SOL | CAPITAL MANAGEMENT

Client Investment Letter

November 2024

A wise woman and longtime friend to SOL Capital said on the evening after the election back in 2016 (and we are paraphrasing) that if you are happy with the results, it is not going to be as good as you think and if you are upset with the results, it will not be as bad as you fear. Eight years later, one can agree or disagree with that statement, but at the end of the day as investors, our focus must be on the state of the markets, the health of the economy, and the business cycle. Politicians certainly can influence all, but in general their effect, whether positive or negative, is muted by many other factors.

This time, U.S. equity markets rallied after the results of the presidential election were clear on hopes that President-elect Trump would push through tax cuts and deregulation. In fact, historically, U.S. markets rally after presidential elections because of decreased political uncertainty. (See Appendix A). The rally continued Thursday after the Federal Reserve cut its federal funds rate by a quarter-percentage point (25 basis points). And then on Friday, the University of Michigan consumer sentiment survey increased more than expected from 70.5 in October to 73.0 in November. The CBOE Market Volatility Index is a popular measure of the stock market's expectation of volatility based on S&P Index options. It declined substantially from 21.98 on November 4th to levels under 15. All-in, the market appears to be sighing in relief that the election was decisive and that the economy remains on firm footing, further supported by Fed easing.

Non-U.S. markets declined for the same period, however, most of the decline was due to the dollar strengthening. In local currencies, developed markets also rallied and emerging markets were flat.

SOL CAPITAL MANAGEMENT

Exhibit 1 – Equity Market Returns

Benchmark Index	3rd Quarter 6/30/24 - 9/30/24	Year-to-Date 12/31/23 - 9/30/24	Since Quarter End 9/30/24-11/8/24	Year-to-Date 12/31/23-11/8/24
S&P 500	5.89%	22.08%	4.17%	27.17%
S&P 500 Equally Weighted	9.60%	15.16%	2.69%	18.25%
S&P 500 Growth	3.72%	28.16%	5.58%	35.31%
S&P 500 Value	9.05%	15.36%	2.31%	18.03%
Russell 2000 (*Small Cap*)	9.27%	11.17%	7.70%	19.72%
Russell 3000 (*Total U.S.*)	**6.23%**	**20.63%**	**4.73%**	**26.34%**
MSCI EAFE (*Developed Markets*)	7.26%	12.99%	-5.24%	7.07%
MSCI EM (*Emerging Markets*)	8.72%	16.86%	-3.05%	13.30%
MSCI ACWI ex-U.S. (*Total Int'l*)	**8.06%**	**14.21%**	**-4.12%**	**9.50%**

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 generally declined after the election as yields on the 10-year Treasury rose to 4.479%. Trump campaigned on low taxes and extensive tariffs on imports. Lower taxes would enlarge the federal budget deficit, which is already much higher than it was eight years ago. Additionally, tariffs could lead to higher inflation, which could limit further Fed rate cuts.

Exhibit 2 – Fixed Income Market Returns

Benchmark Index	3rd Quarter 6/30/24 - 9/30/24	Year-to-Date 12/31/23 - 9/30/24	Since Quarter End 9/30/24-11/8/24	Year-to-Date 12/31/23-11/8/24
Bloomberg U.S. Gov't/Credit	5.10%	4.39%	-2.13%	2.17%
ICE BofAML 1-3 Year U.S. Broad	2.92%	4.49%	-0.53%	3.93%
Bloomberg U.S. Aggregate Bond	**5.20%**	**4.45%**	**-2.16%**	**2.20%**
ICE BofAML U.S. High Yield BB-B	4.43%	7.04%	0.02%	7.06%
Bloomberg Global Aggregate ex-U.S. (Hedged)	3.62%	4.34%	-0.45%	3.87%
Bloomberg Emerging Markets USD Aggregate	5.82%	8.17%	-0.84%	7.26%

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

Q3 Financial Markets Performance

EQUITIES

Global equity markets continued to move higher during the third quarter. The Federal Reserve cut interest rates for the first time in over four years and China announced a major stimulus plan. Volatility rose around some uncertainty regarding the path for interest rates and the forthcoming US elections.

Broad-based U.S. stock indices advanced during the quarter, but performance leadership changed. All sectors aside from energy (due to falling oil prices) gained ground. Utilities and real estate (thanks to lower interest rates) far outpaced information technology and communication services (because of doubts over future returns from investments in artificial intelligence). Market cap and style leadership changed as well. Smaller companies outperformed large caps and value advanced more than growth as investors took some profits after an exceptional run by the "magnificent seven[1]" and reallocated to other parts of the market.

Non-U.S. developed markets' rose, outpacing U.S. equities. Real-estate, utilities, and healthcare stocks led Eurozone performance as lower rates caused investors to reassess some previously out-of-favor areas of the market. U.K. equities advanced on the heels of a landslide general election win for the Labour party, which fueled hopes for an economic recovery, and an August rate cut by the Bank of England. Japanese stocks experienced elevated volatility, though ended the quarter higher. A combination of weaker U.S. economic data in early August and the Bank of Japan action in raising interest rates caused significant swings in currency markets, strengthening the yen vs. the U.S. dollar.

Emerging market equities outperformed all developed market peers. The announcement of a slew of stimulus measures by the Chinese government – monetary and fiscal – drove returns. Other emerging markets that advanced during the third quarter were Thailand (thanks to a strengthening baht and a stimulus package presented by the new government) and South Africa (after the successful formation of a new government and an interest rate cut by the central bank). Notable laggards were South Korea and Taiwan (both of which were hit by the global sell-off in tech-related stocks). Brazil also underperformed after the central bank raised rates to contain rising inflation.

[1] The "Magnificent Seven" refers to AAPL, AMZN, GOOG + GOOGL, META, MSFT, NVDA, and TSLA.

Financial Markets Performance cont.

FIXED INCOME

Global fixed income markets delivered strong returns during the quarter, mainly driven by the beginning of a rate cutting cycle in the US as well as in other major economies. In the U.S., Treasury yields fell substantially after the combination of a weaker-than-expected labor market (in July) and a larger-than-expected drop in inflation (in August) quickened the Fed's decision to cut rates by 50 bps. The yield curve steepened as rates fell the most on the short end, yet longer maturity bonds outperformed given duration effects.

Global investment-grade bonds delivered strong returns as well. U.S. high-grade corporates gained the most, as spreads over Treasuries tightened. Japanese bonds also gained ground but were somewhat affected by the BOJ raising short term rates. Credit quality did not affect performance.

Spread tightening also drove performance in junk bonds. Investors were generally in risk-on mode as lower quality securities outperformed.

A marginal move towards an economic "soft landing" positively affected all issuers within the Citigroup World Government Bond Index. Even Japanese government debt advanced, despite market volatility.

Emerging market debt continued to gain ground. Currency denomination mattered less, but the higher durations of government-issued securities helped in outperforming corporate-issued debt.

Global Economic Update

As many central banks continued or began monetary easing, the global economy maintained its disinflationary economic expansion. Falling oil prices and lower headline inflation contributed to this environment, however global core inflation, though declining, remains persistent. Still a combination of lower core inflation, falling energy and food cost plus cuts in policy rates contributed to a rise in real household incomes and supported continued consumer spending.

The United States, many developed economies, as well as India, Mexico, and Brazil are all showing signs of mid-cycle expansion marked by strong credit growth and profit growth peaking. China continues to struggle to pull out from its growth recession. The central government enacted several new policies directed at improving growth, but it is unclear at this point if it can turn around negative consumer sentiment.

The global business cycle appears to be in an extended expansion, still there are signs of weakness around the world. Global

manufacturing activity decelerated during the third quarter but was offset by positive momentum in global services activity. Employment was generally stable in both developed and emerging economies.

U.S. recession risks appear to have muted and GDP growth has performed well, largely due to strong consumer spending. In 2024, the U.S. economy is expected to grow 2.7% year over year.[2] The labor market softened slightly in the third quarter, as the ratio of job openings per unemployed worker fell in recent months. However, that metric is still at historically high levels, and the labor force participation rate remains close to a record high. U.S. consumers remain supported by real wage gains (i.e., after-inflation) and strong balance sheets, apart from the lowest-income brackets (who are also the highest propensity consumers). Going forward, many economists expect slower but solid job gains, real income growth, and stable household balance sheets. Moreover, labor productivity is at a cyclical upturn.

Higher capital expenditures also benefited the U.S. economy. A focus on the reshoring of manufacturing jobs, and therefore an increase in manufacturing-related construction, were part of this investment spending. Many businesses went forward with projects around AI.

The Eurozone and the United Kingdom are further along in the business cycle. Growth is moderating, but the Eurozone beat expectations in the third quarter, notably thanks to Spain, France, and Germany. Their growth was driven by increases in private and government consumption and gains in the services sector.

China continues to face headwinds in the forms of worsening demographics, a multi-year debt deleveraging course, and a push to re-shore or nearshore the global supply chain away from China, which cannot be solved with easing fiscal or monetary policy. However, the latest round of stimulus has increased some economists 2025 GDP estimates. The Chinese Ministry of Finance announced that the central bank can absorb more debt and deficit increases and without giving details, described the upcoming debt resolution plan as “the largest in recent years.”

[2] Goldman Sachs

Investment Strategy

EQUITIES

Although the magnificent seven were still top of investors' minds around the AI trend, four of the seven experienced negative performance in the third quarter. The remaining three experienced a negative October. As we mentioned in our last letter, these seven companies were priced for perfection and experienced volatility as earnings estimates concerned investors.

Given the economic backdrop of central banks easing monetary policy and the resilient U.S. consumer, US corporate earnings expectations remain elevated for the upcoming year.

Our focus within the U.S. equity market is to shore up our core large-cap allocations to provide low-cost exposure to the broad market. We are looking to balance exposure to high-compounding growth companies, quality businesses with durable balance sheets and consistent cash flows that offer downside protection, and attractively valued companies that offer rebound potential and current income.

Within international, we are generally reducing our exposure, especially in emerging markets and especially in China. While we find that international equities provide a diversification benefit, particularly against the risk of a weakening U.S. dollar, we also believe that market and economic dynamics in the U.S. could allow for greater price appreciation over the long run. We are rebalancing to own more growth-oriented businesses and in some cases businesses that can diversify their revenue streams away from their home economies, whose prospects may be deteriorating.

At this point in the year, we are also focused on mutual funds' capital gain distributions. As the actively managed ETF market has grown in recent years, we are trying to shift to those strategies as they tend to be more tax efficient. We do try to minimize tax bills; however, most portfolios are sitting on large unrealized gains after we aggressively harvested losses in the volatile markets of 2020 and 2022.

FIXED INCOME

After the market rout of 2022 and interest rates peaked in mid-2023, generating solid returns in fixed income markets has arguably been easy. Investors have been able to earn high amounts of income at yields not seen in over 15 years, while taking very little default risk.

However, now that inflation is back under control and the Fed is lowering rates, investors cannot remain complacent; they need to be much more judicious when approaching bond investing. Nor can they continue to sit on high money market balances and expect superior risk-adjusted returns.

On the one hand, we do not anticipate the Fed to lose control over inflation over the next 12-18 months, so we do not expect a back-up in rates unless the fiscal situation of the new administration and Congress

deteriorates. That allows us to extend portfolios' durations to lock in rates and provide more downside protection in risk-off environments in equity markets.

On the other hand, credit spreads are very tight. Even though all-in yields of over 6%

are attractive for investment-grade bonds (and over 8% for high-yield bonds), investors need to understand that those bonds may not protect should equity markets sell-off and contagion seep into the bond market.

Since bond allocations (for most investors) are there first and foremost to protect capital, we err on the side of caution. For that reason, we continue to focus on short-term, high-quality bonds, and utilize active managers to find attractive opportunities in credit markets where spreads are tight.

In Conclusion

Despite the recent positive response of the US equity market, we would advise our clients to expect more market volatility (both in stocks and bonds) around policy expectations of both the US government and Federal Reserve. Election results in the U.S. and the balance of power in Washington have not been shown to have a statistically significant impact on the longer-term returns of stocks or bonds, but they can provide a bumpier road as investors weigh in on what this means for corporate earnings in different sectors going forward.

Valuations, earnings, and corporate fundamentals matter. However, at the same time, risk management is critical. Diversification, while it may hold back returns in some periods, can protect them in others. Volatility is uncomfortable but offers opportunity.

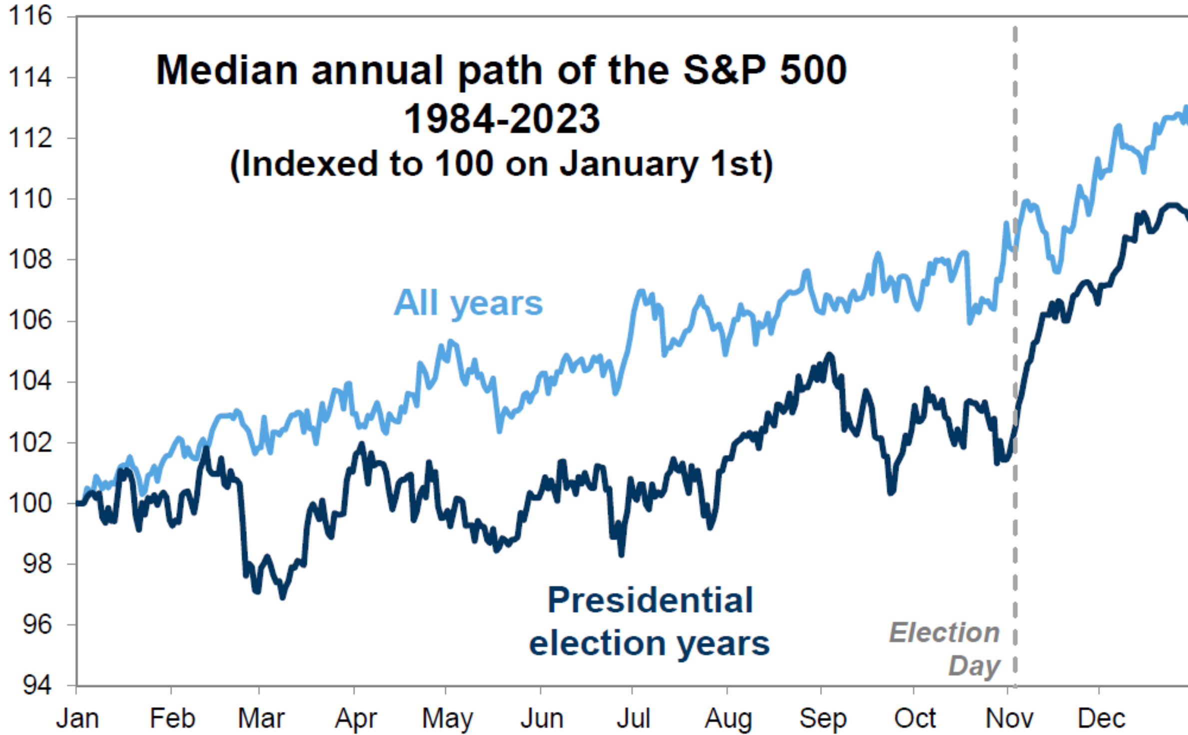
If you are unsure if your current portfolio targets are still appropriate for you, or if there have been any changes in your risk tolerance, liquidity needs, and/or investment goals, please contact us so we may discuss your investment strategy in more detail and decide if any changes are warranted. Additionally, 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: S&P 500 Typically Rallies After Presidential Elections



Source: Goldman Sachs Global Investment Research. Data as of 11/6/2024.

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.