

CROWELL WEEDON ASSET MANAGEMENT
MONTECITO INVESTMENT PORTFOLIOS

1Q 2024

Dear Fellow Investors,

Perhaps one of our more contrarian predictions for 2024 was the Fed keeping interest rates unchanged. The Fed has stressed the importance of being data-dependent and the incoming data has provided the framework to pause and be patient. The economy has not fallen apart, unemployment remains reasonable, consumption has been solid, and the pace of inflation has declined from the 9% peak seen in June 2022. The data has formed a new narrative around rates being “normal for longer” as numerous voices have pushed back their expectations for future rate cuts.

We believe we’re in the midst of regime change. Gone are the days of ultra-cheap money where borrowers pay little to no interest. Needing to keep interest rates next to zero implies economic weakness. Further, it allows borrowers to pursue ideas that make little economic sense, rewards those for borrowing too much, and allows capital to be wastefully expended. Borrowers of all types (governments included) will have to deal with this new reality. Normal interest rates are a requisite for a lasting economic expansion and we welcome the change.

While some obsess over every word and change in a Fed statement, we believe that energy is better spent elsewhere. The role of the Fed and monetary policy is certainly important, but with its 24,000 employees, has most likely grown into commanding a belief that it carries outsized importance. The past 15 months illustrate this nicely as interest rates have not been cut and expectations for future cuts have been pushed into the future. Armed with that information you might think this would wreak havoc on the stock market, yet just the opposite has taken place. The S&P 500 appreciated by greater than 20% in 2023 and was up just over 10% in the first quarter of 2024. Perhaps a stronger narrative is winning out. Not one related to when the Fed delivers a .25% change to the rate of interest but one related to a foundation being laid that can potentially deliver unprecedented productivity gains, a surge in economic output, and an increase in living standards last seen during the Industrial Revolution. As highlighted in our annual letter, our advice is to stop guessing at the Fed’s next move and instead focus on the visions of entrepreneurs and incredible innovation taking place all around us as we enter this [Intelligence Revolution](#).

As always, we welcome your feedback and would love to talk about these and other topics that may be important to you. We thank you for your continued confidence and the opportunity to manage your investments. We take very seriously our responsibility. ***Montecito Investment Portfolio’s Mission: To provide diversified, disciplined long term investment solutions, service and guidance to help our clients achieve, and maintain, their “Financial Independence”.***

Sincerely,

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