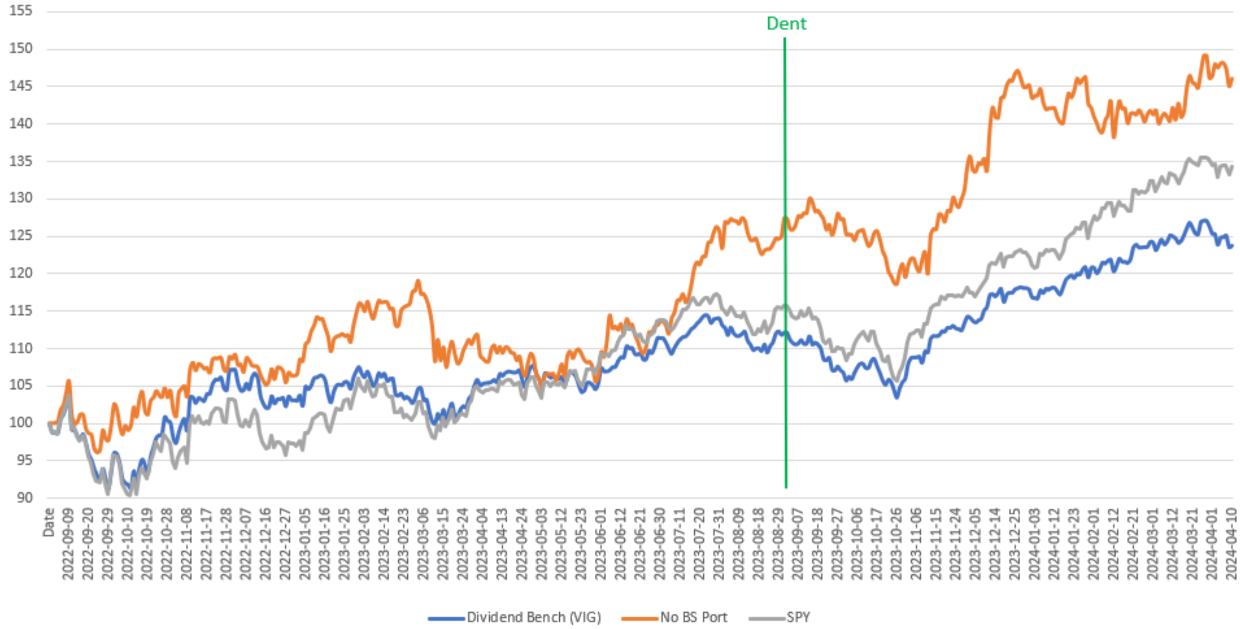
April 15, 2024

The NO BS Growth and Income Portfolio

By John Del Vecchio



New Trades this week: No Trades

Current Portfolio April 15, 2024

Ticker	Name	Return	Days Held	Sector
AVT	Avnet, Inc.	0.58%	213	Technology
BURCA	Burnham Holdings, Inc.	1.17%	4	Industrials
CIVB	Civista Bancshares, Inc.	-3.31%	157	Finance
FUSB	First US Bancshares, Inc.	6.80%	10	Finance
HVT	Haverty Furniture Cos., Inc.	18.89%	332	Consumer Cyclicals
MCEM	The Monarch Cement Co.	31.43%	213	Non-Energy Materials
PSX	Phillips 66	76.04%	339	Energy
THFF	First Financial Corp. (Indiana)	6.38%	317	Finance
VLO	Valero Energy Corp.	37.03%	178	Energy
WEYS	Weyco Group, Inc.	21.50%	150	Consumer Cyclicals

Will They or Won't They?

That is the question.

The question is, will the Federal Reserve cut interest rates in 2024, or won't they?

Market expectations have been for at least three cuts of 75 basis points in 2024.

In the fourth quarter of 2023, the stock market surged due to those expectations and speculators front-running the Federal Reserve's actions.

The market momentum carried into the first quarter of 2024.

That momentum has come to a grinding halt after a hotter-than-expected inflation report last week.

I have been skeptical that the Federal Reserve would cut interest rates in 2024.

Why?

I live in the real world.

While *reported* inflation has come down, the reality is that many items continue to rise greater than the reported rate, especially in stuff like food, which everyone eats.

Or insurance.

Or daycare.

Or energy, which has appeared to moderate in its price advance but has compounded at a massive rate in four years.

Or schooling costs.

My town just voted down the school budget for this year.

On top of a massive property tax increase that is coming due to reassessments, the school budget was grossly inflated.

The budget was a joke.

This is a double whammy for a lot of people.

The old saying goes, "Money doesn't grow on trees."

I feel the effects of inflation less than most people I know.

I can exert more flexibility in my spending than others.

In part because I do not have children.

However, I sympathize with folks because most people don’t have that flexibility.

They’re getting crushed.

This is a problem.

Take a look at this chart of food price increases since 2019.

1. Cocoa: +345%
2. Orange Juice: +260%
3. Olive Oil: +219%
4. Sugar: +120%
5. Fruit Snacks: +77%
6. Cooking Oil: +54%
7. Chocolate Bars: +52%
8. Apple sauce: +51%
9. Beef: +51%
10. Mayonnaise: +50%
11. Loaf of Bread: +42%
12. Eggs: +40%
13. Milk: +40%
14. Cereal: +38%
15. Butter: +24%

Food is up over 40%, and over 100 items have risen by 50% since 2019.

Folks are spending about 11% of their income on food, the highest percentage since the first Gulf War.

And, it’s not dining at Michelin-starred restaurants like the French Laundry.

It’s to buy apple sauce.

Of course, the folks voting on the Federal Reserve Open Market Committee (FOMC) know this because they see the actual data, even if they don't report it.

If I were on the FOMC, I certainly wouldn’t cut rates.

I'd do nothing.

We are nearly elections season and this one will be the most contentious since John Adams squared off against Thomas Jefferson.

It’s going to be nasty.

And if the FOMC wants to maintain its image as independent and data-dependent and maintain credibility going forward, the board members cannot appear to be trying to influence the election.

Furthermore, if they cut rates, the market will take care of this for them, and longer-term rates will skyrocket.

So, they are in a pickle.

What should we do investment-wise?

Nothing.

Predictions will only cost you money.

Before the inflation report, the odds were about 80% of a rate cut in the year's first half.

Right after the inflation report, those odds dropped to 40%.

The closer we get to the election, combined with less data coming out during the summer, the further the odds will be reduced.

Instead, *react*.

Wait and see what new trend develops.

Something may happen, and rates need to be cut because its impact on the economy would lead to a deflationary bust.

It could be a debt crisis or another pandemic.

The fact is, *you* don't know. Neither do I.

The good news is while I mentioned last week that earnings quality is a factor in the stock models and the returns of quality earnings have been stellar, trend following is also a factor.

It's a powerful one-two punch.

Meanwhile, as the odds go back and forth on whether rates will be cut, the market is likely to experience many fits and starts.

Possibly, no big trend will develop from here this year.

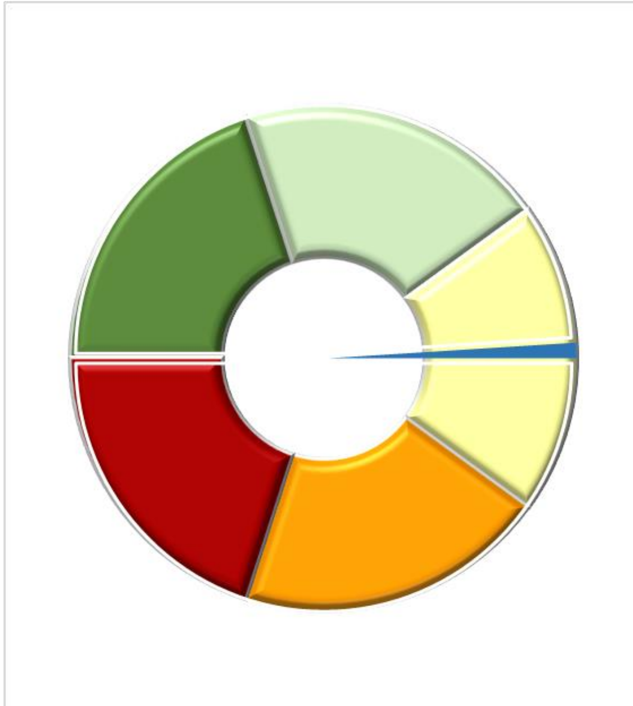
That happens.

So, maybe it's not a great year, and the primary goal is to avert disaster.

No matter what, though, a new trend will develop eventually.

It will be powerful.

We need to hop on board and ride it.



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