The Hefter Report – September 2023

The US equity market remains strong. Leading the way have been the 7 largest cap companies which are benefiting from the new advances in artificial intelligence (AI). AI is not only good for technology stocks, but is also improving the efficiencies of companies in virtually every industry. These productivity gains should add to future earnings, the driving force in equity valuations. With the US being the major player in this space, capital has poured in, allowing the dollar to continuously outperform other currencies.

The rise in bond yields has spooked the market all year. It has created a wall of fear for equity investors and better yields, albeit lower prices for bond holders. Our view is that increased productivity has remained stronger than most economists predicted and helped fuel moderate global growth in 2022 despite the higher rates. It is keeping yields firm and we anticipate them staying higher for longer. However, the general belief is that rates won't rise further and that the FED is almost done with hikes. Some are even speculating that a rate cut could come as early as the first quarter of 2024. This scenario is bullish for stocks as long as the economy continues to grow and inflation continues to decline.

The global economy is expanding very slowly and this favors companies that can grow despite the muted environment. Another sector that we are monitoring is energy, mostly due to the recent drilling and production restrictions. We believe these cutbacks will lead to higher energy prices despite slow growth in economies across the globe. Unfortunately, higher gas prices may act like a tax on consumers and this factor may create a drag on GDP. We will be watching out for signs of recession which we believe could happen sometime in mid-2024. However, we think it will be short-lived, leading into the November 2024 elections.

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