Barrett Capital Partners

1st Quarter 2024 **Newsletter #11**

	Q1	YTD
S&P 500 TOTAL RETURN	+10.6%	+10.6%
US AGGREGATE BOND TICKER: AGG	-2.3%	-2.3%

Quinn has a brother!

On Sunday January 14th, Joe and his wife Christine welcomed Rory Ambrose to the family! Quinn seems to be enjoying her little brother and is already doing her best to teach him how to talk, contrary to my wife's wishes for three minutes of uninterrupted silence. Everyone is happy and healthy, and we are all looking forward to a great summer!

All-time highs

The **stock market indices hit all-time highs more than a dozen times** during the first quarter, and the S&P 500 even closed the quarter at a new record. The optimism that drove 26% returns in 2023 has continued into 2024.

The companies that are driving these returns over the past 15 months have consistently been the large-cap growth stocks, particularly a few technology names like Meta (Facebook), Palo Alto Networks, Microsoft, and Google. We have been fortunate to own these companies over the past couple of years, and we continue to have the expectation that they will outperform in the long term.

Why are the big tech companies performing so well?

The beauty of technology is that there is such a small incremental cost in adding additional customers that these platforms can scale *incredibly fast*. Facebook doesn't have additional costs for every user, but every new set of eyeballs makes the platform that much more attractive to advertisers.

Compare that with a company like Proctor & Gamble. For every new customer who buys shampoo, they need to produce the shampoo, bottle it, and pay Stop & Shop for the best shelf space. On top of that, in order to scale they need to build new factories, source additional materials to make more shampoo, hire more people, ship the products, etc.

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Diversification within a portfolio is very important for reasons beyond the scope of this newsletter, but over time, we expect that technology companies will provide *more than their fair share* of our portfolio returns.

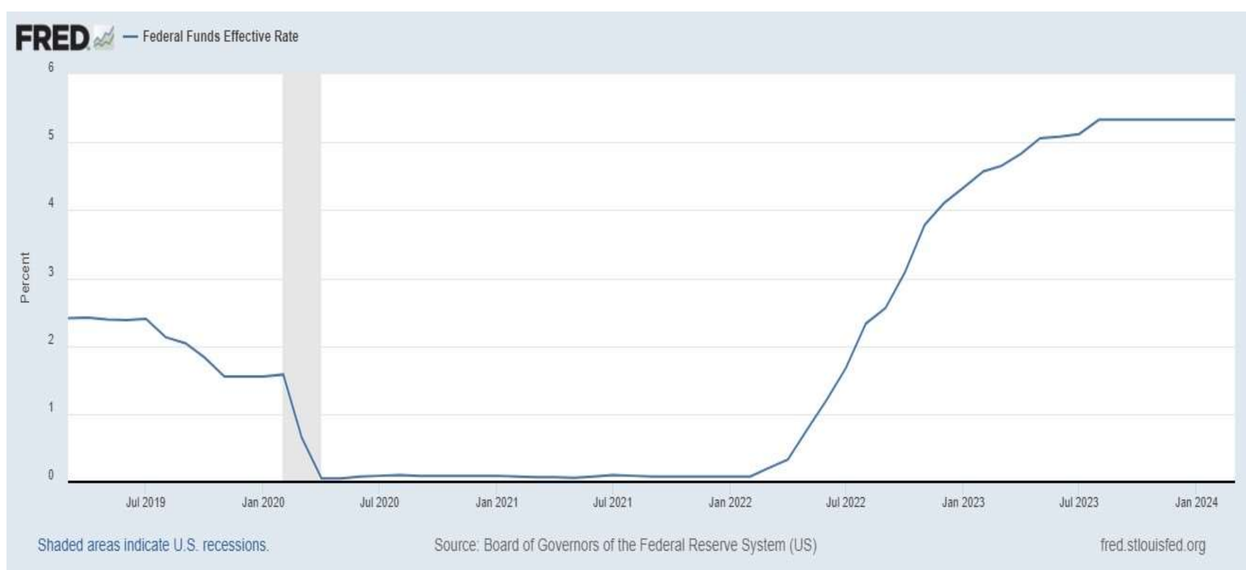
High interest rates are working

If you've been keeping up with these quarterly newsletters, you know that we've been expecting that the Federal Reserve would be able to raise rates to cool inflation, while also keeping the economy out of a recession (aka the *soft landing)*. It is beginning to look more and more like that is going to be the case. That being said, our expectations for interest rate cuts have been pushed out because the economy is still running ***HOT.***

The world was expecting a few rate cuts in 2024, beginning sometime mid-year. At this point I wouldn't be shocked to see the first one in August or September depending on how the data looks over the next couple of months. Per the Fed statement on April 3rd, they are seeing a weakening labor market, and inflation moving in the right direction—but not necessarily in a straight line.

The high interest rates create a huge safety net. The economy and markets are in the safest place they've been in quite some time due to the higher rates. The Fed has room to drop rates significantly and provide stimulus to the economy if it starts to go south. That creates a huge margin of safety that, in our view, outweighs the risk of keeping the rates higher for longer.

(Below: Fed rates 2019-present)



United States vs. Europe

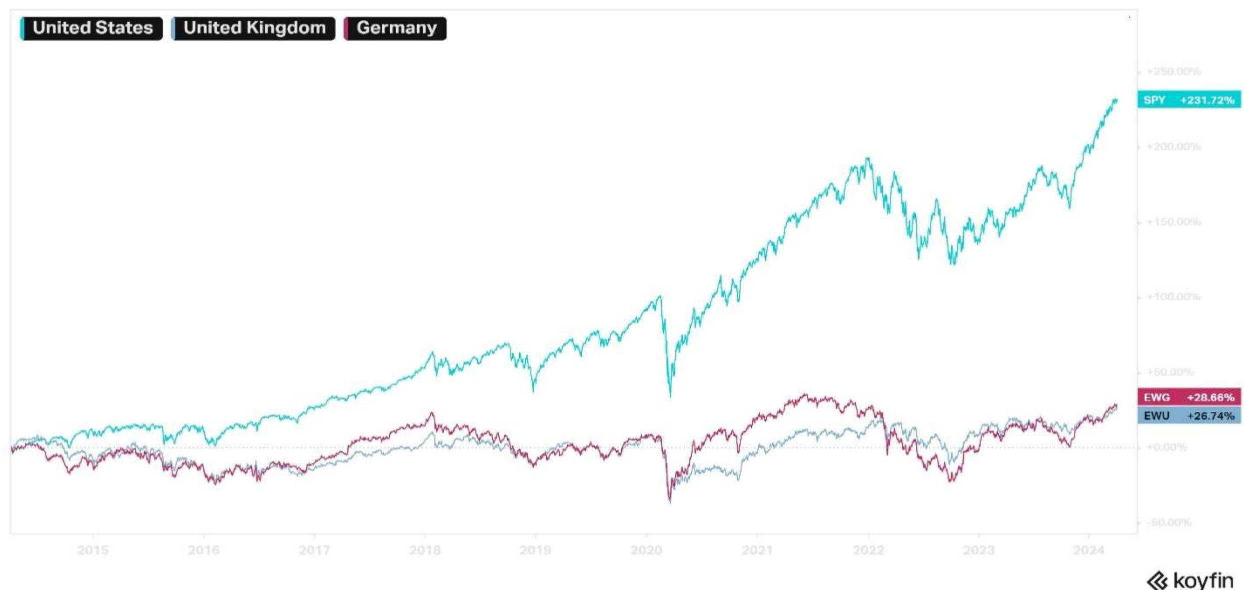
Over the last 10 years, the U.S. stock market has outperformed every country on Earth by a ***wide margin***. The U.S. index has gained 230% over the past 10 years, while countries like the UK and Germany have gained only twenty-something percent over the same period[1]. The margin between the U.S. and Europe has only continued to grow in 2024.

When Russia invaded Ukraine, the price of natural gas in Europe rose as much as 700%. Europe historically imported 40% of their natural gas from Russia, but due to sanctions that number has dropped to less than 10%. ***Norway and the U.S. have become the biggest importers of natural gas to Europe, providing 30% and 20%*** of natural gas in Europe, respectively.[2] Food costs have also hampered European growth. Ukraine is an agricultural country that used to provide Europe with wheat, corn and barley, but exports have slowed by up to 40%, driving food costs in Europe up 20% last year.

Europe has spent the last two years drowning in these high costs in the post-COVID world, while the U.S. has largely been unaffected by the war and has actually *benefitted* from natural gas exports.

Long story short, Europe has not been attractive for investing in a long time, and it does not appear that will change anytime soon. Even beyond the energy and food prices, the ***United States has curated a much stronger climate for businesses, and even more importantly, for innovation.***

(Below: 10 Year returns USA vs UK vs Germany)



[1] Data is from Koyfin.com country ETFs

[2] The United States was the largest supplier of LNG to the EU in 2023, representing 50% of all LNG imports. This is triple what the percentage two years prior. https://www.consilium.europa.eu/en/infographics/eu-gas-supply/

With all of that being said, the future is uncertain, and we will continue to own great companies that will grow and perform well over the long term.

As usual, I look forward to any thoughts or input that you may have!

Enjoy the first signs of Spring, and we will see you soon,

Patrick and Joe

Disclaimer: This content is for informational and entertainment (hopefully) purposes only, and you should not construe any of the information contained as investment, financial, legal, tax, or other advice.

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