The Sizemore Income Letter

December 2023

New Year, New Opportunities

By Charles Lewis Sizemore, CFA

As I mentioned last month, December tends to be a strong month seasonally for stocks, and 2023 has proven to be no exception. The S&P 500 continued its blistering November by putting in another strong month in December.

I'm not complaining, of course. Our portfolios in the *Sizemore Income Letter* certainly benefitted, and I'll have more to say on that in a minute.

But first, let's take a look at why our income stocks did so well this month, starting with the 10-year Treasury.

The yield on the benchmark 10-year Treasury note collapsed in November and December, reversing the gains of the previous six months.

That's a big deal.

Personally, I don't like competing with the U.S. government. But that's exactly what we were doing when Treasury notes were yielding 5%.

Sure, all else equal, I'd prefer a strong dividend stock to a bond at a comparable yield because dividends (at least in healthy companies) generally rise over time and are taxed at a more favorable rate than bonds.

10-Year Treasury Yield

Figure 1

But I know it's also really hard to argue with a 5% yield with no credit risk.

Well, that's not what we have today. Treasury yields have collapsed under 4%, at least for the moment, and the trend continues to be down.

Of course, the Fed is playing a role here as well. While the Fed's decisions on short-term rates don't necessarily dictate what happens to long-term bond yields, it seems that the m arket is forecasting lower yields across the board.

Take a look at Figure 2. The Fed Funds Futures market is pricing in a better than 80% chance that the Fed lowers rates by at least 1.5% by the middle of next December, and it's pricing in a better than 40% probability that the Fed lowers rates even more aggressively than that.

Is that realistic?

I have my doubts. I don't completely buy the narrative that inflation is under control. Yes, it's fallen aggressively this year, and that's a step in the right direction. But, if I may contradict the late Milton Friedman, inflation is not always and everywhere a monetary problem. Demographics also play a role.

And as I wrote at length in the last monthly issue, the US working age population hasn't materially grown since 2015, and labor force participation has already returned to pre-pandemic levels. We have a legitimate labor shortage, and this is fueling inflation in services, where the cost of labor is the single biggest input (See Figure 3 on following page).

That means the road gets more difficult for the Fed from this point on. While higher interest rates dampen aggregate demand, they don't do much for the cost-push inflation driven by supply constraints. And Jerome Powell can't simply snap his fingers and make new workers materialize out of the ether.

There really is no easy solution here. Even if we were to drop all immigration controls and flood the market with cheap immigrant labor, it would

Probabilities of Fed Rate Cuts

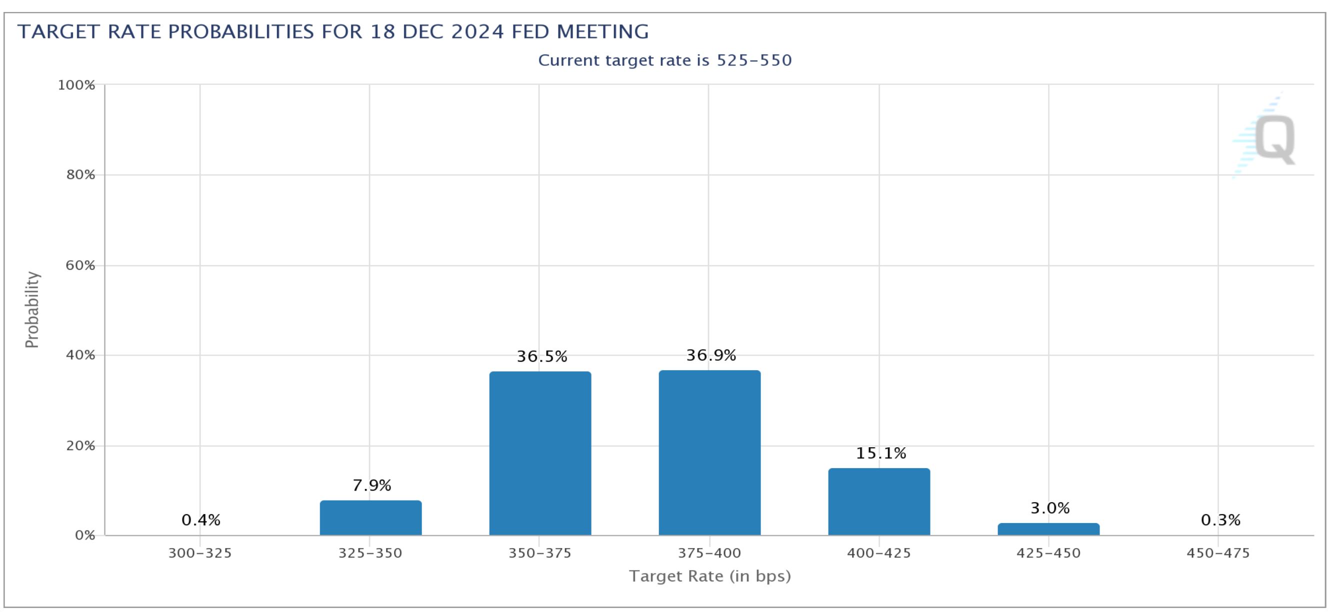

Figure 2

potentially be years until the new workers had the skills and language proficiency to really contribute at full strength. And in today's political climate, an increased surge in immigration is a non starter.

All of this is to say that it's too early to claim victory over inflation, and Mr. Market may be getting far ahead of himself here.

As I wrote last month, we have several issues at play that could end up throwing a large wet blanket on stock prices:

1. Overreliance on expected Fed rate cuts that may or may not happen.
2. Structural dysfunction in government and the ongoing risk of a shutdown or default.
3. Realization that our long-term fiscal outlook is unsustainable.
4. Recession risk.

There's been no change since I wrote that.

Call me a cynic, but I do find it interesting that rates have collapsed just as Uncle Sam is in the midst of refinancing a large chunk of the COVID-era debt.

And as a side note, stop and marvel at how truly stupid our leaders are. When the 30-year bond yield was scraping along at 1.2% or lower for most of 2020, why didn't the Treasury refinance the *entire* US national debt at those rates and at 30 years? And if Trump's Treasury Secretary Mnuchin wasn't smart enough to figure that out, why wasn't Biden's Treasury Secretary Yellen smart enough?

Inflation in Services

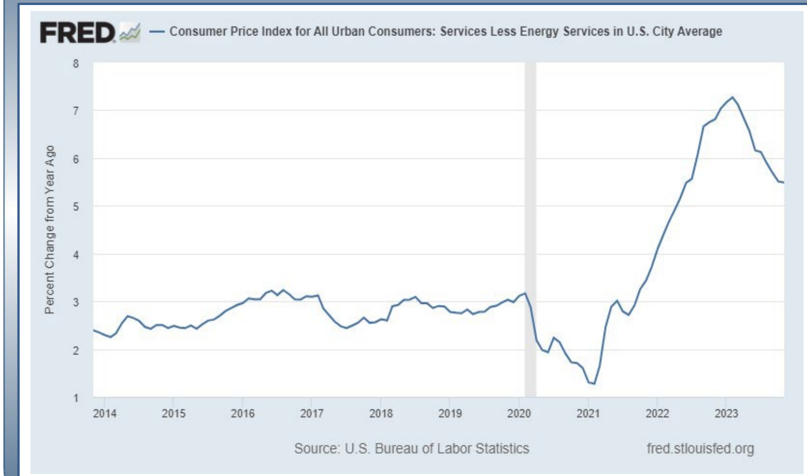

Figure 3

Prologis (PLD)

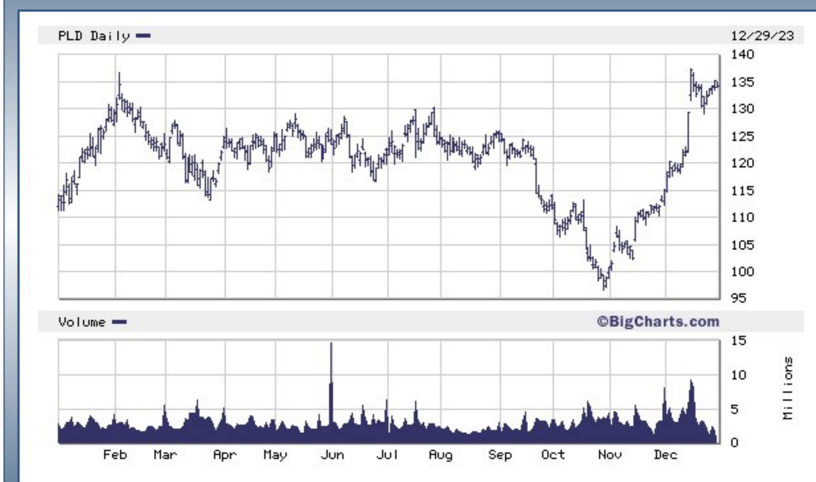

Figure 4

Every American homeowner with a mortgage and two functioning brain cells refinanced their mortgage to take advantage of low rates during the pandemic. And yet our government, staffed with Ivy League economists, somehow couldn't figure that one out.

While I'd prefer to have a government that lived within its means… if they're going to spend like drunken sailors on

Global Medical REIT (GMRE)

Figure 5

Recession and Inflation Proof Portfolio

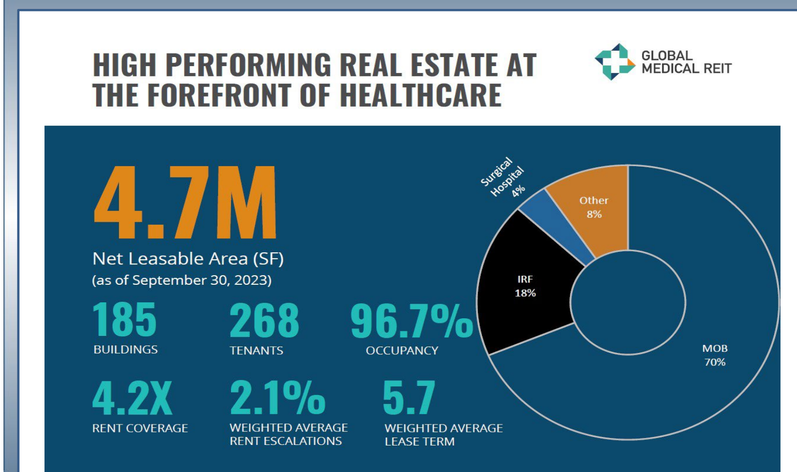

Figure 6

shore leave, I'd at least prefer they were moderately less stupid about it and borrowed at a better rate.

They didn't… and so here we are, having to refinance about $8 trillion in debt.

It is convenient that rates are falling right as Uncle Sam rolls over a large block of debt. But will inflation come back and throw a wrench in this narrative?

We'll see. The published rate of inflation should look decent in the first half of 2024, if for no other reason than that the comps are easier. Inflation was awful this time last year, so in doing a year-over-year rate, it's going to look more tolerable. We'll see what the second half brings. I still believe we may have some variety of 1970s-style stagflation in front of us, as economic activity slows but inflation stubbornly refuses to dip below the Fed's stated target of 2%. Time will tell.

Off to the Races

In the meantime, the past few weeks have been fantastic for our REIT positions. As bond yields have eased and the prospects of a wide-spread commercial property rout seem to have subsided for the moment, money has been moving back into the sector. Our relatively recent additions in **Essential Properties Realty Trust (NYSE: ERPT)** and **National Storage Affiliates (NYSE: NSA)** are up 12% and 23%, respectively, and I see more upside to come.

In the Forever Portfolio, our REITs have enjoyed a nice rebound as well. Check out the recent performance of logistics REIT **Prologis (NYSE: PLD)** in Figure 4 on the previous page. The shares are up a ridiculous 40% in two months… and on no real news other than the relaxation of interest rates.

I love REITs at current prices, and I'm adding a new one to the portfolio today.

For our final recommendation of 2023, take a good look at the shares of **Global Medical REIT (NYSE: GMRE).**

Like most of the rest of the REIT sector, GMRE has enjoyed a nice run of late, and I believe its move is just getting started.

Global Medical has a portfolio of medical properties that are both recession-resistant and inflation-resistant and are backed by the strongest demographic trend in place today: the aging of the Baby Boomers.

70% of its portfolio is invested in medical office buildings (70%) with another 18% in rehabilitation facilities (IRF).

I don't pretend for a minute that the crisis in office properties has passed. While most people have returned to working in an office setting by now, the pandemic did have the lasting effect of allowing a large minority of workers to continue working from home. There just simply isn't the same level of demand for good old fashioned office towers.

Great! But telemedicine is no substitute for a real trip to the doctor's office, and physicians can't realistically work from home. Medical office properties are largely immune to the broader host of problems facing the commercial real estate sector.

As the Baby Boomers age, they will require more healthcare… more trips to the doctor's office… trips to post-surgery rehab centers… These are trends that aren't affected by Fed policies or by the health of the economy. Until someone discovers the fountain of youth, it is safe to say they are inevitable.

Let's talk dividends.

At current prices, GMRE yields a very attractive 7.37%. There are risks, of course. Though rates have come down, they are still a lot higher than they were during the pandemic, and higher financing costs cut into REIT profits. But

Global Medical REIT Dividend Yield

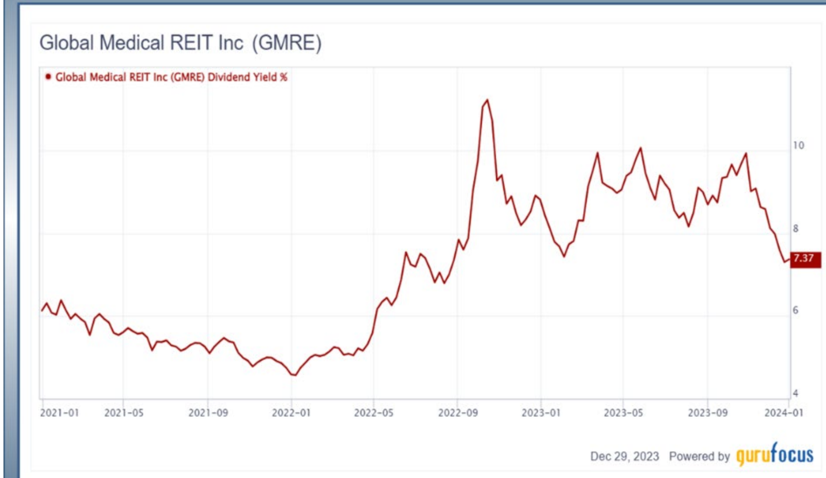

Figure 7

that's ok, and I consider that an acceptable risk.

So, what kinds of returns should we expect here?

Prior to the spike in bond yields, this REIT was priced at just under $18 per share. Simply returning to its old highs – which I believe is very likely within 12-24 months – would give us a price return of over 60%. Adding in the 7.37% dividend, and we're looking at something in the ballpark of 85% returns in two years.

And if I'm being overly optimistic, no worries. I'm happy to collect the dividend indefinitely.

So, with no further ado…

Action to take: Buy shares of Global Medical REIT (NYSE: GMRE) at market. Set an initial stop loss at $8.92 based on closing prices.

That's going to wrap it up for 2023!

I appreciate you reading the *Sizemore Income Letter* in what has been tumultuous year in the income markets. I hope that this has been a good year for you and that 2024 is even better!

Have a happy New Year, and until next time, keep cashing those dividend checks!

Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At 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 alternatives that can offer competitive 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
Global Medical REIT	GMRE	12/29/2023	$11.39	$11.39	$8.92	7.37%	$ -	0.00%	Yes	Buy
Essential Properties Realty Trust	EPRT	8/4/2023	$23.59	$26.05	$18.10	4.61%	$ 0.28	11.62%	Yes	Buy
National Storage Affiliates Trust	NSA	6/30/2023	$34.82	$42.10	$26.98	5.32%	$ 0.56	22.52%	Yes	Buy
Nintendo Company Ltd	NTDOY	5/26/2023	$10.69	$12.51	$8.34	3.49%	$ -	17.03%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	$28.79	$35.11	$20.15	10.00%	$ 0.76	24.56%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$50.34	$41.42	6.93%	$ 5.23	19.53%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$51.52	$36.00	3.96%	$ 3.10	15.38%	Yes	Buy
ONEOK, Inc.	OKE	4/28/2022	$65.50	$70.52	$47.91	5.42%	$ 6.63	17.78%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$13.77	$8.59	9.01%	$ 2.11	94.56%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$49.02	$33.92	6.73%	$ 6.78	16.77%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$149.77	$132.62	4.03%	$ 13.06	57.58%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$34.97	$20.49	7.43%	$ 5.05	82.41%	Yes	Buy

The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
Walmart	WMT	11/15/2023	$ 168.88	$ 157.57	None	1.45%	$ 0.57	-6.36%	Yes
Waste Management	WM	11/15/2023	$ 172.02	$ 178.14	None	1.57%	$ 0.70	3.96%	Yes
National Retail Properties	NNN	9/29/2022	$ 39.07	$ 43.41	None	5.07%	$ 2.78	18.22%	Yes
Conagra Brands	CAG	6/23/2022	$ 32.47	$ 28.57	None	4.62%	$ 2.02	-5.79%	Yes
The Clorox Company	CLX	6/23/2022	$ 132.28	$ 142.06	None	3.32%	$ 7.12	12.78%	Yes
Campbell Soup Company	CPB	6/23/2022	$ 47.04	$ 42.99	None	3.44%	$ 2.22	-3.88%	Yes
Flowers Foods	FLO	6/23/2022	$ 24.97	$ 22.48	None	3.91%	$ 1.35	-4.55%	Yes
General Mills	GIS	6/23/2022	$ 67.90	$ 64.97	None	3.32%	$ 3.34	0.60%	Yes
J.M. Smucker Company	SJM	6/23/2022	$ 123.83	$ 125.79	None	3.24%	$ 6.20	6.59%	Yes
Target Corporation	TGT	6/23/2022	$ 141.08	$ 142.55	None	3.03%	$ 6.52	5.66%	Yes
Coca-Cola Company	KO	4/27/2022	$ 65.56	$ 58.75	None	3.00%	$ 3.60	-4.90%	Yes
Prologis	PLD	10/29/2021	$ 146.67	$ 135.19	None	2.34%	$ 6.40	-3.46%	Yes
Crown Castle International	CCI	10/29/2021	$ 181.90	$ 116.11	None	5.06%	$ 12.14	-29.49%	Yes
Philip Morris International	PM	3/30/2021	$ 89.35	$ 94.08	None	5.40%	$ 11.33	17.97%	Yes
Altria Group	MO	3/19/2020	$ 37.10	$ 40.18	None	9.36%	$ 13.46	44.58%	Yes
Realty Income	O	3/19/2020	$ 48.08	$ 58.57	None	5.24%	$ 10.96	44.60%	Yes
AT&T	T	3/19/2020	$ 23.69	$ 16.74	None	6.63%	$ 6.63	-1.37%	Yes
Enterprise Products Partners	EPD	3/19/2020	$ 14.52	$ 26.21	None	7.63%	$ 7.00	128.68%	No
Kinder Morgan	KMI	3/19/2020	$ 11.20	$ 17.69	None	6.39%	$ 4.09	94.49%	Yes
Ventas	VTR	3/19/2020	$ 19.98	$ 50.95	None	3.53%	$ 7.09	190.51%	Yes
Public Storage	PSA	3/19/2020	$ 187.60	$ 307.80	None	2.60%	$ 47.15	89.21%	Yes
International Paper	IP	3/19/2020	$ 30.13	$ 36.25	None	5.10%	$ 7.08	43.82%	Yes
STAG Industrial	STAG	3/19/2020	$ 21.71	$ 39.58	None	3.69%	$ 5.46	107.48%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	$ 7.25	$ 14.24	None	4.21%	$ 1.72	120.14%	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	$22.15	-11%	7.00%	$ 0.77	16.21%
Goldman Sachs Series A Preferred	GS.PRA	3/31/2023	$20.42	$21.75	-13%	7.49%	$ 0.41	8.51%
Bank of America Corp Floating Rate Non-Cumulative Preferred Stock, Series 5	BML.PRL	3/31/2023	$20.24	$21.33	-15%	7.36%	$ 1.10	10.83%
Morgan Stanley | Floating Rate Non-Cumulative Preferred Stock, Series A	MS.PRA	3/31/2023	$20.28	$21.72	-13%	7.01%	$ 0.77	10.91%