. These will allow us to overcome obstacles.

Thank you, everyone, for joining us today. We appreciate your trust in allowing us to guide you through these financial cycles. We look forward to leading you forward with optimism for better days ahead.

And with that, we conclude our call. If you have any further questions, please feel free to reach out to us. We wish you Happy Holidays, Merry Christmas, and a Happy New Year.