The Hefter Report – March 2024

HLM
HEFTER, LESHEM, MARGOLIS
CAPITAL MANAGEMENT GROUP

Last year's strong rally in the equity markets has continued into 2024. Insatiable interest in leading companies that support Artificial Intelligence (AI), data centers, software and database solutions have driven the equity indices to all-time highs. While the 2023 rally has been narrow with a relatively small number of companies benefiting, this year's early rally has widened and includes a broader number of stocks. Year-to-date, growth stocks have outperformed value by almost 8%. Much of the gains have been fueled by earnings growth estimates of roughly $244 per S&P share in 2024 which at current levels equate to an expected price/earnings multiple of 21. Furthermore, 2024 US real GDP growth is estimated now between 2.0 - 2.6% with unemployment to remain steady around 3.6%.

With the above economic factors as a backdrop and this being an election year, we expect equity prices to remain firm. Current stock valuations are generally elevated, although not at extreme levels. Interestingly, the "Magnificent 7" stocks have started to diverge. Some of the mega-cap companies have continued to make new highs while others have lost steam. For the most part, we believe that prices of these market leaders are supported by fundamentals.

In addition to technology, two sectors that we like are health care and consumer discretionary. On the healthcare side, the clear leaders have been companies with approved GLP-1 weight loss drugs. These drugs have the potential to dramatically reduce obesity which could reduce the illnesses and health care costs that arise from an overweight population. On the consumer side, discretionary spending has not slowed materially despite high interest rates and inflation in both goods and services. We believe both trends have room to run and continue to like these sectors.

The dramatic changes to society spurred by AI and these new drugs could lead to greater efficiency, productivity and ultimately earnings growth across many sectors of the economy. This potential combined with the perception that inflation and interest rates could be peaking has in our view been the basis of this bull market. With trillions of dollars sitting in treasury bills and money markets, we believe that this "roaring twenties" appreciation in stock prices may continue and expand. There are of course risks that could derail this rally such as geopolitical events, a reversal of inflation trends, a reheating of economic growth or simply a valuation repricing. If we do get a temporary market correction, we will view it as a buying opportunity.

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

HLM Capital Management Group
1849 Green Bay Road
Suite 200
Highland Park, IL 60035
847 563-3400 phone
800 247-1541 toll-free
847 563-3420 fax
www.hlmcapital.com

Charlie Margolis, Ben Leshem, Steve Hefter, Micah Nathan
Partners

CAPITAL MANAGEMENT GROUP

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