



Q2 2024

Commentary

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

- **Moderate Returns:** Equities continued their upward trajectory, gaining 3.57% as measured by the Russell 1000 Index during Q2. This performance brought total returns of 14.24% to the equity market year to date.
- **Technology Leading the Charge:** The bull market persisted, with technology stocks, especially those benefiting from the artificial intelligence boom, driving significant gains.
- **Value Stocks Lagging:** Unlike the first quarter, value stocks lagged behind their growth counterparts. The anticipated broadening of the rally to other sectors did not materialize.

Investors entered Q2 with cautious 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 September. However, the economic landscape unfolded differently:

- **Stronger Economy:** The economy continued to grow, avoiding a recession and proving stronger than expected. Consumer spending and business investments remained robust.
- **Inflation Challenges:** Inflation remained sticky, leading to a delay in Fed rate cuts. Expectations shifted from multiple rate cuts to a more conservative estimate of one or two cuts by the end of the year. Given the persistent inflation and strong economic landscape, we at Sapphire Star Capital believe there will be one rate cut by the Fed in 2024.

Portfolio Review

During the 2nd quarter of 2024, the Sapphire Star Covered Call Strategy slightly suffered, falling (0.17%) net, versus a rise of 2.81% for the Blended Benchmark. During the quarter, Apple Inc. +22.99%, Microsoft Corporation +6.42% and Amgen +10.68% aided the strategy, while Phillips 66 (12.90%), Walt Disney Company (18.85%) and Union Pacific Corporation (7.48%) were the main detractors from performance during the quarter. By the end of the quarter, the information technology, energy, and financial 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 third quarter, investors are keenly observing the outlook for both stock and bond markets. Here are some key considerations:

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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 September. 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 continues to be that the Fed will cut rates from zero to one time in 2024.

Solid U.S. Economic Fundamentals:

- The U.S. economy is projected to grow by 2.0% 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.

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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