

Insights from the Equity Research Team

In this piece, we take recent commentary from various members of the Equity Research Team and share it with our readers. Hopefully, this piece will provide some insight into the economy and markets and give you a sense of how our team is thinking about recent trends and developments. While we remain abreast of current happenings and strive to have an informed view of the world, fundamental, bottom-up research continues to drive our investment decisions.

John Crawford, IV, CFA
Managing Director of Equity Investments

“Consumer spending makes up approximately 70% of U.S. GDP. As the consumer goes, so goes the economy. On this front, there are some positives and potential negatives, but overall a relatively favorable picture. Jobs are plentiful with unemployment at 3.5%, and wages are growing. As a result, consumer confidence is reasonably healthy. Personal balance sheets remain stronger than they were pre-pandemic, but much of the excess cash has been drawn down. Spending patterns have been more oriented toward services reflecting continued catch-up in demand post-pandemic. Higher interest rates represent a negative influence, and student loan payments are now to be resumed, which would add a burden onto many consumers.”

Jon Christiansen, CFA
Senior Equity Research Analyst, Industrials

“We approach industrial businesses with appropriate conservatism given their heightened economic sensitivity. We seek to mitigate volatility through long-term ownership of market leaders with strong profitability and track records of shareholder-friendly strong dividend policies. Industrial stocks entered 2023 on seemingly unsteady ground given fears of recession. However, several factors have come together and enabled industrials to remain in growth mode. Many industrial companies, and certainly those in which we invest, have demonstrated the ability to pass through sufficient price increases to customers. This has offset the inflationary cost pressures experienced by most businesses over the past few years. These companies are also benefitting from a resurgence in capital investment in the U.S., driven by government programs, energy efficiency, on-shoring of production away from Asia/China, and modernization of plants and equipment. There are certainly a number of high-quality investment candidates in the Industrial sector that dovetail with Crawford’s overall portfolio objectives, and we expect to maintain exposure to these stocks.”

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Frank Pinkerton

Senior Equity Research Analyst, Health Care

“Only a year old, the Inflation Reduction Act (IRA) includes a provision enabling drug price negotiation for Medicare. The ultimate impact on pharmaceutical companies can only be broadly estimated, and litigation is pending. But, this will likely slow industry growth in the back half of this decade, selectively impacting companies with large products sold into the elderly population. IRA changes will be a slow grind for the next several years, but we continue to find attractive fundamentals at reasonable prices within pharmaceutical and other health care stocks. Demographics, high industry profitability, and consistency afforded by patent protection, combined with active capital allocation policies and robust R&D budgets, align these companies with Crawford’s underlying investment philosophy.”

Boris Kuzmin, CFA

Small Cap Portfolio Manager

“So far this year, the market actually has been pretty resilient despite fears of recession and the Fed continuing to raise rates. The S&P 500 has put up really great numbers and was up roughly 16% through the most recent quarter ending on June 30th. But, I would question whether that truly represents the market these days, because the Tech sector represents about 28% of the index. And actually, if you add some of the other companies like Amazon, Meta, and a few other tech-like companies that are included in other sectors, the weight goes up to about 37%. So, performance of the S&P 500 has been driven by these large mega-cap tech companies, and this strong performance is not necessarily indicative of the broader market. Plus, much of this was recovery from a very difficult year for stocks in 2022. If we look at the S&P 500 equal weighted, which we think is a better reflection of the state of the economy and the average company, the story changes. The equal weighted index is up about 7% for the year, while the small cap Russell 2000 Index is up roughly 8%. So for period ending on June 30th, small cap actually did relatively well and outperformed the equal weighted measure of the market. Additionally, the Crawford Small Cap portfolio outperformed the Russell 2000 Index during this period.”

Aaron Foresman, CFA

Managing Director of Equity Research

“According to the International Data Corporation, annual global spending on AI services and cognitive systems reached \$57.6 billion in 2021, and it is expected to reach \$126 billion by 2025. Further, PwC estimates that AI could contribute up to \$15.7 trillion to the global economy in 2030 including \$6.6 trillion from increased productivity and \$9.1 trillion in consumption side effects. These staggering figures are too significant for investors to ignore. Given the pace of innovation and the rapid adoption of generative AI technologies, now is an exciting time to be an investor in technology companies. At Crawford, we are able to take advantage of these opportunities by identifying individual companies that both meet our quality

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requirements AND participate in these secular growth markets. While we are not thematic investors, we certainly seek to identify businesses that can benefit from larger trends in the economy.”

We hope these comments are of interest and provide perspective into how we are thinking about various areas of the investment landscape. Thank you for your interest in Crawford Investment Counsel.

Crawford Investment Counsel (“Crawford”) is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Crawford, including our investment strategies, fees, and objectives, can be found in our Form ADV Part 2 and/or Form CRS, which is available upon request.

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