February 2024

# Mid-Quarter Update

CRAWFORD
INVESTMENT COUNSEL
Est. 1980

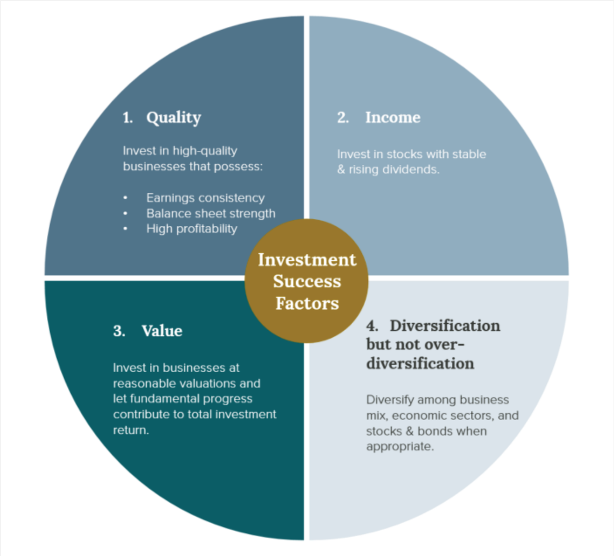
Right now, the U.S. economy is performing remarkably well. Gross Domestic Product (GDP) is growing at a well above average rate, new job growth continues to impress, resulting in unemployment that is still near record lows, and inflation has declined sharply, running at near 2% over the last six months. These economic measures have defied predictions of economists, in each case far exceeding estimates. Chairman Powell of the Federal Reserve (Fed) summed it up in his last news conference when he simply said, "This is a good economy."

How does all of this good news relate to the financial markets, specifically, stocks and bonds? One would assume that it would have a salutary effect. But, we note that the economy is not the stock market, and the stock market is not the economy. This means that over the short to intermediate term they may not move in tandem. Over the long term, however, a strong, growing economy is decidedly good for stock investors since it is so much easier for companies to increase their earnings. If the very favorable economic setting continues, it should be only a matter of time before the stock market as a whole begins to perform well.

We use the phrase "as a whole" since today's stock market resembles what was experienced last year. While the popular averages are off to a decent start this year, they are being disproportionately influenced by a small number of very large, dominant companies. Meanwhile, the average stock treads water or moves ahead marginally. While it is possible that the strong performance of these few companies will eventually become the norm for the broader sweep of companies, we note that in the past such acute concentration in market leadership has been a harbinger of trouble for the markets.

There is another factor that is contributing to uncertainty among investors. While the Fed has made it clear they intend to begin reducing federal fund rates this year, the timing is uncertain. One aspect that could complicate things is the fact that the economy is so strong. The Fed had expected that by now the impact of their tight monetary policy would result in a softening economy. This has not happened, so the risk is twofold: first, the Fed may delay reducing rates longer than expected, thus disappointing investors, and second, inflation's downward trend could be halted by the stronger-than-anticipated growth in the economy, leading to further delay and the risk of more restrictive policy.

The path back toward normalcy is never easy in an economy that is so diverse, large, and complicated as ours. For now, we believe investors should be encouraged by the exceptional performance of the economy. It is worth celebrating. And, it should heighten confidence that the eventual outcome of the transition back to normalcy will be successfully completed. In the meantime, we remain confidently invested. We seek out a number of investment success factors that we believe can overcome the short-term uncertainty investors are facing today.




**Quality.** First and foremost, we believe quality is the best measure to balance risk and return over the short and long term. We use a number of different metrics to assess the quality of a business, a few of which include earnings consistency, balance sheet strength, and high profitability. **Income.** We use the dividend as an initial indicator of quality and believe a company's ability to maintain and grow dividends over time can be reflective of many of the quality attributes we seek out. **Valuation.** We also seek to invest in companies at what we believe are reasonable valuations and let the fundamental progress of the underlying business contribute to total investment return. **Diversification.** We emphasize diversification among business mix, economic sectors, and even stocks & bonds when appropriate. We believe in the merits of diversification and seek to avoid overconcentration of a few companies, business types, or economic sectors. The aforementioned aspects are somewhat differentiated in that each of them leads to enhanced return with lower risk.

Regardless of what happens in the economy and markets over the short term, these investment success factors provide a level of confidence for our investors to remain appropriately invested. They are engrained in our 40+ year philosophy, and we strongly believe that over time they will continue to provide an exceptional investment experience for our clients.