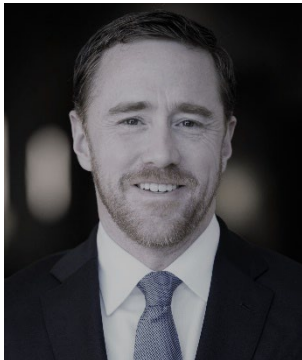


# The Sizemore Income Letter

January 26, 2023

## Changing Expectations

By Charles Lewis Sizemore, CFA



The first estimates for fourth quarter GDP growth were released earlier this week, and the headline numbers were great. The economy grew at an annualized rate of 3.3% after inflation. The consensus among economists had been for growth of about 2%.

Of course, this followed a really strong third quarter that saw GDP up a whopping 4.9%.

Now, you know my views here. While these numbers are strong, I consider them really fragile. A lot of the growth is driven by restaurant, bar and tourism sales, and I don't recall a single instance in history of an economy of any real size being driven by Friday-night bar hopping. A lot of it has also been financed with credit cards, as balances crossed the \$1 trillion mark last year and currently sit at all-time highs.

Still, the stronger the headline numbers, the harder it's going to be for the Federal Reserve to justify lowering rates. The Fed cuts rates to stimulate the economy, but if the economy is already running hot, that only increases the risk of reigniting inflation.

And about that, the Fed's preferred inflation gauge, core PCE inflation, rose 2.9% in December, according to data released this morning. That was ever so slightly better than economists had expected but still nearly 50% higher than the Fed's target of 2%.

As a general rule, I trust the market more than I trust a poll of economists, as the Fed funds futures traders have actual money on the line. I should add the caveat that the futures traders have been consistently over-optimistic about the Fed cutting rates for the past year, so we should take the absolute levels with a grain of salt. But I'm very interested by how expectations have shifted over the past month.

Take a look at the two charts on the next page.

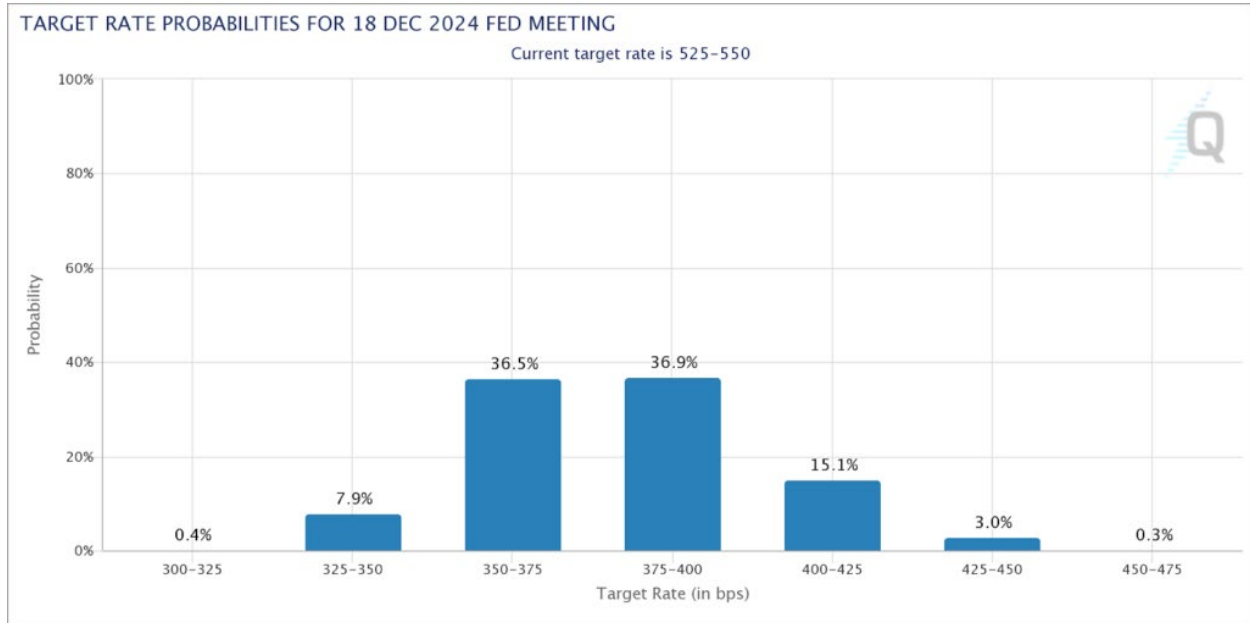
The first gives the rate cuts that the futures market was pricing in at the end of last month. As of December 29, traders were pricing in an 82% probability that the Fed would lower rates by at least 1.5% in 2024, with a high probability of cuts of 1.75% to 2%.

But looking at pricing today, we see lower expectations. Look at the column labeled “350-375” on both charts. The chances that rates go as low as 3.5% to 3.75% are significantly lower now.

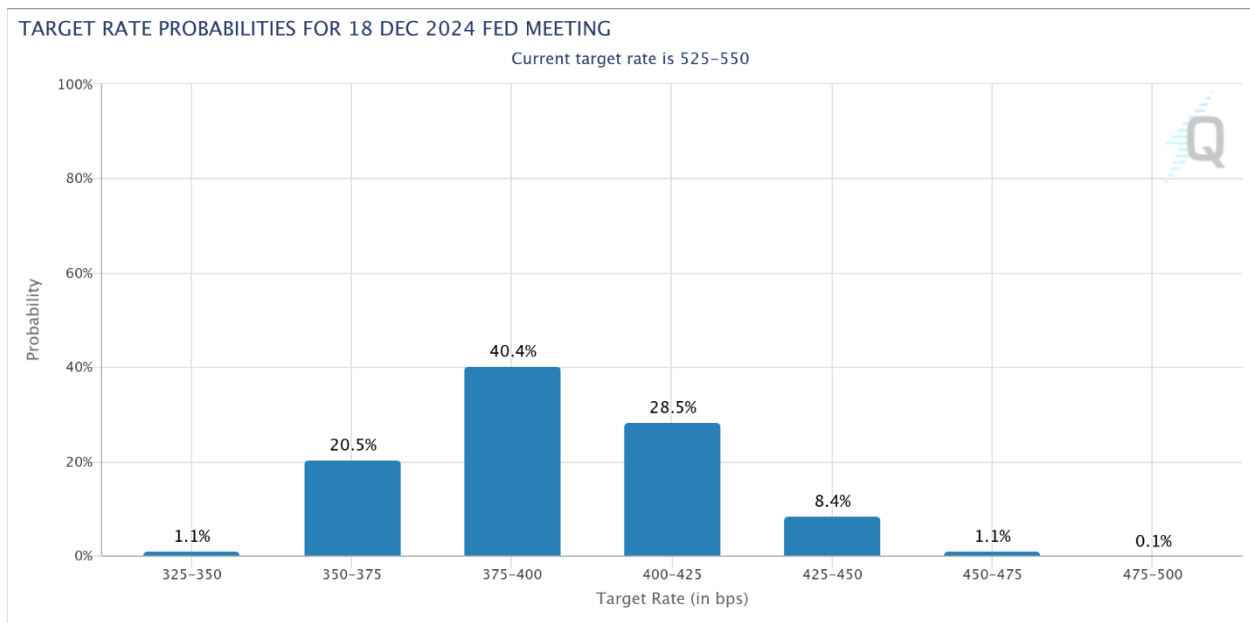
And now look at the column labeled “400-425.” You see it’s much higher.

I don’t want you to get lost in the numbers, so I’ll make it simple. **Market expectations are adjusting to reflect higher rates for longer.**

### Fed Funds Futures Implied Fed Rate Cut Estimates as of December 29, 2023



### Fed Funds Futures Implied Fed Rate Cut Estimates as of January 25, 2024



That doesn't bother me. As an income investor, I prefer higher real rates and I consider the Fed's attempts to suppress rates over the past 20 years to irresponsible to the point of nearly being criminal.

I'll have more to say next week when I release the monthly issue. Until then, 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 **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'd like for me to take a look at your portfolio and offer some recommendations, contact me at [info@sizemorecapital.com](mailto: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	\$10.27	\$8.92	8.18%	\$ -	-9.83%	Yes	Buy
Essential Properties Realty Trust	EPRT	8/4/2023	\$23.59	\$24.92	\$18.10	4.61%	\$ 0.28	6.82%	Yes	Buy
National Storage Affiliates Trust	NSA	6/30/2023	\$34.82	\$38.77	\$26.98	5.78%	\$ 0.56	12.95%	Yes	Buy
Nintendo Company Ltd	NTDOY	5/26/2023	\$10.69	\$13.45	\$8.34	3.49%	\$ -	25.82%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	\$28.79	\$33.19	\$20.15	10.58%	\$ 0.76	17.91%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	\$46.49	\$52.65	\$41.42	6.63%	\$ 5.23	24.50%	No	Buy
Citigroup Inc	C	6/23/2022	\$47.34	\$53.73	\$36.00	3.80%	\$ 3.10	20.05%	Yes	Buy
ONEOK, Inc.	OKE	4/28/2022	\$65.50	\$70.29	\$47.91	5.43%	\$ 6.63	17.43%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	\$8.16	\$14.28	\$8.59	8.68%	\$ 2.11	100.81%	No	Buy
EPR Properties	EPR	11/29/2021	\$47.78	\$44.60	\$33.92	7.40%	\$ 6.78	7.52%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	\$103.33	\$148.57	\$132.62	4.07%	\$ 13.06	56.42%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	\$21.94	\$35.60	\$20.49	7.30%	\$ 5.05	85.28%	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	\$ 162.84	None	1.40%	\$ 0.57	-3.24%	Yes
Waste Management	WM	11/15/2023	\$ 172.02	\$ 185.10	None	1.51%	\$ 0.70	8.01%	Yes
National Retail Properties	NNN	9/29/2022	\$ 39.07	\$ 41.36	None	5.32%	\$ 2.78	12.98%	Yes
Conagra Brands	CAG	6/23/2022	\$ 32.47	\$ 29.68	None	4.45%	\$ 2.02	-2.37%	Yes
The Clorox Company	CLX	6/23/2022	\$ 132.28	\$ 144.15	None	3.27%	\$ 7.12	14.36%	Yes
Campbell Soup Company	CPB	6/23/2022	\$ 47.04	\$ 44.24	None	3.35%	\$ 2.22	-1.22%	Yes
Flowers Foods	FLO	6/23/2022	\$ 24.97	\$ 22.80	None	3.86%	\$ 1.35	-3.26%	Yes
General Mills	GIS	6/23/2022	\$ 67.90	\$ 64.47	None	3.35%	\$ 3.34	-0.13%	Yes
J. M. Smucker Company	SJM	6/23/2022	\$ 123.83	\$ 131.52	None	3.10%	\$ 6.20	11.22%	Yes
Target Corporation	TGT	6/23/2022	\$ 141.08	\$ 142.23	None	3.04%	\$ 6.52	5.44%	Yes
Coca-Cola Company	KO	4/27/2022	\$ 65.56	\$ 59.16	None	2.97%	\$ 3.60	-4.27%	Yes
Prologis	PLD	10/29/2021	\$ 146.67	\$ 126.20	None	2.50%	\$ 6.40	-9.59%	Yes
Crown Castle International	CCI	10/29/2021	\$ 181.90	\$ 110.81	None	5.31%	\$ 12.14	-32.41%	Yes
Philip Morris International	PM	3/30/2021	\$ 89.35	\$ 91.21	None	5.57%	\$ 11.33	14.76%	Yes
Altria Group	MO	3/19/2020	\$ 37.10	\$ 40.21	None	9.35%	\$ 13.46	44.66%	Yes
Realty Income	O	3/19/2020	\$ 48.08	\$ 55.42	None	5.54%	\$ 10.96	38.05%	Yes
AT&T	T	3/19/2020	\$ 23.69	\$ 17.18	None	6.46%	\$ 6.63	0.49%	Yes
Enterprise Products Partners	EPD	3/19/2020	\$ 14.52	\$ 27.31	None	7.32%	\$ 7.00	136.26%	No
Kinder Morgan	KMI	3/19/2020	\$ 11.20	\$ 17.34	None	6.52%	\$ 4.09	91.37%	Yes
Ventas	VTR	3/19/2020	\$ 19.98	\$ 47.44	None	3.79%	\$ 7.09	172.94%	Yes
Public Storage	PSA	3/19/2020	\$ 187.60	\$ 291.68	None	2.74%	\$ 47.15	80.61%	Yes
International Paper	IP	3/19/2020	\$ 30.13	\$ 37.65	None	4.91%	\$ 7.08	48.46%	Yes
STAG Industrial	STAG	3/19/2020	\$ 21.71	\$ 37.80	None	3.86%	\$ 5.46	99.28%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	\$ 7.25	\$ 14.10	None	4.26%	\$ 1.72	118.21%	Yes

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