



## Sapphire Star Capital Small Cap Strategy Q2 2024

### Commentary

In Q2 2024, the Russell 2000 Index experienced a decline, reflecting the challenges faced by the small-cap sector. The index saw a **negative 3.28%** decrease in market value. This downturn can be attributed to several factors:

- **Interest Rate Conditions:** The Federal Reserve maintained its policy rate at **5.25-5.50%** throughout the quarter. Despite earlier expectations of potential rate cuts, the Fed's decision to hold rates steady has put pressure on small-cap stocks, which are sensitive to interest rate fluctuations.
- **Federal Reserve Policy:** The Fed's commitment to managing inflation without causing a recession remained steadfast. However, the lack of rate cuts has created a more challenging environment for small-cap stocks, which typically benefit from lower interest rates.
- **Economic Growth Prospects:** The US economy grew at an annualized rate of **2.8%** in Q2 2024, exceeding expectations. Strong consumer spending and government expenditure contributed to this growth, but the tight monetary policy continued to pose challenges for small-cap stocks.
- **Sector Performance:** While some small-cap sectors, such as energy and industrials, continued to perform well, the overall performance of the Russell 2000 was dragged down by weaker performance in other sectors.

The environment in Q2 2024 presented a mixed bag for small-cap stocks, with the Russell 2000 Index facing headwinds from stable interest rate conditions and a cautious Federal Reserve policy. Despite robust economic growth, the tight monetary policy environment has underscored the importance of considering these market performances within the framework of long-term investment strategies, as market dynamics remain subject to change.

### Portfolio Review

- **Performance Comparison in Q2 2024:**
  - The **Sapphire Star Small Cap Strategy** outperformed benchmarks, slightly declining by (2.34%) net. The outperformance was due in large part to stock selection. Specifically, RadNet Inc. +21.09%, Matson Inc. +16.85% Amkor Technology +24.44% aided the portfolio the most. Cleveland-Cliff Inc (32.32%), Lattice Semiconductor (25.87%) and Jabil Inc (18.73%) hindered portfolio performance the most. While stock selection was the main driver of superior performance, sector allocation also aided relative performance during the quarter.
  - The small cap market segment, as measured by the **Russell 2000 Growth** and the **Russell 2000**, declined by **(2.92%)** and **(3.38%)** respectively.
- **Top-Performing Sectors:**
  - Industrials, health care, and consumer discretionary aided relative portfolio performance during the quarter.

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



- **Underperforming Sectors:**
  - Materials, technology, and utilities hindered relative performance the most.

## Looking Forward

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

- **Growth Potential:** While small caps often outperform larger companies, the 2nd quarter of 2024 saw a challenging environment. The Russell 2000 Index fell by 3.3%, and the Russell Microcap Index dropped by 5.3%, contrasting with the large-cap Russell 1000 Index, which rose by 3.6%. Despite this, small caps still hold potential for significant growth, especially when market conditions stabilize.
- **Undervalued Opportunities:** Many small-cap stocks remain undervalued, offering attractive entry points. Investors can capitalize on potential price appreciation as these stocks gain recognition. However, the recent underperformance highlights the need for careful selection and strategic positioning to identify the most promising opportunities.
- **Sector Trends:** Keep an eye on sectors like energy, technology, and communication services for potential growth. Despite the overall downturn, specific sectors within the small-cap space may still offer robust growth prospects, particularly as technological advancements and sector-specific trends continue to evolve.

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 but should remain mindful of the recent market dynamics and select investments with a strategic approach.

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

### ***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***

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



*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