Our New Branding

As 2019 comes to a close, I look back at what was a truly transformational year for Hilliard Lyons Trust Company. After agreeing to join forces with Baird, we immediately began working to ensure a successful integration of our two operations. Joining a great organization like Baird gives us access to additional resources and capabilities that better enable us to focus on helping you prepare for the future.

While our talented team worked tirelessly throughout the integration process, our main focus has always been and will continue to be on providing you with professional, high-quality service from the same people you have come to know and trust.

New Name. Same Values.

Shortly after the announcement, we started looking into whether we would continue on with the Hilliard Lyons Trust Company name or adopt the Baird name. Because of the strong reputation Hilliard Lyons Trust Company has built in our communities and with our valued clients over the years, we’ve kept core elements of our name – Hilliard Lyons Trust – while adding our new affiliation with Baird.

While Hilliard Lyons Trust Company, LLC, continues to be our legal name, I’m excited to announce that effective January 1, 2020, the Trust business was rebranded as Hilliard Lyons Trust – A Baird Company.

Our new brand and logo convey the experience and legacy of our Hilliard Lyons roots with the additional resources and expertise of Baird.

Over the course of the next few months, you’ll begin to see our new branding and logo in various Trust business collateral, online pages and statements. However, despite the new name, I want to assure you that you will continue to receive the same level of expertise and service you have come to expect from us. I hope you’re as excited about our new Baird partners as I am, and I want to thank you for the continued trust you place in us.
Hilliard Lyons Trust
Market Commentary

This Time It’s Different

Legendary investor Sir John Templeton once stated that the four most dangerous words in investing were “this time it’s different.” He was referring to the tendency to repeat past mistakes with a belief that “this time it’s different.” The best example of this phenomenon during my 38-year investment career was the internet bubble of the late 1990s. Many investors convinced themselves that no price was too high to pay for a “new economy” stock, even for business startups with no revenues and no earnings. Even those with the knowledge that past financial bubbles of this sort never ended well thought the tech bubble would end differently that time. That line of thinking turned out to be very dangerous indeed as the internet bubble burst and investors suffered severe financial damage. That painful episode in investment history made the wisdom of Mr. Templeton’s words quite clear.

A Transforming U.S. Economy

While we have the utmost respect for the investment brilliance of Sir John, we also think an informed investor today must recognize how profoundly different many investment variables are from the past. There are some important factors that are different this time! For starters, the makeup of today’s U.S. economy is quite different than that of 40 years ago. Our economy, which was once dominated by asset-heavy businesses driven by tangible assets, has shifted to an asset-light economy driven by intangible assets. The U.S. economy has transformed from one with value largely being derived from fixed assets like property, factories, equipment and other hard assets to one where value is created mostly from intangible assets like brands, patents, intellectual property, information technology and data. By the end of 1979, the largest companies by market capitalization included Exxon, General Electric, IBM, Standard Oil, AT&T, General Motors and Mobil, while today the top five are Microsoft, Apple, Amazon, Alphabet and Facebook. Today’s dominant companies are less cyclical and require much less capital to grow. They also generate enormous profits, in sharp contrast to the tech darlings of the 1990s. The significance of this change is considerable and may partially explain the durability of the current economic expansion, with GDP growing a record 10½ years without interruption. In fact, the past 10 years is the first time in history the U.S. avoided a recession for an entire calendar decade.

From Inflation to Deflation

Today’s inflation and interest rate backdrop is also very different from past decades. During the 1970s, ‘80s and ‘90s, investors and policymakers were often worried about runaway inflation. Between oil and other commodity prices spiking or the economy running too hot, the Federal Reserve spent much of its time raising interest rates in order to extinguish or prevent an outbreak of high inflation. As a result of this constant battle with fears of increasing price levels, interest rates were oft en at elevated levels and off ered somewhat attractive returns for bond investors.

Conversely, the Federal Reserve’s main worry in recent years has been deflation or falling prices. Policymakers turned to extraordinary measures such as a 0% Fed funds rate and flooding the markets with liquidity through its policy known as Quantitative Easing, or QE. These policies resulted in extraordinarily low interest rates providing paltry returns for investors in fixed income.

Andrew W. Means, CFA®
Senior Vice President
Director of Investments
It also appears that structural changes to the economy altered the long-term outlook for inflation. Globalization put downward pressure on prices for many goods that can be produced at lower cost in certain countries and shipped around the world to consumers. In addition, the internet allows customers to instantaneously find the cheapest available price for any purchase they are considering. This means that few companies have been able to maintain their ability to raise their prices. These changes put constant downward pressure on price levels, which keeps a lid on inflation and interest rates.

The Phillips Curve Has Expired
These important economic changes are leading many investors to proclaim the death of the Phillips Curve. This economic concept states that there is a tradeoff between inflation and unemployment: As unemployment levels fall, inflation should rise, and vice versa. Economists believed in the validity of the Phillips Curve for many years. But with unemployment falling for the past 10 years and now sitting at a 50-year low of 3.5% of the workforce, inflation has not budged. It appears that the structural changes to the economy discussed above are putting the Phillips Curve to rest once and for all. It really is different this time!

Stock Prices Are Not Irrational
As we survey the investment landscape entering a new decade, we must be mindful of the differences outlined above and include them in our investment outlook. After the U.S. stock market’s robust return of 30% in 2019, many investors are worried that stock prices are too high. While we acknowledge that there is a growing optimism in stock valuations, we don’t think the price structure of the market is irrational. An investment backdrop with moderate and sustained economic growth, rising corporate earnings, low inflation and low interest rates is nirvana for business valuations. Corporate earnings should be capitalized at higher levels for as long as this environment endures. While we can’t predict the permanence of this attractive investment backdrop, we do think these structural changes are not merely temporary and are contributing to the longevity of current conditions.

But Don’t Forget About Risk
There are several things that could upset the attractive investment environment we have experienced in recent years – geopolitical tensions, trade wars and significant government policy mistakes are all in play. Of course, the stock market can swoon at any time, as we saw with the 20% decline in the fourth quarter of 2018. Volatility can happen without warning simply based on a change in investor sentiment. Investors in the stock market must know that all of these possibilities can occur at any time, and every investor should keep these in mind as they construct the risk posture of their investment portfolios.

Margin of Safety
An important note about the stock market as we enter 2020 is that the margin of safety has declined as valuations have risen. We have reminded our clients of this several times over the past 25 years after periods of rapidly rising prices. We must be clear-eyed about the expectations built into stock prices. When stocks are inexpensive, bad news has a muted impact on prices, since poor outcomes are already priced into stocks when they are cheap. Therefore, stocks have a greater margin of safety at lower prices. At higher valuations that result from building optimism, less bad news is built into price levels and the margin of safety is reduced. If negative developments then come along unexpectedly, stock prices have further to decline. This dynamic is important to keep in mind as we enter a new year and consider how much risk is in your portfolio. However, this discussion in no way alters our belief that owning a portfolio of carefully selected outstanding companies is the best way to compound your wealth over the long term. Our conviction about that is as strong as it has ever been.

Review Your Asset Allocation
As we enter a new decade, we want to thank you, our clients and our friends, for choosing Hilliard Lyons Trust Company to manage your financial assets. As optimism builds in the investment markets, our primary focus is understanding the risks that exist in your investment portfolios. We enter 2020 knowing that returns from bonds will be low due to the prevailing levels of interest rates, and the margin of safety has declined as stock prices have risen. Our portfolio managers will be working with you to ensure that your portfolios have an appropriate asset allocation for your risk tolerance and return expectations in the current investment environment. This is a discipline that we think all investors should practice, especially after significant changes take place in the investment markets.