



CAPITAL INVESTMENT COUNSEL

The Columns

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If I say “China,” odds are the first thing that pops into your head starts with a T—either Trump or tariffs.

Well, that might be yesterday’s news. Money tends to chase the best deal, and lately, that deal doesn’t seem to be where most expected. Since last fall, the Far East has been quietly making a case for itself. While the average investor spent 2024 wringing their hands over tariffs and plummeting property values, the smart money caught on to something crucial—the bad news might already be priced in.

Just look at what’s happened since September 1st:

- Chinese Tech stocks (KWEB): +43%
- Chinese Big Caps (FXI): +29%
- Nvidia: +17%
- USA Big Tech: +13%
- Ali Baba: +53%

And all this happened while the financial press kept pounding the table on tariffs. Of course, China’s seven-month rally may need to stretch into twelve or twenty-four good months to keep pace with the U.S. tech juggernaut, but it’s a strong start.

Big money sees it too. David Tepper, a great investor (though not the best football owner, speaking as a Panthers season ticket holder), went on CNBC last fall saying he’s been backing

up the truck on China. His number one holding? Alibaba, where he just added 20% more to his position. He also piled another 44% into JD.com — one of our personal favorites.

Which brings us to a bigger takeaway: markets move on what's next, not what's in the headlines.

Speaking of What's Next... Look at the Regionals Regional banks have been looking pretty attractive lately. Sure, they've bounced off the lows, but they took it on the chin when rates shot up over the past four months. That's seemingly left them ripe for a catch-up trade.

Funny how quickly things change. What was a major problem a year ago—commercial real estate exposure—is now showing signs of life. Last year, the media went on and on about business districts turning into ghost towns. Early in 2024, that was true. But fast forward to today, and the return-to-office mandates are flipping the script.

The Federal government is telling workers to be back in the office. JP Morgan and Amazon—who together employ nearly 1.8 million people—are doing the same. If this trend continues and interest rates keep easing, we could see another leg higher in both commercial real estate and regional banks.

We own both large and small banks and remain overweight financials in general. But regionals? That's where I see the potential opportunity.

For over a decade, regional bank P/E ratios tracked the broader financial index—until 2023, when the chaos at Silicon Valley Bank sent investors running for the exits. Many were reluctant to buy that dip. In hindsight, that reluctance was a mistake. Over the next 20 months, regionals rallied 50%.

Even now, the valuation gap is glaring. Large financials sit at a P/E of 15, while regionals are at 11. If that gap closes—and I think it could—we may be looking at a potential 25% upside for regionals.

On top of that, the regulatory winds are shifting. The Fed's current vice chair for regulation, who has been a roadblock for the industry, is on his way out. His replacement is likely to be more "business-friendly" — potentially opening the door for looser capital requirements and lending conditions. That could be a real shot in the arm for banks.

Bottom line: Regionals look relatively attractive, CRE is stabilizing, and regulatory hurdles are easing. The setup is looking more solid.

Let's wrap things up with a quick look at the Presidential cycle. No President wants to preside over an economic mess—regardless of party. Spencer Jakab over at The Wall Street Journal points out that the best market returns during a President's four-year term tend to come in year three.

Why? Think of it like a football game. A coach with four quarters to win doesn't waste time on risky plays when the game's on the line. If a President needs to push through tax hikes, regulations, or controversial policies, they'll do it early, so they have time to recover. By the fourth quarter, they want the scoreboard looking good.

Right now, tariffs are the biggest economic headwind. The timing couldn't be worse. Extending the 2017 tax cuts would give the economy a boost, but even then, it would take time to show up. Tariffs, on the other hand, are creating uncertainty when the market doesn't need it.

So where does that leave us? Picture the economy as Tarzan swinging through the jungle. He never lets go of one vine without grabbing the next. Right now, that next vine is a little further out of reach—growth is slowing slightly, and long-term interest rates surged from October through January, dragging mortgage rates higher. That's put pressure on new home sales and construction jobs.

I think these issues are fixable, but they could trigger a market pullback. That's fine by me. I remain long-term bullish on the economy and plan to use any dip as a buying opportunity.

Here's my playbook:

1. Pick out a few stocks you want to own.
2. If we get a pullback and your targets hit, be ready to pounce.

One final twist — the sectors leading this year aren't the ones that drove the market higher in recent years. So far in 2024:

- Pharma stocks: +8%

- China +16%
- Utilities: +4%
- Big Tech: Flat

Not sure who had that on their bingo card, but it sure gives us something to chew on. If you have any comments, feel free to contact me at heddins@capital-invest.com or call at 919-656-0836.

Disclosures:

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