



Sapphire Star Covered Call Strategy Q3 2024

Commentary

In light of the rising interest rates and geopolitical tensions, U.S. equities have demonstrated substantial resilience during the third quarter of 2024. The key highlights are as follows:

- **Federal Reserve Rate Cut:** The Federal Reserve commenced a new easing cycle with a half-percent rate cut during the September Federal Open Market Committee meeting. This strategic measure was intended to support economic growth and was well received by the markets, thereby facilitating their upward movement.
- **Ebbing Inflation:** Economic data indicated that inflationary pressures are subsiding, thereby bolstering investor confidence. Soft readings on employment and inflation suggested a significant decrease in price pressures.
- **Market Rotation:** There was a notable shift in market leadership, with value stocks outperforming the previously dominant big tech and growth stocks. This change in market dynamics contributed to the overall market rally.
- **Economic Moderation:** Despite concerns of a potential recession due to an increase in the unemployment rate, the broader trend indicated an economy that is moderating while maintaining healthy growth.

Portfolio Review

During the 3rd quarter of 2024, the Sapphire Star Covered Call Strategy bucked the historically weak period gaining 4.12% net, versus a rise of 4.48% for the Blended Benchmark. During the quarter, American Express +17.47%, Apple Inc. +10.75%, McDonald's +20.19% aided the strategy, while Microsoft (3.55%), Ford Motor Company (14.50%) and Chevron Corporation (4.80%) were the main detractors from performance during the quarter.

Looking Forward

As we advanced into the third quarter, investors were meticulously observing the outlook for both stock and bond markets. The following are key considerations:

- **Inflation Expectations:** Despite current inflationary pressures, there is an optimism that inflation will abate in 2024.
- **Federal Reserve Rate Cuts:** The timing of the Federal Reserve's rate cuts remains uncertain, with current expectations centering on cuts commencing no earlier than September. Nevertheless, at Sapphire Star Capital, we believe the market's anticipation of the timing and number of rate cuts

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in 2024 remains overly optimistic. Given the robust economic performance and inflation levels exceeding the target, our perspective is that the Federal Reserve will implement zero to one rate cut 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 underpinned by fiscal stimulus from the infrastructure bill and strong consumer and business confidence.

In summary, while challenges persist, a sense of cautious optimism prevails as investors navigate the evolving economic landscape. Monitoring key developments is essential, as market dynamics can shift rapidly.

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

Regards,

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