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## Laffer Tengler Commentary

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*Nancy Tengler, CEO and Chief Investment Officer*

# 1990s Redux

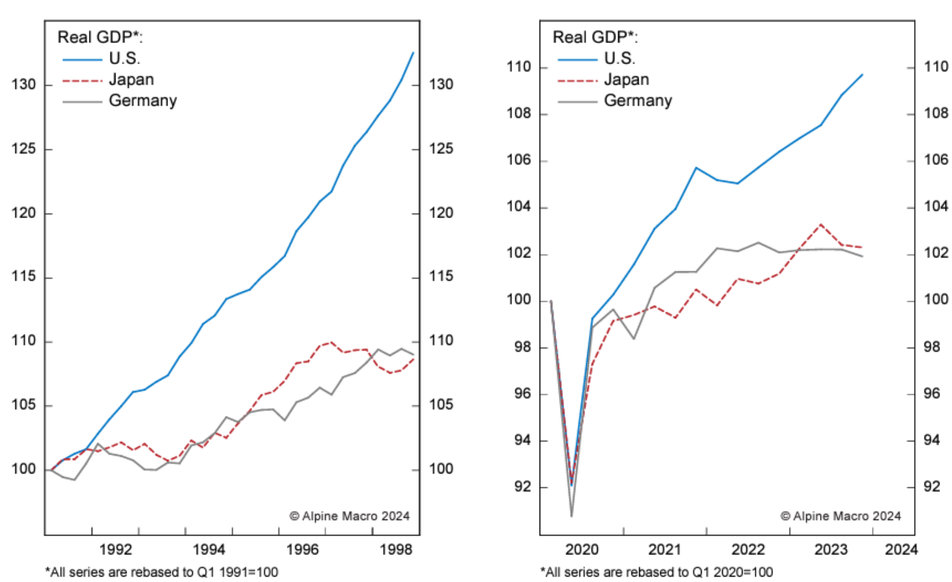
About nine months ago I drew an analogy of this economy and this market to the 1990s (please contact lmitchell@laffertengler.com for copies of my commentaries). I am emphasizing that comparison again today as others are joining in the refrain.

I was a youngish portfolio manager in the early 90s and one of the smartest economists of the day was calling for 1-2% GDP growth in the coming decades. In his view, U.S. growth was in the rear view. What did he miss? Productivity improvements that drove the economy and stock prices almost as soon as he made his prognostication.

Like today there was a labor shortage. The ten-year yield averaged between 5-7% during the decade, inflation averaged 3%. The Federal Reserve pushed rates up aggressively in 1994 to stave off perceived rising inflation but rather than prices revving up we experienced a disinflationary boom led by the internet. Rates remained relatively high during the remainder of the decade and stock prices took off. The NASDAQ was the big winner up over 800% in the 90s and the DJIA and the SPX each turned in cumulative results well over 400%.

The U.S. then as now was also the best economy on the global block.

**U.S. Versus ROW: The 1990s And Now**



In the fall of 2022 we were aggressively adding to Tech and Consumer Discretionary in our large cap strategies. We talked about our trades a great deal and received a great deal of pushback. By the following summer we were trimming and then back at it after we published a bullish piece on October 31 of last year. We have started trimming our tech winners again and broadening out our sector exposure. Please don't conclude that we are no longer bullish on tech because we most definitely are (reach out to lmitchell@laffertengler.com if you'd like to see my keynote to The Money Show: *The Fourth Industrial Revolution.)*

As we broaden out we have added attractive names in industrials and financials that fit our theme of Investing in Old Economy Companies who are pivoting to digital solutions and generative AI (improving margins, product development and worker productivity: Walmart, American Express, Emerson Electric) and the Suppliers of the Picks and Shovels (Microsoft, Broadcom, Amazon, ServiceNow, Adobe, even Oracle) just to name a few.

The handwringing over lofty valuations can also be contextualized by the 1990s. The 4 Horsemen (Microsoft, Intel, Cisco and Dell) traded at ridiculous multiples to peak earnings. Remember CSCO at 100+x and MSFT at 51x? For comparison purposes MSFT now trades at a little over 30x and is a much more robust company today with lots more growth levers to pull.

When you back out FAANG the market multiple is around 16x—nothing to be afraid of—and we are beginning to see this market broaden out which is encouraging. Add to that companies are announcing share buybacks at a torrid pace (another 1990s phenomenon) which will likely put a floor under the market, making any correction a buy-the-dip opportunity.

Sideways trading may be the watchword for the next few months. Q4 earnings are mostly in the books (and were pretty great with margins expanding), so investors will likely hyperventilate over every word the Fed Speakers utter and every inflation data point. The market most certainly is due for a correction. At LTI we will be using the weakness to add new names and add to existing holdings.

The ISM Manufacturing PMIs are still in contraction territory (16 months and counting) and the LEIs have given a false signal recently (confirmed by the Conference Board), but the consumer remains employed and healthy. The collective net worth of the U.S. consumer is over $150 trillion and the Baby Boomers own half of that with time and money to spend on services. Consequently, we expect a soft landing (also achieved in the 1990s) with pockets of recession-like behavior from a few, rotating industries.

I am never comfortable agreeing with the consensus, but bull markets can carry on for a long time. Equity funds and ETFs saw $240 billion in outflows last year and still the market ran. Add to that, when combined, 2022 and 2023 turned in flat to negative returns, and over $6 trillion in cash on the sidelines, we think this bull market still has legs.

The Fed can stay higher for longer though we think they are likely to cut a few times just as Greenspan did in the latter half of the 1990s and then hold steady. Stocks will manage through that just fine. With fortress balance sheets chockablock full of cash most of the largest technology companies have actually benefited from higher rates earning much higher rates while avoiding floating rate debt.

We constantly reexamine our investing themes and will continue to do so but for now enjoy the trip back to the 1990s.

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6710 North Scottsdale Road
Suite 210
Scottsdale, Arizona 85253
www.laffertengler.com