



Q4 2023

Commentary

The equity markets in Q4 staged a remarkable recovery from the slump that marked the previous quarter. The main factors that contributed to the positive performance of stocks were:

- The Federal Reserve's decision to keep interest rates unchanged in December signals a more dovish stance on monetary policy. This eased the concerns about the tightening of financial conditions and boosted the confidence of businesses and consumers. The Fed also indicated that it would be patient and flexible in adjusting its policy stance in 2024, depending on the economic data and the inflation outlook.
- The easing of trade tensions between the U.S. and China, which reached a truce in December when both sides agreed to suspend new tariffs and resume negotiations. This reduced the uncertainty and the risk of further escalation of the trade war, which had weighed on the global growth and the sentiment of investors.
- The resolution of the U.S. fiscal policy, as Congress passed a spending bill and avoided a government shutdown in December. The bill also included the bipartisan infrastructure bill, which was signed into law by President Biden. The infrastructure bill, worth \$1.2 trillion, is expected to provide a stimulus to the economy and create jobs in the next decade.
- The moderation of oil prices, which fell from their peak in September, driven by the increase in supply from OPEC and its allies, and the easing of demand pressures from China and India. Lower oil prices reduced inflation expectations and supported consumer spending power.

As a result, most major U.S. equity categories had positive returns in Q4. The Russell 1000 index, which represents the U.S. large-cap stocks, rose by 11.96%.

Portfolio Review

During the 4th quarter of 2023, the Sapphire Star Covered Call Strategy performed well, gaining 6.87% net, versus a rise of 8.18% for the blended benchmark. During the quarter, Microsoft Corporation +19.34%, Union Pacific Corporation +21.30% and American Express Company +26.08% aided the strategy, while Exxon Mobil Corporation (14.19%), Chevron Corporation (10.60%), and Cisco Systems Inc. (5.34%) were the biggest detractors. By the end of the quarter, the energy minerals, finance and technology services sectors were the three sectors with the largest portfolio weight, while the consumer non-durables, consumer durables and industrial services sectors were the three lowest weighted economic sectors represented in the strategy. For the year the Sapphire Star Covered Call Strategy gained 12.35%, net of fees.

Looking Forward

Looking ahead to the first quarter of 2024, we believe that some of the tailwinds that supported the equity markets in Q4 may continue or strengthen. The Fed's monetary policy stance, which is likely to

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remain accommodative and data-dependent, could provide further support to the economic recovery and corporate earnings growth. The trade relations between the U.S. and China, which may improve or at least stabilize, as both sides work towards a comprehensive deal that addresses the structural issues and the trade imbalances. The U.S. fiscal policy, which may deliver more stimulus and spending, as the Democrats control both the White House and the Senate, pursue their agenda on social and environmental issues. Oil prices, which may remain subdued or decline further, as the supply-demand dynamics favor the consumers over the producers.

Some potential risks that may challenge the equity markets in Q1, include inflation pressures, which may persist or intensify, as the supply chain disruptions, the labor shortages, and the rising commodity prices continue to push up the costs for businesses and consumers. The valuation of global stocks, which may become stretched or unsustainable, especially in the U.S., where the market has reached record highs and earnings expectations are relatively high. Finally, the geopolitical tensions, which may flare up or escalate, as the U.S. faces challenges from its rivals such as Russia, Iran, and North Korea.

While the first quarter of 2024 may present some opportunities and risks for investors, we will be maintaining our disciplined and diversified approach, focusing on the long-term fundamentals and the relative value of the stocks.

As always, we welcome any questions or concerns that you have and thank you for confidence in the Sapphire Star Covered Call Strategy.

Regards,

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