Hughes Investment Advisory Service LLC

April 1, 2024

Dear Clients and Investors,

The stock markets performed well in Q1 with the S&P 500 up10.16%. The bond market was slightly weaker with the AGG down .75% during Q1.

Key 2023 final economic data points:

- 2023 Real GDP growth: 2.5%
- 2023 CPI Inflation: +3.4%
- 2023 S&P 500 Earnings: $221

The above numbers show a moderately strong economy, with too much inflation, and strong earnings growth. As I expected, US corporations with the ability to pass on higher costs have been an excellent place to be invested during this 2-year period of strong growth and high inflation.

So where do we stand as we head into Q2 2024? Wall Street is correctly obsessed with the question of inflation. Is inflation still dropping, has it leveled off or is it rising again? Which raises the next logical and important question of how inflation will influence the Federal Reserve in their decision making on interest rates in the near future.

Is the economy slowing sufficiently to allow the Fed to lower rates this year? There are strong reasons that lower rates are desired: 1. Prevent a recession. 2. Lower the massive interest expense of the Federal debt. 3. Political reasons relating to the Fall election.

Why wouldn't the Fed lower rates? Inflation, inflation, inflation. The US consumer is feeling the pain of inflation and they are not happy about it. Real incomes are lower than 3 years ago, oil is nearing a 2024 high, prices are still punishingly high at the grocery store.

As a result of this quagmire the Fed is clearly trying to continue the inflation fight while teasing Wall Street with cuts on the horizon. Overall, this situation is bad for many but good for some. Owning the correct equities, some gold and high yielding cash continues to be a winning strategy which we will continue to pursue as 2024 unfolds. Currently I expect no interest rate cuts and continued stronger than desired inflation in 2024.

What could upset this scenario? 1. Some economic indicators are indicating a recession on the horizon. 2. A further acceleration in inflation necessitating rate hikes by the Fed. 3. A deterioration in the situation(s) in the Middle East, Ukraine, Taiwan, or North Korea (listed in order of degree of concern from my viewpoint.). 4. A US debt crisis because of continued high rates and an increasing unsustainable debt load – 36 trillion and growing).

The latter could be triggered by another rating agency downgrade – which I expect at some point in the future, 6-12 months perhaps. It wouldn't surprise me to see this rating downgrade post-election in November. 5. Civil strife because of the November US Presidential election.

The above is a longer than desired list of macro concerns but it is what it is, and they all deserve close monitoring and attention as these could all potentially be a downside trigger for the markets here and abroad.

Enough on the potential negatives, what's going right?

1. AI – Artificial Intelligence – US industry is leading the way here in every category. The opportunity for business to become more efficient as new products and services provide the ability to focus on higher priority tasks versus manual and repetitive ones – there is a long way to go here but the trends are good.
2. Continued energy dominance here in the US. Oil, natural gas and hopefully soon nuclear. Our country is finally slowly embracing nuclear energy as a way towards continued energy independence. Existing and new nuclear technologies will allow for Co2 free baseload energy as we slowly move further away from coal, oil, and natural gas. This will be a slow transition and will also require a re-build of the energy infrastructure across the US.
3. Continued dominance by US corporations in most of the critical new technologies that will power future world growth.
4. For now, America remains the best house in an imperfect global neighborhood.

Given all the above, I will remain vigilant, assume little, and continue to follow the investing tenants that we know, through experience, work in the medium to long-term.

Specifically, given the above observations, where do I find attractive investments today? Higher rates are giving us opportunities to re-establish positions in the bond market. The Artificial Intelligence and Tech/Cloud buildout continues, Defense, Infrastructure, Medical/Pharma/Bio and Energy including Nuclear and Hydrogen. These are the growth areas where the US will play an important leading role in the years ahead. The utility sector, a big disappointment in 2023 should prove to be a hedge and income play for us this year.

Overall, I continue to favor large-cap, dividend paying, US based multi-national companies with strong balance sheets. We love businesses with irreplaceable brand names, wide moats, high margins, grow their dividends, and have modest debt. Risk/reward now seems equal between equities and fixed income – the 60/40 portfolio now works! Focused REIT's, MLP's and specialized bond/income funds look good as income producers. I believe that our portfolios are well positioned to produce consistently attractive long-term risk adjusted returns while preserving capital. Please do not hesitate to give me a call to discuss the above analysis.

Sincerely,

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