LAFFER | TENGLER
INVESTMENTS

THE TENGLER REPORT
February 3, 2021

Market Outlook
From Nancy Tengler, Portfolio Manager and Chief Investment Officer

Heading for the Light

The 1988 super group, The Traveling Wilburys, was an unlikely combination of rock greats: George Harrison, Tom Petty, Bob Dylan, Jeff Lynne and Roy Orbison. Imagine, if you will, the Beatles once opened for Roy Orbison and Tom Petty for Bob Dylan, yet all became superstars in their own right and decided to collaborate for the love of good music and a good time. The result is a blend of rock genres that delight some thirty plus years later. It may be a stretch to suggest the lyrics proffer contemporary market wisdom, but that has never stopped me before. In the age of seemingly unlimited stimulus and lower for longer interest rates for years to come, “Heading for the Light” sheds some, well, light.

Been close to the edge, hanging by my fingernails…I don’t see nothing new, but I feel a lot of change , and I get the strangest feeling as I’m heading for the light.
I see the sun ahead, I ain’t never looking back

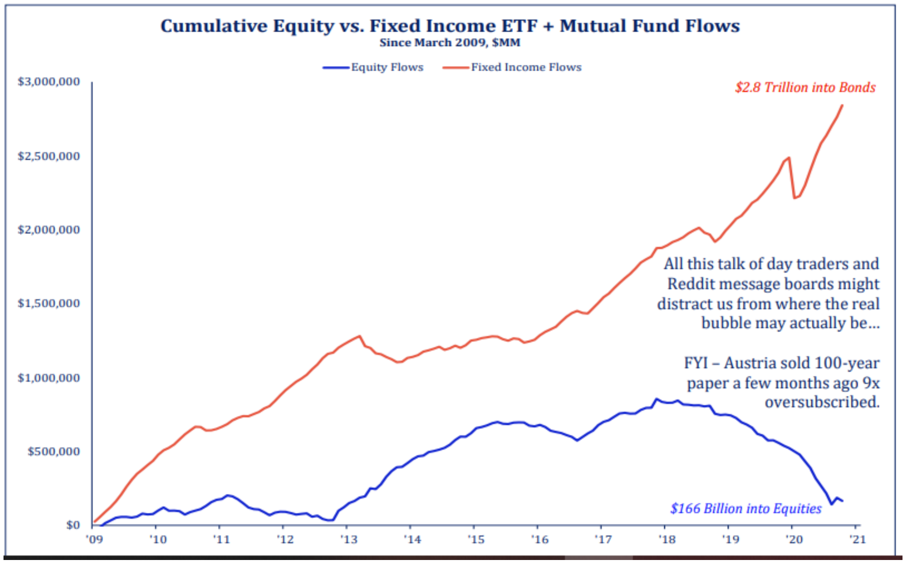
The Federal Reserve pumped unprecedented monetary stimulus into the system after the 2008/2009 financial crisis, which powered the last bull market beginning March 9, 2009 and ending February 19, 2020. Snail’s pace GDP growth in the 2010s and historically (at the time) low interest rates didn’t deter investors, as TINA (There Is No Alternative) became the mantra of investors. Liquidity always finds its way into risk assets, especially when there is no alternative. Enter COVID and epically massive amounts of fiscal and monetary stimulus injected into global economies to the tune of well over 50% of global GDP when all is said and done.

Heading for the light; ain’t never looking back.

So, what does this and our reading of the data tell us? We see a number of themes with significance for investors.

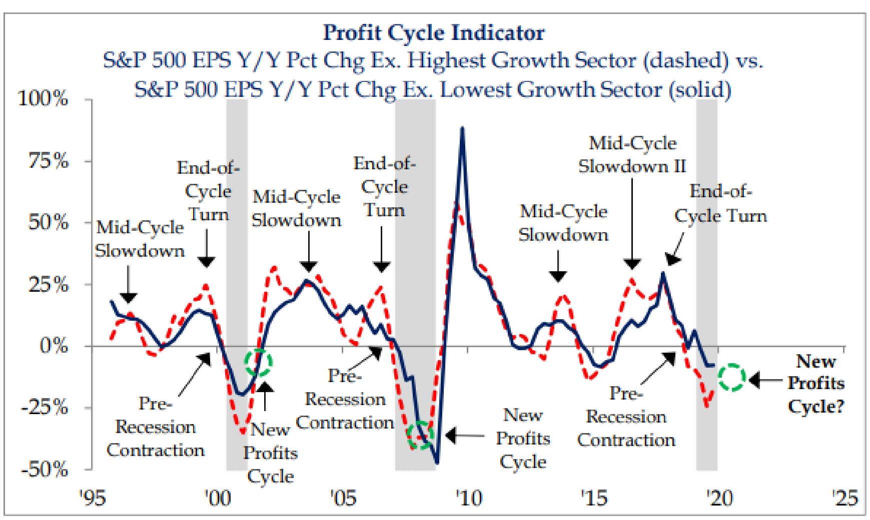
The consumer is in excellent shape. Consumer free cash flow is at historic highs, balance sheets are in excellent shape, and savings are back to $3 trillion after the summer drawdown. If additional stimulus checks are sent out this spring, we expect to see savings grow further. In investor parlance we call that pent up demand. Consequently, we are overweight consumer discretionary and especially where digitization and the consumer intersect.

Equities are under-owned. We believe bonds are riskier than stocks. Rates are still near historic lows (though off the bottom hit in August). But you would never know it from the significant flows into fixed income ETFs compared to equities. It may take a correction in equities to spark additional investment, but there is plenty of cash that is eligible for movement into equities.



Source: Strategas, January 28, 2021

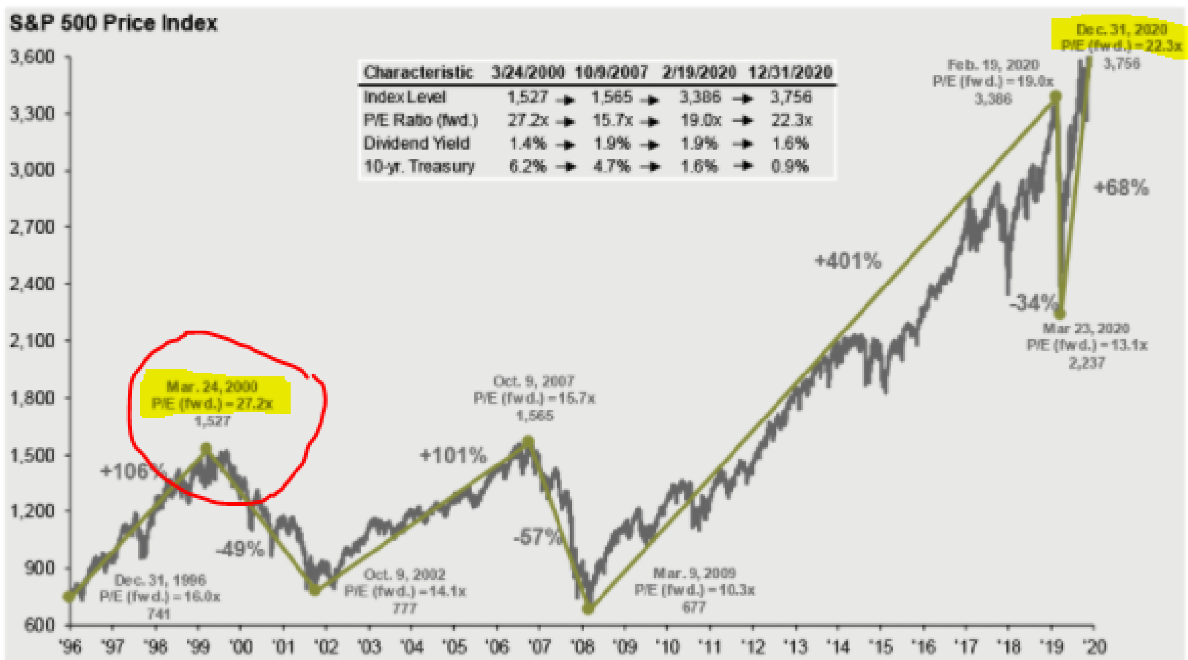
Corporations are entering a new profits cycle: Forty percent of S&P 500 (SPX) companies have reported fourth quarter earnings and sales. Notably, sales growth flipped positive at 0.2% and earnings growth has come in better than expected, down just -1.6%. With the improvements in earnings and guidance being offered by these companies, 2021 earnings for the SPX have improved by $4/share. Add to that, earnings are also in the sweet spot of the cycle.



Source: Strategas, January 4, 2021

But earnings growth must be looked at over a multi-year cycle. In the short-term, earnings do not necessarily correlate with near term returns (last year is a perfect example—negative earnings strong stock price performance—as was 2018—strong earnings, down year).

You can't watch or read the financial news without someone making comparisons to the 1999/2000 internet bubble. Yet, as you can see in the chart below, on March 24, 2000 when the market peaked, it was trading at a forward multiple of 27.2x on peak earnings. At the end of 2020, the SPX was trading at a forward multiple of 22.3x on trough-ish earnings. Stay tuned.



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.

Interest rates will remain low: Fed Chair Powell reiterated at his presser last week that the Fed is committed to a lower for longer policy. In June 2020, Powell made his famous "we're not even thinking about thinking about raising rates" comment. The market is up 20% since, and the Fed's language remains unchanged.

It is worth mentioning twice: where digitization and the consumer meet, we are bullish. Thank strong tech capex, improving productivity (which will keep secular inflation in check) and the economic cross section of companies digitizing their businesses.

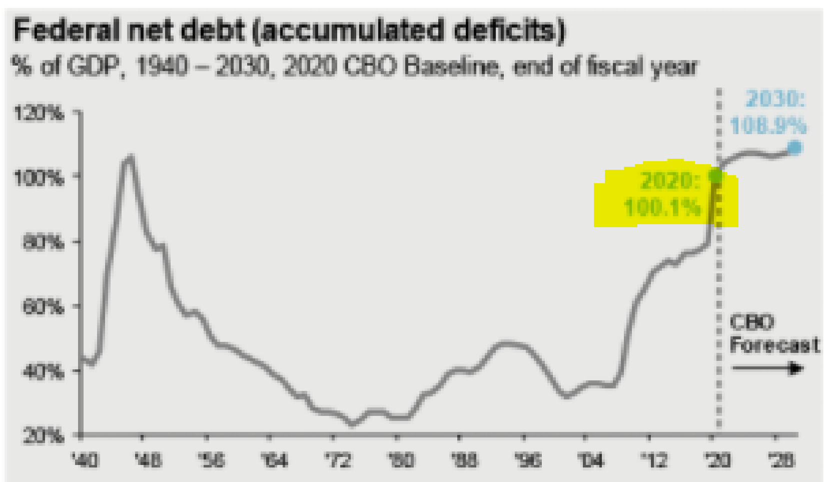
So, while others are eschewing the tech trade for deep cyclicals, we don't see the allocation as either/or. Even when growth accelerates, with low interest rates and technology as the engine of the economy, we like companies who build the cloud and data pipes, companies who help old economy companies digitize and become part of the tech/productivity boom. Think semis, semi-equipment makers, cloud and data workflow as well as cybersecurity.

Global synchronized growth is back in 2021: Manufacturing PMIs were reported Monday. EU was expansionary 54.8, the ASEAN countries up 51.4, South Korea came in at 53.2—the highest level since 2014, India 54.7, China 51.5, even the UK was expansionary at 54.8. And, of course, the U.S. was expansionary at 58.7. Since December is the month when seasonal adjustments are made, the decline from November is likely mostly due to the seasonal true-up.

The US ISM Manufacturing Supplier Deliveries Index provides insight to the sustainability of the recovery in manufacturing. A number greater than 50 indicates slower deliveries usually due to rising demand. December's number was 68.2. Early in the pandemic the number was elevated due to supply chain disruptions, but the recent surge is supported by the ISM® survey participants to be due to strong underlying demand with some modest labor constraints.

Headwinds:

Federal debt is historically high and rising: Eventually debt becomes a problem and siphons growth out of the economy. With trillions of dollars of stimulus still being proposed in Washington, we don't expect this trendline to reverse anytime soon. We are watching.



Source: J.P. Morgan Asset Management, 12/31/2020

Capital Gains Tax Increase: The Biden Administration has promised to increase cap gains taxes to ordinary income levels. That may well happen, but the consensus seems to think only an increase to 25-28% is likely by 9/1. Cap gains tax rates were raised in 1969 (SPX -5.9% six months later), 1970 (SPX -21.0% six months later), 1976 (-6.5% six months later), and 2013 (+12.6% six months later).

A regulatory lollapalooza in the works. One of the most underrated economic benefits of the Trump administration is also the least talked about: a material reduction in regulations improved productivity and job growth. President Joe Biden is increasing regulations at a breathtaking speed. The market does not appear to be discounting the increased costs to corporation's bottom lines.

Of course, the market is always climbing the proverbial wall of worry, but we see more to like than dislike for the U.S. economy, the global economy, and corporate profits. Stimulus is likely to be with us at least through the first half of the year (with lagged effects 18 months out), providing the light stocks seek to carry on this new bull market. We expect the market to correct as it does, on average, every twelve months, presenting investors with an opportunity to commit fresh cash, to trade out of fixed income, and to adjust their portfolios for the next stage of this young bull.

I don't see nothing new, but I feel a lot of change , and I get the strangest feeling as I'm heading for the light.

Nancy Tengler's Recent USA Today Articles

Joining a Reddit Revolution is Not an Investment Plan (Jan 28)
As You Reshuffle Your 401(k) for the Biden Administration, Look Across the Pond (Jan 24)
After the Dow Jones Industry Average Hit 30K, What's Next? (Dec 6)

Nancy Tengler's Recent Media Appearances

Stocks Close Sharply Lower Ahead of Big Earnings (Cheddar, Jan 27)
Trendsetter to Know: Nancy Tengler (Trendsetters AZ Foothills, Jan 26)
Semiconductors Are Due for a Pullback (CNBC, Jan 14)
As GameStop Surges, Market Analysts Name Other Stocks (CNBC, Jan 14)
Trader's On the Disconnect Between Washington & Wall Street (CNBC, Jan 7)
Why This Investor Says Bonds Are Riskier Than Stocks (CNBC, Jan 7)
Employment Report Could Accelerate 'Epic' Stimulus Package (Fox Business, Jan 6)
Bloomberg Markets: The Close (Bloomberg, Jan 5)
Market Corrections Are 'Painful But Necessary' In The New Year (Yahoo! Finance, Jan 4)
Investors Should Expect a First-Quarter Stock Correction in 2021 (CNBC, Dec 28)
Apple is Doing a Lot of Things Right Now with its Fitness Subscription App (CNBC, Dec 15)
How to Prepare Your Investing Strategy for 2021 (Fox Business, Dec 11)
Walmart is a Solid Bet as Rally Presses Pause (CNBC, Dec 7)
Emerging Markets Near Three Year High (CNBC, Dec 7)
AstraZeneca Vaccine News Boosts Stocks Despite Surging Covid Infections (CNBC, Nov 23)

THE LAFFER TENGLER INVESTMENTS DISCIPLINE

Discipline is key to sustainable long-term total returns:

- At Laffer Tengler Investments we use two, time-proven stock valuation metrics (both pioneered by our team) that are consistent and robust indicators of value: Relative Dividend Yield (RDY) and Relative-Price-to-Sales Ratio (RPSR).

- Why not use earnings like almost everyone else? Because earnings are often an unreliable indicator of value. In May of 2016, I published the following:

Earnings reported by corporations have always been subject to the vagaries of accounting gimmickry. You don't have to be a novice to scratch your head at the way managements (or governments for that matter!) account for various items.

A recent case in point: The Wall Street Journal (Thursday, February 25, 2016) reported that according to FactSet, pro forma earnings for S&P 500 companies rose 0.4% in 2015. Using generally accepted accounting principles or GAAP, earnings per share actually fell 12.7% in 2015 (this according to S&P Dow Jones Indices). The author's point is that according to GAAP earnings, investors are paying a great deal more for stocks than they think. The price-to-earnings ratio (P/E) on pro forma earnings (which is the most commonly accepted method) is 17x 2015 earnings. But when GAAP earnings are considered, the P/E jumps to more than 21x.

It is important to remember that the P/E ratio for any given stock is only as good as the price input (a fact) and the reported earnings input (apparently not a fact at all).

- **RDY** measures the yield of a particular stock compared to the yield on the S&P 500 and does so over long periods of time. Since a stock's relative yield and relative price are inverse, we can generally conclude that as a stock's yield is rising, its price is declining—similar to a bond. Consequently, a rising RDY provides an opportunity for investors to at least consider an underperforming, cheaply valued stock for purchase.

- Company managements and boards of directors pay the dividend out of free cash flow, not earnings. In maturing U.S. companies these seasoned professionals often operate within a "dividend paying culture" and set the dividend as a portion of long-term, sustainable real earnings power because management teams are loathed to cut dividends.

- The relative nature of the RDY metric is also important because it measures the relative attractiveness of a stock compared to its own history and compared to the S&P 500. (In 1992, I co-authored Relative Dividend Yield, Common Stock Investing for Income and Appreciation with Tony Spare)

- **RPSR**: In fallen-angel growth companies where the dividend is less of a factor in management's calculus, we look at sales—a fact. Rarely are sales manipulated and when they are someone usually goes to jail. The price-to-sales ratio measures how much investors are paying for a unit of sales, the relative price-to-sales ratio reveals what investors have historically paid for a particular company's sales compared to what they are paying for the sales of all the companies in the S&P 500. In 2003, I authored New Era Value Investing, John Wiley & Sons where I outline the benefits of RPSR in stock selection.

- Discipline, in summary, is the only way to navigate volatile markets. We remain disciplined and over time that consistency generates excess return.

Fundamental Research reduces the ownership of terminally cheap companies:
Meet the 12 Fundamental Factors.
Our proprietary research approach analyzes fundamental qualitative and quantitative factors.

- **Qualitative Factors:** Catalyst for Outperformance, Franchise Value & Market Growth, Top Management/Board of Directors.

- **Quantitative Factors**: Sales Growth, Operating Margins, Relative P/E, Positive Free Cash Flow, Dividend Coverage/Growth, Asset Turnover Ratio, Use of Cash (buyback, debt, div.), Leverage, Financial Risk.

General Disclosures

Advisory services offered through Laffer Tengler Investments, Inc. Information and commentary provided by Laffer Tengler Investments, Inc. ("Laffer Tengler") are opinions and should not be construed as facts. The market commentary is for informational purposes only and should not be deemed as a solicitation to invest or increase investments in Laffer Tengler products or the products of Laffer Tengler affiliates. The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. There can be no guarantee that any of the described objectives can be achieved. Laffer Tengler Investments, Inc. does not undertake to advise you of any change in its opinions or the information contained in this report. Past performance is not a guarantee of future results. Information provided from third parties was obtained from sources believed to be reliable, but no reservation or warranty is made as to its accuracy or completeness.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable. The price of any investment may rise or fall due to changes in the broad markets or changes in a company's financial condition and may do so unpredictably. Laffer Tengler Investments, Inc. does not make any representation that any strategy will or is likely to achieve returns similar to those shown in any performance results that may be illustrated in this presentation.
There is no assurance that a portfolio will achieve its investment objective.

Definitions and Indices

The S&P 500 Index is a stock market index based on the market capitalization of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor's.
Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions, or other expenses of investing. Investors cannot make direct investments into any index.

Laffer Tengler Investments, Inc. is a Registered Investment Advisor. Registration with the SEC or a state securities authority does not imply a certain level of skill or training. Laffer Tengler's advisory fee and risks are fully detailed in Part 2 of its Form ADV, available on request.

310 Seven Springs Way, Suite 230
Brentwood, TN 37027
www.laffertengler.com