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Chairman and Chief Executive Officer
Strategas

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Webinar

Moderator: Julia La Roche
Host, The Julia La Roche Show

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 692nd meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. It's an honor to be here with all of you as we kick off our 2023 season of events here at the Club. As many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. And we've had many, many prominent guests appear before the Club over the last century and have a strong tradition of excellence.

A reminder to members that if you're planning to sponsor a 2023 Fellow this year, and we hope you are, the deadline for applications is January 20th so please do assist in getting those in. I'd like to extend a really warm welcome to students joining us today from the CUNY Graduate Center and the Gabelli School of Business at Fordham University. Welcome.

I'm honored to be able to introduce our Club member and special guest, Jason Trennert. Jason is Chairman and CEO of Strategas and its related companies. In addition, as Chief Investment Strategist, his research pieces on the subject of markets and economic policy are read by leading institutional investors and corporate executives around the world.

In 2006, Jason co-founded Strategas and now employs over 50 research analysts, institutional salesmen, and sales traders at its offices in Washington, D.C. and of course New York. Prior to founding Strategas, Jason was the Chief Investment Strategist and Senior Managing Director at International Strategy & Investment, ISI Group, where he built and oversaw two of the firm's most popular research efforts, its Company Surveys, and Investment Strategy groups. Widely quoted in domestic and international media, Jason is a regular guest on business news programs, broadcast by CNBC, CNBC Italia, Fox Business News, Bloomberg TV, among others.

Jason is committed to a number of Italian, Italian-American, and Catholic causes in New York and abroad. For his efforts, he was honored at the 66th Annual Columbus Day parade in New York and honored the honorific of Cavaliere by the Republic of Italy on June 2, 2017. In addition to being an active member, Jason is a member of the Investment Committee, an active member at ECNY, he's a member of the Investment Committee of the National World War II Museum and a member of the Advisory Board of Hollow Brook Wealth Management.

The format today will be a fireside chat and we're delighted to have another Club member with us doing the honors of moderating, the host of The Julia La Roche Show, Julia. In addition, we will be using the chat box for the conversation. You can enter questions directly there for their consideration if time permits. As a reminder, this conversation is on the record, and we do have media on the line. So, Julia, if you're ready, I'm happy to pass the mike over to you.

Conversation with Jason Trennert

JULIA LA ROCHE: I'm ready. Thank you so much, Barbara. And Jason, thank you so much for joining us today. I'm really excited to have this important conversation with you. Let's start with the big picture, the macro view for you today. And then we can start to dive in and zoom in on some other themes that might come up for you. What is that big picture for you today, Jason?

JASON TRENNERT: Well, I think, like most of the consensus, I'm largely of the view that the chances of a recession within the next two years are quite high, probably about three and four. I've noticed the change in the consensus recently where people think there is a chance of a soft landing in 2023 or that a recession might be pushed out into 2024, and I can see where people are coming from. There is an awful lot of consumer cash, a lot of cash on balance sheets of corporations, and the labor markets are still tight.

Having said that, I also, I don't want to confuse a delayed recession with no recession at all and believe that what the Fed has done so far and the still high rates of inflation suggests that it's going to be very hard to avoid a recession within the next two years. So we might get a little bit of a breather from the markets in the first half of this year, but I'm not convinced that we've seen the lows in equities just yet.

JULIA LA ROCHE: So we might get a little bit of a breather in the markets. Let's explore that because, as you point out, the consensus is that there's this expectation for a recession. You kind of mentioned some of the reasons for a delay. We'd love to kind of hear a bit more on why you see that possible delay story playing out further into 2024.

JASON TRENNERT: I think a lot of it, and this is, it's the good news and the bad news, right? The good news is that the labor markets are still tight as a drum. If you look at the JOLTS data, if you look at the job openings data, you have almost twice as many job openings as you have people that are actively looking for work that don't have a job. The good news in that people still have income and the economy isn't falling apart. The bad news is that the Fed is very much of a Phillips Curve organization. It's very focused on the Phillips Curve, very focused on the labor markets. And it's probably going to be very tough for the Fed to ease up on its tightening program until it sees real weakness in the labor market.

So, Julia, the first thing I would say is that the labor markets are still tight. The second part would be that there's still a fair amount of savings, which before the pandemic, kind of the general order of things is that Americans didn't have savings at all, and zero was kind of like the average number. Now you probably have a savings rate of about 2.5% as a percentage of disposable real income, which is not bad. And corporations have done a better job, I would say, than Uncle Sam in terms of terming out some of their debt obligations, or many companies have.

So things aren't going to necessarily be immediate in terms of slipping into a recession, but by the same token, I think it was Randy Quarles that said that, you know, a soft landing when you have inflation that ran as high as 8 or 9% is in the realm of fairy tale land. It's pretty hard to land the plane softly when you're trying to bring inflation down from such a high level. So the timing is going to be awfully difficult, it seems to me, for investors, over the next couple of years.

JULIA LA ROCHE: I want to, let's double-click on that a bit more because you just mentioned this kind of idea of a soft landing being more like fairy tale land. Let's unpack that a little bit more.

JASON TRENNERT: Yes, I think, listen, these are, as we know, these are, what the Fed is doing is they're using very, very blunt instruments. And the Fed can't create more labor, can't create more oil. The only thing it can really do is to try to get, and the whole purpose of economics, or the whole state of economics is trying to get supply and demand to balance out. And the tools that the Fed is using really can only affect demand.

One of the other moving parts in this that makes the Fed's job more difficult is that – I don't know how to say this nicely – but the people in Washington seem to be pretty addicted to spending – and I cleaned that up. About 60% of the, 60% of the federal budget is indexed to inflation. So in many ways government spending is fighting the Fed in its pursuit to get inflation down.

As many people on the call know, the Cost-of-Living Adjustment for Social Security, which I think includes about 60 million people was 8.7%. And so one of the difficult parts of being a central banker is that, and why central bankers spend so much time on expectations, on inflationary expectations, is that once they become unanchored and once inflation gets into the system, it's much more difficult to fight. And I think we're a little bit in that situation now. I know there's a lot of optimism. We're going to get a fresh number tomorrow on CPI, and I would not quibble with the idea that inflation has probably peaked, Julia. I think that seems likely. But I also, I would argue, I think it's going to be difficult for the Fed to get to its target rate of inflation without some pain.

JULIA LA ROCHE: Yes. So difficult for the Fed to get its target rate of inflation, 2%, without some pain. Let's explore that. Your outlook on inflation, what are you kind of looking for there? What kind of seems like a reasonable level or like more realistic in your view? And do you think that the 2%, is that just unrealistic? Is there any path to 2% that you see that would be viable?

JASON TRENNERT: I mean there's certainly a path. It just depends on how much pain the Fed is willing to endure. And ultimately these come down to be political decisions. I think the Fed, in many ways, got, they were quite lucky last year because when people were talking about inflation, as we know inflation was probably a Top 2 or Top 3 issue in the midterm elections, what I found generally speaking was that my Republican friends blamed the Biden administration and my Democratic friends blamed Vladimir Putin. But very few people were blaming the Fed really, if they weren't in the business, if they weren't in our business.

This year, I think, is going to be a little bit tougher for the Fed to escape more political scrutiny. And I'm not so sure, candidly, Julia, that 2% is that realistic unless you want the unemployment rate to go to 6 to 7%. The Fed is in a very difficult spot, it strikes me, in that while it might be content with a 3% handle on the inflation rate, it probably can't suggest that they would be comfortable with that until they get there. And so it seems to me, and this is a difficult thing for investors too, the Fed is going to seem very tight and I think speak very hawkishly until the point at which they're maybe about to go in the other direction.

But to get back to your question, I think there are structural issues with inflation that make it hard to get back to 2. I think the end of globalization, or at least a significant slowdown in the pace of globalization, is a very meaningful story. My own opinion is that our energy policies are somewhat unrealistic. We have more of an environmental policy than an energy policy, which for noble goals, but I think it keeps the price of oil and gas higher longer. And then, as I said, I think government spending continues the pace and in many ways is going to be at odds with what the Fed is trying to accomplish on the monetary policy side.

JULIA LA ROCHE: Let me ask you this, because I interview a lot of folks, and there are folks that, I don't know, maybe they're hoping or they want a pivot or a pause. Do you see a scenario for a Fed pivot and what that might look like? Or is that something you're not anticipating this year?

JASON TRENNERT: It depends on how, there's a lot of people that define pivot very different, in very different ways. And so it depends on what you're talking about. If a pivot is the Fed pausing, it seems to me, we're probably pretty close. It wouldn't surprise me if by April or something we're at that pivot where the Fed has stopped its increases in the fed funds rate, or interest on excess reserve. If we're talking about an actual cut, it seems to me that we may be in for a long expectation. We might be in for another year of rates at these levels.

One of the things that we've done at Strategas is we've taken a look at the terminal fed funds rate and the CPI. And one of the things that you've noticed is that the terminal fed funds rate has never been, never been below the CPI. It's always higher, which is a simple way of saying the Fed really doesn't stop tightening until you have positive real rates. And right now we'll get a fresh number on CPI tomorrow, but right now CPI is running at about 7. The fed funds rate is 4 ½. And so that would suggest there's more work to do on the part of the Fed. How quickly we can get to a positive real rate, we'll find out together. But I think the Fed does not want to make the mistake that it made in the 70s, which is what Chair Powell described as the Stop and Go monetary policies of the 70s that allowed you not to get control of inflation. Therefore, we all had to fight it three times, not just once.

JULIA LA ROCHE: Before I move on, I did notice a question from the panelists, and you can send in questions. So I'll just ask it to you. Jason, this person wants to know, after a 40% increase in M2 money supply in 2021 and 2022 caused the 2021-2022 inflation, why does Chairman Powell say, "monetary aggregates do not play a role in our formulation of policy," as Powell told the Cato Institute last September?

JASON TRENNERT: I'm going to say that I don't know the answer to that. And I have to say personally, maybe this is partly because I, you know, my mentor in this business is a fellow by the name of Ed Hyman, who I'm sure many of the people on the line know well, I spend an awful lot of time, maybe it's just a function or I'm a victim of when I started, and started with Ed, I spend a lot of time looking at M2 for just clues as to where inflation is going to go and clues as to where, frankly, risk assets are going to go. And so I look at it every day.

So I can't speak for Chairman Powell, but in my opinion if I were on a desert island some place and I were only given a couple of things to look at, two or three things to look at, I would probably pick unemployment claims and M2. And right now both of them are telling you, I would say, or M2 is telling you that inflation is going to decline. I think it's also telling you, though, it's going to be probably a rough period for risk assets as well because right now M2 is only growing at zero year over year. In the last three months, annual rate is declining by about 4%. You have a lot of stimulus that's in the system that's got to be worked off. So it seems to me we're on a long and winding road right now. It's going to be hard for the Fed, this may be part of the reason why it's going to be hard for the Fed to ease anytime soon.

JULIA LA ROCHE: Yes. Another member submitted this ahead of time, on the topic of M2. This member asks, with the over-expansion of M2, does the market need a decent amount of M2 growth to sustain itself?

JASON TRENNERT: Well, it depends on what you're trying to achieve. I think that one of the things that Ed taught me, this idea of Marshallian K. Marshallian K is really the idea that you want to look at the relationship between money growth and nominal GDP growth. And if money growth is growing in excess of nominal GDP growth, that's generally a pretty good environment for financial assets. But if it's growing less than nominal GDP, it's tough for financial assets.

I would argue there's enough liquidity in the system that we don't have to particularly worry about the Fed. The Fed is likely to over-tighten. But in my opinion, net-net, that's not necessarily the worst thing. I know it will have real impact on real people's lives so I don't want to be too blasé about it. But unfortunately we're in this mess because the central banks really played God for 12 years with the risk-free rate. And I feel very, very strongly that with the benefit of hindsight, that that created a lot more problems than it solved. It created a lot of distortions in the system. And in some ways it's not surprising we're having some of the issues that we're having now because we have not really had a true view, a true north on what the cost of risk-free capital was. So another long-winded answer to say that right now money growth is not sufficient to support both higher equity prices or higher risk asset prices and strong economic growth. I don't think so.

JULIA LA ROCHE: I want to go back to something you were mentioning when we were talking about why it's going to be more challenging to get to that 2% inflation target, because of the structural issues that make it difficult. And you brought up a couple, but one of them being the end of globalization. I'd love to hear your thesis there and what it means for investors.

JASON TRENNERT: Well, I think, you know, I'm a very free market guy and I think I'm very much of a free trade person. I think that free trade leads to greater productivity. True free trade leads to greater productivity and lower inflation. Having said that, I'm not sure what world order really had free trade. When China joined the WTO, certainly when the Berlin Wall came down in '89, and then when China joined the WTO in 2001, we certainly had more globalization. I'm not sure it was completely free trade.

One of the promises of that system was that non-Western countries would become more Western in their values. And I just, without being ethnocentric about it, I just don't think that's happened. If we look at China's response to the pandemic and if we look at Russia's response in Ukraine, I'm not so sure that those hopes have been realized.

As a result, whether we like it or not, there is clearly a big movement towards, I think Janet Yellen calls it friend-shoring or on-shoring, or having supply chains a lot closer to home. And I think there are many benefits to that, but it is more expensive. I would say generally speaking, being cheaper is not one of those benefits. So, to me, that is a very meaningful change in the way we do business globally. And at the margin, it's more inflationary than the system we had for the 30 years that preceded it.

JULIA LA ROCHE: I was reading your notes ahead of time for this, and you were talking about in the notes, some of the themes that you're looking for in 2023, and one of them being China's reopening with a vengeance. Talk to me about that. What are your views there as it relates to a reopening and some of the implications?

JASON TRENNERT: Yes, I mean I think, and I can hardly say I'm an expert on China, but I've been watching this great parade for a long time and we've certainly watched China's ascendance over the last 20 years. And I would say as a country and in terms of its economic policy, I think it's safe to say it's not particularly high on nuance. It's either all in or all out. And I think China has largely been largely all out for the last couple of years and now they're talking about a growth target of 5%. It seems to me that the primary focus of China's leadership is to promote social cohesion and now that Xi has been, I don't know if re-elected is the right word, but has been re-appointed, it strikes me that there's going to be a pretty strong tendency to really reopen the economy.

That's going to be a bumpy ride because the health system in China is probably not up to dealing with as many people that may get sick as is likely. By the same token, I have no doubt that by the second half of the year, that China will be – for lack of a better term – going for it. That has, in my opinion particularly, a significant, will have a significant impact on the commodity markets, and I think in particular oil, but also some of the metals markets as well.

I think you're starting to see China buy gold. You're starting to see other central banks buy gold. I think that is an interesting development and it suggests to me, Julia, perhaps going back to your prior question, that that is maybe a shot across the bow and the idea that we're not going to have a global economy that's just centered on the United States. There's going to be other poles, other spheres of influence and that will have implications clearly for, as I said, particularly the commodity markets.

JULIA LA ROCHE: Yes, well, speaking of commodities, you also mentioned oil. We brought up energy in this conversation. Energy was obviously a bright spot for investors last year. What are you kind of thinking in terms of energy in the year ahead? What are sort of the themes within that realm that you're going to be looking toward?

JASON TRENNERT: Yes. I think, you know, it's funny. Among my clients, among our clients, I've never seen, I can't remember a period in which, I think energy, I just looked at this, the last two years, I think energy, the energy sector, the total return was up 54%

in 2021. It was up 64% last year. And most people I know are either not in the trade or a nervous wreck about staying long energy. There's not a lot of confidence. And I think that's partly because the companies, to be fair, I think have historically not been great stewards of capital. Certainly, from let's say 2008 through 2020, it would be hard to claim that they were great stewards of capital. But I think things have changed now.

And I think one of the great ironies about the energy market is that, you know, I can't think of a president that was more pro-energy than President Trump, and yet in many ways his administration fed into the worst instincts of people that run energy companies because people just punched holes in the ground. And so it wasn't great for shareholders. President Biden, I think it's safe to say, is not a particularly big fan of the energy sector. And because of the SEU movement and other things, the companies seem to have found religion in terms of focusing on returning money to shareholders as opposed to greenfield additions to plant.

So it's a long-winded way of saying I think that this new-found capital discipline in the energy sector, to me, is the key to being long in the sector. And if the companies continue to have this kind of discipline, and there's still some regulatory tightness from Washington, it seems to me that there's going to continue to be a bid in the price of oil and gas. It's obviously a big, wide world out there so there's other players. Certainly state players and, I hope I'm wrong, but it seems to me that there's still going to be some tightness there as well.

JULIA LA ROCHE: We do have some more questions. Here's one from a member that came in and it's a different topic, so we're going to switch topics a bit. Jason, they would like to know your view on yield curve control and is it a temporary one due to a new Fed governor in Japan? Will the yen still be a currency to hide in when there is market upheaval? I suppose this is referring possibly to the BOJ news back in December.

JASON TRENNERT: Yes, I mean I think Japan is in a very difficult spot right now because while it's trying to ease away from yield curve control, it obviously can't step away from the table as quickly as it might want lest you have an uncontrollable surge in long-term interest rates. Having said that, I think Japan abandoning yield curve control, even moving away from it, albeit somewhat slowly, to me is a major change in the global economic environment. And I think it suggests to me that the yen should continue to strengthen.

I think it also suggests that there should be higher or more upward pressure on long-term interest rates in the United States. So I think it's a very meaningful event as I thought the conflagration in the gilt market last September, I thought was a very significant event too. And it suggests to me, Julia, that little by little we're moving back to a world in which the markets will be somewhat more in charge as opposed to central banks or small groups of unelected people. And it's not the worst thing, but it's a more volatile, it's a more bumpy, it's a bumpier right. But I do think it's a very meaningful change.

JULIA LA ROCHE: So you're saying moving back more toward the markets being in charge versus the central banks? Is that what I'm hearing?

JASON TRENNERT: Yes, I think little by little. And I think, it's my own opinion, again I'm giving a lot of opinions here as opposed to facts, but I understand the impulse for PhDs in economics to try to control everything. But I really kind of think it's a fool's errand. I think markets generally tend to be better, tend to be better stewards, better policymakers than many economists themselves. And I say that as someone who runs an economic shop. So I don't have a PhD, I don't have that distinction. But, you know, a man's got to know his limitations, and I tend to think that markets generally tend to be better, the collective wisdom of the markets tends to be better than small groups of people.

JULIA LA ROCHE: Well, we're certainly okay with giving opinions because it helps all of us think, and I appreciate hearing your viewpoints. You've been in this business for over 30 years. And, you know, just kind of mentioning markets, I would love to kind of hear from you, more of your views on markets. What is kind of your sense? Because when I was reading through your notes, I got the sense in 2022, early 2022, that you were bearish. You had turned bearish at that point. Where are you today as it relates to the markets and your views there?

JASON TRENNERT: Yes, I think, I'm not quite as bearish as I was last year, but I'm still pretty bearish. Last year I was quite bearish because it was very clear, certainly around this time, the Fed was still actively easing, and it was pretty clear, I think, to all concerned that inflation wasn't transitory. So that was not a stable situation. Clearly the Fed has moved aggressively to fight inflation. And I think they are probably coming more towards the end, at least in terms of rate increases, of their campaign. Quantitative tightening will continue unabated.

What worries me, though, Julia, at least as far as the equity markets are concerned, is that you haven't seen any sort of decline in earnings yet and haven't seen a recession. So you've seen a decline in earnings multiples associated with higher inflation and higher interest rates, but you haven't seen the negative impacts of all of the tightening as far as its impact on the economy, and we're largely at full employment. So if I look forward, if I'm looking forward a year from now, it seems to me the unemployment rate will be higher, and it seems to me that there's a very good chance that the level of earnings, of corporate profits, will be lower. So it will be applying a lower multiple on a lower base level of earnings.

To be a little more specific, we're using $200 per share for the S&P 500, S&P 500 operating earnings in 2023. We think putting a 16 to 17 multiple on that would be reasonable given where our expectations for inflation are. So that would mean that, you know, you have another leg down in the markets perhaps before this is all over. Now, you know, we're wrong all the time on this stuff so I wouldn't want anyone to get too nervous. The market will probably go straight up from here after I said that.

But I think right now what worries me is that we haven't priced in what is likely to be an earnings hit. Profit margins are still awfully high. Profit margins are near an all-time high. And even if they just went back to the 10-year mean, that would take a good 10% out of earnings just on its own. And again, one of the interesting things about the economy now is that while it seems like things are slowing, there's still a tightness in the labor markets that's going to put pressure on profit margins in the years to come.

JULIA LA ROCHE: Yes. We have another member question. They said, Jason, on another venue you have recommended the energy and defensive sectors. If you had to sharpen your pencil, which sector looks more appealing and does one look overvalued compared to the other?

JASON TRENNERT: So there's defensive and there's the defense sector as well because we are overweight, defensive sectors like consumer staples and healthcare, but also like within the industrials, we like defense companies. And so if I had to guess, I would probably put more money to work in the defense companies than I would in energy at this point, if I had to choose. Even though the companies aren't particularly cheap, it's a pretty small sector. There's not a lot of publicly-traded companies in the sector.

And unfortunately, because of what we discussed before about the end of globalization, I think one of the unfortunate, for mankind, one of the unfortunate developments of the end of globalization is that defense spending is likely going to be higher, not just in the United States but globally. It seems clear to me that NATO, other NATO members are going to spend more on defense, and it's very clear that Japan itself, which is the world's second largest economy, third largest economy, is going to have to spend significantly more on defense as well. So at the margin, there may be more upside in some of the defense companies than energy at this point. But I still like them both.

JULIA LA ROCHE: I want to hear your thoughts on growth investing versus value investing. What are your thoughts there?

JASON TRENNERT: I think, you know, as a strategist, I generally try to, we all have our biases and I'm probably, if I, in a quiet moment or something, I'm probably more of a Garp-y guy, you know, if you cornered me. But I try to be as agnostic as I can. Right now I'm of the view, largely, Julia, that value is probably likely to continue to outperform for a while. And that's just based on our studies of past cycles and normally these cycles tend to move in somewhat secular fashion.

One of the things that seems to be very clear right now is that this transition away from QE to QT is probably one of the more meaningful changes in monetary policy since Volcker started targeting reserves as opposed to interest rates in '79. I think that presents a big problem for certainly a lot of hyper-growth companies. I think it presents a problem for a lot of mega-cap companies that in many ways are priced to perfection.

And so I have more of a bias towards some of the value companies that have been somewhat more ignored since the start of QE in 2008 and 2009. So that's kind of where I am now. I think it has some other implications, interesting implications for global investing too, just to the extent to which U.S. is very much of a growth market while Europe tends to be more of a value-oriented market. So I'm not quite so sure I'm willing to go all in on Europe, but I do think, I would say as part of that, Europe probably should do a bit better if I believe, as I do, that value should continue to outperform growth.

JULIA LA ROCHE: Some more member questions coming in, Jason. One member, they say, given your macro view, which asset class is likely to outperform this year?

JASON TRENNERT: I'm going to say commodities and commodity-related equities still. I think one of the things we've noticed quite a bit lately, I'm sure I'm going to get plenty of hate mail on this after this call, because I'm very much of a stock guy. But one of the things we've noticed quite a bit, though, is gold and gold-related equities have done very, very well in the last several weeks. We're watching that quite closely. I generally don't like things that have no yield attached to them. But I also think that there are some changes, particularly as we discussed with Japan moving away from yield curve control, that might change the mixture a bit.

So if I'm looking out just over the next year, it seems to me some of the commodity and commodity-related equities should do best. If I'm looking out over a number of years, I still think some of the more value-oriented sectors, I mentioned energy, but I would also put maybe financials in there as well have a lot of potential. But that's more of a longer term, more of a longer-term forecast than a short-term one.

JULIA LA ROCHE: What are your thoughts on the active versus passive investing debate going forward?

JASON TRENNERT: You know, I think that has, personally I tend to view that and quantitative easing as two sides of the same coin in many ways and perhaps, you know, as they say, when all you have is a hammer, everything looks like a nail. So I'm kind of, I'm putting everything through this prism of my very dark views on quantitative easing for 12 years. But I think one of the negative consequences of quantitative easing in many ways is that it wore away the dispersion in companies, in terms of the return on companies between good companies and bad companies.

And so it seemed increasingly like a good idea for the investing public to just go passive. Because if everyone gets a trophy in terms of a cost to capital, why be active? You could just buy the S&P 500 and you'll do very, very well, and you did. And there's really very little value in hiring someone with a CFA to try to pick through the weed and the chaff to find really good companies if everyone gets a cheap cost to capital. I think to the extent to which that's over, I think active is going to start to do a lot better.

I think over the last several years, I'll go a couple of steps further to talk about alternatives, I think since 2008, 2009, really the play was to be levered and long. And so it was a perfect, quantitative easing was really a perfect environment for private equity and venture. And my opinion now, that there's going to be a real cost to capital, I have a feeling, long/short equity funds are going to do a bit better or might give you more bang for the buck.

The last thing I would say is that one of the other unfortunate elements of passive investing is concentration. And I think, you know, initially the idea of passive investing or buying an index fund was risk diversification. And as you know now the five largest stocks in the S&P 500 make up about 18% of the index. So ironically, passive investing has actually led to more risk taking as opposed to risk diversification. And so it may be a difficult lesson for people to learn over time, but I'm much more on the active camp. I will say that, you know, we're a broker-dealer and we have no passive investing clients so I'm not exactly, I don't know if I can be completely – it might sound like I'm patronizing people when I say this – but I truly believe that this is going to be a much better period for active than for passive moving forward.

JULIA LA ROCHE: Like a return to stock picking, like the Peter Lynch days. How about your thoughts, this is a member question, your thoughts on the banks? How will banks do well in an era of rising interest rates and depositors are leaving to buy CDs?

JASON TRENNERT: Yes. This is a toughie. And again I think if you're a value investor, it's a toughie because if you look at, one of the things we look at quite closely is the sector weight, the market cap weight of the various sectors in the S&P 500 versus their earnings weight. And the sector that's the most upside down in that regard in a bad way is technology where there's a growing gap between the market cap weight and the weight of the companies in the sector.

The place where there's the most positive divergence, where the earnings weight is much greater than the sector weight is in financials. Financials are acting right now, I would say, very idiosyncratically. We're going to get a lot of earnings in the next couple of days, which is to say they're acting idiosyncratically to the extent to which some are performing well and some aren't performing as well. Certainly higher interest rates should help the banks. And perhaps after this year some of the capital markets, some of the capital markets, markets, should do a bit better.

So if you have a longer-term perspective, I think actually the banks are probably not going to be a bad place to be. That's not where I think the excesses have been this time around. Most of the excesses have been, I believe have been more in the private markets. They'll feel more of the pain. Whether it's live money this year, where it's something that provides a big benefit this year, I'm not so sure. But on the other side of what we would view as the recession, it seems to me financials would be very well poised to take advantage of stronger cyclical trends.

JULIA LA ROCHE: We probably only have about 60 seconds left so I'll just leave you with a real quick one. We talked about 2023, but what are kind of the things that you're thinking about longer term, themes that are kind of like in your mind that you're thinking about beyond just 2023 as we close out this conversation?

JASON TRENNERT: Julia, I think it's, I would argue it's largely, I do think this flirtation that we had with populism, maybe more than a flirtation, with Brexit and President Trump, and Nigel Farage, now we have Giorgia Meloni, I think that's telling us something about democracies and about people and how they're reacting to the stewardship of their countries and how people are spending money. And so I have a feeling that's going to continue to be an issue. I don't view that as a flash in the pan issue. I think that's going to be something that we're all going to have to deal with for years to come until we get into a more sustainable fiscal path. And so I'm still looking out for that. I don't think that's over. But I would think about that, I would continue to think about that more as we get into 2024 here in the U.S.

JULIA LA ROCHE: Well, Jason, I really enjoyed this conversation. Barbara, I'll pass it back to you.

PRESIDENT BARBARA VAN ALLEN: Great. Thank you both. This was just terrific. So many insights and many great questions, Julia. Thank you.

So this year, well, we're early in it, it's shaping up to be an exciting one, and I wanted to just share a few confirmed events. On January 19th, we'll be having a webinar featuring former NFL linebacker and the star of Netflix's Buy My House, Brandon Copeland, as part of our Diversity and Inclusion programming. On February 1st, we will have Bill Dudley and Glenn Hubbard joining us for a discussion looking forward into what to expect in the economy. On March 1st, we have a Signature Luncheon with the CEO of L'Oreal, Nicolas Hieronimus, and that should be a great event and Marie-Josee Kravis will be doing our interview. On March 9th, we return to our Annual Women in Business Conference. And along with the Consulate Generals of Canada and France, we will be hosting a morning conference focused on various aspects of women in business and speakers associated with that will be announced soon. Later this spring, we have a couple more in-person luncheons. Jen Easterly, who is the U.S. Director of the Cybersecurity and Infrastructure Security Agency over at the CIA, will join us March 23rd. And Lee Ainslee, the Founder and Managing Partner of Maverick Capital, will be joining us April 18th. I hope folks will mark their calendar and then stay tuned. We have many more events that are coming together and will be added as they're confirmed to our event calendar.

I also want to certainly recognize those of our 360-strong now members of the Centennial Society that joined us today as their contributions continue to provide the financial backbone for the Club. Again, many thanks, Jason and Julia. Very much appreciated. And thank you, everyone, who joined us today, and we look forward to seeing you soon. Take care. Have a great rest of the day.