HELM INVESTMENT MANAGEMENT

Jay Allan McCormick
Peter John Quinn

2024 HELM CORE STRATEGY

While stock markets posted strong gains in 2023, the leadership was extraordinarily narrow: Seven big tech stocks such as Meta and Microsoft – known as The Magnificent Seven – greatly boosted annual returns for the S&P 500 stock index and the MSCI all-world index. Minor spoiler alert –in the 1960 Western that inspired the Magnificent Seven stock nickname, not all of the heroes survive.

Now, there's no saying whether some or all of the Magnificent Seven will get mowed down in 2024. But more likely than not, leadership in the stock market will need to broaden if stocks are going to post more gains this year. And that's what Helm expects to happen. Changes in interest rates continue to be the main driver of both the stock and bond markets. Late last year, the Federal Reserve Bank noted that the next move it makes with the short-term interest rate it controls would likely be lower. Given a drop in interest rates and an economy that (at least so far) continues to grow, chances are good that stocks will post modest gains from here.

The other bit of good news for investors with diversified portfolios: bonds also are set up to do well in 2024. Assuming the Fed follows through on its stated plan to cut interest rates three times this year, the yield offered on short-term bonds should slide from roughly 5% today to 4.25% or lower by the end of the year. When bond yields fall, prices rise. So there is a good chance for investors to see some modest capital gains on their bond holdings as well as the coupon income. That also means that bonds should contribute some return as well as some added stability to portfolios, instead of being a performance drag as they were in 2022.

Given the expected broadening of strength in the overall stock and bond markets, it will be no surprise that Helm continues to hold to two longstanding key principles:

- Diversify among individual securities, market sectors, countries and regions to reduce overall portfolio volatility and capture returns in unusual places.
- Create investment plans and protocols for regular rebalancing of investments based on each client's goals, and continuously assess each client's willingness and ability to take on financial market risks, including volatility.

Helm's recommended mix of assets for 2024 changes slightly from last year to 40% equity indexes, 25% income securities, and 35% fixed income securities. This 40/25/35 mix (compared with last year's 40/30/30 allocation) of assets aims at grabbing higher yields on bonds while they are available early this year. Chances are good that Helm's baseline recommended asset allocation will shift back in favor of stocks later this year, after the Fed starts to cut short-term interest rates. Descriptions and details about the asset classes follow.

Equity Indexes (40%)

In the equity index component of investment portfolios, Helm strives to gain higher returns while keeping overall risk close to that of the MSCI All Countries World stock index. Helm is an active manager employing Exchange Traded Funds (ETFs) of stock market indexes to execute the equity index component of the core investment strategy. Within the baseline 40% equity index allocation, Helm recommends a mix of:

- 28% in U.S. large cap stocks (indexes of stocks with a high market value, such as the S&P 500), including a good portion in dividend-oriented large caps and the S&P 500 equal-weight index
- 19% in U.S. mid cap stocks
- 8% in U.S. small cap stocks
- 45% in international holdings

Helm uses mostly market-capitalization-weighted indexes for the equity index holdings, plus some holdings in indexes designed to reduce market volatility or add yield to the portfolio. The S&P 500 dividend-grower index and the S&P 500 equal-weight index holdings are designed to avoid putting too much weight on extremely large stocks that might hit some bumps this year. Mid- and small-cap stocks rose less last year than large-cap stocks and look to be something of a bargain at the moment.

International equity index holdings are diversified among a basket of international equity ETFs. The categories of international equity indexes we invest in include:

- MSCI EAFE (Europe, Australasia and the Far East). This index includes large multi-national companies, such as Toyota, Nestle and Total.
- Two different MSCI emerging markets indexes, the first featuring large firms throughout the emerging markets, including China. The other emerging market index that we incorporate excludes companies from China – a reflection of Helm's ongoing worries about poor economic growth in China. Emerging market companies include Taiwan Semiconductor, Samsung from South Korea, and Tencent Holdings from China.
- An international small cap index, which holds smaller market capitalization companies, primarily in the EAFE countries and Canada.

Elements of the equity index investment mix may change throughout the year as part of Helm's active management.

Income securities (25%)

In the income securities component of investment portfolios, Helm invests in securities intended to generate strong and rising dividend income and/or growth at a reasonable price. These securities include U.S. and international large and mid-capitalization stocks with good balance sheets relative to other companies in their industry. For 2024, this includes equities in such industries as industrials and financial services.

Helm also works with clients to determine if holding high-dividend-paying common or preferred stocks fulfills an income need. Remember, stock dividends are taxed at a lower rate than ordinary income from bonds. Plus, many companies have a history of regularly raising their common stock dividends.

Fixed income (35%)

Helm invests in both individual fixed income securities, indexes of fixed income securities and high-quality money market funds for its clients. Fixed income securities are essentially “loans” to companies rather than an ownership stake. These securities are intended to provide significant diversification from equities and act as a financial safety net and help clients to preserve capital even in times of market volatility.

One benchmark for U.S. fixed income securities is the yield on the 10-year U.S. Treasury note. At the moment, the yield of a 10-year Treasury is close to 4.1%. At this point, yields on shorter-term bonds are higher – a 6-month Treasury bill has a annualized yield of 5.2%. Assuming the Fed cuts short-term interest rates later this year as planned, those short-term yields could fall fastest. That’s why Helm very likely will push the overall model allocation back toward equities later this year.

Fixed income investments include:

- U.S. Treasuries
- Publicly traded Bank Certificates of Deposit (CDs)
- Highly rated corporate bonds
- Money Market funds and short-term fixed income indexes
- Tax-free municipal bonds
- Agencies (such as bonds of the Federal Home Loan Bank)

Helm prefers relatively short-term maturities in the fixed income component of client portfolios. Fixed income portfolios will generally hold securities that mature in five years or fewer, with an average maturity of two-to-three years. We buy different maturities to create a maturity ladder, so bonds are maturing on a regular basis and funds are available for reinvestment or spending needs.

Conclusion

As always, the 2024 Helm core strategy is our best projection for the coming year. Despite our expectation of a thinning of the ranks of the Magnificent Seven, Helm anticipates a good 2024 for investors. As we noted above, decreases in short-term interest rates likely will lead to a shift in the recommended allocation later this year. In any case, each client portfolio is customized to that particular client’s unique circumstances and may deviate significantly from our core strategy. Please call us with any questions you might have after reviewing the 2024 Helm Core Strategy.