



## Q1 2024

### Commentary

Despite concerns about higher interest rates and geopolitical tensions, U.S. equities exhibited remarkable resilience in the first quarter of 2024. Here are the key highlights:

- **Impressive Returns:** Equities staged an impressive rally, gaining 9.91% as measured by the Russell 1000 Index during Q1. This strong performance brought total returns of 27.89% to the equity market over the last 12 months as measured by the Russell 1000 Index.
- **Technology Leading the Charge:** The bull market continued to run, even as the threat of interest rates staying higher for longer loomed. Technology stocks, especially those companies poised to benefit from the artificial intelligence boom, played a significant role in driving gains.
- **Value Stocks Joining the Rally:** Notably, value stocks also participated in the rally. The financial services and energy sectors led the return of value stocks during this period.

Investors entered Q1 with optimism, expecting a soft landing for the economy. The hope was that a recession would be avoided, inflation would continue to improve, and the Federal Reserve would start cutting interest rates in March. However, the economic landscape unfolded differently:

- **Stronger Economy:** The economy continued to grow back from the “non-recession” recession, experienced in 2022 and not only avoided a second recession in 2023, but the economy also proved stronger than expected.
- **Inflation Challenges:** Inflation remains sticky, leading to a delay in Fed rate cuts. Expectations shifted from the most aggressive, seven rate cuts in 2024 to a more conservative estimate of three at best. Because of the sticky inflation level combined with the continued strong economic landscape, we at **Sapphire Star Capital believe there will be zero to one rate cut by the Fed in 2024.**

### Portfolio Review

During the 1<sup>st</sup> quarter of 2024, the Sapphire Star Covered Call Strategy performed well, gaining 7.35% net, versus a rise of 7.09% for the Blended Benchmark. During the quarter, Microsoft Corporation +19.34%, American Express +12.09% and Phillips 66 +23.58% aided the strategy, while McDonalds Corporation (4.37%) was the single equity detractor from performance during the quarter. By the end of the quarter, the information technology, energy, and financial services sectors were the three sectors with the largest portfolio weight, while the communications services, industrials and health care were the three lowest weighted economic sectors represented in the strategy.

### Looking Forward

As we step into the second quarter, investors are curious about the outlook for both stock and bond markets. Here are some key considerations:

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- **Contrarian Plays:** Opportunities may lie in what's underperformed, unloved, and undervalued. Contrarian investment strategies could prove attractive.
- **Inflation Expectations:** Despite current inflation pressures, there is optimism that inflation will fall in 2024.
- **Fed Rate Cuts:** The timing of Fed rate cuts remains vague, with expectations now centered on cuts starting no earlier than June. Despite this we at Sapphire Star Capital believe the market continues to be too optimistic on the timing and number of rate cuts in 2024. With the economy performing well and inflation remaining above target, our view is that the Fed will cut rates from zero to one time in 2024.

#### Factors that we're watching closely:

- **Fed's Monetary Policy:**
  - The Federal Reserve's stance will be crucial. If inflation remains elevated, the Fed may adopt a more hawkish approach. Market participants anticipate the first-rate hike no earlier than June. Such a move could introduce negative volatility and increase uncertainty in the stock market.
  - Sectors sensitive to interest rates, including technology, real estate, and utilities, may experience fluctuations based on the Fed's decisions.
- **U.S.-China Trade Relations:**
  - Despite progress made in December, achieving a comprehensive and lasting trade deal between the U.S. and China remains challenging. Disagreements persist on issues like intellectual property, market access, and industrial subsidies.
  - If negotiations stall or break down, the trade war could escalate again, impacting global markets.

The interplay between economics and politics shapes the U.S.-China relationship. As we navigate this intricate landscape, understanding the motivations behind trade decisions becomes crucial.

#### Positive Factors we're watching closely:

- **Solid U.S. Economic Fundamentals:**
  - The U.S. economy is projected to grow by 1.8% in 2024, according to consensus forecasts. This growth is supported by:
    - The fiscal stimulus from the infrastructure bill.
    - Strong consumer and business confidence.
  - These factors contribute to a favorable environment for equities.
- **Robust Earnings Growth:**
  - Despite challenges such as higher labor and input costs, as well as supply chain disruptions, U.S. companies are expected to deliver robust earnings growth in Q1.
  - Earnings reports will be closely watched by investors.

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- **Seasonality Effect:**

- The start of a new fiscal year, coupled with the earnings season and tax refunds, tends to favor equities in Q1.
- Investors often allocate funds to stocks during this period.

In summary, while challenges persist, cautious optimism prevails as investors navigate the evolving economic landscape. Keep an eye on key developments and remember that market dynamics can shift rapidly.

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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