

# U.S. EQUITY STRATEGY

## Quarterly Review/Outlook: Q2 2023



### TECH VS ENERGY. JUNE '22 VS. JUNE '23 - DEJA EWW

I'm old enough to remember the carnage in growth stocks last June. It was ugly. We started nibbling on growth in mid-June and kept adding throughout the balance of '22 and really ramped up exposure in early '23. We bought large cap tech too, just not enough. Plus, that kind of imbalanced weighting doesn't really fit with our balanced approach. What was one of the key signs that we had reached the bottom in growth? Growth hedge funds had been decimated. But since then, what happened? Growth went nuts to the upside and quickly erased its relative underperformance. Sometimes things repeat. In June of '23 we saw the largest Energy dedicated hedge do what the growth funds managed to do in '22 - get crushed. (It rhymes with ampersand.) I'm not trying to pick on them, but I am wondering if Energy may quickly recover and rally like Tech did this year? And what does it imply for interest rates and the trajectory of the global economy? In 2020 we went way overweight Energy and rode it into the spring of '22. We sold it down but kept it overweight because we felt the move wasn't done. We thought you don't have a 15-year bear market like Energy just did and then only rally 2 years - it probably rallies for several if not many years. Sure enough, this past May we saw the Energy complex start to turn back up as Nat Gas bottomed and in June Crude Oil bottomed. It's still early but if it recovers like Tech did, this could be one heck of an overweight.

### NOTABLE PURCHASES

- Ingersoll Rand: Turnaround story that is working. Management delivering on major debt reduction and organic sales growth, particularly in high-margin after-market.
- DraftKings: We initiated a new position in DraftKings as their profitability goes up from the popularity of in-game betting and parlays. There are more states opening legalized sports betting.

### NOTABLE SALES

- Fluor Corporation: With their weighted cost of capital increasing along with interest rates, margins were decreasing. Too sensitive to rate cycle and global demand.
- Aehr Test Systems: We took our gains in this silicon carbide chip testing company and redeployed to other investments.

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### ATTRIBUTION: TOP CONTRIBUTORS & DETRACTORS

- Our second quarter attribution was -210 bps.
- Our allocation contributed +14 bps led by Health Care, Communication Services and Consumer Discretionary. The sectors that detracted the most were Technology, Industrials and Materials.
- Our stock selection detracted 224 bps. Our top contributors were Intuitive Surgical, Toll Brothers and Amazon. Our biggest detractors were Wolfspeed, Aehr Test Systems and First Solar.

### OUTLOOK

The investment environment in the first half of the year has been challenging for several reasons but we believe that is changing. The unrelenting noise surrounding the economy, interest rates, inflation and geopolitical issues have created an endless feedback loop of negative stories that the market already discounted last year. Earlier this year we started to experience some of the negative echoes that hadn't played out yet, including the regional bank crisis. There may be a few more echoes to play out but stocks are higher and now the rally is starting to broaden out to include more stocks. We believe this is healthy and will lead the market higher for the rest of the year, despite the naysayers. Our performance has already begun to improve relative to the market and we believe that accelerates because as the market improves, we will find more ideas with catalyst that fit our process and one thing we found over time, our process works and right now we are moving into a period that is perfect for our style.

### ABOUT THE FIRM

Carlson Investments is a Registered Investment Adviser with offices in Concord, NH. Founded in 1989, the firm manages approximately \$830 million for a growing number of institutional investors and HNW private clients. The firm's list of composite descriptions, as well as information regarding the firm's policies for valuing investments, calculating performance, and preparing compliant presentations, are available upon request.



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