MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

JANUARY 31, 2024

WHERE DO WE GO FROM HERE?

As we write this newsletter the Federal Reserve has released its most recent interest rate decision, holding rates steady and signaling that they are done raising interest rates for now. Since the Fed signaled this decision, the only possibilities now are flat or down. Of course, the question is -- where are interest rates headed from here?

This is a relevant question because as we have explained in previous issues, interest rates play a dominant role in all markets, including stocks, bonds, various commodities and the multitude of derivatives accompanying them.

It is now a game of expectations, with some investors expecting the Fed to cut rates soon, versus others who believe that rates will remain at current levels for longer. While the direction is not certain (down or flat), overall financial conditions will become “easier” relative to 2022 and 2023.

RECESSION FEARS VERSUS FISCAL SPENDING

Among the investor community there have been many proclamations in the past year regarding a recession coming. Indeed, recession fear was a common theme in conversations with clients and other investors in 2023. While not fearful, our investment posture also was somewhat defensive as we were net sellers during the year. Actual data was mixed, with many indicators showing some degree of deterioration. Nevertheless, no recession ever occurred.

While it is hard to make definite statements in the realm of economics, our hunch on what kept the economy out of a recession centers on fiscal spending. Indeed, with a $1.7 trillion fiscal deficit in 2023, federal government spending played a significant role in keeping the US economy afloat. This is merely an observation, making no judgement on whether it is a good policy or not. However, we do wonder aloud about whether this is sustainable and what the consequences will be later.

In sum, as we have discussed in previous newsletters, fiscal spending is taking on a greater role in government policy versus monetary actions. It kept the economy out of recession in 2023 – will it do that same in 2024? Recessions are part of the economic cycle and investors should always be on the lookout as the economic environment changes.

WHERE ARE THE CHIP SUBSIDIES?

Back in 2022, legislation was passed, awarding subsidies to semiconductor companies in order to entice them to bring manufacturing back into the U.S. Nearly a year and half later and we are still waiting on when and to whom will receive their portion of the $53 billion the Chips Act provided for.

Most of the speculation has Intel and Taiwan Semiconductor getting the largest portions of the incentives. Intel has projects underway in several states at a cost of $43.5 billion as it attempts to take on Taiwan Semiconductor at being a commodity producer of chips for customers. Meanwhile Taiwan Semi is taking up stakes in Arizona with two chip plants under construction at a cost of nearly $40B, with the first expected to open 2025, but the second has been pushed back. Other beneficiaries of the awards are expected to be Micron Technology. Texas Instruments and Samsung, the last of which has a nearly $17 billion project near Dallas. Recent news points to some of the awards going out in the next few weeks, but we wouldn’t expect a big move in stock prices. These incentives have likely worked their way into the valuations of these companies already and it will be up to them to execute and stay on track with costs.

PHARMACEUTICAL COMEBACK

Long time MH clients will remember Teva Pharmaceuticals (TEVA), the Israeli generic drug maker, a previous profitable holding from nearly 10 years ago. Since those days, TEVA got into a great deal of financial and legal trouble, threatening the very existence of the company. As value investors, we kept our eyes on it, watching the new management navigate a precarious financial situation and a couple of class action lawsuits.

The company appears to be coming out of the woods and ready to get back on its feet. With the lawsuits behind them and a new set of drugs on the market and a pipeline that is beginning to reinvigorate their finances, TEVA has already started to reward early investors who believe in the company's recovery.

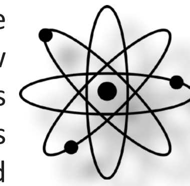
We made an initial investment in TEVA over a year ago, recently adding to the position as the fundamental picture became clearer to us.

THE TITANIC SYNDROME

In 1965, Bill Ohama developed The Titanic Syndrome, which gives a preliminary sell signal anytime the number of 52-week New Lows exceeds New Highs on the NYSE within 7 trading days before or after a major market high. One of these signals was recently triggered in January, but understand that these signals are just warnings and not intended as an emergency situation. What needs to be watched out for is a cluster of these signals developing, and that would mean the evidence of a top is mounting. He had large clusters of these signals develop in late 2021 and late 2018, not to mention right at the start of COVID.

Backtests of market data show that the market is lower by an average of 68 basis points one month after a signal. However, after one year later, the S&P 500 is on average, up 3.87% from the time of the signal. Remember though, this is the average and there are many instances of one-off signals. The times when they come in clusters are what is dragging the average returns downward. Certainly something to keep an eye on.

URANIUM UPDATE



The nuclear renaissance we have written about for several years now seems to be getting underway. As governments become more serious about dealing with the perceived threat of man-made climate change, nuclear energy has emerged as an essential and major component of clean energy policy. Recent developments have also demonstrated to investors that serious commitments are being made and lasting changes in place to propel this sector further ahead.

First, western governments have joined their eastern government counterparts in providing for robust spending on keeping existing nuclear facilities operating and funding new, state of the art developments. For example, a Michigan utility was given $1.5 billion to restart a closed nuclear power plant –the first time this has happened in the United States. Also, Saskatchewan in Canada recently announced an agreement to build small modular nuclear reactors (SMRs) across the province.

As this renaissance gets underway, the uranium market has suddenly become much tighter, forcing prices higher a supply concerns also emerge. A few years ago when we began writing on this topic, uranium oxide was about $20 per pound. Today, it is over $100 per pound and seems set to rise further as global buyers compete to lock in future pounds to be delivered.

This sector seems ready to move higher in the coming months as more investors become familiar with the underlying story. Some of our investments we have touched on in previous newsletters. We currently have uranium related investments in Cameco (CCJ), Centrus Energy (LEU), as well as in an ETF (URNM) that tracks uranium miners.

Recommendation List: A list of all previous specific investment discussions made over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

& Associates

MH & Associates Securities Management Corporation
2888 Loker Avenue East, Suite 318 • Carlsbad, CA 92010
23901 Calabasas Road, Suite 2005 • Calabasas, CA 91302
(626) 440-9694 • www.mhinvestments.net