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. And we got ahead of the pack which is why our key group of wealth equity strategies outperformed their benchmarks in 2023. (The gross and net of fee returns for the selected strategies are listed below.) 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.

- Equity Income 13.95% (12.66% net) vs. Russell 1000 Value 11.87%.
- Equity Growth 37.08% (35.56% net) vs. S&P 500 25.58%.
- Concentrated 40.69% (39.12% net) vs. DJIA 16.26%

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.

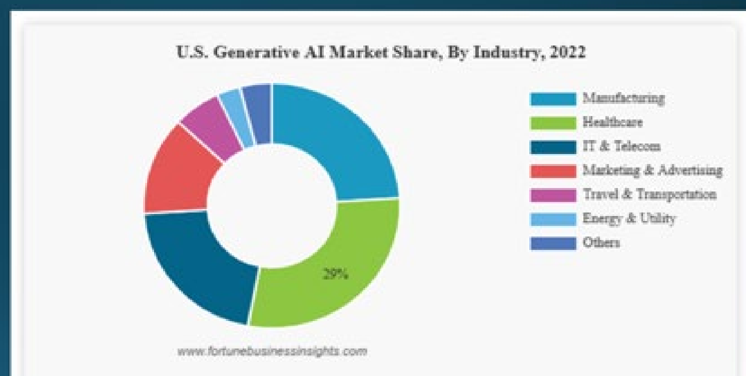

Chart source: www.fortunebusinessinsights.com

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.

Total Addressable Market for 4th Industrial Revolution

- Gartner says "Digital accessibility is no longer a choice; it's a requirement."
- According to Gartner projections in February of 2022, by 2025 51% of IT spend in four major categories will have shifted from traditional solutions to public cloud computing ($917B).

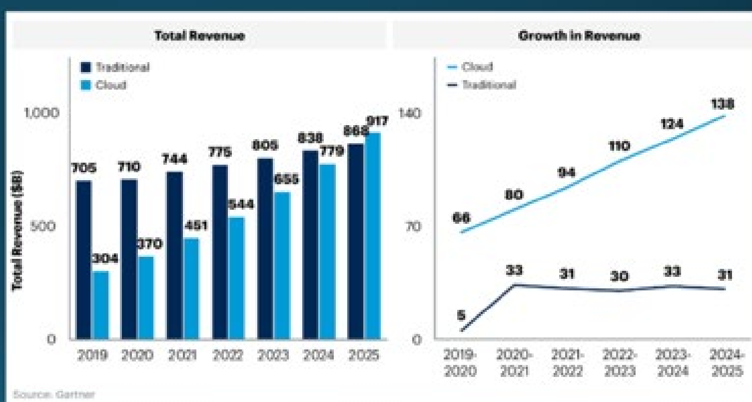

Chart source: Gartner

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.

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

LAFFER | TENGLER
INVESTMENTS

Equity Income Strategy | Fourth Quarter 2023

Laffer Tengler Investments

Large Cap Equity Strategies

Performance - December 2023

	1 year	5 years	Since Inception
Concentrated (Gross)	40.69%		14.51%
Concentrated (Net)	39.12%		13.39%
DJIA	16.26%	12.47%	10.86%
Equity Growth Strategy (Gross)	37.08%	14.75%	12.94%
Equity Growth Strategy (Net)	35.56%	13.69%	12.02%
S&P 500	26.37%	15.70%	13.60%
Equity Income Strategy (Gross)	13.95%	13.76%	12.31%
Equity Income Strategy (Net)	12.66%	12.67%	11.34%
Russell 1000 Value	11.50%	10.91%	7.85%

*Inception Dates
Concentrated 9/1/2019
Equity Growth 7/1/2016
Equity Income 1/1/2015

Equity Income Strategy | Fourth Quarter 2023

Winners: 1 (AVGO), 4 (LRCX), 5 (HD)

Broadcom Inc. (AVGO) was the single highest contributor to performance during the quarter, as the company closed on its $69 billion acquisition of VMWare and continued to bank on AI buzz. It's early stages of the VMWare restructuring, so management issued guidance for the full year only, and expects software revenue to more than double given the pending integration. Broadcom continues to be one of the most strategically and financially attractive business models in the semiconductor space, as the company continues to efficiently manage its manufacturing advantage, and enjoys substantial and steady earnings and free cash flow growth, driven by its successful track record of M&A. Broadcom's dividend has grown at an annualized rate of over 19% over the past five years.

Microsoft Corp. (MSFT) was the second highest contributor to performance for the quarter, largely due to its early leadership in generative AI, positioning it as the 'first to market' and a major influence on the success of the 'Magnificent 7' stocks. This strategic move in AI has not only been beneficial for Microsoft but also has positively impacted the general market. The company is further expected to capitalize on the uptick in IT spending from other companies, a development that had previously been on hold. Microsoft's product, Copilot, is projected to amplify productivity gains across enterprise clients. Despite these positives, Microsoft is managing a significant legal challenge, facing potential damages of up to $300 billion in a copyright lawsuit related to its OpenAI investment, which is likely to be settled through a content-licensing deal. On a more positive note, the company's acquisition of Activision is expected to proceed, despite opposition from the Federal Trade Commission (FTC). Microsoft's strong financial standing, with over $140 billion in cash and a weighted average cost of debt at 3.5%, positions it strongly to perform well in varying economic cycles, including any potential increases in inflation. Microsoft's dividend has grown at an annualized rate of over 10% over the past five years.

PNC Financial. (PNC) was the third highest contributor to performance for the quarter, largely attributed to the Federal Reserve's signals of potential rate cuts in 2024, fostering favorable conditions for net interest margins at regional banks. PNC's success is underpinned by its proven efficiency in acquisitions, notably the swift 11-month integration of BBVA. Furthermore, PNC's decade-long commitment to technological modernization is now yielding benefits, allowing for more scalable business operations on its current tech platform. With the advent of new G-SIB-like (Global Systematically Important Bank) regulations (D-SIB), PNC appears to be adapting to a more GSIB-like operational model. The company has maintained its fourth-quarter guidance, predicting a trough in net interest income by mid-2024 and anticipating stable costs for the same year. PNC also benefits from a significant unrealized gain in its VISA stake, providing flexibility for share buybacks or other strategic initiatives. The company's management has confidently addressed balance sheet risks, highlighting manageable exposure to the office commercial real estate segment. PNC's diversified portfolio, including institutional banking and asset management, offers a strong hedge against net interest margin volatility, supporting a positive outlook for its future performance. PNC's dividend has grown at an annualized rate of over 12% over the past five years.

Lam Research Corp. (LRCX) was the fourth highest contributor to performance, even as the company battled declining revenues for a third consecutive quarter due to weak demand for memory chips. The company specializes in etching and deposition equipment for (among others) NAND chips, and the amount of these chips used in AI servers could be 3x more than are used in regular servers. Sales and profit for Lam Research should expand as shipments rebound for memory chip customers, such as Samsung Electronics, and investments are made in next-generation chips. Lam Research's dividend has grown at an annualized rate of over 14% over the past five years.

Home Depot Inc. (HD) was the fifth highest contributor, although the company faced a third consecutive quarter of declining revenues due to deflation, a housing slump, and customers focusing on smaller projects and dialing back big-ticket discretionary purchases. Home Depot completed actions during the quarter that should provide a margin buffer and reduce costs by $500 million in 2024. And looking forward, long-term structural tailwinds for the home improvement industry are clear –a chronic undersupply of homes, U.S. housing stock is rapidly aging, and the average size of the U.S. home is on the rise. Home Depot's supply chain investments should position the company well to gain share as the industry consolidates. Home Depot's dividend has grown at an annualized rate of over 15% over the past five years.

<u>Losers: 1 (CVX)</u>

Chevron Corp. (CVX) was the single worst contributor to performance, as oil prices fell roughly 25% during the quarter, and project delays stymied functionality at Chevron's Kazakhstan operations. The integrated oil and gas behemoth also announced its intention to acquire Hess Corp. (HES) in an all-stock transaction valued at $53 billion, even as Hess' leading position in Guyana has come under attack as reports come in of Venezuela and Brazil potentially placing troops along their respective borders (geopolitics are part of the business, so more smoke than fire is expected). Despite these headwinds, strong cash returns to shareholders off a solid balance sheet are expected to continue and grow into 2024. Chevron's dividend has grown at an annualized rate of over 6% over the past five years.

Cisco Systems (CSCO) was the second worst contributor during the quarter. As the company cut its full-year revenue and profit forecasts following its first-quarter results in November, CEO Charles Robbins noted, "Our customers are now focused on installing and implementing these unprecedented levels of products. This implementation phase is the primary reason for the slowdown in new orders." Despite the company's order lead times and backlog returning to normal levels, the bottleneck previously seen in the supply chain has shifted to implementation, causing near-term consequences for revenue, with first quarter product orders declining 20%. On the M&A front, Cisco's planned acquisition of cybersecurity firm Splunk (SPLK) for around $28 billion, its largest deal ever, remains on track to close by end of third quarter 2024. Cisco's dividend has grown at an annualized rate of over 3% over the past 5 years.

EOG Resources Inc. (EOG) was the third worst contributor to performance, primarily due to lower oil prices. As an upstream company, EOG's challenges were compounded by well productivity in the Eagle Ford basin that remained significantly below the company's historical vintage levels. Despite these

setbacks, there are several reasons to remain optimistic about EOG's future prospects. Firstly, well performance in the Delaware Basin continues to be strong overall. Additionally, EOG boasts a strong financial position, characterized by a lower debt-to-total assets ratio and a healthy cash position. Furthermore, the company's management has signaled that they will be buying back stock opportunistically, reflecting confidence in the company's stock. Another factor potentially working in EOG's favor is the ongoing geopolitical tension in the Middle East, which could lead to supply shocks and a consequent rise in oil prices. Finally, we remain optimistic as the decrease in refiner margins might shift investor interest from downstream to more upstream plays, potentially benefiting companies like EOG. EOG's dividend (fixed + variable) has grown at an annualized rate of over 50% over the past five years.

Walmart (WMT) was the fourth worst contributor during the quarter, as a surprise retail sales decline in October and the resumption of student loan payments gave Walmart's CFO John Rainey pause for concern. Despite beating on the top and bottom lines when reporting in November, Walmart's full year operating income guidance came in below street estimates, sending shares tumbling 8.5%. On the other hand, Walmart's investment in its e-commerce platform continues to pay off – after holding its inaugural Marketplace Seller Summit in September to help accelerate marketplace growth, Walmart saw e-commerce sales up 24% in its domestic Walmart stores, up 16% in domestic Sam's Club stores, and up 15% globally. Indeed, Walmart's value proposition continues to resonate with consumers. Walmart's dividend has grown at an annualized rate of nearly 2% over the past five years.

Emerson Electric (EMR) was the fifth worst contributor to performance for the quarter, with its underperformance stemming from a mix of supply chain constraints, inflationary pressures, increased working capital, and substantial tax payments on divestiture gains of $153 million. Additionally, the company's exposure to the energy sector, which accounts for 20% of its sales, contributed to the pullback amid declining oil prices. Despite these setbacks, the outlook for holding onto Emerson stock remains positive. The company is expected to see fiscal 2024 sales growth driven by late-cycle process sector demand and hybrid automation opportunities, backed by a record backlog. Moreover, profitability is projected to improve, with adjusted EBITA margin anticipated to reach 25% in 2024 and continue to rise modestly in 2025. Emerson's decision to retain a 40% stake in its sold Climate Technologies unit and the use of proceeds to fund the National Instruments deal are seen as strong strategic moves. Emerson is focused on minimizing costs associated with maintaining its platform, with new investments directed towards the application software developed and being developed by National Instruments. Emerson's dividend has grown at an annualized rate of 1.4% over the past five years.

DISCLOSURE INFORMATION

LAFFER TENGLER INVESTMENTS EQUITY STRATEGY DISCLOSURE

Unless otherwise indicated, performance results are based on the following composites: Concentrated, Equity Growth and Equity Income Strategies ("Composite"). All performance results are shown on an annualized basis except for periods of less than one year. A composite is an aggregation of one or more portfolios managed by Laffer Tengler into a single group that represents a particular investment objective or strategy. The performance information contained in this presentation is therefore derived from actual results.

Accounts that comprise the Composite are not identical and may have different inception dates, may be subject to client-imposed restrictions or otherwise may have more or less flexibility in achieving their investment objective (including with respect to capitalization, industry, or geography). They also vary in size. Additionally, the firm's views and advice as to portfolio composition and characteristics for accounts following the strategy as reflected in the Composite evolve over time. Decisions made for one account may differ from those made for other accounts. For pre-existing accounts transferred to Laffer Tengler, Laffer Tengler may determine to retain prior holdings or employ different account weightings for a variety of reasons including tax characteristics or consequences, holding periods, transaction costs, legal or client-imposed restrictions. Thus, at any time, any particular account among those comprising the Composite may or may not include some or all of the same securities (or weightings) as other accounts that comprise the Composite. Any particular account may have portfolio characteristics and performance that differ from other accounts within the Composite. 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. Individual results and portfolio compositions may also vary as a result of market conditions, trading costs, account size, cash flows, account restrictions and other factors that may be unique to each account. The portfolio characteristics, holdings, and related information for any particular account comprising the Composite will vary from time to time based on, among other things, available cash, market conditions and the client's individual investment needs guidelines and restrictions. There is no guarantee that the portfolio characteristics, holdings, and related information for the Composite will remain identical to that presented here; Laffer Tengler may make investment decisions which cause the portfolio characteristics, holdings, and related information to vary from that presented herein over time.

The illustrated performance is historical and does not represent future results. Historical performance is not predictive or indicative of future performance. Your actual return and yield will vary, and your account may generate a gain or a loss. All performance data labeled as "Gross" reflects performance with no deduction of advisory fees or other expenses (except for brokerage commissions where applicable) associated with managing the accounts in the Composite. The returns are calculated pre-tax and would be lower if advisory fees and other expenses were deducted. For example, if a 1.00% annual advisory fee were deducted quarterly and your annual return were 10.00% (based on quarterly returns of approximately 2.41% each) before deduction of investment advisory fees, the deduction of the investment advisory fees would result in an annual return of approximately 8.93% due, in part, to the compound effect of such fees. All performance data labeled as "Net" reflects deduction of fees charged to customers by Laffer Tengler. For the strategy shown, the performance has been reduced by the amount of the highest fee charged to any customer employing the strategy used in managing the accounts within the Composite during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Laffer Tengler's fees are available upon request and may be found in Part of its Form ADV. All returns reflect reinvestment of dividends and capital gains.

Equity Income Strategy | Fourth Quarter 2023

Benchmarks:
The illustrated benchmark for the Laffer Tengler Concentrated Equity Composite is the Dow Jones Industrial Average (DJIA). The DJ Industrial Average is the most relevant index for performance comparison of the Composite. The DJ Industrial Average measures the performance of 30 US blue-chip stocks covering all industries with the exception of transportation and utilities. It is price weighted.

The illustrated benchmark for the Laffer Tengler Equity Growth Composite is the Standard & Poor's 500 (S&P 500). The S&P 500 Index is the most relevant index for performance comparison of the Composite. The S&P 500 is an unmanaged index of the common stock of 500 widely held U.S. companies selected for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The illustrated benchmark for the Laffer Tengler Equity Income Composite is the Russell 1000 Value Index. The Russel 1000® Value Index is the most relevant index for performance comparison of the Composite. The Russell 1000® Value Index measures the performance of the large-cap value segment of the US equity universe. The index includes Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium-term (2 years) growth, and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure the inclusion of new and growing equities and that the represented companies continue to reflect value characteristics.

Nothing in this report should be considered a recommendation to purchase or sell any named or unnamed securities. Nothing in this report is intended to imply that any specifically mentioned security was or would have been profitable to any person. Likewise, it should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities referenced in this report. The securities referenced in this report may or may not have been held in the Composite at any time before or after the stated date of this report. Where a holding is represented as comprising a certain percentage of the Composite, cash and cash equivalents are included for purposes of calculating the percentages, but the percentage of the cash position is not illustrated. Laffer Tengler will furnish, on request, a list of all securities purchased or sold within the immediately preceding one-year period.

Equity Income Strategy | Fourth Quarter 2023

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.