

INVESTMENT VIEWS

JULY 31, 2023

"G" IS BECOMING MORE IMPORTANT

In macroeconomics, the components of Gross Domestic Product can be expressed in the following equation:

$$GDP = \text{Consumption (C)} + \text{Investment (I)} + \text{Government (G)} + \text{Net Exports (X)}$$

For decades, economists focused on consumption (C) as consumer expenditures expanded quickly and were the largest determinant of GDP growth. However, it appears that Government (G) is set to take over going forward, becoming an increasingly larger portion of US GDP.

The implication for investors is to focus more on how and where the government is spending money. Clean energy, defense, infrastructure, cybersecurity and healthcare are among the areas currently in focus for the federal government. As the "G" becomes more important, it is also possible that actions of the Federal Reserve may become less important to investors since government spending is less affected by interest rate decisions.

INFLATION FINALLY UNDER CONTROL...NOT YET

The last reading of CPI that came out in mid July showed yet another cooling of the number, down to 3% year over year. A far cry from the 9% that we had last year and getting close to the Fed's arbitrary 2% goal. However, this will likely mark the low in inflation and it should rise from the early August reading going forward. This is due to the dropping off of June 2022's HUGE increase of 1.2%. Therefore the new base for the year over year calculation will no longer include such a large number and will be starting with the July 2022 rate which was a 0% increase month over month, as we had a large drop in gas prices that month due to the release of the SPR. Any rate higher than 0% going in August is going to show that inflation is once again increasing. Even if we just get small incremental increase of 0.2% or 0.3%, then it is possible we could be back at a 5% annual inflation rate by year's end. If this comes to pass, the Fed will definitely continue their tighter monetary policy.

SPR DEPLETION

The Administration has ceased withdrawals from the Strategic Petroleum Reserve (SPR) after a historic effort to bring down prices. The SPR is a series of caverns and storage containers that have a capacity of more than 700 million barrels of oil, or about 30 billion gallons, and is meant to protect the US from sudden price spikes or shortages. To better visualize these huge numbers, consider an Olympic sized pool and then stretch it out over 1300 miles. Over the past year the US took out about 250 miles, with about 640 miles left. Now that the withdrawals have ceased, will prices start to climb again? If they do, what will be the government's next action?



THE MARKET ENVIRONMENT

In our market article last month we felt the market was due for a short term correction, and while the first week of July provided a relatively weak environment, the following weeks have been strong. However, we don't necessarily think we are done with any corrective phase just yet as the market is a bit overextended and the final full week of July had negative market action even in the face of some very good earnings reports. This is likely just some "sell on the news" action and we continue to feel that sell-offs will provide good opportunities for entries into the current bullish trend.

BWX TECHNOLOGIES



BWX Technologies (BWXT) is focused on nuclear energy, building and maintaining nuclear reactors for the US Navy for over 50 years.

Their reactors power the Navy's aircraft carriers and submarines with unparalleled safety and reliability. While this business is expected to continue to do well, BWXT is also looking to the future and designing and collaborating on reactors that will take the United States into deep space in the coming decades. In fact, BWXT recently was jointly awarded a contract with Lockheed Martin to develop a spacecraft capable of taking astronauts to Mars and beyond. This development helps to confirm our thesis that BWXT will become a leading player in the nuclear energy renaissance in the decades to come.

CHANGING THE STREAMING GAME



We previously successfully invested in Roku (ROKU), the leading streaming company coming out of the COVID pandemic in 2020. After a very strong run, we exited to position after the valuation clearly became excessive. The market later realized what was obvious and the ROKU stock price collapsed to new lows.

At present, we find these levels on the stock to be attractive again as it appears that many investors have given up on it. We believe that their platform will become a strong advertising cash flow generator and that their recently launched Roku channel may drive further growth in subscribers.

While some aspects of ROKU management's plans are not certain to become fruitful, the size of the ROKU user base has been catching the attention of other streaming players, making ROKU a potential acquisition target. We find ROKU to be a great risk/reward over the next few years.

BEWARE SCAMMERS



As a follow up to an article on fraud we posted a couple months ago, we wanted to pass along some keys of what to look for in email and other communications that may indicate it is fraudulent. While not an all inclusive list, definitely keep the following in mind when receiving phone calls, emails or text messages.

1. Unexpected Contact - Be careful when a person or company contacts you by phone, email, or text message about an invoice/order or delivery that you don't know anything about. Our best advice is if you receive a phone call from an unknown number, do not answer it. If it is important or someone you know, they will leave a message.
2. An urgent message - If you get a message that claims urgency, best to act as if this is not legitimate. Scammers like to use tactics like pressure in order to get you to act without thinking things through. Look for language that is more pushy or even rude in the messages.
3. When payment is requested in a very specific or unusual way, this is generally a great sign of a scam. They may ask for payments in gift cards, cryptocurrency, a payment app like Zelle, Paypal or Venmo, and even an online payment. These payments are usually requested to resolve an "issue" that will benefit you.
4. Look out for threatening language in their messages. Scammers will tell them you owe them money and threaten to turn you into the authorities. They will also walk you through how to withdraw or transfer the money.
5. Look for proper grammar and spelling in an email. While not all fraudulent emails contain this, if they do it is a likely sign that it is not legitimate.

What to do:

- Slow down and think things through.
- You are in charge of your money and do not be persuaded by threats to pay someone you do not know.
- Contact our office and we will attempt to get to the bottom of the issue and to help onto the next steps.

