The Sizemore Income Letter

June 2023

We Made it to Halftime

By Charles Lewis Sizemore, CFA

Well, we did it. We made it to the halfway point of 2023.

Today, I'd like to start with a mid-year "state of the union." Where are we, and what should we expect for the second half?

I'll start with some good news: We're most certainly not in recession. GDP growth for the first quarter was just revised higher to 2%.

But let's talk about that.

Growth of 2% is much stronger than most economists expected. It's stronger than what I myself expected. But this also marks the third consecutive quarter of the growth rate slowing down.

So, yes, the economy is still growth, and that's cause for celebration. But let's not blow it out of proportion. This is not the robust growth we'd normally expect to see coming out of a rough year like 2022.

This raises a question though. The Leading Economic Indicators (LEI) have been in steep decline for over a year now, as I've been writing in the weekly updates (Figure 2 on following page).

The LEI never really misses, or at least not when we see a plunge this significant. If the LEI had barely dipped below zero, I might draw the conclusion that we'd see slower growth but not necessarily a recession.

Gross Domestic Product

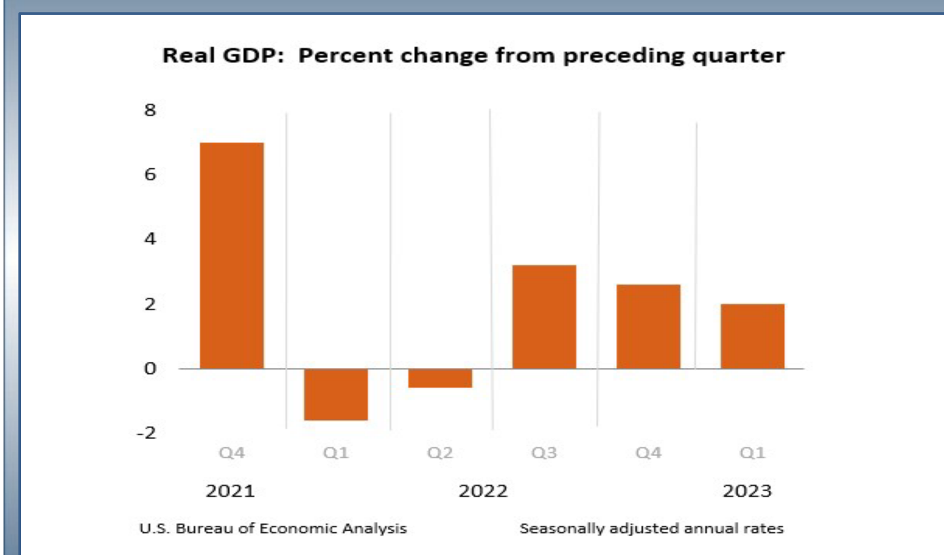

Figure 1

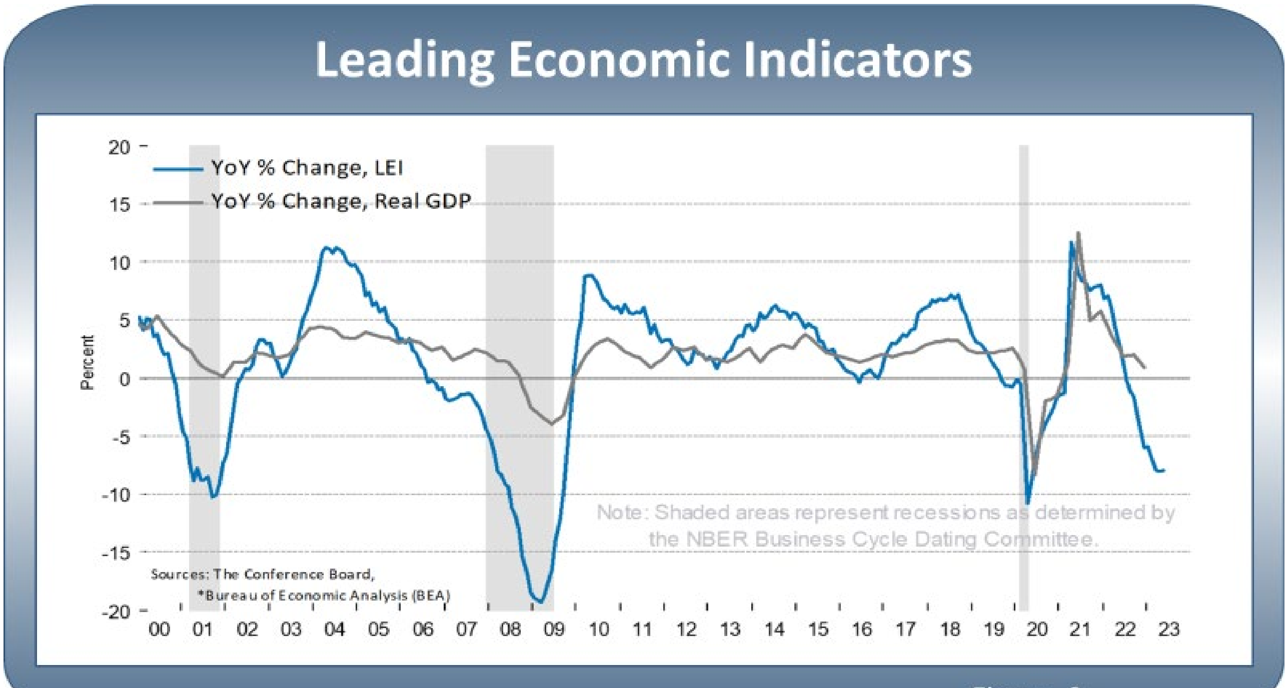

Figure 2

But that's not at all what we see in the chart. The decline in the LEI is close to the extremes we saw in 2000-2001.

Is it possible that this time is different. Perhaps rather than an outright decline in GDP we get a slow-motion grind in which growth stays lower for longer but doesn't actually decline.

Maybe?

I suppose stranger things have happened. And in the post-pandemic economy, it's hard to say definitively what is normal. But let's review a few facts:

- Retailers ranging from luxury boutiques to mass market discount chains like Walmart have consistently told a similar story: Pinched by inflation, Americans are prioritizing their spending on necessities and postponing major purchases.
- Headline inflation is coming down. Core inflation – which excludes food and energy – is not. It seems to be stuck around 4.6% - 4.7%.
- Approximately 40 million Americans who have been enjoying a debt holiday from student loan payments are about to have to start servicing those loans again. Every dollar spent on debt repayment is a dollar not spent in the economy.

On balance, I still believe a recession is likely. So, this brings us to the question of the day: When does it start?

Anything I tell you would be a guess. But I think it's likely within six months.

But what would a recession mean for the stock market?

This is a harder question to answer. In a normal world, a recession dents earnings and leads investors to sell. Recessions almost always coincide with bear markets.

But remember, we're living in a skewed system in which everything seems to go through the Federal Reserve. Our bear market last year wasn't due to an earnings collapse but rather to the Fed's decision to finally recognize inflation wasn't "transitory" and actually do something about it by raising rates.

So, if we get a recession it's possible the Fed will simply open the monetary spigot again and flood the market with low interest rates, devil may care about the impact on inflation.

I would like to think that Powell learned some lessons from this debacle. Our economy developed an addiction to Fed stimulus following the 2000-2002 dot com bust and then became a full-blown junky following the 2008 collapse. We never really got over the addition, and the Fed essentially overdosed us in 2020 and 2021.

Powell isn't stupid. He knows this. The question is whether he'll stick to his guns and resist the urge to flood the market with liquidity at the first sight of weakness.

I have no unique insight into Powell's mind. All I have are his public statements and the example of his past decisions. I believe – possibly naïvely – that the Fed will be at least a little less accommodative this time around. So long as the recession is fairly mild, I don't see them chopping rates all the way to zero again.

Maybe I'm a sucker for believing the Fed is capable of learning from its mistakes. We'll see.

Regardless, we have to find a way to invest in this climate. My recommendation is to stay balanced. By all means, have skin in the game. Buy the highflyers that have pulled the market higher this year. But keep your position sizes modest, keep more cash than usual in high-yielding T-bills or CDs and focus on quality sources of income.

National Storage Affiliates (NSA)

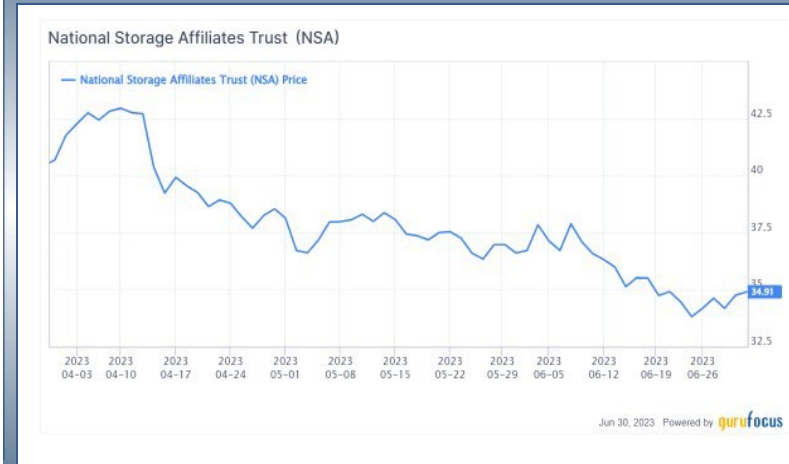

Figure 3

Revisiting an Old Friend

And about that…

This month, I am revisiting an old friend.

Back in August, I recommended shares of storage REIT **National Storage Affiliates (NYSE: NSA)**. I wanted a recession-proof business model with a juicy yield, and NSA's portfolio of self-storage units fit the bill.

Unfortunately, Mr. Market didn't see it that way. We got stopped out at $39.16 in November.

Well, my views on the company haven't changed. It's still a growing REIT with a recession-proof business model. American own a lot of junk, and NSA gives us a place to put it.

Recession-Proof Model

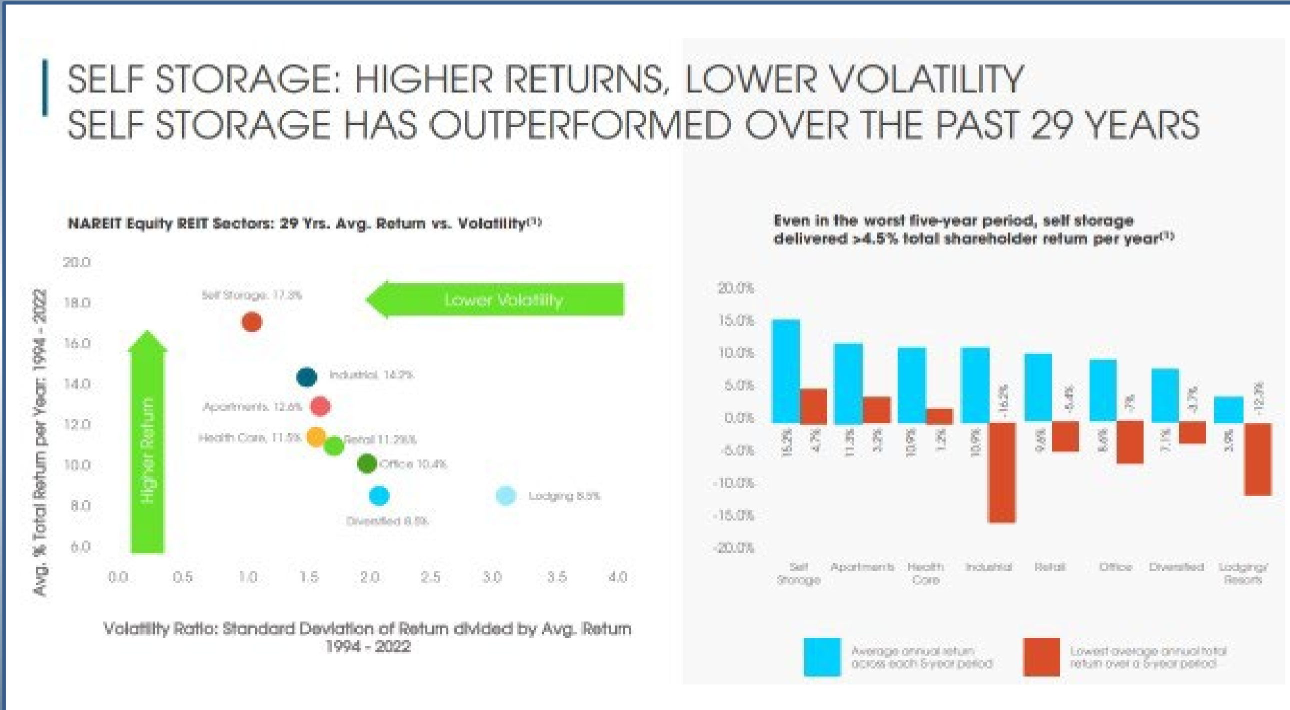

Figure 4

Let's take a look.

NSA's shares have really taken a beating since the Fed started raising rates. The shares are down about 50% from their early 2022 highs.

Some of the fear towards REITs in general makes sense. REITs carry a lot of debt, and that debt is now potentially more expensive. Plus, the office sector is dead on arrival and retail is also looking wobbly.

But none of that matters to NSA. This is a storage REIT, and storage REITs have historically been the least volatile of all REIT sectors.

Figure 4 illustrates this, though it may be somewhat hard to read in this space. If you're like to view the original, see NSA's latest investor presentation here: https://d1io3yog0oux5.cloudfront.net/_222977994d557a70f0f4445eb72995cf/nationalstorageaffiliates/db/226/4948/pdf/NSA+Presentation+Company+Update_June+2023+Final+.pdf

Given the high rate environment we're in today, NSA and its peers probably can't expect to grow as rapidly as they have in years past.

That's ok. We don't need torrid growth. Steady, moderate growth is just fine with an income play, and NS currently sports a dividend yield of 6.4%.

Dividend growth has been a little slow over the past four quarters, which made sense given the sudden spike in borrowing costs. But as interest rates stabilize, I expect to see NSA aggressively raising its dividend again.

NSA Dividend Yield

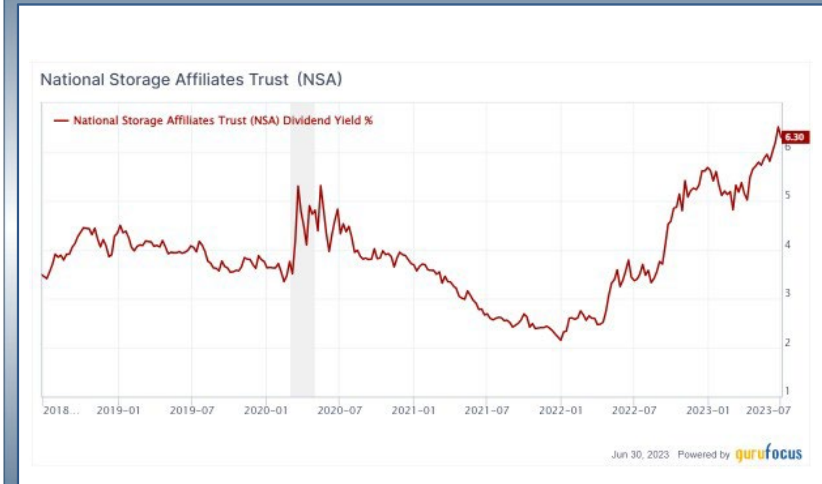

Figure 5

NSA Dividends Per Share

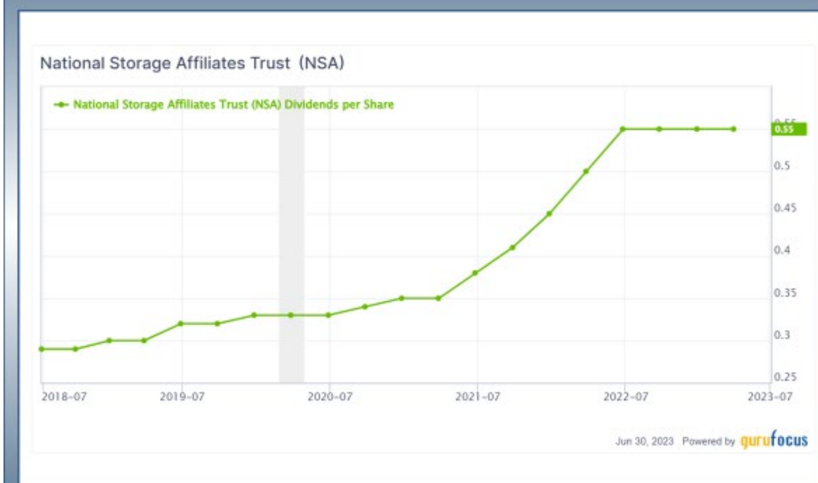

Figure 6

So, what kind of returns should we expect here?

REITs are out of favor at the moment, and I can't say for sure when they turn around as a sector. NSA's share have been trending higher through June, so I'm optimistic that we may have seen the bottom for now.

If NSA were to simply rise to its highs from this past March, just three months ago, we'd be looking at price returns of close to 30%. Adding in the 6.4% dividend, and that total return starts getting closer to 40%.

It will depend on how quickly investors return to the REIT sector, but I think returns in that ballpark are likely within the next 12-24 months.

So, with no further ado…

Action to take: Buy shares of National Storage Affiliates (NYSE: NSA) at market. Set an initial stop loss at $26.98 based on closing prices.

That's going to wrap it up for this month.

I'm cautiously optimistic about the second half of this year. If things continue to muddle in the right direction, we may see core inflation start to crack and any recession or slowdown be mild.

Maybe!

We should hope for the best but also prepare for the worst by investing in companies that are mostly recession resistant. NSA fits the bill, as do the vast majority of stocks in our portfolio.

One last world before I sign off.

If you haven't bought shares of Nintendo (NTDOY) yet, it's not too late. We're up about 6% over the past month, but I believe this one has a long, multi-year runway in front of it. This is one of my favorite stocks at the moment, and I recommend you own some shares.

On that note, have a good week, and until next time, keep cashing those dividend checks!

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*.

But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you think your portfolio is a little too exposed to the stock market right now, let's talk. I may have some alternatives that can offer competitive returns without the heartburn. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.

The Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
National Storage Affiliates Trust	NSA	6/30/2023	$34.82	$34.91	$26.98	6.42%	$ -	0.26%	Yes	Buy
Nintendo Company Ltd	NTDOY	5/26/2023	$10.69	$11.36	$8.34	3.49%	$ -	6.27%	Yes	Buy
W.P. Carey Inc	WPC	4/26/2023	$73.59	$67.46	$59.92	6.33%	$ -	-8.33%	Yes	Buy
Nuveen Real Estate Income Fund	JRS	1/30/2023	$8.46	$7.32	$6.41	9.77%	$ 0.17	-11.52%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	$28.79	$32.49	$20.15	10.80%	$ -	12.85%	Yes	Buy
Atlantica Sustainable Infrastructure	AY	11/22/2022	$27.75	$23.45	$20.41	7.51%	$ 0.89	-12.29%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$46.61	$41.42	7.49%	$ 1.07	2.56%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$46.28	$36.00	4.41%	$ 1.02	-0.08%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$61.81	$47.91	6.05%	$ 2.81	-1.35%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$12.84	$8.59	7.17%	$ 0.87	67.95%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$46.85	$33.92	7.04%	$ 3.20	4.75%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$157.62	$132.62	3.60%	$ 7.02	59.33%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$30.11	$20.49	6.78%	$ 2.68	49.45%	Yes	Buy

The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
National Retail Properties	NNN	9/29/2022	$ 39.07	$ 42.68	None	5.15%	$ 1.10	12.06%	Yes
Conagra Brands	CAG	6/23/2022	$ 32.47	$ 33.44	None	3.95%	$ 0.99	6.04%	Yes
The Clorox Company	CLX	6/23/2022	$ 132.28	$ 158.71	None	2.97%	$ 3.54	22.66%	Yes
Campbell Soup Company	CPB	6/23/2022	$ 47.04	$ 45.71	None	3.24%	$ 1.11	-0.47%	Yes
Flowers Foods	FLO	6/23/2022	$ 24.97	$ 24.90	None	3.53%	$ 0.44	1.48%	Yes
General Mills	GIS	6/23/2022	$ 67.90	$ 76.67	None	2.82%	$ 1.62	15.30%	Yes
J.M. Smucker Company	SJM	6/23/2022	$ 123.83	$ 146.88	None	2.78%	$ 3.06	21.09%	Yes
Target Corporation	TGT	6/23/2022	$ 141.08	$ 131.34	None	3.29%	$ 3.24	-4.61%	Yes
Coca-Cola Company	KO	4/27/2022	$ 65.56	$ 60.17	None	2.93%	$ 1.32	-6.21%	Yes
Prologis	PLD	10/29/2021	$ 146.67	$ 121.10	None	2.61%	$ 3.79	-14.85%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 113.38	None	5.19%	$ 7.45	-33.58%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 97.52	None	5.21%	$ 7.49	17.53%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 45.03	None	8.35%	$ 10.60	49.95%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 59.67	None	5.10%	$ 8.40	41.57%	Yes
AT&T	T	3/19/2020	$ 31.15	$ 15.92	None	6.97%	$ 5.79	-30.31%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 26.49	None	7.17%	$ 5.51	120.35%	No
Kinder Morgan	KMI	3/19/2020	$ 11.20	$ 17.23	None	6.44%	$ 3.24	82.76%	Yes
Ventas	VTR	3/19/2020	$ 19.98	$ 46.98	None	3.83%	$ 5.74	163.88%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 288.01	None	2.78%	$ 35.15	72.26%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 31.50	None	5.87%	$ 4.77	20.35%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 35.67	None	4.09%	$ 4.23	83.80%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	$ 7.25	$ 13.47	None	4.46%	$ 1.27	103.24%	Yes

Preferred Stock Trading at Deep Discounts

Stock	Ticker	Buy Date	Buy Price	Current Price	Discount to Par	Yield	Cumulative Dividends	Total Return
AGNC Investment Corp Preferred	AGNCP	3/31/2023	$19.72	$20.83	-17%	8.04%	$ -	5.62%
Goldman Sachs Series A Preferred	GS.PRA	3/31/2023	$20.42	$20.40	-18%	6.69%	$ -	-0.10%
Bank of America Corp Floating Rate Non-Cumulative Preferred Stock, Series 5	BML.PRL	3/31/2023	$20.24	$19.90	-20%	6.53%	$ 0.33	-0.03%
Morgan Stanley | Floating Rate Non-Cumulative Preferred Stock, Series A	MS.PRA	3/31/2023	$20.28	$21.15	-15%	6.77%	$ -	4.29%