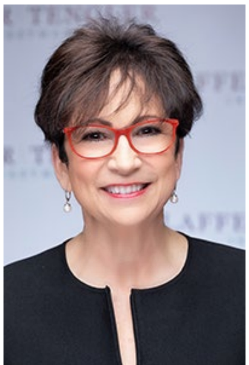
Market Commentary | Fourth Quarter 2023



And What a Year it Was!

One of the most important things to learn as an investor is who to listen to and who to ignore. After almost 40 years in this business, I have cultivated a list of market strategists, economists and research analysts whose work I respect and another collection of what we call at Laffer Tengler, "the perfect contrary indicators."

No one in this business has demonstrated a flawless batting average but as we have written in the past, being mostly right generates enviable returns over time. We ended 2022 with a commentary entitled: What Could Go Right in 2023? Sentiment will shift at some point; we want to be ahead of the pack. We hope as we manage your wealth through the inevitable corrections and bear markets and the more common bull markets that you will come to trust our research and investment expertise. That we will continue to make your list of reliable investment sources.

Our investing theme remains intact. We are buying old economy companies who are embracing digitization, cloud computing and generative AI to enhance product development, increase market share and improve margins, and the supplier of the picks and shovels needed to do so. I recently gave a keynote at The Money Show entitled, The 4th Industrial Revolution. Below is a chart highlighting the early and broad adoption of generative AI.

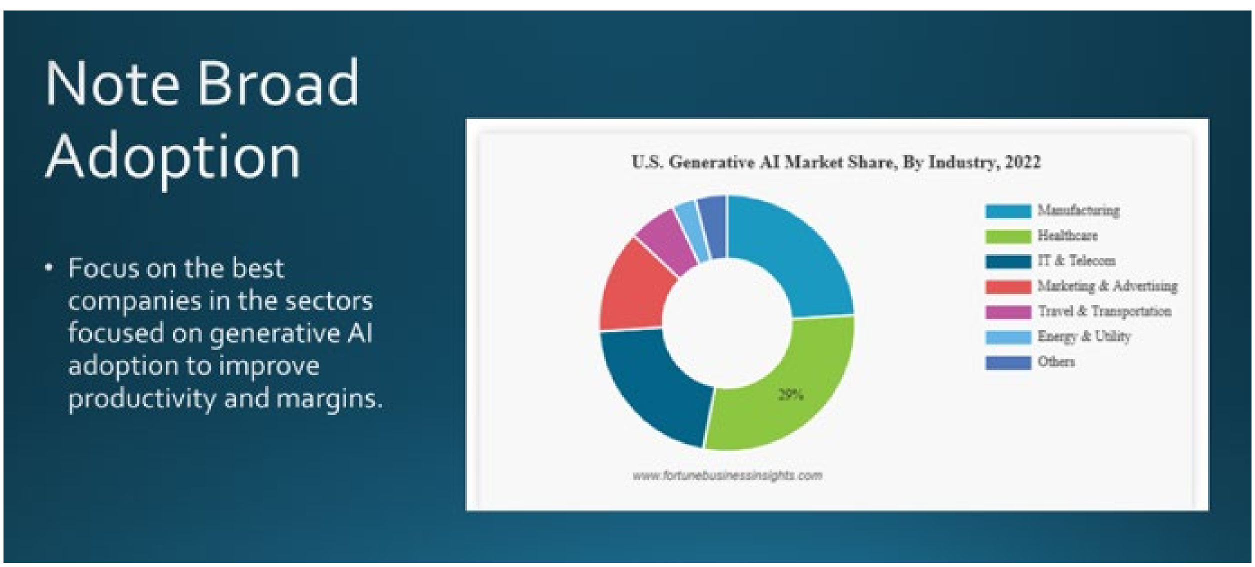


Chart source: www.fortunebusinessinsights.com

And lest you think the cloud computing trend is over see the chart below. The total addressable market continues to grow for the foreseeable future.

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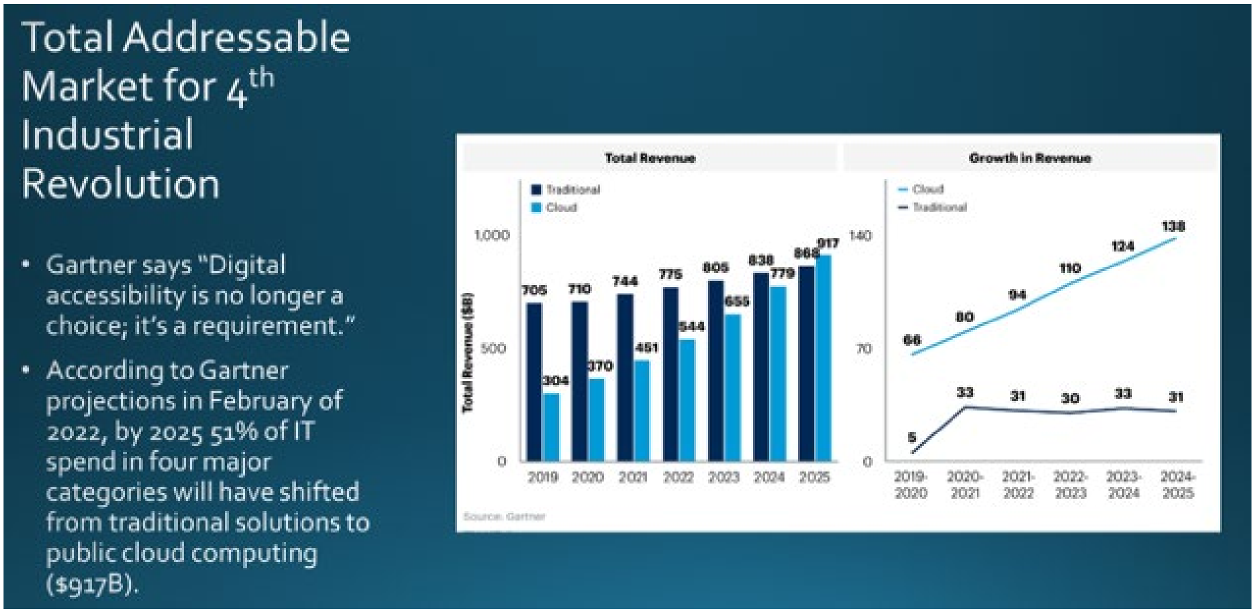

Chart source: Gartner

We are always on the lookout for great companies in the segments of the market we expect to outperform in the coming years. Our time-proven valuation metrics (Relative Dividend Yield (RDY) and Relative Price to Sales Ratio (RPSR)) point us to attractively valued stocks compared to the market and their own history. Then we overlay our proprietary 12 Fundamental Factor analysis to uncover the highest quality names with the best management teams and identifiable catalysts for outperformance. The market is a forward discounting mechanism; positioning requires anticipating what will work not what recently worked.

Our macro theme also remains intact. The analog to this economy and market remains the decade of the 1990s. Not only was I alive during the period, I was managing billions of dollars. I have written extensively on the topic (contact lmitchell@laffertengler.com for a copy of our reports) but essentially the same conditions—above 2.0% inflation, 10-year yields averaging between 5.0%-7.0% during the decade, geopolitical tensions and the Gulf War, a VIX that remained below 18 for most of the decade, an inverted yield curve, a soft landing (thank you Chairman Greenspan), a labor shortage which resulted in technology spending which increased productivity—resulted in robust returns for stocks during the decade. Higher interest rates and attractive stock returns can indeed coexist.

On February 21, 2023, I wrote a commentary entitled The Proverbial Tug of War Between Fear and Greed Continues and concluded with the following:

> Bloomberg wrote an article about money managers for the ultra-wealthy. They dumped tech stocks during the fourth quarter (of 2022) when we were buying them. We have always found it helpful to stay out of the echo chamber and stick to our knitting as the old saying goes.

> So, in the face of ongoing volatility we are patient, waiting for the right pitch as others swing for the fence. Because, after almost 40 years in this business we know two things for certain: volatility is the friend of the long-term investor, and every bear market is eventually followed by a bull market.

The most under-discussed bull case for stocks in 2024 comes in the form of share buybacks. In 2021, share repurchases put a floor under stock prices. We think that continues in 2024. The chart below (also from my keynote) outlines the expected share repurchases just from the Magnificent 7 alone. There are plenty of other companies in a broad range of industries who are employing share repurchases as one way to return capital to investors. While we prefer dividends and dividend growth, buying back shares does put a floor under stock prices.

Chart source: Bloomberg

Lastly, as readers of our commentaries know, we have been quite critical of the Fed in recent years. Flip flopping and reversing course at breathtaking speed allowed inflation to rage out of control (peaking at 9.2%) and increased (unnecessarily we might point out) volatility in both the stock and bond markets over the past few years. Our memories were tickled by a reminder of a comment made by former Federal Reserve Chairman, Alan Greenspan from the good old days when the Fed maintained independence and mystique. "I know you think you understand what you thought I said, but I am not sure you realize that what you heard is not what I meant." The Chairman was a master of Fed speak, something we think would serve the markets and American consumer well in the coming year. From Chairman Greenspan's lips to Chairman Powell's ears.

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Expect volatility in the first half of the year and remember our investing mantra: volatility is the friend of the long-term investor. We will be watching and taking advantage of price distortions for the next 3-5 years.

Happy New Year!

Nancy Tengler,
CEO and Chief Investment Officer

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INVESTMENTS

Dividend Growth Strategy | Fourth Quarter 2023

<u>DIVIDEND COMMENTARY</u>:
By Steven Shepich, CFA
Senior Portfolio Manager, Strategy Team Leader

We were pleased by the number and the rate of dividend increases the Laffer Tengler Dividend Growth Strategy experienced during the fourth quarter and for the year, especially since the strategy's dividend yield is more than double that of the S&P 500. For the fourth quarter seven companies in the strategy increased their dividend at an average year-over-year growth rate of 7.9%. For the year, the strategy experienced 31 dividend increases with a year-over-year average growth rate of 7.6%.

The rate of increases was down from the double-digit average we experienced last year but were basically in line with our expectations. The exception was US Bancorp (USB) whose 2.1% increase was below our long-term target of 4%-6% as the company deals with the impact of higher interest rates. There were milestones reached during the quarter. MPLX LP (MPLX) became a dividend achiever by extending its dividend increase streak to 10 years, and Texas Instruments (TXN) extended its dividend increase streak to two decades.

Laffer Tengler Dividend Growth Strategy
Dividend Increases
Fourth 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 12/31/2023
TXN	Texas Instruments	10/31/2023	1.30	4.8%	4.8%	20	1979	3.1%
MPLX	MPLX LP	11/3/2023	0.85	9.7%	9.7%	10	2013	9.3%
SNA	Snap-on Inc.	11/21/2023	1.86	14.8%	14.8%	14	1939	2.6%
LMT	Lockheed Martin	12/1/2023	3.15	5.0%	5.0%	21	1995	2.8%
AVGO	Broadcom Inc.	12/20/2023	5.25	14.1%	14.1%	14	2010	1.9%
USB	US Bancorp	12/29/2023	0.49	2.1%	2.1%	13	Before 1980	4.5%
ARE	Alexandria Real Estate Equities	12/29/2023	1.27	2.4%	5.0%	13	1997	3.9%
	Average Increase			**7.6%**	**7.9%**			

Source: Bloomberg, company reports

The list above 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 dividend increases in local currency to negate currency movements that do not reflect business fundamentals.

Dividend Growth Strategy | Fourth Quarter 2023

NEW POSITIONS

During the fourth quarter, we initiated a position in **Brookfield Asset Management Ltd. (BAM).** The company is a leading global alternative asset manager with approximately $850 billion of assets under management across renewable power & transition, infrastructure, private equity, real estate, and credit. BAM was spun off from Brookfield Corporation (BN) in December of 2022 to give public shareholders direct access to a pure-play alternatives manager. BAM participates in this business through its 25% ownership in the Asset Management business of BN. The stock offers a dividend yield of 3.3% and our three-year dividend growth estimate is 12%-15% annually.

EXITED POSITIONS

We exited our position in **NextEra Energy Partners (NEP).** The higher interest rate environment has hindered the company's ability to finance new projects at attractive rates of return, which we believe will significantly hamper its ability to grow the dividend.

INCREASED POSITIONS

None

DECREASED POSITIONS

We decreased our weighting in **Broadcom Inc. (AVGO)**. Shares of the stock have appreciated significantly in 2023 to the point where the stock's weighting in the strategy exceeded our 5% maximum threshold for a single position. We took some profits and reduced our weighting.

LEADERS

The top contributor to fourth quarter performance was **Broadcom Inc. (AVGO)**. Shares benefited from a strong quarterly report, the closing of the VMWare acquisition, and momentum in AI (artificial intelligence) related stocks.

The second leading contributor was **Extra Space Storage. (EXR**). A strong earnings report coupled with strong price momentum in the REIT industry contributed to the strong results.

US Bancorp (USB) was also a top contributor to fourth quarter performance. A decline in interest rates during the quarter drove strong price momentum for regional banks.

LAGGARDS

The largest distractor of performance came from **Chevron Corp. (CVX**). Shares were pressured by a disappointing earnings report as well as lower commodity prices.

NextEra Energy Partners (NEP) was the second largest distractor of performance. The company materially lowered its growth outlook due to the impact that higher interest rates are having on the cost to finance new deals.

Shares of **Corning Inc. (GLW**) were also a distractor from performance due to a disappointing earnings announcement.

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