SOL CAPITAL MANAGEMENT

Client Investment Letter

May 2024

Global equity markets posted strong gains for the first three months of the year, with the S&P 500 Index recording its strongest first-quarter return since 2019. A resilient U.S. economy, ongoing enthusiasm around generative artificial intelligence (AI), and growing expectations for interest rate cuts were the main drivers of returns between January and March.

However, higher-than-expected inflation prints in April led the Federal Reserve to reaffirm its position to maintain interest rates at current levels, at least until the economic data warrants policy easing. Investor sentiment was quickly dampened as blissful expectations of six (or more) rate cuts for 2024 fell back to one rate cut (if any). Volatility spiked in both bond and equity markets, with many indices giving up most of their year-to-date gains in just two weeks, before recovering by the end of the month.

While the secular trends of generative AI and supply chain "friend-shoring" will likely continue, we would expect volatility in interest rates (and by extension bond and equity markets) to remain elevated for the foreseeable future. On the one hand there are positive economic catalysts that may make it difficult for the Fed to ease off its contractionary policy stance (e.g., a strong economy, tight labor market, sustained real wage growth). Yet on the other, there are risks that could throw uncertainty into future growth prospects (e.g., geopolitical risk, earnings disappointments amid rising costs, a strong dollar putting pressure on developed and emerging economies alike).

As always, we (and the outside managers we employ) aim to take advantage of these moments of volatility to rebalance portfolios. Growth stocks may be more expensive than the rest of the market, yet so far, their earnings have kept pace with their appreciated share prices. What is less certain is if they will be able to maintain their recent stellar performance quarter-after-quarter, year-after-year. Periodically (such as in mid-April), the market questions the resiliency of present earnings into the future and provides opportunities to buy into quality, long-term holdings at more sober valuations. The same is true in fixed income. As rates bounce around while the market tries to predict future growth, inflation, and borrowing costs, we have the chance to pick up high-quality bonds at much lower prices.[1]

[1] Reminder: bond prices and yields have an inverse relationship.

SOL CAPITAL MANAGEMENT

Q1 Financial Markets Performance

EQUITIES

U.S. stocks advanced, as corporate earnings came in stronger than expected amidst sticky inflation figures (see Exhibit 1). Early in the first quarter, prospects of a nearing Fed rate cut were still strong, which boosted returns. Rate sensitive sectors such as communications services and information technology were top performers early in the quarter and held onto their gains better than other sectors as prospects for that approaching rate cut rapidly diminished in April.

Energy and financials also performed well, the former benefiting from rising oil prices amid geopolitical turmoil, and the latter from the possibility of higher-for-longer interest rates. Meanwhile, real estate and utilities lagged. Large caps generally outpaced mid- and small caps, and growth outperformed value as several mega-cap tech stocks continued to lead markets higher.

Non-U.S. developed markets moved higher as well, benefiting from growing optimism about possible mid-year interest rate cuts in Europe, positive economic data, and upbeat corporate earnings. In the Eurozone, the technology sector advanced strongly over unrelenting demand for AI-related technologies. Improvements in the region's economic outlook helped financials, consumer discretionary, and industrials post gains for the quarter. U.K. stocks also performed well, as inflation figures came in weaker than expected. Historic weakness in the Japanese yen helped local stocks advance (even in U.S. dollar terms). Exuberance around generative AI and solid corporate earnings also boosted sentiment.

Stocks in emerging markets generally underperformed their developed market peers over the quarter. Chinese stocks continued to lag despite some stimulative policy measures. Other Asian markets posted mixed results as investors were cautiously optimistic about China's economic prospects and the subsequent knock-on effects for the regional economy. Strength in the Indian rupee helped local stocks advance, while positive AI prospects drove Taiwanese equities higher. Equity markets in South Africa and Brazil lost ground due to political uncertainty and profit taking, respectively.

SOL CAPITAL MANAGEMENT

Financial Markets Performance cont.

Exhibit 1 – Equity Market Returns

Benchmark Index	1st Quarter 12/31/2023 – 03/31/2024	Year-to-Date 12/31/2023 – 04/30/2024
S&P 500 (*Large Cap*)	10.56%	6.04%
S&P 500 Growth	12.75%	8.35%
S&P 500 Value	8.05%	3.41%
Russell 2000 (*Small Cap*)	5.18%	-2.22%
Russell 3000 (*Total U.S.*)	**10.02%**	**5.18%**
MSCI EAFE (*Developed Markets*)	5.67%	3.08%
MSCI EM (*Emerging Markets*)	2.09%	2.83%
MSCI ACWI ex-U.S. (*Total Int'l*)	**4.53%**	**2.81%**

Source: FactSet. Performance data presented above is total return (price appreciation plus dividend and/or interest income). Non-U.S. equity benchmark returns are presented net of foreign taxes.

FIXED INCOME

In the U.S., broad market bond indices delivered mixed returns, as intermediate- and long-dated U.S. Treasuries lost ground, while shorter maturities saw positive returns (see Exhibit 2). The expectation that inflation would take longer to return to the Fed's 2% target, led to higher rates across the curve.

The performance of global investment-grade corporate bonds was mixed as well. U.S. high-grade corporates lost ground as interest rates rose thanks to their relatively higher durations. European and U.K. corporates managed to eke out small quarterly gains.

Junk bonds performed well mainly due to their high coupons and lower duration profile.

Like the investment-grade market, European high-yield corporates were able to outperform their U.S. peers.

Nearly all issuers of developed market sovereign debt performed negatively in the first quarter. Slower-than-expected improvements in inflation dampened investors' mood.

Emerging market debt gained ground mainly thanks to its relatively higher yields. U.S. dollar-denominated debt outperformed local currency debt as the greenback strengthened.

Exhibit 2 – Bond Market Returns

Benchmark Index	1st Quarter 12/31/2023 – 03/31/2024	Year-to-Date 12/31/2023 – 04/30/2024
Bloomberg U.S. Government/Credit	-0.72%	-3.08%
ICE BofAML 1-3 Year U.S. Broad	0.51%	0.25%
Bloomberg U.S. Aggregate Bond	**-0.78%**	**-3.28%**
ICE BofAML U.S. High Yield BB-B	1.27%	0.37%
Bloomberg Global Aggregate ex-U.S.	0.54%	-5.33%
Bloomberg Emerging Markets USD Aggregate	1.53%	-0.14%

Source: FactSet. Performance data presented above is total return (price appreciation plus dividend and/or interest income).

Global Economic Update

The global economy remains in the expansion phase, with increasing evidence of improvement and reacceleration across geographies. Disinflation, particularly in developed markets, has been slow. Barring a significant negative economic shock, central bankers' long-term inflation targets may remain elusive. That said, the risk of recession in the near term remains low as consumers are in a solid financial position, labor markets are tight, and global manufacturing appears to be picking up (see Appendix A).

UNITED STATES

The U.S. economy continues to be supported by consistent spending from consumers, who in turn are bolstered by sustained growth in real wages. Beyond consumers, businesses have also been increasing their investment. Capital expenditures are on the rise, particularly on AI-related projects and the construction of new manufacturing facilities as multinational businesses continue to re- and/or near-shore supply chains.

One of the main contributors to the sticky inflation in the U.S. remains the tight labor market, but its effects appear to be softening. Job openings continue to decline from their previous peak, as do nonfarm quits, while layoffs (though more elevated in certain sectors) are stabilizing in aggregate (see Appendix B).

Another potentially crucial headwind to real wage growth going forward is the recent surge in immigration. Last year the U.S. saw net immigration figures 2.5 times above the long-term trend. This in part explains the recent up-tick in the unemployment rate from 3.4% a year ago to 3.9% today, as new

arrivals enter the labor force and begin looking for work (see Appendix C). Given that labor force participation rates were already approaching their limits, as new entrants to the labor force find employment, we may see some downward pressure on wage growth.

CHINA

Policymakers in Beijing continued to moderately stimulate in the hopes of reaccelerating the Chinese economy out of its growth slump. The pace of monetary, fiscal, and regulatory easing has increased, but direct stimulus to consumers remains a non-starter. Instead, industrial activity has picked up thanks to a political focus on manufactured exports, particularly electric vehicles (see Appendix D). Nevertheless, excess capacity and the specter of bad debts in the property (and banking) sector continue to generate headwinds for the economy longer term.

ELSEWHERE AROUND THE WORLD

The Eurozone economy has once again started growing after five quarters of stagnation. The reacceleration of activity has been more pronounced in peripheral countries (e.g., Spain, Portugal, Italy) versus the core (e.g., France, Germany). That said, manufacturing and industrial activity in core countries is improving after several weak years burdened by high energy prices, weak foreign demand, and high interest rates.

Household incomes should continue to grow as nominal wage gains remain firm and headline inflation falls. This should allow more flexibility for a consumer base with a historically high savings rate (as compared to their U.S. peers). Furthermore, the European Central Bank is signaling that it is ready to begin easing monetary policy this summer (also in contrast to the U.S.).

Meanwhile in Japan, consumers and businesses alike are grappling with a staggering depreciation in the yen (see Appendix E). While the Bank of Japan has ended its long-running negative interest rate policy, it has not ended its bond-buying program that suppresses longer-term rates. Maintaining this stance led investors to discount the yen at such a rapid rate that the Japanese Ministry of Finance had to step in to defend the currency in the market. While the weak yen may be beneficial to exporters, the volatility in exchange rates in recent months is making longer-term investment plans more difficult for business, both domestic and foreign.

Investment Strategy

EQUITIES

Within portfolios' equity allocations, we seek to strike the right balance between exposure to companies with strong secular growth prospects, while being cognizant of current valuations. As we have discussed in previous letters, the U.S. equity market remains very concentrated at the top. In fact, over one-third of the S&P 500 Index is comprised of just 10 companies, and in the first quarter, about one-fourth of the Index's return came from Nvidia alone.[2]

For this reason, when adding passively managed strategies to portfolios, we are including equally weighted indices alongside market cap weighted indices. This allows us to tilt portfolios toward constituents of the major benchmarks that are not as expensive and could benefit as the market rally broadens out.

Outside the U.S., we continue to reduce our overall weighting to international equities. We believe a healthy allocation to non-U.S. stocks is warranted for long-term growth and diversification, but we are "right-sizing" that allocation, where appropriate. Furthermore, within emerging markets specifically, we continue to reduce our direct exposure to Chinese stocks in favor of other markets with brighter prospects and less acute political risk.

FIXED INCOME

In bond allocations, we maintain broad diversification across ultra-short-term securities for stability and liquidity, as well as corporate bonds for higher income potential. In addition, and where appropriate, we continue to increase exposure to higher duration "core" Treasury and investment-grade corporate debt for protection against a risk-off scenario in the economy and equity market. That said, while we have been gradually adding to duration amid rates volatility, overall durations in most client portfolios remain well below the benchmark index.

Finally, while we like the income stream from corporate bonds, credit spreads are tight (see Appendix F), so our bond managers are being selective and are generally moving up in quality. In the interim, these bonds are paying attractive coupons, yet should conditions deteriorate, and credit spreads widen, our bond managers stand ready to provide liquidity to the market and buy up higher-yielding debt at a relative discount.

[2] Dodge & Cox

SOL CAPITAL MANAGEMENT

In Conclusion

The first quarter of 2023 provided investors with strong gains for long-term oriented portfolios, even if some of those gains were given back in April. Volatility will inevitably return as financial markets, central bankers, and investors alike monitor economic data releases, quarterly earnings reports, and geopolitical events around the world. Any surprises or developments will cause market participants to adjust their outlooks and revalue all asset classes accordingly (either to the up- or downside).

However, as we have said in previous letters, it is important that investors not be frightened by the unknown and elect to hide out in safe assets such as cash and Treasury bills. Playing it safe with assets that will be needed in the next few months or years is entirely prudent, but doing so with long-term wealth foregoes the significantly higher return potential available in risk assets. Despite the uncertainties out there, despite elevated valuations, and despite today's high interest rates, we do not see a breakdown in the fundamental risk premium investors should expect to earn by owning stocks. In other words, we still expect equities to outperform bonds over the medium to long term. That is why it is essential that clients ensure they are targeting the appropriate asset allocation for their investment horizon and current financial situation.

If you are unsure if your current portfolio targets are still appropriate for you, or if there have been any changes in your risk tolerance, liquidity needs, and/or investment goals, please contact us so we may discuss your investment strategy in more detail and decide if any changes are warranted. Additionally, if you have any questions or concerns about financial markets, please never hesitate to call us at +1 (301) 881-3727 or email us at client.services@sol-capital.com.

With our best regards,

SOL Capital Management Company

Appendices

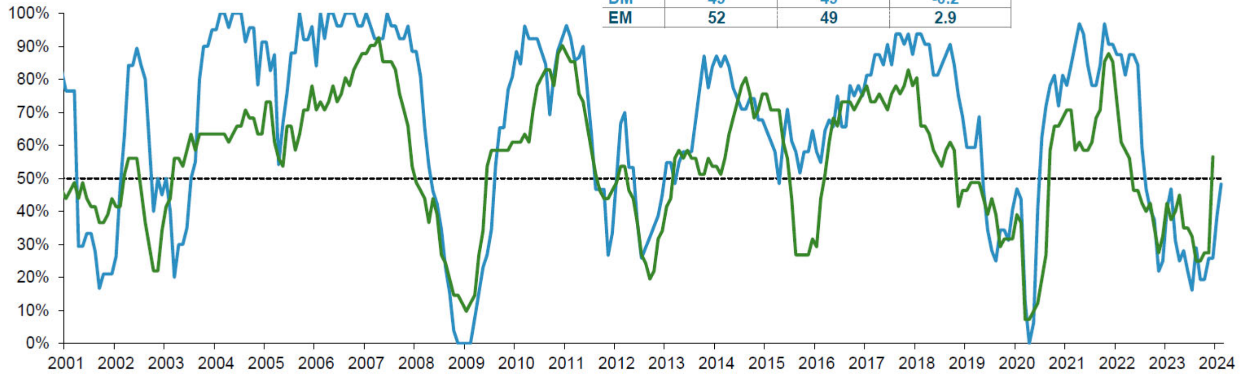
APPENDIX A: A Rebound in Global Manufacturing

Global Manufacturing and Economic Activity

PMI Manufacturing Index — Leading Economic Indicator

Share of Countries Showing Improvement

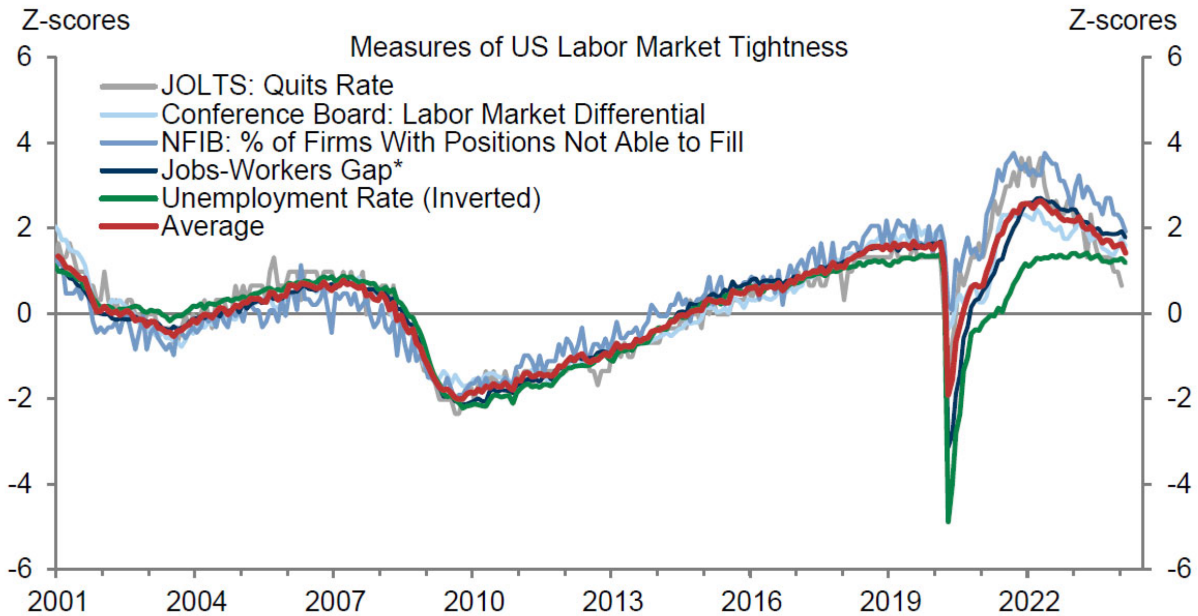
Country and Regional PMIs			
	New Orders	Inventory	Bullwhips
U.S.	55	52	2.4
DM	49	49	-0.2
EM	52	49	2.9



PMI Manufacturing Index (Diffusion Index): Percent of the world's 32 largest economies with Manufacturing PMIs above 50. Leading Economic Indicator (Diffusion Index): Percent of the world's 37 largest economies with rising Leading Economic Indicators over the past six months. PMI: Purchasing managers' index. Readings above 50 indicate expansion. EM: Emerging markets. DM: Developed markets. Bullwhip: New Orders PMI less Inventories PMI (numbers may differ do to rounding). Source: Markit, Institute for Supply Management, S&P Global, Macrobond, Fidelity Investments (AART), as of 4/2/24.

Source: Fidelity Investments. Data as of 2 April 2024.

APPENDIX B: Labor Market Conditions Returning to Pre-Pandemic Levels

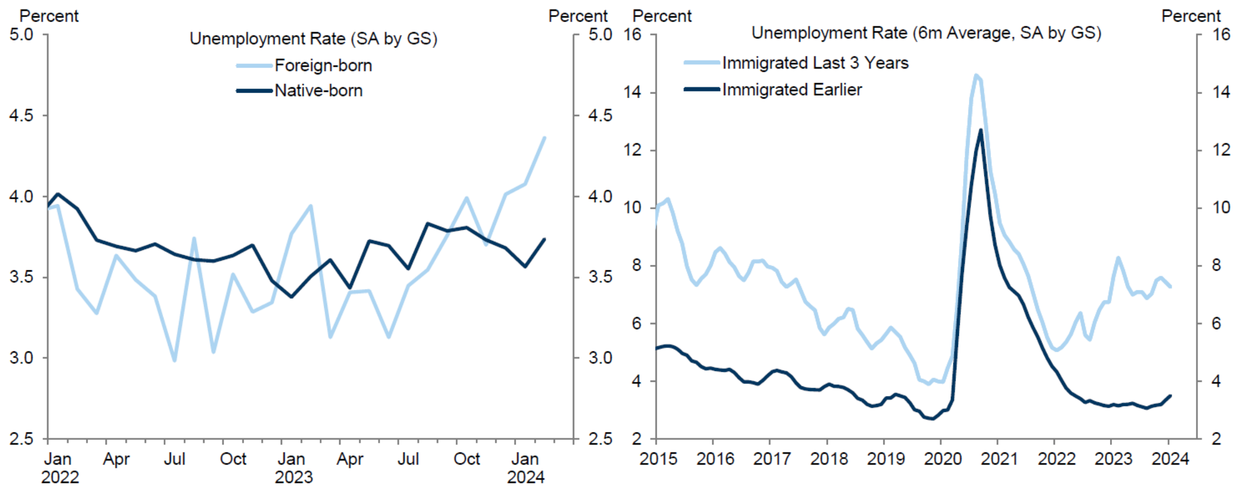


* For 2020-present, uses average jobs-workers gap implied by JOLTS, Indeed, and LinkUp.

Source: Goldman Sachs Global Investment Research, Haver Analytics. Data as of 29 February 2024.

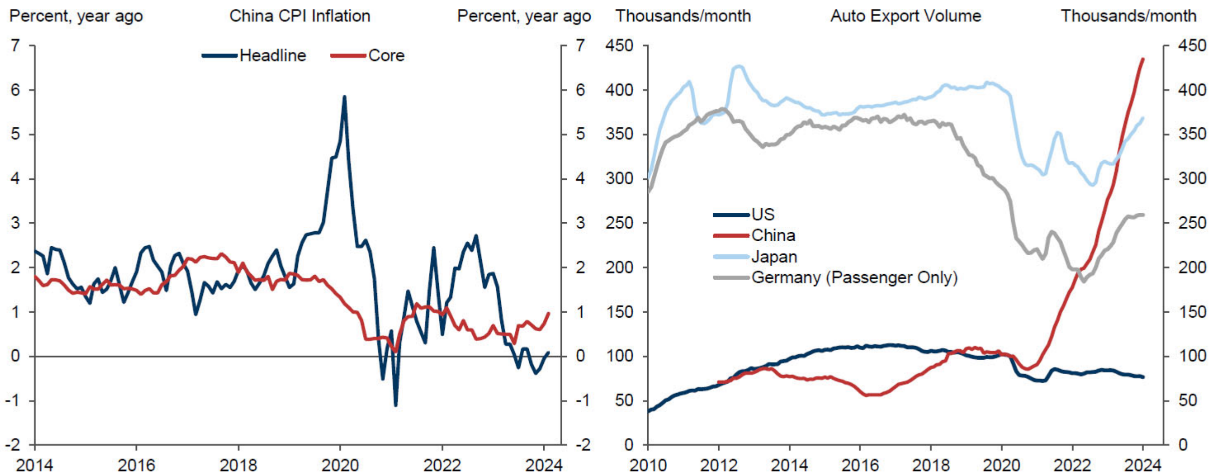
SOL CAPITAL MANAGEMENT

APPENDIX C: Uptick in Unemployment Concentrated Among Recent Immigrants



Source: Goldman Sachs Global Investment Research, U.S. Department of Labor, U.S. Department of Commerce. Data as of 29 February 2024.

APPENDIX D: China's Surging Auto Exports



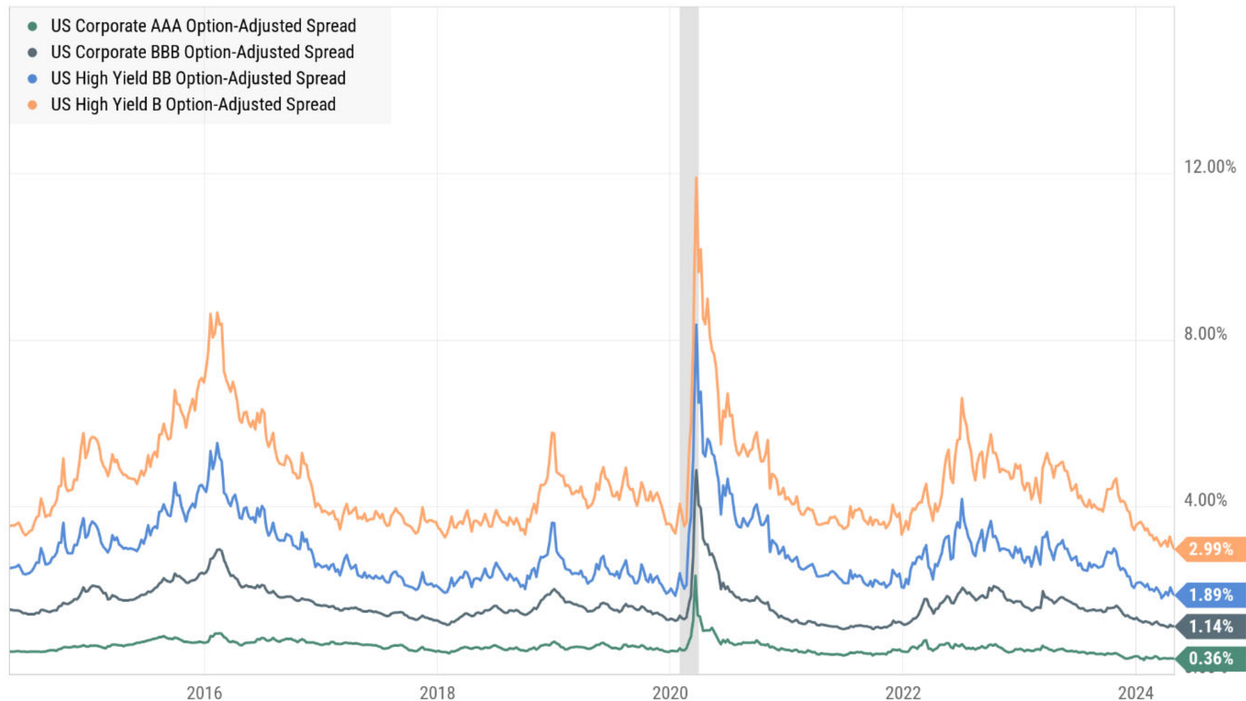
Source: Goldman Sachs Global Investment Research.

SOL CAPITAL MANAGEMENT

APPENDIX E: Historic Weakness in the Japanese Yen

Source: YCharts, Federal Reserve. Date Range: 30 April 2014 - 30 April 2024.

APPENDIX F: Credit Spreads



Source: YCharts, Bank of America Merrill Lynch. Date Range: 30 April 2014 - 30 April 2024.

SOL CAPITAL MANAGEMENT

Disclosures

IMPORTANT DISCLOSURE INFORMATION

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by SOL Capital Management ["SOL Capital]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from SOL Capital. No amount of prior experience or success should not be construed that a certain level of results or satisfaction if SOL Capital is engaged, or continues to be engaged, to provide investment advisory services. SOL Capital is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the SOL Capital's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.sol-capital.com. Please Remember: If you are a SOL Capital client, please contact SOL Capital, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your SOL Capital account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your SOL Capital accounts; and, (3) a description of each comparative benchmark/index is available upon request.