



## Sapphire Star Capital Mid Cap Strategy Q2 2024

### Commentary

The second quarter of 2024 has seen the U.S. economy continue to exhibit signs of stability and resilience, with GDP growth accelerating to an annualized rate of 2.8%, surpassing earlier forecasts. This growth was driven by strong consumer spending, inventory investment, and business investment. Inflation has moderated, with the personal consumption expenditures (PCE) price index rising by 2.6%, down from 3.4% in the first quarter.

Economic growth is expected to remain moderate until the Federal Reserve decides to cut interest rates. The Fed has signaled potential rate cuts in September, contingent on continued favorable inflation data. Consumer spending, investment, and government spending are all expected to grow by at least 2% in 2024, with exports growing by more than 4%. Inflation is anticipated to fall below the 3% threshold in the second quarter of 2024, although it is projected to remain close to that level for the remainder of the year.

### Portfolio Review

- **Performance Comparison in Q2 2024:**
  - The **Sapphire Star Mid Cap Strategy** slightly trailed our benchmarks, retreating (4.38%) net. This was due to its enhanced exposure to the consumer discretionary, energy and material sectors, which were hindered during the quarter. However, overall asset allocation aided relative performance during the quarter, while stock specific issues restrained relative performance.
  - The mid cap market segment, as measured by the **Russell Mid Cap Growth** and the **Russell Mid Cap**, declined by **(3.21%)** and **(3.35%)** respectively.
- **Top-Performing Sectors:**
  - Health Care, Consumer Staples, and Financials drove relative portfolio performance during the quarter.
- **Underperforming Sectors:**
  - Consumer discretionary energy and material sectors detracted from relative performance during the quarter.
- **Contributors to Absolute Performance:**
  - KLA Corporation 18.26%, Howmet Aerospace 13.51%, and Amkor Technology 24.44% drove absolute performance.
- **Detractors from Absolute Performance:**
  - Boise Cascade (22.15%), Super Micro Computer (18.88%), and Steel Dynamics (12.33%) detracted the most during the quarter.

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- **Sector Weightings:**
  - Overweight sectors: Electronic technology, finance and retail trade.
  - Underweight sectors: consumer non- durables, consumer durable, and health technology.

## Looking Forward

For long-term investors, mid cap stocks remain particularly promising due to several factors:

- **Exposure to Domestic Growth:** These stocks are typically more focused on the domestic market, which can be a source of robust growth.
- **Innovative Capabilities:** Mid cap companies are often in a prime position to innovate, pivot, and adapt to new market trends and demands.
- **Mergers and Acquisitions Potential:** There's always the possibility of M&A activity, which can unlock value for shareholders.

The investment strategy remains centered on the identification of high-quality businesses. These are companies that not only have sustainable competitive advantages and strong balance sheets but also trade at attractive valuations.

In conclusion, the economic indicators and market performance from the second quarter of 2024 point towards a cautiously optimistic outlook. The second quarter saw a significant turnaround, with the Mid Cap Index falling (3.35%.) Quality investments remain a priority, and the Federal Reserve's interest rate decisions will be pivotal in shaping the market landscape moving forward. The Fed has signaled potential rate cuts in September, contingent on continued favorable inflation data. Keeping a close eye on these developments will be crucial for investors navigating the third quarter of 2024.

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

Regards,

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