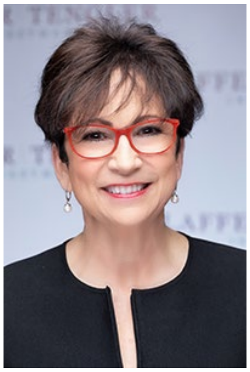
LAFFER | TENGLER
INVESTMENTS

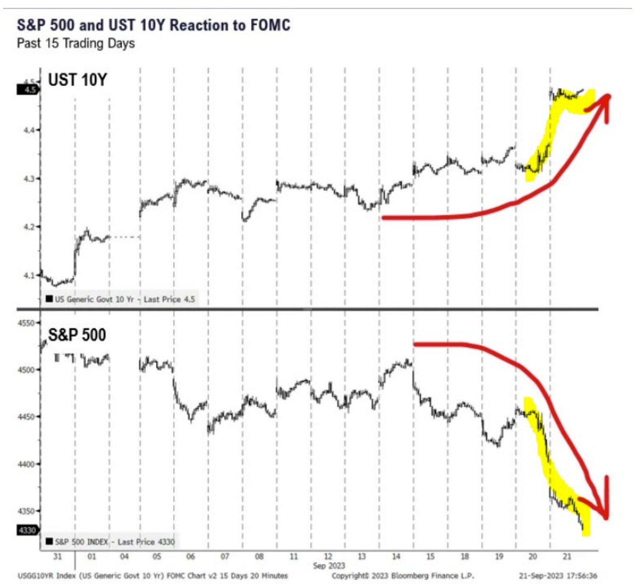
Market Commentary | Third Quarter 2023



The Fed's Word Goulash—spicy and soggy. September 20th Press Conference.

What did I hear from Federal Reserve Chairman, Jay Powell's press conference? A muddled stew of Fed speak that would argue for a soft landing and a Fed voting bloc that leans hawkish in the face of their own economic estimates. In addition, the Chairman seemed to confuse the narrative a few times (contradicting previous statements earlier in the conference) and left me, at least, nonplussed by the number of times he said: "we don't know"—6x, "we don't really know"—1x, and 2 "not sures." (Thanks to LTI's John McGinn!) This from the much-heralded data dependent Fed. And about the data... What seemed to really trouble the market is that the SEP or Summary of Economic Projections released by the Fed showed GDP higher and unemployment lower than the previous SEP—the proverbial soft landing. But the chairman spooked investors when he responded to the first question indicating that a soft landing was no longer a priority then later in the presser suggested the opposite was true.

Bonds sold off, yields rose, and stocks sold off. The markets, after all, do not like uncertainty—a specialty of this Federal Reserve for the last three years.

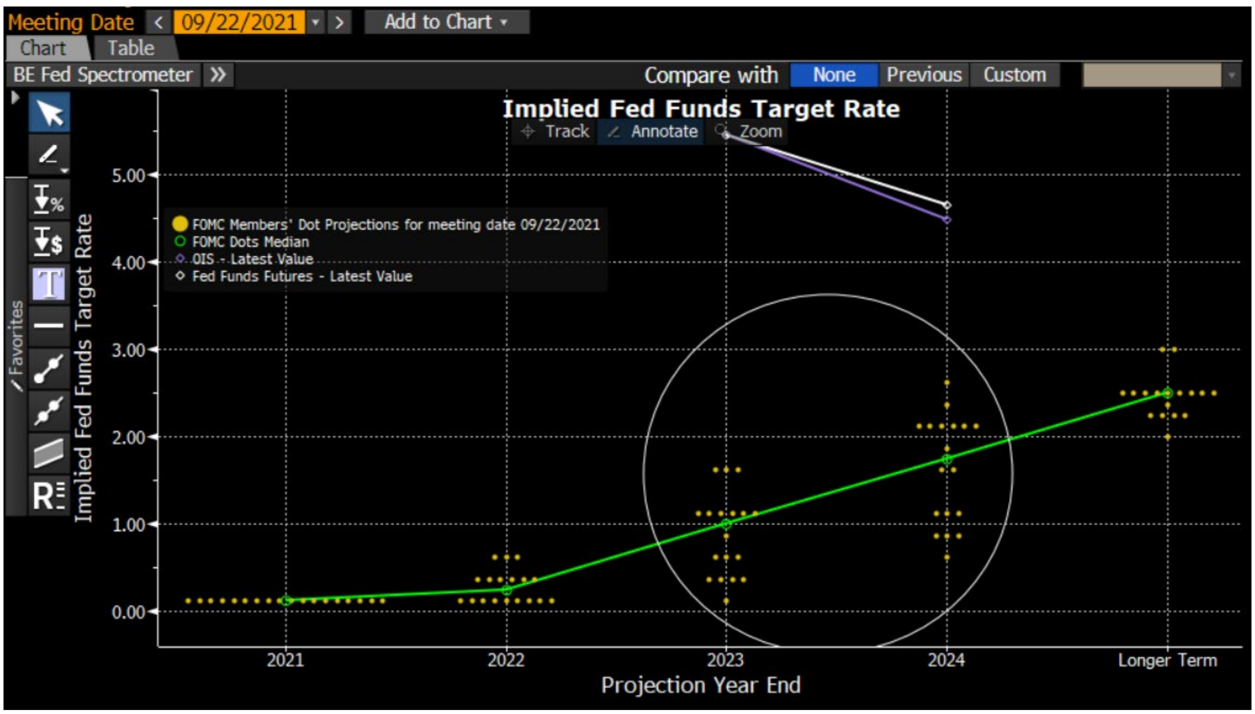


Source: Fundstrat, Bloomberg

September 21, 2023

Since the presser, the financial media has been full of speculation around how much higher for how much longer the Fed will remain hawkish. (Barron's had this to say: "The Fed's Dot-Plot Told One Story. Powell Gave Us Another.")

They cite the latest dot plot which indicates we will only see 50 basis points of cuts next year. As though it were gospel. Yet the dots represent the view of 19 FOMC members, most of whom do not vote on monetary policy. This is not the gospel according to anyone, it is merely a best guess based on what the members know now, or think they know. Therefore, I thought it would be instructive to look at the September 2021 dot plot when the Fed Chairman was still referring to inflation as "transitory." Note how wrong the "guesses" were. The vast majority expected to see rates slightly above or below 1.0% in 2023 (reference point: we are at 5.5%) and slightly above or below 2.0% by 2024 (current estimate is 5.1% by the end of 2024). In other words, as the Fed Chairman so aptly put it (repeatedly) in his press conference they just don't know.



Why then does the market react so dramatically to every word uttered and some that are not uttered? It's the short-term traders using algorithms who drive near-term volatility…and create opportunities for long-term investors. Last fall we added to technology when the algos were running for the hills. We think this sell-off will also provide excellent opportunities and are examining our watch list for high-quality, well-managed companies that will generate excess returns over the next few years.

Finally, I think it is important to note that *real* yields are hovering just above 2.0%. During the productivity (and stock market) boom in the 1990s, ***real*** yields traded in a range of 2.0%-4.5%. A 4.5% nominal yield is not, as Tom Lee, puts it "a P/E killer. In fact, the "sweet spot" for P/E is 3.5% to 5.5% yields which have seen an average P/E of ~20X. In fact, US yields below 3.5% are associated with lower P/E."

Market Commentary | Third Quarter 2023

The third quarter has been volatile. We suggested we would, and likely should, get a correction in the quarter. We get one, on average, every 12 months. Think of a correction as a release valve for rapidly rising stock prices which allows the engine to recalibrate. Remember that time in the market rather than timing the market is the best strategy. LTI adjusts risk around the edges, but our goal is to keep you invested. In my new book, The Women's Guide to Successful Investing, I cite the following study from our friends at Strategas: *Even more deleterious to returns is trying to time the market. Strategas Research Partners analyzed stock returns as measured by the S&P 500 from January 1, 1995, to December 31, 2022. For the investor who remains fully invested in the market over that 27-year period, the average annual return is 8.0%. By missing just the five best days, the annualized return drops to 6.2%. (Think; a cost to your $100,000 portfolio of $291,393. Missing the 30 best days over those 27 years results in an annualized total return of 1.3% or a cost in dollar terms of $657,078. Staying put during bear markets is important to achieving returns in stocks. Peter Lynch, one of greatest growth investors of all time once said: "The real key to making money in stocks is not to get scared out of them."*

Nancy Tengler,
CEO and Chief Investment Officer

Dividend Growth | Third Quarter 2023

DIVIDEND COMMENTARY:
By Steven Shepich, CFA
Senior Portfolio Manager, Strategy Team Leader

US companies are becoming more cautious in their dividend strategies due to rising interest rates, continued inflation, concerns over consumer spending, and uncertainty over the economy. According to research from S&P Dow Jones Indices, the aggregate amount of dividend increases from U.S. common stocks during the third quarter of 2023 were down 5.7% year-over-year and the aggregate amount of dividend decreases were up 552%

We were satisfied with the number and rate of increases, although the growth rates have decreased slightly compared to the previous couple of years. During Q3 2023, seven companies owned by the strategy increased their dividend at an average year-over-year rate of 6.9%. So far this year, our strategy has experienced 24 increases with an average year-over-year increase of 7.6%.

Most of the increases came in as expected, except for one. Stanley Black and Decker's dividend increase of 1.25% was below our three-year projection of 6%-8%. This is likely due to sluggish demand after a very robust couple of years following COVID. However, we expect the growth rates to increase as the company's business normalizes. On the positive side, this increase represented the 56th consecutive annual dividend increase.

The list on the next page includes companies owned by the strategy that provided a sequential (quarter over quarter) dividend change during the quarter. We consider the dividend change to become effective at the date of record. To be included on the list, the company must also have been owned by the strategy when the dividend was announced and at the end of the quarter. Year-over-year dividend comparison is also disclosed as some companies could have more than one dividend change during the year. For companies that do not pay dividends quarterly, we only list year-over-year change and use the trailing 12- month dividend to calculate. For businesses located outside the United States that do not pay their dividends in U.S. dollars, we report the dividend and dividend increases in local currency to negate currency movements that do not reflect business fundamentals.

LAFFER | TENGLER
INVESTMENTS

Dividend Growth | Third Quarter 2023

Laffer Tengler Dividend Growth Strategy
Dividend Increases
Third Quarter 2023

Ticker	Company	Record Date	New Dividend	Percentage Increase Qtr/Qtr	Yr/Yr	Consecutive Years of Growth	Uninterrupted Annual Dividends Since	Adjusted Yield as of 9/30/2023
DRI	Darden Restaurants, Inc.	7/10/2023	1.31	8.3%	8.3%	3	1995	3.7%
MS	Morgan Stanley	7/31/2023	0.85	9.7%	9.7%	10	1993	4.2%
NEP	NextEra Energy Partners	8/4/2023	0.85	1.4%	12.0%	10	2014	11.5%
SWK	Stanley Black & Decker	9/5/2023	0.81	1.3%	1.3%	56	1876	3.9%
SPG	Simon Property Group	9/8/2023	1.90	2.7%	8.6%	3	1994	7.0%
VICI	VICI Properties	9/21/2023	0.42	6.4%	6.4%	6	2018	5.7%
PM	Phillip Morris International	9/27/2023	1.30	2.4%	2.4%	15	2008	5.6%
	Average Increase			**4.6%**	**6.9%**			

Source: Bloomberg, company reports

NEW POSITIONS

We initiated a position in **PepsiCo (PEP)**. The company manufactures, markets, and sells a variety of snacks, carbonated and non-carbonated beverages. PEP is a dividend aristocrat and has increased its dividend 51 consecutive years. The stock had a dividend yield of 3.0% as of 9/30/23 and our three-year dividend growth projection is 6%-8%.

EXITED POSITIONS

We exited our position in **Devon Energy (DVN**). The company's variable dividend proved to be significantly more volatile than we had projected. Furthermore, inflation and production issues are offsetting the benefit from the recent uptick in oil prices.

We also exited our position in **Qualcomm (QCOM)** due to a weakening smartphone market, China exposure, and emerging competitive threats.

INCREASED POSITIONS

During the quarter we increased our position in **LyondellBasell (LYB).** We believe that shares are undervalued, and the stock offers an attractive 5.5% dividend yield (as of 9/30/23) and we project continued growth in the dividend at a rate of 4%-6% over the next three years.

We also increased our position in **NextEra Energy Partners (NEP)** to take advantage of the pullback in the stock price. The company lowered its distribution growth rate due to higher interest rates, which is negatively impacting the financing of growth projects.

DECREASED POSITIONS

We decided to reduce our holdings in **Prudential Financial (PRU)** due to its strong price momentum during the quarter. We trimmed our position and took profits.

We also reduced our position in **Extra Space Storage (EXR).** The company posted a disappointing quarterly report and reduced guidance for the year. The overall storage market is showing signs of a slowdown. We still like the stock long-term due to its dominant market position and attractive 5.3% dividend yield.

LEADERS

The largest contribution to return came from **Amgen (AMGN**). The company posted better than projected quarterly results and increased guidance for the year. It was also helped by the strong relative performance of the health care sector.

The second largest contributor was also in the health care sector. Shares of **AbbVie (ABBV**) posted strong relative performance as quarterly results exceed expectations and raised guidance as new drugs offset the decline of Humira which recently lost patent protection in the U.S. and Europe.

Prudential Financial (PRU) was the third largest contributor during the quarter. The company reported just in line quarterly results. However, the increase in long-term interest rates spurred strong performance for insurance stocks in general.

LAGGARDS

The biggest distractor to performance was **NextEra Energy Partners (NEP)**. The company's shares experienced a significant decline after management lowered its distribution growth guidance from 12% to 6%. The current business model is facing challenges due to rising interest rates. While we believe that the current distribution is secure and can continue to grow in the short term, the direction of interest rates will have a material impact on the company's ability to maintain it over the long run. We are closely monitoring the situation.

Extra Space Storage (EXR) was the second largest detractor of performance. The company's quarterly report was disappointing, with a slight miss and lowered guidance. Additionally, REITs in general underperformed due to the rise in long-term interest rates during the quarter. Despite these short-term challenges, we believe that EXR has a strong market position and an attractive yield, making it an appealing long-term investment option.

Shares of **Darden Restaurants (DRI)** were also a distractor of performance for the third quarter, despite posting better-than-projected quarterly results and maintaining their FY guidance. However, same-store-sales turned negative in the fine dining segment, which may have raised concerns over the consumer spending environment.

DISCLOSURE INFORMATION

Laffer Tengler Investments, Inc. ("Laffer Tengler") is registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration with the SEC or state securities authority does not imply a certain level of skill or training. For information filed by Laffer Tengler with the U.S. Securities and Exchange Commission, please go to www.adviserinfo.sec.gov and search for Laffer Tengler Investments under the "Investment Adviser Search" option. The firm's current market outlook is subject to change from time to time and without notice. A change in market outlook would generally lead to changes in account compositions, which may impact the characteristics presented herein. The information contained in this commentary is not intended to be used as the sole basis of investment decisions and is not a recommendation to buy or sell. Past performance is no indication or guarantee of future results.

This document may contain forward-looking statements relating to the objectives, opportunities, and the future performance of the U.S. market generally. Forward-looking statements may be identified by the use of such words as; "believe," "expect," "anticipate," "should," "planned," "estimated," "potential" and other similar terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to financial condition, results of operations, and success or lack of success of any particular investment strategy. All are subject to various factors, including, but not limited to general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting a portfolio's operations that could cause actual results to differ materially from projected results.