

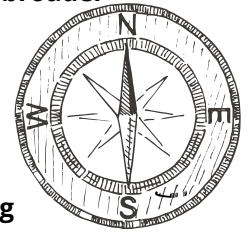
# How do current markets impact our approach?

*...continued from 06/20/2024 Market Update*

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To navigate these macroeconomic dynamics and their impacts on our portfolio, we need to adopt a nuanced approach, considering both sector-specific implications and the broader economic landscape.

## Sector-Specific Implications



### 1. Financials:

- **Example: Goldman Sachs (GS)**
  - **Impact of Gold Prices:** Fluctuations in gold prices can significantly affect trading profits and the valuation of gold ETFs managed by firms like Goldman Sachs. Higher gold prices, often seen as a hedge against economic uncertainty, could drive trading volumes and profits. Conversely, falling gold prices could reduce asset valuations and trading opportunities.
  - **Broader Implications:** Interest rate decisions by the Fed, which influence the USD value, also impact loan demand, interest margins, and overall economic activity, directly affecting financial institutions' profitability.

### 2. Industrials:

- **Economic Sensitivity:** Companies in the industrial sector often have significant exposure to global markets. A stronger USD can make US-manufactured goods more expensive abroad, potentially reducing exports. However, it can also lower the cost of imported raw materials, partially offsetting this disadvantage.
- **Capital Expenditures:** Exchange rate fluctuations influence investment decisions, especially for companies with extensive international operations or supply chains. A strong USD might encourage US companies to invest more domestically due to relatively cheaper capital goods imports.

## Investment Strategy Adjustments

### 1. Diversification:

- **Geographic Diversification:** Reducing exposure to companies heavily dependent on international revenues while increasing investments in firms with a stronger domestic focus could mitigate the adverse effects of a strong USD.
- **Sector Diversification:** Balancing the portfolio with sectors less sensitive to currency fluctuations, such as utilities or healthcare, could provide stability.



(...continued)

## 2. Hedging:

- **Currency Hedging:** Utilizing financial instruments to hedge against adverse currency movements can protect international revenue streams and maintain profit margins.
- **Commodity Hedging:** For sectors affected by commodity price changes, hedging strategies can mitigate risks associated with price volatility in raw materials and goods like gold.

## 3. Valuation Focus:

- **Growth at Reasonable Valuations:** Emphasizing companies with strong fundamentals, stable cash flows, and reasonable valuations ensures resilience against macroeconomic fluctuations. This approach helps in capturing growth while managing risks effectively.

### Monitoring and Adaptation

1. **Continuous Monitoring:** Regularly monitoring economic indicators, such as the Fed's interest rate decisions, inflation data, and currency movements, is crucial for timely adjustments.
2. **Agility in Strategy:** Being prepared to adapt investment strategies based on emerging trends and shifts in the macroeconomic landscape ensures that the portfolio remains aligned with our growth objectives.

By integrating these insights into our investment strategy, we can better navigate the challenges and opportunities presented by a rising USD, fluctuating gold prices, and broader economic conditions. This proactive approach helps in maintaining a balanced and growth-oriented portfolio.

### Analysis of Key S&P 500 Companies:

#### 1. Colgate-Palmolive (CL)

- **Sector:** Consumer Staples
- **Impact of Rising USD:**
  - **Positive:** As a domestically focused company, Colgate-Palmolive might benefit from a stronger USD by seeing increased competitiveness of their products in the US market. Consumers might find imported goods more expensive compared to Colgate-Palmolive's offerings.
  - **Negative:** Conversely, if the company has substantial revenue from exports, a stronger USD could make their products more expensive abroad, potentially reducing international sales.



#### 2. Enphase Energy (ENPH)

- **Sector:** Technology (Renewable Energy)
- **Impact of Rising USD:**
  - **Negative:** Enphase Energy, with significant international operations, could face headwinds due to currency conversion impacts. A stronger USD means that revenues earned abroad will be worth less when converted back to USD, potentially squeezing margins.
  - **Positive:** On the flip side, purchasing foreign raw materials or components could become cheaper, reducing production costs if these inputs are sourced from countries with weaker currencies.



#### 3. Kimberly-Clark (KMB)

- **Sector:** Consumer Staples
- **Impact of Rising USD:**
  - **Mixed:** Kimberly-Clark's diverse international operations could see mixed impacts. On one hand, cost competitiveness in foreign markets could improve as local production becomes cheaper in USD terms. On the other hand, revenues from these markets could be negatively affected when converted back to a stronger USD.





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