LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

Fall 2023 Quarterly Commentary

Dan Van Timmeren John Koczara
Chris Walker Aaron Ritsema

Don’t Believe the Economic Hype

Economic Perspective:

Sometimes headline numbers do not tell the whole story. For example, you would think that the Atlanta Fed’s GDP Now third quarter economic growth estimate near 5% would have market participants dancing in the streets. Well, the opposite seems to be true. Both the stock and bond markets have been selling off of late. Stock investors are fearful that interest rates will stay higher-for-longer. Bond investors are on edge about a lack of a budget deal coming out of Washington D.C. & sticky inflation artificially buoying growth. On the surface, our economy is doing okay. However, beneath the numbers, there are signs that suggest we should put away our rose-colored sunglasses.

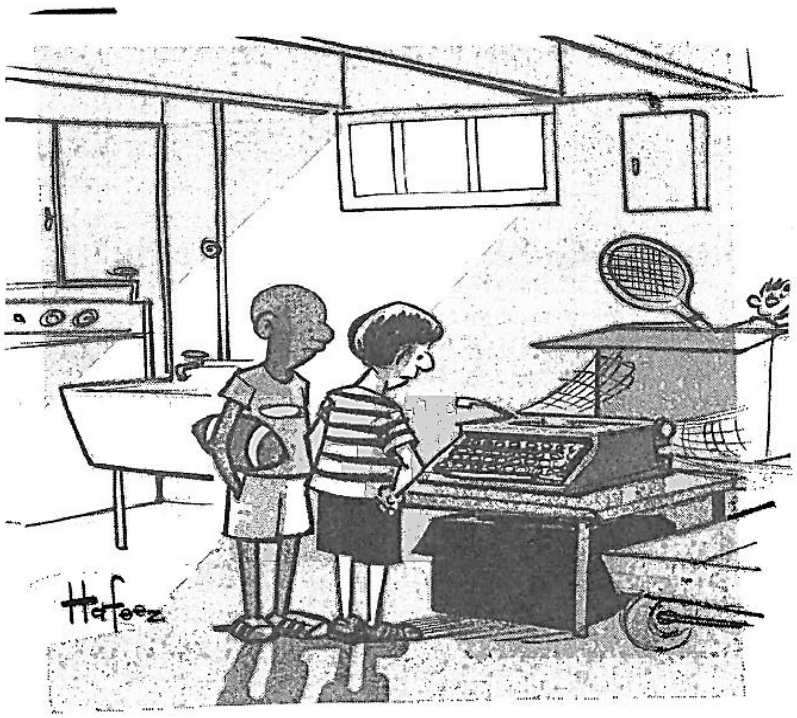
A good example of the economic tug-of-war going on is the most recent Costco quarterly earnings report. Both sales and earnings beat Wall Street estimates but several underlying metrics raised concerns after the report. While store traffic was up, average ticket was down considerably during the quarter & U.S. comparable store sales were barely positive. The deceleration experienced over the past four quarters was the weakest seen since 2017. Costco’s CFO Richard Galanti stated on the call that consumers are reluctant to splurge and there has been weakness in big ticket discretionary items. That sure doesn’t seem like an accelerating economic environment to us!

Recent consumer confidence readings also suggest the consumer is pulling back. The Conference Board’s consumer confidence index decreased to 103 in September. The decline from 108.7 in August was a four-month low. Consumers’ perceptions of a likelihood of a recession also ticked up in the report. A consumer slowdown also validates what we have been seeing in the private sector jobs market. Nonfarm payroll growth has been slowing since the beginning of the year. In fact, the current three-month average payroll gains of just over +150,000 jobs is less than half where we were just six months ago. Obviously, this trend bears watching much more closely in the coming months.

Market Perspective:

While our top-down economic forecast carries weight when structuring our stock portfolios, we will always rely much more on individual company fundamentals when investing in stocks. We are cautiously optimistic on the market over the near-term, but not fearful. Yes, the economy is likely to slow down due to the delayed effect of previous interest rate hikes. This is to be expected. However, it is important to remember that going into the year, most market participants gave a soft landing economic scenario slim to no chance. As a result, growth stocks were decimated in 2022. Hard landing fears have now dissipated – which has given growth investors the green light for the better part of the year. Therefore, economic-sensitive sectors such as consumer discretionary, technology and energy have led the market advance in 2023. In fact, growth stocks are outperforming value stocks by more than 2 times this year! This is likely to change if an economic slowdown is upon us. Many value-style, dividend-paying companies are looking quite attractive to us. Historically, they have traded at a 30 percent valuation discount to growth companies. They currently trade at a 45% discount! We anticipate making incremental changes to our equity portfolios in the coming months to find the appropriate balance of economic-sensitive and defensive names given our forecast for a not-too-hot, not-too-cold economic climate.

Looking Ahead: We recently returned from our annual Northern Trust Investment Institute conference. We rely on them, and a handful of other quality research firms, to give us thoughtful insight on the economy, current sector trends (risks & opportunities) as well as new stock ideas. We feel it is always three days well spent. Our investment committee was encouraged that their take on the markets & the economy is similar to ours. Importantly, we left Chicago excited about a handful of new companies that we plan to research more & perform additional due diligence on. As you already know, security analysis & selection have long been the lifeblood of our firm. During times of market volatility & economic uncertainty like we are experiencing today, we believe our ability to ignore the noise (i.e.: Washington D.C., geopolitical and the economy) & focus on individual company fundamentals is what provides value to you, our client. Investment discipline, which turns challenges into investment opportunities, has served our clients well over the long run. You can expect us to remain nimble and opportunistic in the coming weeks and months ahead.



"It appears to be some sort of ancient texting device."

This document contains forward-looking statements, predictions, and forecasts ("forward-looking statements") concerning our beliefs and opinions in respect of the future. Forward-looking statements necessarily involve risks and uncertainties, and undue reliance should not be placed on them. There can be no assurance that forward-looking statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.