



## Sapphire Star Capital Small Cap Strategy

Q1 2024

### Commentary

In Q1 2024, the Russell 2000 Index continued to demonstrate resilience, reflecting the ongoing recovery of the small-cap sector. The index saw a positive 5.18% increase in market value. This uptrend can be linked to several factors:

- **Interest Rate Conditions:** Despite expectations of high interest rates persisting, the Federal Reserve maintained its policy rate at 5.25-5.50%, indicating potential rate cuts could come within the year. This has likely continued to support small-cap stocks, which are sensitive to interest rate fluctuations.
- **Federal Reserve Policy:** The Fed's commitment to maintaining higher interest rates to manage inflation without causing a recession suggests a cautious yet supportive approach for economic growth. This may have provided a stable backdrop for small-cap stocks to thrive.
- **Economic Growth Prospects:** The US economy showed signs of robust consumer spending and labor market resilience, which are expected to partially offset the effects of tight monetary policy, contributing to a forecasted real GDP growth of 1.8% for 2024.
- **Sector Performance:** Small-cap sectors, particularly energy and industrials, have been identified as strong performers, contributing to the overall strength of the Russell 2000.

The environment in Q1 2024 has continued to favor small-cap stocks, with the Russell 2000 Index benefiting from a mix of stable interest rate conditions, supportive Federal Reserve policies, and positive economic growth prospects. However, it remains crucial to consider these market performances within the framework of long-term investment strategies, as market dynamics are subject to change.

### Portfolio Review

- **Performance Comparison in Q1 2024:**
  - The **Sapphire Star Small Cap Strategy** outperformed benchmarks, gaining 10.45% net. This was due to its larger exposure to the technology and energy minerals sectors, which benefited from easing financial conditions and the end of aggressive rate hikes. Stock selection also aided relative performance during the quarter.
  - The small cap market segment, as measured by the **Russell 2000 Growth** and the **Russell 2000**, rose by **7.58%** and **5.18%** respectively.
- **Top-Performing Sectors:**
  - Electronic technology, retail trade, and energy minerals aided relative portfolio performance during the quarter.
- **Underperforming Sectors:**
  - Technology services, industrial services, and producer manufacturing hindered relative performance the most.

7826 Leary Way NE  
Suite 201  
Redmond, WA 98052  
Phone: 425.576.4083



- **Contributors to Absolute Performance:**
  - Super Micro Computer (255.32%), Dick's Sporting Goods (53.77%), and Permian Resources Corporation (31.07%) helped absolute performance.
- **Detractors from Absolute Performance:**
  - Perion Network (27.18%), New York Community Bancorp (52.10%), and Rambus Inc. (9.44%) detracted the most during the quarter.
- **Portfolio Turnover:**
  - There was an uptick in portfolio turnover as positions were adjusted. Notably, Super Micro Computer was trimmed.
- **Sector Weightings:**
  - Overweight sectors: Electronic technology, energy minerals, and finance.
  - Underweight sectors: Distribution services, utilities, and commercial services.

## Looking Forward

Small-cap stocks remain attractive for investors seeking long-term growth opportunities. Factors supporting this outlook include:

- **Growth Potential:** Small caps often outperform larger companies, especially when they benefit from favorable market conditions such as stable and decreasing interest rates.
- **Undervalued Opportunities:** Many small-cap stocks remain undervalued, offering attractive entry points. Investors can capitalize on potential price appreciation as these stocks gain recognition. Investors can strategically position themselves in these sectors for potential gains.
- **Sector Trends:** Keep an eye on sectors like energy, technology, and communication services for potential growth.
- **Economic Recovery:** As the global economy continues to recover, small-cap companies may benefit from increased consumer spending, business expansion, and improved financial conditions.

In summary, small-cap stocks continue to demonstrate their potential for growth and resilience. Investors willing to accept slightly more risk can find value in including small caps in their portfolios.

As always, we welcome any questions or concerns and thank you for your continued confidence in the Sapphire Star Small Cap Strategy.

Regards,

Michael J. Borgen  
Founder & CIO  
Sapphire Star Capital LLC

Meghan N. Chicoine  
COO & CCO  
Sapphire Star Capital LLC

7826 Leary Way NE  
Suite 201  
Redmond, WA 98052  
Phone: 425.576.4083



***Important Disclosures:***

***Sapphire Star Capital LLC is a registered investment adviser and the information contained herein has been prepared by Sapphire Star Capital LLC. Such information is obtained from and based upon sources believed to be reliable, but accuracy cannot be guaranteed. Sapphire Star Capital LLC and its affiliates and representatives disclaim all liability for any inaccuracies and omissions contained in these materials. All opinions and estimates constitute Sapphire Star's judgement as of the date of the creation of these materials and are subject to change without notice. The information presented is not intended to be an offer of solicitation for the sale or purchase of any securities, investments involve risk and are not guaranteed. Any decision to purchase securities mentioned herein must consider existing public information on such security. Projections contained herein are based on a variety of estimates and assumptions and there can be no assurance that the assumptions made in connection with the projections will prove accurate, and actual results may differ materially. Past performance is not indicative of future results.***

7826 Leary Way NE  
Suite 201  
Redmond, WA 98052  
Phone: 425.576.4083