BARRETT CAPITAL PARTNERS

3rd Quarter 2024 **Newsletter #13**

	Q3	YTD
S&P 500 TOTAL RETURN	+5.9%	+22.1%
US AGGREGATE BOND TICKER: AGG	+4.3%	+2.0%

Soft Landing: Likely

The U.S. economy looks unstoppable and even stronger than the most optimistic of us had dreamed. In September, the U.S. added 254,000 jobs, which was 100,000 more than the consensus estimates. The unemployment rate actually *decreased* from 4.2% to 4.1%, and July and August revisions came in higher by 72,000.

Consumer spending continues to show strength as well. Over the past couple of years, it was driven by savings from the pandemic; it is now being driven by higher wages, which are up 4% over last year. Combined with interest rates falling over the coming quarters, consumers should be in a healthy situation moving forward.

We have arguably never been in a safer economic position. The economy is strong, consumers and businesses alike are confident in the future, and ***in a worst-case scenario, the Federal Reserve has the ability to cut interest rates by almost 5%.*** A historically strong economy ***and*** high interest rates? This is a dream scenario for any economist.

Stocks pretty much always go up

Historically, the results of Presidential elections do not matter when it comes to your investments. Presidents typically have the same impact on markets that the hecklers behind home plate do on the Red Sox batters[1]. There may be a divergence between certain sectors depending on the party in power (see solar vs. oil), but there is no correlation between market returns and any party or candidate.

[1] I know the Red Sox have been terrible for a while; you get my point. Hold your hate mail.

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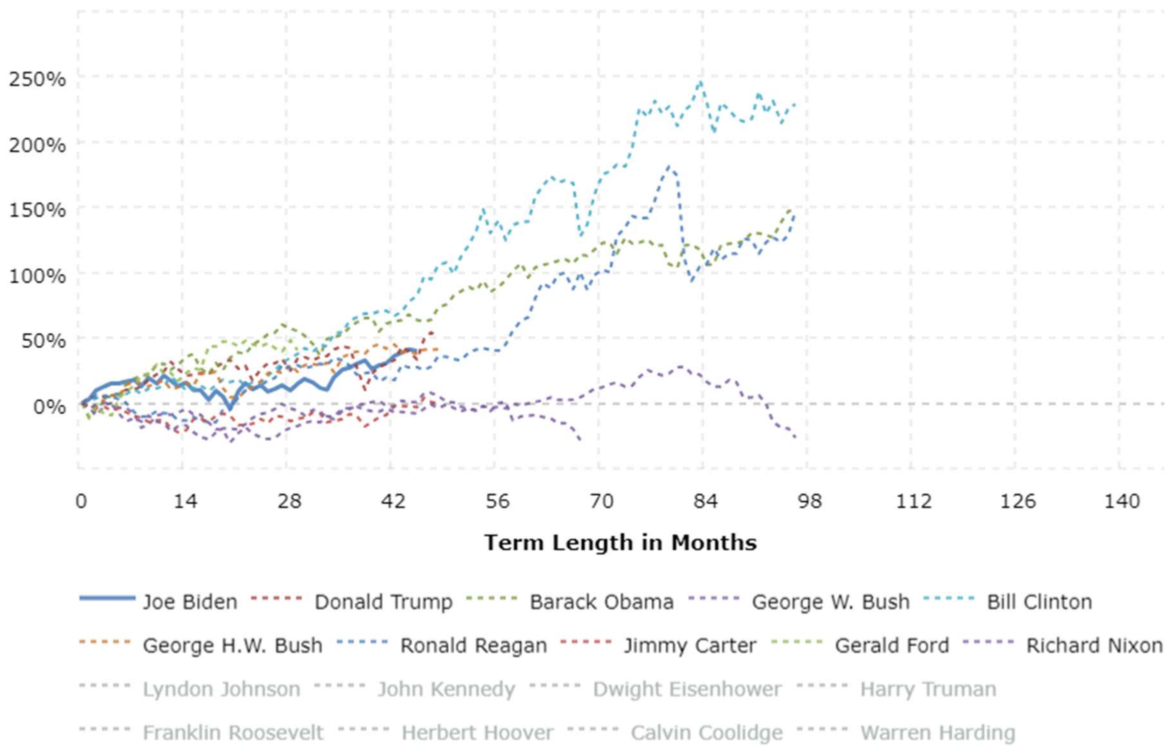
The following chart from MacroTrends shows the performance of the Dow Jones Index during the course of each president since Nixon. For the two-term presidents, the index returned 229% for Clinton, 148% for Obama, 147% for Reagan, and negative 26% for Bush Jr. who had the unfortunate luck of being president during the Great Financial Crisis.

The four-year returns including the one-term presidents was similar: 105% for Clinton, 73% for Obama, 50% for Trump, 41% for Bush Sr., 35% for Reagan, and right around even for the remaining three. During Biden's tenure to-date, the index has returned 35%.



<u>The future is not without risk</u>

Building on the last few years, we continue to have an admittedly rosy outlook for the economy. Looking back at our past commentary, we were in the minority who believed that the Federal Reserve ***could raise rates without inducing a recession***. We continue to stand by that as we enter the interest-rate-cutting phase that the Fed has recently begun.

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With that being said, there are a few risks that we are nervous about…

Geopolitical Risks **–** Wars in Europe and the Middle East have done little to affect our day-to-day economic situation in the U.S., but lately the rising volatility has increased the risk of broader conflict. There is a non-zero risk that one of these conflicts escalates to a point of affecting international economics, and selfishly, our investments.

Tariffs **–** There is an increased likelihood of higher tariffs on goods coming into the United States. By every measure, this will be negative on the economy, increasing the costs of everything we buy, also known as ***inflation!***

Health of the lower-income consumers **–** It is no secret that lower-income households are in a tough spot financially. Banks are reporting increasing default rates on consumer debt, but those rates are still below normal historical levels. One positive is that interest rates will be lower going forward, which should give those households a little breathing room. Refer to our July Newsletter[2] where we profiled Buy Now, Pay Later services.

Interesting Data

Since 2020, domestic construction spending on manufacturing facilities has more than tripled. By itself this sounds great, but almost all of this increase was due to spending on technology-related infrastructure like chip manufacturing, server farms, and the like[3]. We are not onshoring textile mills.

[2] Visit BarrettCapitalPartners.com/Newsletter to see all of our previous letters.
[3] The CHIPS Act was signed into law in 2022, providing the semiconductor industry (microchips) money and tax cuts to spend on infrastructure in an effort to counter Chinese microchip manufacturing.

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Revisiting Our Investment Process

At the end of the day, the practice of investing is about receiving a return on your hard-earned invested capital. The companies that you own need to provide positive value to you. There are three main ways that companies return capital to you:

- **Value:** The most popular way to return value to shareholders is through an increase in the value of the company. Think tech companies like Google.
- **Dividends:** The second most popular way is through cash payments to shareholders. Think utilities like Enbridge.
- **Increased Ownership /AKA Buybacks:** Companies that generate lots of operating cash can purchase their own stock back in the open market, which has the effect of increasing your ownership of the company.

Our goal is to invest in companies that will provide attractive returns for a long period of time. We look for growing businesses that generate meaningful cash flow. I know that sounds overly simple, but ***history is littered with the failures*** of smart people who tried to make it harder than that.

Ideally, the management team will own LOTS of their own stock and have a great deal of stock options tied to their performance. ***Incentives drive the world***.

We like to see products and services that are “sticky” and have high switching costs. Software companies that service the Fortune 500 firms are a good example. The high switching costs mean they have pricing power, and the ability to upsell add-on services. We like similar stories within consumer brands that have high loyalty such as the beverage space, or mobile apps.

Most importantly, we want to see companies generating positive cash flow and investing in future growth opportunities. This could be in the form of a bank fueling growth through acquisitions, or software companies investing in cloud services. A soft-drink maker could be investing in new flavors or acquiring smaller brands, increasing market share and pricing power. We want to see a long-term commitment to growing the company and the brand.

As always, any feedback or thoughts are appreciated!

Enjoy the Holidays, and we’ll see you soon,

Joe & Patrick