Abner Herrman & Brock
asset management

July 2023

"Change is the law of life.

And those who look only to the past or present are certain to miss the future."

— John F. Kennedy

As we reflect on the first half of the year, we have been struck by the degree and rate of change that has impacted our world in such a brief period. After many years of low inflation and low interest rates driven by increased globalization and stable foreign policies, the past couple of years have brought dramatic change. The pandemic accelerated societal change with the addition of viable hybrid work and new cultural norms. Geopolitical events have led to tense US relationships with other world powers. New technologies have emerged to assist in a more sustainable environment, such as advances in electric vehicles. Global economic policies have shifted, most notably, the actions to increase interest rates to fend off higher rates of inflation. Artificial intelligence (AI) and machine learning will be another layer to add on to these already significant changes.

Change is a mandate that is infused throughout AHB's investment process. We pride ourselves on anticipating, analyzing, and measuring change. In our investment process, change is the ingredient where we find outsize shareholder returns. History does not provide us with the answers to future investment opportunities. Instead, we examine the changes that a company or an economy exhibits to forecast potential areas of opportunity that have not yet been anticipated by the consensus. This is a distinction we continue to hone and provides a pathway to deviate from the mainstream institutional viewpoint that history alone provides rationale for investment decisions. Change can occur slowly, over decades, for example, as the change from a manufacturing economy to service based; or very fast, such as the impact of the internet on our society. In either case, structural change requires the challenge of digesting the potential impact of these changes on the future of the global economy and the multinational corporations that we invest in for our clients.

We continue to expect interest rates to remain higher for longer. The Core CPI has shown limited change in direction for seven months, running at an annualized increase of just below 5% and higher than the Fed's 2% target. During this period, higher interest rates have not quelled inflation as quickly as it did historically. One of the reasons is because over the past several decades, the US has transformed from a manufacturing-based economy to a service-based economy. A service economy has less volatility in its labor force and less need for debt because capital projects are not required for revenue generation. Additionally, a strong labor market has been a boon for consumer spending, which represents 65% of the US GDP, thereby supporting a higher rate of inflation for longer. We have endeavored to find opportunities in both equities and fixed income that will flourish in a higher interest rate environment.

We have begun to position client portfolios to benefit from Artificial Intelligence (AI), focusing on the largest companies in both hardware and software applications that we believe will take advantage of and benefit significantly from this new technology. The exuberance of AI has reignited investment in technology stocks. The Nasdaq index performance last quarter was the best since 1983 and third-best since its inception in 1971. This wave of excitement is reminiscent of investor enthusiasm in the early days of the Internet. AI appears to offer sizable opportunities for new products and services that will provide a wave of global productivity. In a rising interest rate environment spurred by higher rates of inflation, the growth opportunity of AI serves as a welcome relief to those concerned about higher interest rates leading to a severe slowdown.

Fixed income client portfolios, both taxable and municipal bonds, have exposure to shorter dated securities to take advantage of reinvestments into higher interest rates that we anticipate over the next year. The AHB Municipal bond strategy is particularly attractive, offering a tax equivalent YTM of approximately 6%, for clients that are in the highest tax brackets.

As we embrace change from an investment perspective, we will monitor and evaluate areas of impactful change and their potential impact on our global economy in the future. In so doing, we expect to structure portfolios to capitalize accordingly.

Wishing you a pleasant summer season,

AHB Investment Team

Harborside 5 · 185 Hudson Street · Suite 1640 · Jersey City, NJ · 07311 · info@ahbi.com · www.ahbi.com