For equity income, find strong balance sheets

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During 2023, the higher rate environment was a source of competition for the equity income category. While its great people have been able to reset a fixed level of income up in 2023, we would say in 2024, you want to begin to think about how you can grow that income over time.

Higher rates and how it impacts companies really depends on how well-run the company is at the end of the day. The companies that it's gonna to hurt though are companies that are highly levered, companies that have too much leverage on their balance sheet or relied on low rates as a way to fund their business.

If rates stay higher for longer, I believe a couple of the sectors that are going to benefit will be technology and industrials. The reason technology will continue to do well is because in general, most tech companies don't have a lot of leverage on their balance sheet. And so even though rates are going up, it's not going to impact their businesses because they don't have to worry about refinancing in a higher rate environment.

There are a lot of companies in the industrial sector that have exposure to the growing parts of the economy, like green initiatives, smart buildings, energy efficiency, and those companies have a lot of opportunity to grow into that market. And so even if rates are higher, given that they are selling into those end markets, they're still gonna to have their business fundamentals look strong.

Our approach to equity income is to look at it as a total return strategy. Dividends are important. They're an important source of return. They've been about 40% of the market return over the last 100 years. However, you can't forget about the other 60% that comes from capital appreciation, and that's why an equity income strategy that builds capital and delivers a growing source of income is going to be beneficial regardless of what the rate environment looks like.

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