Cycle investing. Feb 2023

1. First question is: where are we in the cycle?
    a. Get data from FRED fred.stlouisfed.org
2. Is it different this time? (a phrase I hate)
    a. Or at least what parts are different
3. What are the foreseeable trends for 2023 (first 6 months)
4. Where are corporations spending money, where are they cutting back?
5. Asset prices go up based on avalibility of money

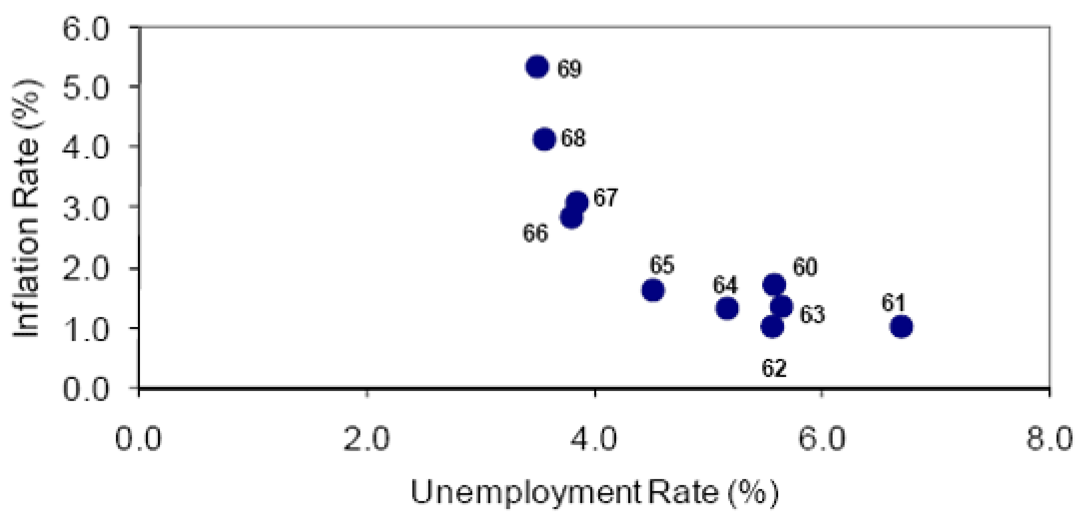
2. Is it different this time?

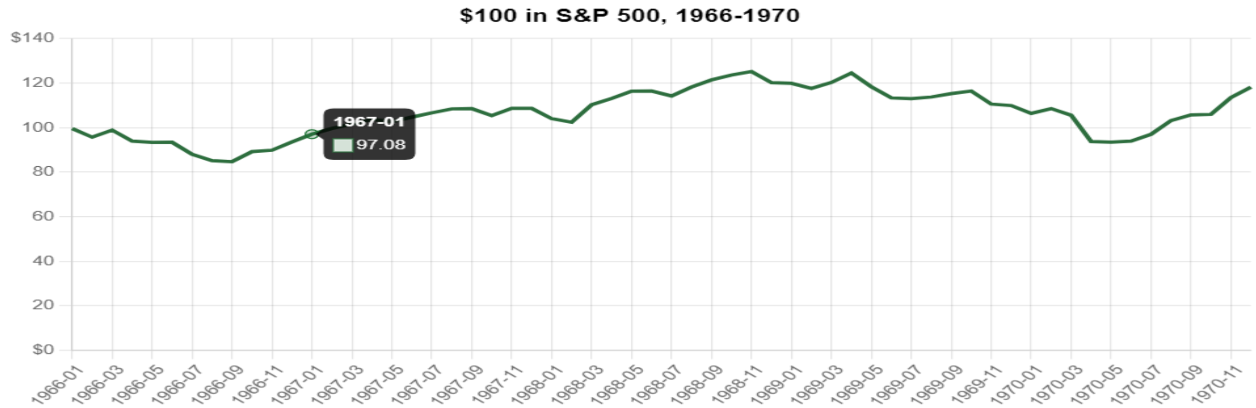
Everyone has been predicting a deep recession based on inflation and the higher cost of capital. But, not only have we NOT expereinced significant demand distruction, with China re-opening demand for commodites/ energy, travel will go up.

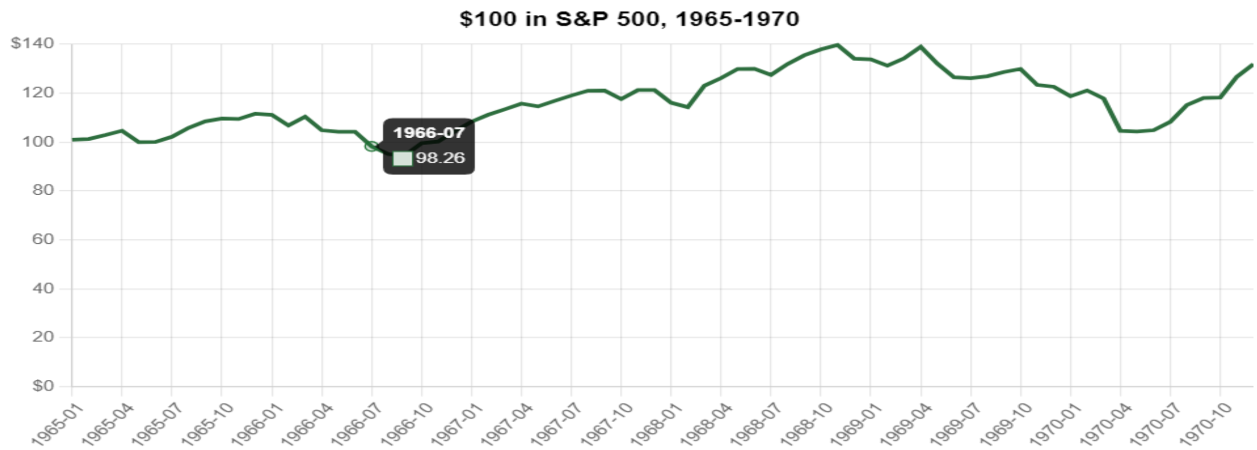
The USA is at or near full employment, wages continue to go up as companies (even as they prepare for recession) are paying higher wages to attack employees.

Eureopean counties have mitigated the impact of the russian energy reductions.

Instead of a recessionary period it feels like we are entering (in) a inflationary period with high employment, which will have modest economic growth… best comparison is the late 1960’s







3. Foreseeable trends

   a. China re-opening. Leads to increase in commodity and oil prices,

   b. de-globalization: leads to redundancies: more demand, lower earnings

   c. destruction of crypto leads to more money into risky stocks

   d. higher interest rates leads to less money in market, less in dividend payers

      If you could lock in 7% 30 year return how much less would you allocate to the market?

   e. Transistion to green

   f. Baby Boomers continue to age and retire ---> health care, full employment

4. where are corporations spending money, where are they cutting back?

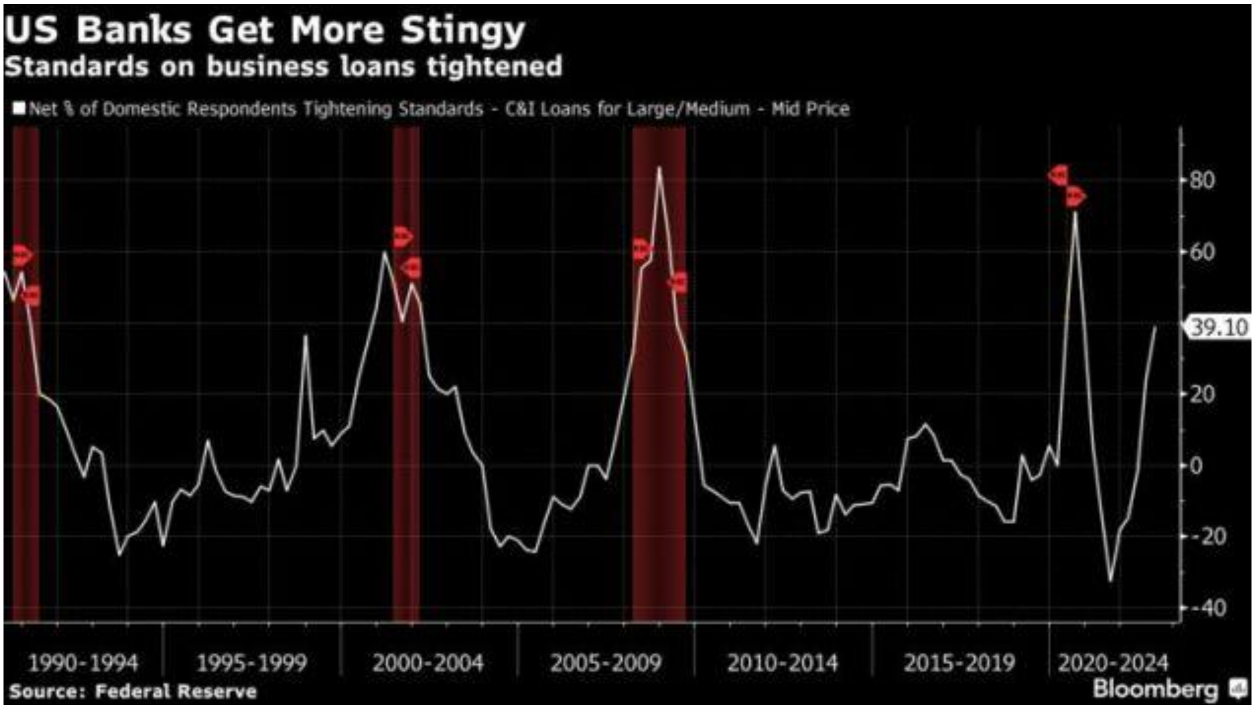
5. asset prices go up based on avalibility of money

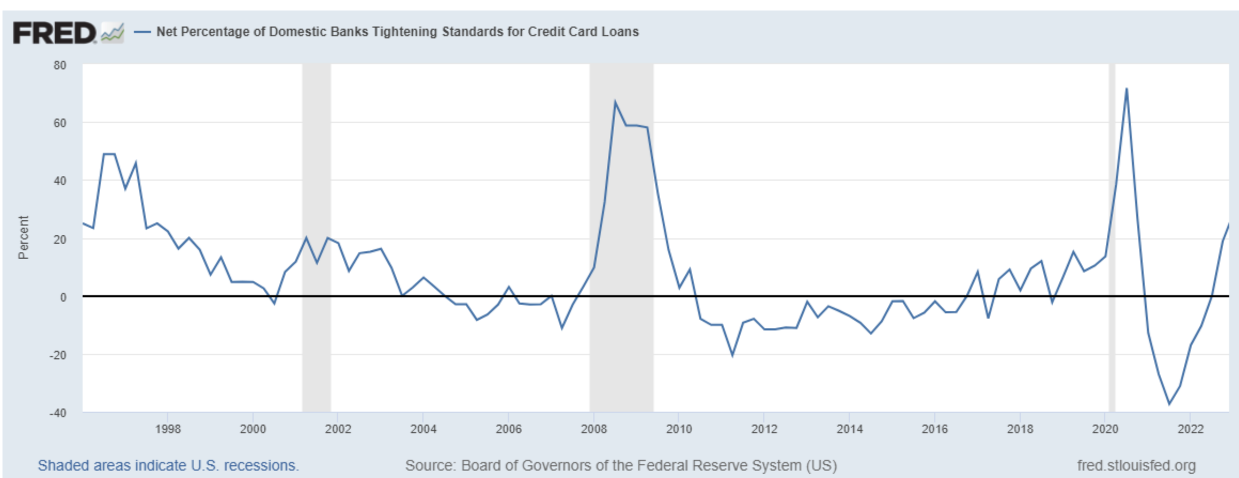
   a. Interest rates are going up

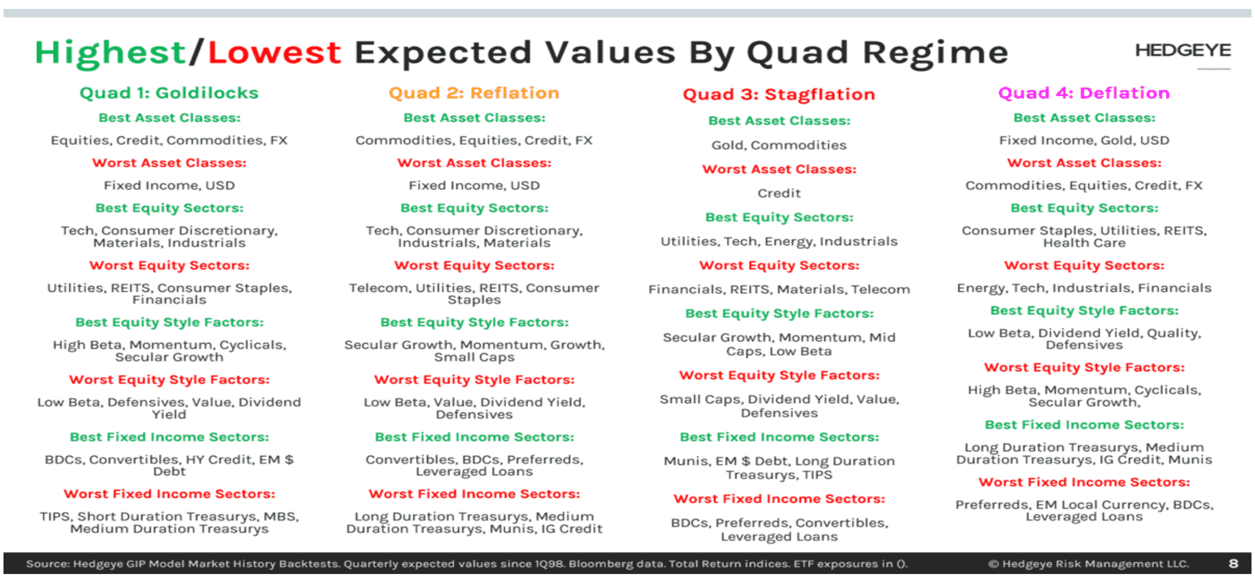
b. credit is both tightening and becoming more expensive

1. this should lead to less money investing in speculation, and more money iinto what is percieved to be a sure thing, with quantifiable results

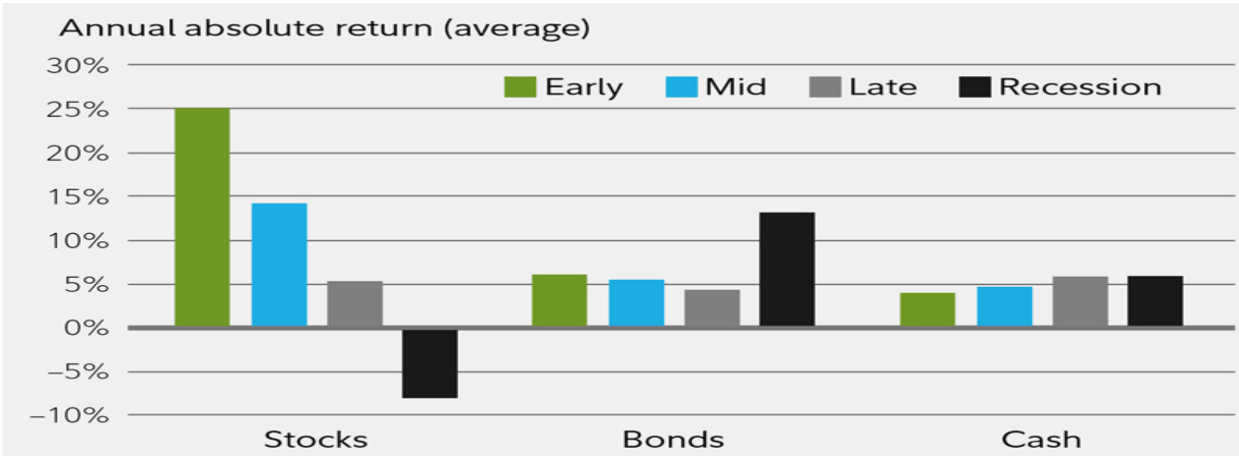
2. Riskier investmnets wil have to give yuo (promise you) more return to attract your $$$

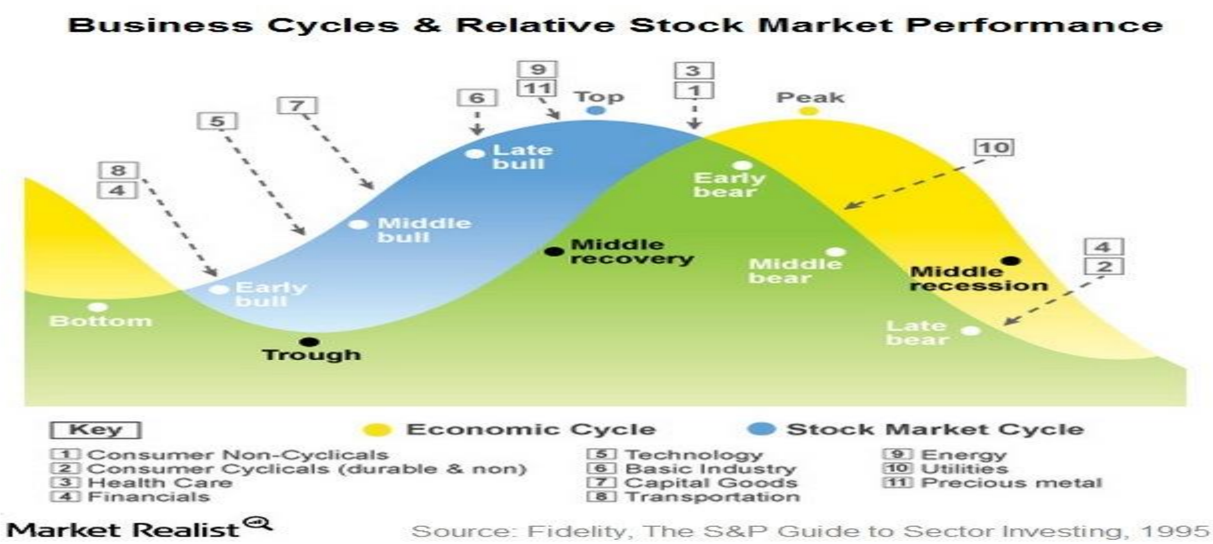


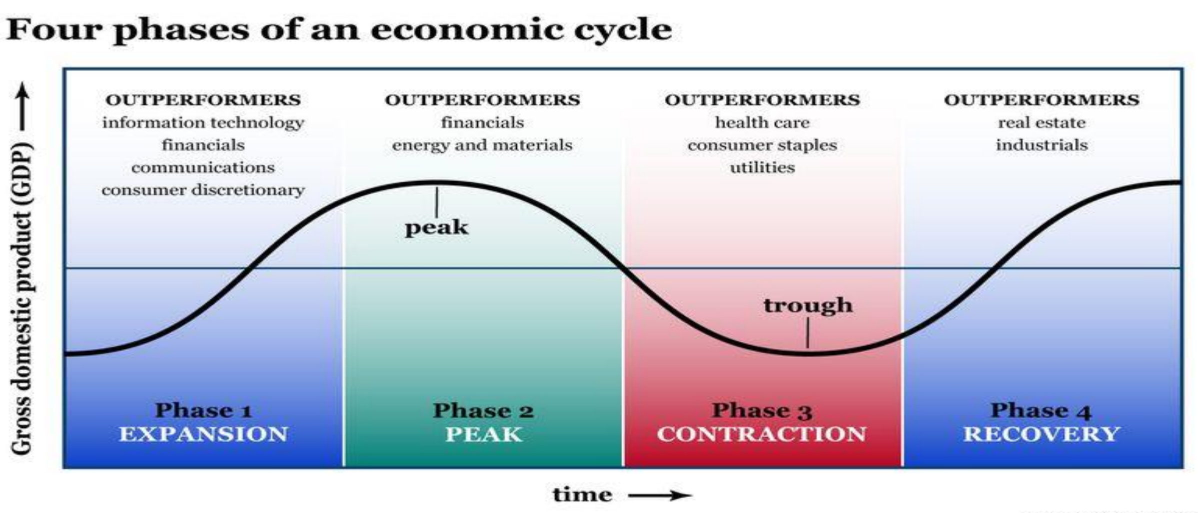


1. Where are we in the cycle?????
    a. USA
    b. China
    c. Europe
2. https://www.capitalmarketassumptions.com/downloads/CMA2023_FullResearchPaper.pdf?mkt_tok=NTA0LVpZSy0xNzMAAAGJx3W6EHQNtwGwamFEFvAO0O96ynTByY4Vnpnooy0ziHkqLKmFfA4CW8WtPABgRqeuRPUY1AHfVUCovzPzhDQiw3qK2iQ1NdSvRmtjjDnp2L-OOME
3. 

Inflation downtrending	inflation uptrending	inflation uptrending	inflation DT
Growth uptrending	Growth uptrending	Growth downtrending	Growth DT


Annual absolute return (average)
30%
25%
20%
15%
10%
5%
0%
−5%
−10%
Early
Mid
Late
Recession
Stocks
Bonds
Cash


Business Cycles & Relative Stock Market Performance
Top
Peak
Late bull
Early bear
Middle bull
Middle recovery
Middle bear
Middle recession
Early bull
Bottom
Trough
Late bear
Key
Economic Cycle
Stock Market Cycle
1 Consumer Non-Cyclicals
2 Consumer Cyclicals (durable & non)
3 Health Care
4 Financials
5 Technology
6 Basic Industry
7 Capital Goods
8 Transportation
9 Energy
10 Utilities
11 Precious metal
Market Realist
Source: Fidelity, The S&P Guide to Sector Investing, 1995


Four phases of an economic cycle
OUTPERFORMERS
information technology
financials
communications
consumer discretionary
OUTPERFORMERS
financials
energy and materials
OUTPERFORMERS
health care
consumer staples
utilities
OUTPERFORMERS
real estate
industrials
peak
trough
Gross domestic product (GDP)
Phase 1
EXPANSION
Phase 2
PEAK
Phase 3
CONTRACTION
Phase 4
RECOVERY
time
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Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			– –
Real Estate	++	–	+	– –
Consumer Discretionary	++		– –	+
Technology	+	+	–	– –
Industrials	++			– –
Materials	+	– –		
Consumer Staples		–	+	++
Health Care	– –			++
Energy	– –		++	
Communication Services		+		–
Utilities	– –	–	+	++
	Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.	Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.	Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.	Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.

In a Growing Economy

Consider **information technology**.

It has had the highest volatility relative to all sectors over the past 20 years, which could boost portfolio performance.

It has often outperformed during the early and mid phases of the business cycle when the economy is growing.[1]

As the Economy Slows Down

Consider **consumer staples, health care,** and **utilities** sectors.

They usually outperformed during the late and recession phases of the business cycle when the economy is slowing or shrinking.[1]

They have had the lowest volatility relative to all sectors over the past 20 years, which may lower portfolio risk.

Conclusion: where are we in the cycle?

Feels like mid recession for historical reference

Doesn't feel like a recession

So what to invest in = ????

Best stocks in the 60's

XRX +900% tech

MRK +460% medical

BP +278% oil/gas

HP +268% tech

IBM +136% tech

CAT +120% industrial