Finding Value in Consumer Staples, Health Care and Utilities

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Where We Are Finding Value

When you locate a bargain, you must ask, 'Why me, God? Why am I the only one who could find this bargain?'

- Charlie Munger

Three Weaker Sectors

Consumer Staples

- GLP-1 trends/usage applied to all areas of the sector (inappropriately)
- COVID "hangover" has investors reevaluating growth trajectory of spirits/beverages
- Pricing power relative to inflation has reduced volumes
- Sector underperformed by 15% during the last 12 months[1]

Health Care

- GLP-1 trends supposed to change US consumer behavior; really?
- Election year rhetoric usually increases sector volatility
- Reimbursement, Labor availability and COGS inflation are real headwinds
- Reduced funding with higher cost of capital; biotech IPOs are down -55% vs. 2022 in USD

Utilities

- High correlation with the increase in interest rates; yield tradeoff
- Capex increases in tandem with population growth in certain states and data center utilization expectations
- Cost of capital increasing makes equity issuance more expensive than in last decade plus
- Regulators are loathe to raise consumer bills
- Wildfire risks are spreading like wildfire

[1]Based on the Russell 1000® Value Index. As of 31 Mar 2024.

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