# APRICUS

**04.24**

## April showers bring May flowers

It's raining and drops of water cascade down the window, each taking a unique path and pace down the pane. Much like raindrops beholden to the singular force of gravity, well-run businesses exist to serve their customers, care for their employees, and reward their shareholders. And much like the immutable force of gravity, the responsibility to reward investors is a universal force on every company's path. This collected focus on rewarding shareholders is the basis of the stock market's enduring performance and why we remain confident about its long-term future.

## First Quarter: Good

**THE FIRST QUARTER OF 2024 IS IN THE BOOKS AND WHILE THERE ARE MANY WAYS TO THINK ABOUT THE CURRENT STATE OF THE WORLD—THE FINANCIAL/ECONOMIC WORLD IS GENERALLY...GOOD.** Inflation has continued to meander toward the Federal Reserve Bank's target of 2%, in the U.S. there are still more open jobs than job candidates and the S&P 500 stock index has had its best first quarter since 2019.

The economy in the United States continues to grow albeit at an ever-slower pace. A persistently tight labor market has increased wages in consumers' pockets but at the expense of their employers. The National Federation of Independent Businesses' March U.S. Small Business Survey reported that inflation continues to be the #1 issue for small businesses and that hiring intentions have receded to 2020 levels. While the inflation caused by COVID supply shocks and shutdowns has subsided and inflation from monetary and fiscal stimulus is waning, a reduction of inflation in the price of services may require demand for service workers to fall toward recession levels.

Over the last year interest rates have increased across the board with the yield on the U.S. Ten Year Treasury rising to 4.32% from 3.5% one year ago and below 1% in 2020. The Fed Chair has proposed lowering short-term interest rates later this year after increasing them by 5% from near zero in 2020. While we believe that lower short-term interest rates are appropriate, we think that a reduction in rates this year will depend on the direction of inflation and the economy.

We have said, "Interest is the price of time." It is a straightforward proposition that higher interest rates on car loans will reduce car sales but how might a change in interest rates change investment decisions? In a new book *The Coming Paradigm Shift in the U.S. Stock Market*, Daniel Peris argues that four decades of falling interest rates decreased the price of waiting for equity appreciation and further that the recent increase in interest rates among other factors is likely to focus the market's attention on businesses that return cash dividends to shareholders.

## Looking Forward

Markets and economies are dynamic systems and while the current state is "good," prudence requires us to consider when rainy days will return. The uncertain US and global political landscapes, ever-growing fiscal deficits, and the impact of higher interest rates on borrowing decisions validate our prudence. For 2024 we expect the economic forecast to vacillate between a higher for longer interest rate policy and rising unemployment.

> Predicting rain doesn't count.
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> Building arks does.
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> Warren Buffett

In summary, we see tighter monetary policies and waning fiscal policies slowing global growth and inflation. We expect wage increases to continue until labor markets and likely the economy weaken. Some segments of equity markets both in the US and abroad appear out of balance but importantly we continue to identify high-quality, growing, dividend-paying businesses that offer above-average long-term returns, above-average income, and below-average volatility. On the fixed-income side, we find short-term US Treasury bond yields attractive after adjusting for risk.

As always, we are grateful for our relationship with you, and we look forward to our next conversation. Best wishes for rain, sun, and all the good things that come from them both: Joe, Jim, Ernie, and Rusty