

# Dividend Plus

Q1 | 2024 Commentary

As we mentioned last year, the adage, “the market climbs a wall of worry,” is still a recurring theme as we navigated the first quarter of 2024. We are now starting to see what a new normal might look like with higher rates, and it looks a lot like a fresh bull market. There appear to be many combined tailwinds for the equity markets now, including cooling inflation data and robust jobs numbers, showing that a possible peak in rates may be behind us, and that higher rates may not necessarily be an issue for sustained equity rallies provided the underlying economy keeps up.

With inflation indicators now in an established overall trend of decline, we are possibly looking at a favorable future economic environment that could allow for more stable company earnings and margin improvement. In essence, a goldilocks soft landing may be in the cards, or at least on the horizon.

Short-term rates are widely expected to decline by about 0.5%-1% over the coming year. Much will depend on the Fed’s stance on fresh data, but with at least two rate cuts priced in currently, short-term equity performance may now depend on how closely consensus forward earnings and economic data align over the remainder of 2024.

Unemployment remains persistently low and this is a key metric the Fed is willing to apply pressure to move if needed. As long as the labor market remains tight, there is potential for wage inflation to re-spark and this could undo some of the progress the Fed made recently with tightening monetary policy. As the Fed has communicated in the past, they are willing to take additional tightening measures to raise unemployment if needed to help curb any further wage inflation.

We continue to see what we believe is a favorable environment for value stocks in general due to the discount rate potentially remaining high for the foreseeable future. We remain watchful over all possible factors influencing the current and future names in the portfolio but are optimistic that value stocks may continue to run higher.

Value stocks have continued to benefit in this recovery and current environment, as value has historically performed well when rates are higher. In the first quarter of 2024, value still underperformed growth, as it has for some time now, but we believe a much more favorable environment for value stocks in general may be coming over the next few years.

In a relative stock valuation sense, higher treasury rates increase the implied discount rate for stocks. Value stocks may have several attractive qualities in a higher interest rate environment compared to growth stocks, such as a higher upfront return on capital and lower equity duration. Value companies that can pass through higher inflation costs to consumers and maintain their pricing power in this environment may continue to perform better than their peers. Those companies with little pricing power or little ability to absorb rising costs from suppliers and pass those rising costs back along to consumers may see continued pressure. The Dividend Plus portfolio has been constructed to attempt to buy quality domestic



**Lead Portfolio Manager**  
**Mitch Ehmka, CFA®, CIPM®**  
*Chief Trading Officer*

Mitch has worked with Kingsview since 2010 and has assumed increasing responsibility during his tenure, serving as Head Trader for 3 ½ years, and then as Director of Trading for the last five years.

Mitch oversees all trading operations within the firm from Chicago and runs the day-to-day trading operations of Kingsview Investment Management. He will also continue to sit on the investment committee.

Mitch helps Advisors, fellow Portfolio Managers and the Investment Committee implement investment strategy, and assists in guiding portfolio implementation within Kingsview’s systems. Mitch also spearheads the GIPS efforts of Kingsview Investment Management and oversees its claim of compliance with the GIPS standards in investment performance reporting.

companies at what we believe are bargain prices and sell them when we believe they appreciate to fair value. Outside of an overall decline in broader stock prices for 2022 and a swift rebound in 2023 and the first quarter of 2024, little has fundamentally changed with companies held within the portfolio and it is business as usual in Dividend Plus. In the first quarter of 2024, we had seven names appreciate to fair value and two names exit the portfolio due to declining fundamentals. We continue to keep a watchful eye on the potentially difficult environment ahead and seek to ensure that all names in the portfolio are best positioned to succeed.

Company fundamentals are reviewed on an ongoing basis and should there be a change to our estimate of fair value for any security, we will incorporate those changes into our model and, if needed, find a suitable replacement for any holdings. Some companies that are popping up on the horizon as future possible investment candidates are located within the healthcare, energy, and financial sectors. Consumer discretionary could also possibly present some interesting opportunities for the portfolio over the coming years. We believe all current holdings in the portfolio remain a good value with long-term appreciation potential. We remain confident in our ability to continue to deliver risk-adjusted performance in both the current environment and the immediate future.

Within the portfolio, eleven total companies hiked their dividends in the first quarter of 2024. Comparing this past quarter to the same quarter a year ago, the total increase in dollar income is up just over 10%. The current yield is 2.79%, just over double the S&P 500's yield of 1.31% and down approximately 13% from the prior quarter in relative terms, mostly due to the first quarter rally in overall prices. Over the past year within Dividend Plus, 87% of all holdings have increased their dividend YoY. Using PE (price to earnings) as a measure of value, the portfolio is trading at about a 50% discount to the S&P 500.

We at Kingsview Investment Management appreciate your continued support of the Dividend Plus portfolio. Should you wish to speak with one of our portfolio managers, please email [investments@kingsview.com](mailto:investments@kingsview.com).

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