Dividend Plus

Q4 | 2023 Commentary

2023 was a year continually marked by conflicting economic data and an overall pessimistic mood as the market pushed higher, shrugging off monetary tightening concerns. As the adage goes, "the market climbs a wall of worry," and 2023 proved to be no exception. After 2022 and the significant concerns about inflation hampering corporate earnings for years, 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 are 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 are not necessarily, by themselves, a bad omen for the market.

With inflation indicators now in an established 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 on the horizon soon and this could be very welcome news for all investors.

Short-term rates are widely expected to decline by about 1% over the coming year. Much will depend on the Fed's stance on fresh data, but with at least 3 rate cuts priced in currently, short-term equity performance will now depend on how closely consensus forward earnings and economic data align over 2024 and beyond.

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 usual and as the Fed has communicated in the past, this remained the case for most of 2023 and should not be a surprise. The Fed is willing to take additional tightening measures to raise unemployment if needed to help curb any further wage inflation.

In any scenario for 2024, we expect to see a guarded but favorable environment for value stocks due to the discount rate remaining high for the foreseeable future. We remain watchful over all possible factors influencing current and future names in the portfolio.

Value stocks have continued to benefit in this recovery and current environment, as value has historically performed well when rates are higher. For 2023, value still slightly underperformed growth, but we expect a much more favorable environment for value stocks 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.

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.

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The Dividend Plus portfolio has been constructed in an attempt to buy quality domestic companies at 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, little has fundamentally changed with companies held within the portfolio and it is business as usual in Dividend Plus. In the fourth quarter of 2023, we had four names appreciate to fair value and one name exit the portfolio for declining fundamental reasons. 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 consumer discretionary, energy, and utility sectors. Financials could also possibly present some interesting opportunities for the portfolio over the coming years. The financial sector has been somewhat battered by the brief banking crisis experienced in the first quarter of 2023, and, as a result, many names in the sector continue to trade at discounts to fair value. These sectors could be interesting investment spaces for 2024 and beyond, depending on interest rates and the market response to any changes in rates. 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, nine total companies hiked their dividends in the fourth quarter of 2023. Comparing this past quarter to the same quarter a year ago, the total increase in dollar income is up just over 27%. The current yield is 3.21%, just over double the S&P 500's yield of 1.41% and down approximately 4% from last quarter in relative terms. Over the past year within Dividend Plus, over 90% of holdings have increased their dividend YoY. Using PE (price to earnings) as a measure of value the portfolio is trading at about a 37% 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.