October 4, 2024

Dear Friends,

As we turn the corner into the fourth quarter of 2024, the US stock market, as characterized by the S&P 500 index, was up 20.81% for the year. We closed at near all-time highs after the market rallied strongly following the cuts to short term interest rates by the Federal Reserve Board (Fed). Many expected the Fed to begin cutting short term interest rates early in the year. Chairman Powell has been consistent emphasizing that the Board would be data dependent, and not cut until they felt that inflation was well under control. As we close the third quarter, we are of the opinion that the Fed has done their job well, bringing down inflation, keeping the economy out of recession, and now cutting rates.

As we look forward into the fourth quarter, we recognize various risks as well as opportunities for investors. First and foremost is the strike that began today, as the ILA (International Longshoremen's Association) went on strike, shuttering the ports that encompass the East Coast all the way down and through the Gulf of Mexico. This means that no international or even domestic container shipping will occur in these ports until this is resolved.

While we have seen an upsurge in strikes occurring in past years, it is estimated that it has been 50 years since we have seen a strike of this magnitude. Forbes reports that JP Morgan estimates the economic loss of this shutdown will between $3.8 billion and $4.5 billion per day and that 45,000 port workers will be on strike. The article indicates that a prolonged strike could take more than a month to clear the resulting backlog of commercial shipping.

The port strike was well anticipated, and it is said that many retailers purchased and shipped goods into the US well ahead of it. At this point the stock markets haven't demonstrated any significant concern, however, a prolonged strike can certainly have destructive impact to economic growth, and as such remains the highest risk facing investors.

The other risks investors must consider remains somewhat the same as we have discussed in the past quarters; the Presidential election, concerns about write downs on bank balance sheets based on commercial real estate valuations, the ongoing conflict between Russia and Ukraine, and the broadening conflict between Israel and their neighbors.

The Presidential election is certainly in focus as we draw nearer to election day. Our Washington policy analyst still handicaps the Presidential race to be a "coin flip", with neither candidate having a strong lead over the other. So, this remains a wait and see. On the other hand, he does expect that the House of Representatives will be controlled by the Democrats and the Senate to be controlled by the Republicans post-election. Most investors feel that a divided government will keep the economy and markets on track towards further expansion.

Commercial real estate has been, and continues to be, a concern for investors. Commercial office oriented real estate remains under pressure as vacancy rates dropped, yet more and more companies are expecting their workers to return to work, at least part time. This should help resolve vacancy issues and allow for the banks and private funds who own real estate time to work thorough solutions. Lower interest rates will also help this sector, reducing financing costs and improving outlooks.

Overseas, the regional conflicts continue, and Israel is now fighting three organizations, Hamas, Hezbollah and the Houthi rebels. As this broadens, one of the great risks is that the conflict becomes open warfare with Iran, or even goes beyond conventional weapons. The nuclear option has been raised by Putin as a threat in the Russia – Ukraine conflict and it goes unsaid this could also become an issue between Israel and Iran. These two geopolitical risks, while seemingly small, warrant keeping aware of.

While these risks are important concerns, the recent cuts in interest rates along with expectations of additional cuts in the fourth quarter, seem to be spurring investors to move cash into the markets, both fixed income and equity. As the returns on short term funds and bank deposits fall with the Fed rate cuts, there is a significant amount of cash looking for investment opportunity. Investors are beginning to rotate into equities and

fixed income as well as private equity and private debt, looking for returns. Expectations of further interest rate cuts this quarter and into 2025 are likely to continue to drive investors out of cash into higher risk investments.

Leadership in the S&P 500 this year was focused on those companies in the index that were deemed to benefit the most from the emergence and development of AI (artificial intelligence). This group includes semiconductors and other large technology companies whose names are now household names. More recently it includes several utility companies as there is an expectation that demand for electricity needed to run the applications supporting AI, will boost earnings. Investors seem to have rotated into buying equities of "value companies" that pay dividends and were left behind in the earlier tech rally. As we look forward, we believe this rebalancing is reducing valuation risk in some sectors and making other US equities more attractive.

We expect the markets to continue to face volatility, especially until the strike is resolved and the impact determined. The focus for equities should remain on US centric portfolios with large market capitalization as a focus. We want to be balanced between growth and value and if adding capital, we would emphasize dividends instead of growth at this time. We continue to favor holding onto the shares of large cap growth companies.

Thank you for your trust!

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The S&P 500 is an unmanaged index of 500 widely held stocks. The NASDAQ-100 is a stock index made up of equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ. It is a modified capitalization weighted index. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investors results will vary. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise. Investing in stocks involves risk, including the possibility of losing one's entire investment.

Dividends are not guaranteed, will fluctuate and must be authorized by the company's board of directors. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Alternative investments involve substantial risks that may be greater that those associated with traditional investments and are not suitable for all investors. These risks include, but are not limited to: limited liquidity, tax considerations, incentive fee structure, potentially speculative investment strategies and different regulatory requirements. Investors should only invest in alternative investments if they do not require a liquid investment and can bear the risk of substantial losses.

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