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INVESTMENT COMMENTARY & OUTLOOK

April 2023

The first quarter had some dramatic developments but finished on a positive note. Thanks to the Silicon Valley Bank crisis, Treasury yields plunged and will likely cause the Fed to stop raising key interest rates. Although the Federal Open Market Committee (FOMC) raised key interest rates 0.25% as anticipated, this could be the last key interest rates hike.

At his press conference after the FOMC statement Fed Chairman Jerome Powell came off as dovish, which the financial markets like and responded positively. However, Treasury Secretary Janet Yellen was also testifying in front of Congress on Wednesday during Powell's press conference: "Let me be clear: the government's recent actions have demonstrated our resolute commitment to take the necessary steps to ensure that depositors' savings and the banking system remain safe." Yellen's doublespeak in front of Congress spooked financial markets and created more banking uncertainty.

April started with OPEC+ announcing a surprise 1.1 million barrel per day cut in crude oil production, so crude oil prices are definitely headed higher. Additionally, Russia also extended its 500,000 barrel cut it announced in March would continue through July, so 1.6 million barrels per day will be removed from world oil markets, just as demand rises in the Spring and Summer months. As a result, we remain confident in our Big Energy Bet.

Multiple energy experts are now raising their near-term price targets to $100 per barrel. Goldman Sachs, which recently cut its price target for crude oil did an abrupt "about face" and raised its price target to $95 per barrel. Bank of America is maintaining a $90 per barrel price target. Internationally, oil experts are much more pessimistic and many expect crude oil to hit $100 per barrel.

When President Biden was a candidate, he said that he planned to make the Saudis "pay the price, and make them in fact the pariah that they are." Additionally, regarding the Saudi royal family, he said that there is "very little social redeeming value in the present government in Saudi Arabia." Due to the war in Yemen, President Biden ordered an end to arms sales and other support for Saudi Arabia. Clearly, the U.S. policy on Saudi Arabia is now having profound consequences.

Under the Trump Administration, Saudi Arabia welcomed President Trump in an elaborate ceremony, became Israel's ally, and the U.S. authorized record arms sales. Now Saudi Arabia has (1) reestablished diplomatic relations with Iran, (2) helped China expand its refining capacity to process Russian crude oil, and (3) bought cheaper heavy, Russian crude oil for electricity generation, so Saudi Arabia could sell more of its lighter grade crude oil. In other words, China, Russia, and Saudi Arabia are now formidable opponents. Whatever influence the U.S. has had over Saudi Arabia has been squandered. Since India also refines a lot of Russian oil, so it can export refined product, I could add India into this China, Russia, and Saudi Arabia alliance.

The Biden Administration can release more crude oil from the Strategic Petroleum Reserve (SPR) to try to curb soaring crude oil prices, but the SPR has been drained to over a 40-year low and the U.S. is now in the midst of soaring seasonal demand that will be much stronger in the summer months. Obviously, any time energy prices soar, it hurts the Biden Administration; so, it will be interesting to see how they respond, since demonizing Saudi Arabia and its Royal Family is not working.

While in the U.S. we worry about energy inflation, in Europe, food inflation is accelerating. The "green" policies that seized 30% of the farmland in the Netherlands are apparently now having consequences. Furthermore, the mandate that many European countries have to shift away from more efficient chemical fertilizers to organic fertilizers to reduce carbon dioxide emissions is just making food prices soar. No wonder there are protests in Britain, France, and Germany. The European Union is trying to fight food inflation with price caps, but that is just causing shortages. As a result, lines for certain food staples may become more common in Europe.

French President Emmanuel Macron recently decided to flee the protests in France and visit China for three days. It is widely perceived that Chinese President Xi Jinping will try to drive a wedge between France and the European Commission regarding Russia. Also, the U.S. European Commission President, Ursula von der Leyen, also visited China. She called on European Union members to scale back the risks in dealing with a more assertive China. French President Macron has warned Europe not to pick sides between the U.S. and China. Specifically, President Macron said, “We need a single global order.” Interestingly, President Macron is being accompanied by a delegation of executives from French companies, including Airbus, so France is expanding its business with China, which is its third largest trading partner after Germany and the Netherlands.

We should add that China is Brazil’s largest trading partner and has vast investments in Brazil. The Brazilian Trade & Investment Promotion Authority announced recently that it will be transacting directly with China and bypassing the U.S. dollar to “reduce costs” and “promote even greater bilateral trade and facilitate investment.” The U.S. dollar dominates commodity trading, since commodities are priced in U.S. dollars, so this new Brazilian trade agreement with China is essentially meant to undermine the U.S. dollar and boost the credibility of the Chinese yuan. Since the U.S. has neglected Latin America for decades, China has stepped up its influence and more countries in the region may follow Brazil, like Honduras, which recently broke off its diplomatic relations with Taiwan to appease China.

There is definitely a feeling that the U.S. is no longer the world leader as our former allies, like Brazil, France, and Saudi Arabia all embrace China and do not want to get involved in the spat between the U.S. and China. Furthermore, China likes to fight economic wars and dominate key industries, so it can better influence selected industries. Due to slower EV sales in China, the price of lithium, cobalt, and nickel are moderating, but this may be temporary, since more auto manufacturers are making EVs. Both Europe and the U.S. are striving to onshore their battery supplies, but recent Chinese price cuts are making onshoring options more complicated. The bottom line is China likes to dominate key industries and wield their influence.

The U.S. dollar is losing its mojo as the U.S. embarrasses itself around the world with our political infighting. As an example, when former President Trump was charged, Treasury yields declined significantly in a flight to quality, while gold and many cryptocurrencies rallied. Hopefully our political soap opera will be over sooner than later, because the U.S. has lost much of its credibility around the world.

The World Bank is warning of a “lost decade” for global growth and is citing the war in Ukraine, the Covid-19 pandemic, and high inflation. The Washington D.C. bank said in a report,“It will take a herculean collective policy effort to restore growth in the next decade to the average of the previous one.”

The global banking crisis is creating stress and is anticipated to cause economic growth to slow. The Atlanta Fed lowered its first-quarter GDP estimate to an annual pace of 1.5%. Due to higher crude oil prices, some economists are now lowering their GDP estimates. Since the manufacturing sector is definitely in a recession, the best way to describe the current environment as a “rolling recession.”

Amidst ongoing uncertainty, The Wall Street Journal reported that Apple and Microsoft are the new market leaders and now have their highest weightings ever in the S&P 500 at a combined 13.3%. However, Apple and Microsoft’s forecasted first-quarter sales and earnings are truly pathetic, so we think there is a great chance that many of our fundamentally superior stocks are poised to break out and emerge as new market leaders in the wake of their stunning first-quarter announcements.

In times of uncertainty, our best defense remains a strong offense. We expect now that springtime is here, the national mood will improve, which is just another reason that April is a seasonally strong month. Now that the Fed and interest rate fears have diminished, all that is left is for inflation fears to continue to cool off. Wholesale prices were actually negative in February, so there is definitely hope on the inflation front.

We expect that the breadth and power of the stock market will gradually improve as more evidence of an economic recovery emerges. A good example is that new home sales have risen for three consecutive months and mortgage rates have fallen for six consecutive weeks. Although home sales are still down year over year, there are "green shoots" appearing. Instead of a 15% stock market, where the best A-rated stocks have been performing the best, we are expecting that as the stock market's breadth and power expands, we will soon be in an 18% market, where we will finally have more A-rated winners.

SUMMARY

Our fundamentally superior stocks are "locked and loaded" for another quarterly announcement season. The NASDAQ market led the way in the first quarter. Apple and Microsoft are the new market leaders and now have their highest weightings ever in the S&P 500 at a combined 13.3%. However, Apple and Microsoft are apparently being bought more for their dividend yields as well as market dominance, since their forecasted sales and earnings are lackluster. As a result, we are expecting a rotation to quality stocks with strong forecasted sales and earnings.

Currently, the Atlanta Fed is estimating 1.5% annual GDP growth for the first quarter, but GDP growth should accelerate in the second quarter since the Fed is essentially done raising key interest rates. The main worry overhanging the overall stock market is the federal government's deficit ceiling, since a divided Congress may want to torment their colleagues by restricting spending and implementing a temporary federal government shutdown. The other hurdle facing economic growth is the fact that OPEC+ just announced a 1.1 million barrel per day production cut that is really 1.6 million barrels per day production cut since Russia confirmed that its March production cut will persist through July. Ironically, higher crude oil prices help our Big Energy Bet.

The third year of a Presidential election is typically good for the stock market, due largely to the fact that the federal government grinds to a halt and the private sector booms without government interference. This government incompetence will soon be on full display when the debate over the federal government's deficit ceiling materializes in the upcoming months.

The war between Ukraine and Russia is expected to persist through May when the "mud season" winds down and another offensive is expected. However, this war is increasingly becoming a war of attrition, so there is growing hope for a ceasefire that China is trying to broker. Furthermore, there are some cracks in the NATO alliance as France struggles with domestic problems and wants to eventually re-engage with Russia.

This proxy war that NATO is having with Russia will hopefully end sooner than later, since a worldwide food shortage could ensue in the upcoming months if Ukraine's wheat production remains disrupted. Furthermore, due to "green" policies disrupting chemical fertilizer use, plus worldwide flooding in many fertile farmlands (e.g., California), agricultural output could be disrupted in the upcoming months.

The good news is whatever Wall Street has been worried about has been diminishing. There will always be problems around the world, but at least we can profit when there are acute shortages, like in the energy patch. The U.S. consumer is still the leading economic engine in the world and as interest rates and other fears subside, consumer spending is expected to steadily improve.

Our dividend growth and growth stocks remain an oasis amidst the chaos that continues to torment financial markets. Fortunately, our Stock Grader protected us from the troubled banking stocks, all of which were F-rated (Strong Sell). April is a seasonally strong month due to pension funding and positive seasonal inflows. The second week of April will be characterized by financial stock announcements and then our first-quarter results will start being announced in the third week of April. For four straight weeks, our dividend growth and growth stocks will announce wave after wave of positive sales, earnings, and guidance that will help drive our fundamentally superior stocks higher!

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