The Hefter Report – May 2024

US equities remain in an upward trend and are still our favorite asset class for this environment. Interest rates remain stable and barring a geopolitical event we don't see rates moving aggressively either up or down. The overall US economy is growing and we see only a minimal risk of that changing this year. We anticipate GDP growth slowing towards year-end and this may provide some buying opportunities.

With this backdrop, our key focus is on earnings and guidance which continue to come in strong. We have fared very well investing in large cap growth stocks, many of which have exceeded analyst forecasts. Generally, in a slow growth economy, growth stocks outperform. With generative AI beginning to create efficiencies across the gamut of American industry, we believe earnings will continue to surprise to the upside for at least the next few quarters. So, we remain overweight growth however our forecast for a slowing economy and moderating inflation could result in one or 2 Federal Reserve rate cuts in the second half of the year. If we project 6-12 months forward, we think that lower Fed funds rates will spur a reacceleration in US GDP. This scenario may prompt shifting some exposure towards small cap stocks which tend to do best when monetary and fiscal stimulus begin to boost economic growth.

Although we do keep some funds for some clients in short term fixed income yielding around 5%, we believe better returns can be found in stocks. Ultimately, we think that rates will come down and cash will flee fixed income to capture equity returns. In addition, rather than using bonds to modify the risk profile in some portfolios, when appropriate, we have invested in a long-short equity strategy that has shown some downside protection.

Markets love to climb a wall of worry. With the situation in Middle East, China, interest rates and inflation, there is plenty to worry about. However, in the final analysis, earnings are what drive stock prices.

As always, we look forward to your comments and questions.

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