



CAPITAL MANAGEMENT GROUP

The Hefter Report – December 2024

As 2024 ends, we want to thank you. Whether you have been with us for a short time or several decades, we appreciate the trust and confidence you have placed in our team.

Our market view has remained relatively unchanged throughout the past year as we have stayed bullish and fully invested. The strong US equity market in 2024 has coincided with a concentration of performance among a small number of companies. The so called “Magnificent 7” have continued to lead, backed by strong corporate earnings. Global growth has remained resilient and not materially impacted by higher rates.

Looking forward to next year, we believe there are several factors to consider. First, we see little or no drag on growth expected from either monetary or fiscal policy. The Fed is signaling a slowdown in the easing cycle, corresponding to a still persistent above-target inflation. As of now, we anticipate slow and measured monetary easing in several steps over the next 12 months, from the current rate of 4.75% to a terminal rate of around 3.5%. In addition, given the election results, we do not anticipate additional fiscal spending. These two factors should prove benign for inflation and supportive of economic growth. In addition, we also believe that the risk of recession in 2025 is low, with employment remaining strong and wages steady. Given recent company-reported earnings estimates, our baseline outlook for 2025 is an increase of the broad market of 6-8%, with the “mega caps” continuing to lead the pack. As we discussed in earlier reports, one of our goals has been and continues to be broadening our equity exposure by market cap and adding to dividend producing stocks via ETFs and funds. We should also mention that as a team, we are still underweight international markets and virtually no current exposure to emerging markets.

Regarding fixed income, we believe that rates will remain near current levels with the 10-year Treasury yield ending next year around 4.25-4.50%. We also expect credit spreads to continue to be tight and the yield curve to remain positively sloped. Given this outlook, we think that some portfolio exposure to high yield taxable bonds as well as municipals makes sense.

Of course there are risks to this rosy outlook. We are not sure yet what the full effect of the proposed tariffs on Chinese goods (and possibly additional countries) will be, however historically they have been inflationary. If the U.S were to dramatically increase tariffs, we could see additional PCE inflation of 0.3-0.4% but the actual effects are difficult to predict. There are also several volatile regions and conflicts around the world that could expand geopolitical uncertainty. Barring that, we remain optimistic on markets in 2025.

Happy Holidays,

HLM Capital

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CAPITAL MANAGEMENT GROUP

The Hefter Report – August 2024

US Equity markets have firmed significantly from the August 5th lows as several macroeconomic trends have emerged, lowering market volatility.

As corporate earnings season winds down, it's notable that almost 60% of companies are either meeting or beating their consensus earnings estimates. Currently, 2Q earnings are on track to grow by 11% year-over-year, and for the full year 2025, the estimated data are pointing to 15% growth. This would indicate a forward multiple for the S&P 500 of approximately 20 times earnings.

Regarding interest rates, the Fed has signaled that we are moving toward an easing cycle. It's difficult to assess the pace that rates will decline, but we are anticipating a 25-50 basis point reduction in September, followed by additional rate cuts for the rest of the year. The weaker-than-expected employment data in the 3rd quarter gives us further confidence that monetary policy will remain accommodative. There are several additional factors that lead us to believe that the easing cycle will continue at a moderate pace into 2025-26. Among them are a low but still present probability of recession in the next 12 months, solid GDP growth estimates of 3-4%, declining inflation, and a 10-year Treasury Bond trading almost a full percentage point lower than a year ago. There are risks of course to our outlook. Primary among them is the possibility of expanding wars in the Middle East, Ukraine/Russia and even China/Taiwan. In addition, there is always a potential for accelerating unemployment and lower-than-expected growth, any of which could cause a contraction in earnings multiples and result in a market decline.

Our current favorite market sectors continue to be technology and consumer staples; however, we believe that growth in these sectors will come from a larger number of companies beyond the "Magnificent 7." We also like defense, aerospace and electric utilities as a long-term investment theme given our projections for increase demand from data centers.

We look forward to your comments, questions, and insights.

Steve, Ben, Charlie and Micah

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CAPITAL MANAGEMENT GROUP

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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CAPITAL MANAGEMENT GROUP

The Hefter Report – March 2024

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.

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