STENGER FAMILY OFFICE
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The Bull Case for Equities

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We're due for a correction. It's been over three months since the S&P 500 Index has dropped more than 2% in a day. The last 10% market correction was July-October of 2023. On average, we see stocks drop 10-15% at least once per year, leading us to believe a normal pullback is coming soon. As always, the media will try and convince us this time its different, using a variety of scary headlines relating to politics, recession predictions, and propping up any doom and gloomer eager to claim the world is coming to an end. When the inevitable pullback occurs, data matters. It's the guiding light we cling to instead of narrative. In our research, we've identified four economic pillars that make up our long-term bull case for the stock market.

Pillar #1 – Aging Baby Boomer Population: It's estimated that approximately 10,000 Baby Boomers retire per day. Baby Boomers hold most of the wealth in the U.S. due to long term compounding, with an average net worth of $1.2 million. In our experience, our retired clients don't just sit home and watch TV all day, they spend money. Between travel, cruises, vehicle purchases, gifting to kids and grandkids, charitable giving, and medical expenses, Baby Boomers are set to spend more than any other generation. Further, over $4 trillion will be passed between generations during the" Great Wealth Transfer" that's set to occur between 2024 and 2045. Inheritance money is usually spent on second homes, new cars, and other luxury goods, a positive for markets.

Pillar #2 – Emerging Market Wealth Explosion: Siezing on the U.S./China trade war, India has positioned itself as a major manufacturing player alongside Vietnam, South Korea, Thailand, and Indonesia. Additionally, wealth is booming across Latin America in Argentina, Brazil, and Chile. With over 4.6 billion people in Asia and 656 million people in Latin America, emerging market countries embracing capitalism, the rule of law and personal property rights, are experiencing a boom in productivity and significant poverty reduction. Similarly, China's hard turn away from entrepreneurship is causing significant headwinds from which these other countries can benefit. As we've pointed out for a few years now, American companies that can successfully sell into these markets should benefit from this pro-business boom taking place. For example, Amazon, Apple, Citibank, Coke, Google, HP, and IBM have a strong presence in India and are building a large presence across Asia, a win for shareholders.

Pillar #3 – Demand for High Quality Investments: In 1975, only 11% of the American workforce had a defined contribution (401k plan). Today, 70% of the American workforce has a 401(K) plan where they are responsible for making their own investment decisions. At the end of 2023, there were over $10 trillion of assets in defined contribution plans alone, an increase of $2.4 trillion since 2013 (US Congress Report). With so much natural demand for high quality equities like the S&P 500 Index, it's no surprise stocks are more valuable today than they've ever been. Because of this shift from pension to 401(K) plans, we think U.S. companies will continue to rise in value over the long run. Further, investors fleeing from Chinese equities are happy to purchase S&P 500 Index companies and U.S. Treasuries, in search of increased stability and predictability.

Pillar #4 – Record Stockpiles of Cash: According to Morningstar, there was over $6 trillion stockpiled in money market funds and cash at the end of last year. Many of these cash hoarders are waiting for a buying opportunity in the market which we believe will dampen much of the potential downside ahead. A good portion of this cash will also be used by strong companies to buy weaker companies and by investors to purchase commercial real estate on the cheap. Eventually when rates come down, cash holders will be forced back into the equity markets, a positive for long term investors.

Since 1900, the S&P 500 Index has returned 9.81% beating inflation by 6.86% per year. Problem is, the market doesn't go up in a straight line. If you want the liquidity, transparency, and inflation beating power of the stock market, you have to pay the price – volatility. Stocks are volatile, but we think will continue to be our best hedge against the rising cost of goods and services over time. Stay the course, there's still plenty of reasons to be bullish.

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