

Soft or Hard?

TAM US Q2 2024 Review and Outlook Chartbook

While second quarter results were positive for the S&P 500, with a 4.3% gain, it was driven by only a few stocks. **Investors started to question whether the global economy was looking at a soft or hard landing during June. In the quarter, our LCIV and Intrinsic Value Opportunity portfolios lagged the S&P but outperformed the Russell 1000 Value index as you can see on the next page, because markets rotated back to the “Magnificent 7”, a small group of large cap, AI oriented, highly valued assured growth stocks. Please refer to our separate quarterly strategy review for details on either portfolio.** Some US indicators showed slower growth rates while initial jobless claims increased from trough levels. Most measures showed continued economic strength, but investors focused on cracks showing up in the consumer demand and decided to worry about a hard landing. The Fed did not lower rates, as better news on inflation is still relatively recent. The current moderation in inflation should allow the Fed to move later this year. The European Central Bank lowered rates in June, and their inflation numbers continued to show moderation in prices. Manufacturing remains under pressure but is not as pressured as it had been.


We think investors should remember a few positives.

- **A global easing cycle is starting.** Many central banks are starting to lower rates. The June swing to hard landing worries may just be investors reacting to the ECB and Swiss bank easing measures and asking what the banks know that investors don't.
- **We believe a global manufacturing recovery is still in the cards and recession is unlikely.** Cyclically, inventories are low, and secularly, the re-shoring movement and increased resiliency that western economies want to pursue requires manufacturing and investment. Lower rates may help as well.
- **Earnings are expected to start growing again and should show if a soft landing is unfolding.** Earnings expectations bottomed for the US and Japan last year, and for China, The UK and Europe this year. Earnings recoveries are occurring now, and Q2 results should give an important update on their progress.

As earnings recoveries unfold, we think investors shift back to the soft-landing playbook and market participation broadens out. The Magnificent 7 have dominated the indexes, probably because they showed continued sales and earnings growth while most companies did not after the Fed started raising rates. A broader recovery would reward the average stock more than the select few growth stocks. The valuations of the Magnificent 7 leave little room for error, and some analysts point out that highly valued stocks tend to have lopsided risk reward profiles where downside surprises or simply meeting estimates are not enough to justify their premiums. We believe a rotation towards the average stock from the Magnificent 7 stocks is likely to occur.

New highs in markets tend to beget more new highs in markets. Our sense is that this bull market still has room to run.

Charts we are sharing with our clients this quarter



LCIV Annualized Returns (%)


All Periods Ending 06/30/2024

Inception Date: January 1, 1981

	QTD	YTD	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
Large Cap Intrinsic Value (Net)	-1.23	11.76	23.38	7.92	12.93	11.00	9.81
S&P 500	4.28	15.29	24.56	10.01	15.04	14.27	12.85
LCIV Net Excess Return	-5.51	-3.53	-1.18	-2.09	-2.11	-3.27	-3.04
Russell 1000 Value	-2.17	6.62	13.06	5.53	9.01	8.61	8.23
LCIV Net Excess Return	+0.94	+5.14	+10.32	+2.39	+3.92	+2.39	+1.58
Large Cap Intrinsic Value (Gross)	-1.09	12.08	24.10	8.57	13.60	11.66	10.47
S&P 500	4.28	15.29	24.56	10.01	15.04	14.27	12.85
LCIV Gross Excess Return	-5.37	-3.21	-0.46	-1.44	-1.44	-2.61	-2.38
Russell 1000 Value	-2.17	6.62	13.06	5.53	9.01	8.61	8.23
LCIV Gross Excess Return	+1.08	+5.46	+11.04	+3.04	+4.59	+3.05	+2.24

Data Source: Todd Asset Management, Standard and Poor's® and Russell® Indexes. QTD and YTD returns are not annualized. Past performance does not provide any guarantee of future performance, and one should not rely on the composite as an indication of future performance. There is no guarantee that this investment strategy will work under all market conditions. Refer to the Performance Disclosure and Additional Disclosures for more information on the performance numbers and benchmark data presented. These notes are an integral part of this chart and should not be reproduced or duplicated without these notes.

1



IVO Annualized Returns (%)

All Periods Ending 06/30/2024

Inception Date: April 1, 2006

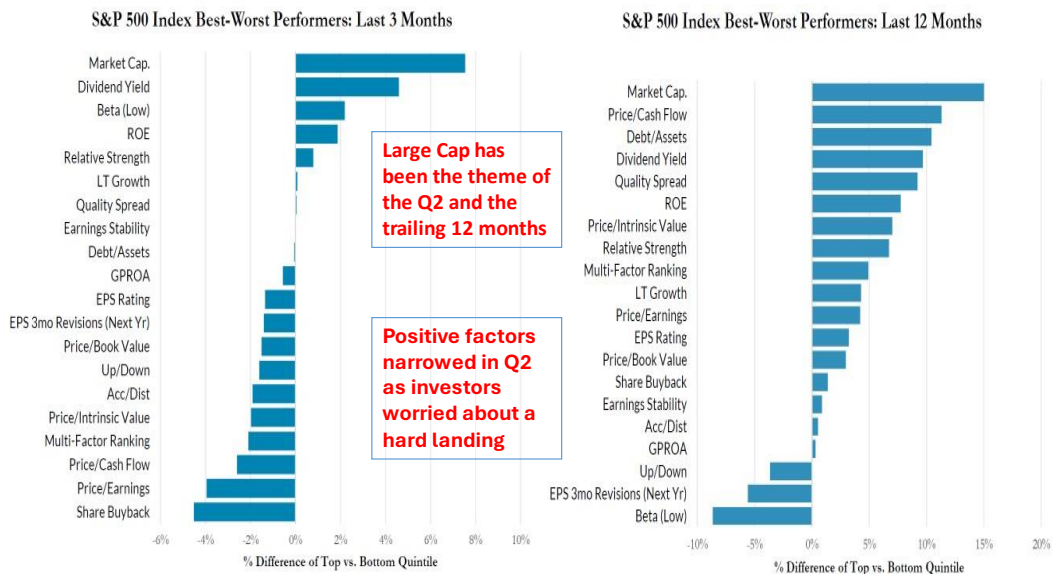
	QTD	YTD	1 Yr.	3 Yrs.	5 Yrs.	7 Yrs.	10 Yrs.
Intrinsic Value Opportunity (Net)	-1.40	11.16	15.70	9.97	13.06	10.33	7.86
S&P 500	4.28	15.29	24.56	10.01	15.04	14.27	12.85
IVO Net Excess Return	-5.68	-4.13	-8.86	-0.04	-1.98	-3.94	-4.99
Russell 1000 Value	-2.17	6.62	13.06	5.53	9.01	8.61	8.23
IVO Net Excess Return	+0.77	+4.54	+2.64	+4.44	+4.05	+1.72	-0.37
Intrinsic Value Opportunity (Gross)	-1.19	11.63	16.67	10.89	14.01	11.25	8.77
S&P 500	4.28	15.29	24.56	10.01	15.04	14.27	12.85
IVO Gross Excess Return	-5.47	-3.66	-7.89	+0.88	-1.03	-3.02	-4.08
Russell 1000 Value	-2.17	6.62	13.06	5.53	9.01	8.61	8.23
IVO Gross Excess Return	+0.98	+5.01	+3.61	+5.36	+5.00	+2.64	+0.54

Data Source: Todd Asset Management, Standard and Poor's® and Russell® Indexes. QTD and YTD returns are not annualized. Past performance does not provide any guarantee of future performance, and one should not rely on the composite as an indication of future performance. There is no guarantee that this investment strategy will work under all market conditions. Refer to the Performance Disclosure and Additional Disclosures for more information on the performance numbers and benchmark data presented. These notes are an integral part of this chart and should not be reproduced or duplicated without these notes.

2

Domestic Factor Analysis - Large Market Cap Led

As of 6/30/2024



Data Source : Bloomberg, William O'Neill & Co. and TAM. The noted index is unmanaged, and not available for direct investment ; it includes reinvestment of dividends ; it does not reflect management fees or transaction costs . The volatility of the index and a client account will not be the same.

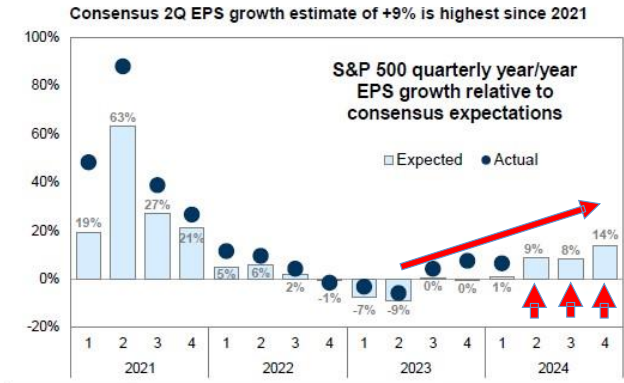
An Easing Cycle is Just Starting



- **A new easing cycle has started** . With inflation moderating and a soft landing playing out, Central banks should have leeway to lower rates gradually for some time to come.
- **Lower rates and no recession is usually a good combination** for markets.

Source: Evercore ISI 7-9-24
Commentary contains subjective judgements, management opinions and assumptions subject to change without notice. Commentary is based on information as of the period covered by this material. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but not guaranteed.

S&P Earnings Recovering - Broader Participation Likely

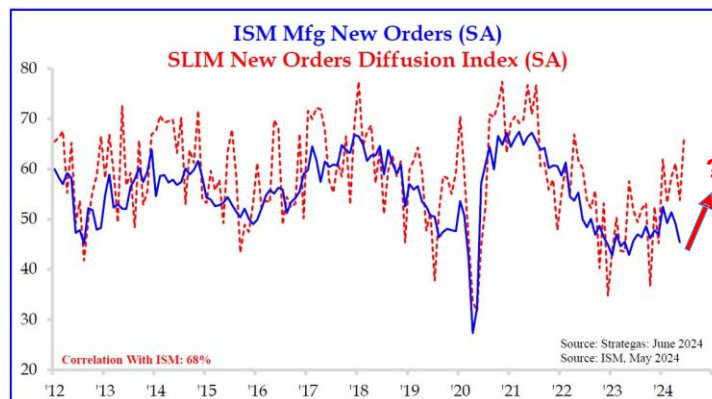


- **Higher rates caused an earnings recession** as rate sensitive industries got hit.
- An **earnings recovery** is occurring (bar chart above).
- A broad earnings recovery is driving renewed EPS growth starting now (arrows pointing up). **Expect equity market performance to broaden out**.

Source: Goldman Sachs Weekly Kickstart 6 -28-24
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5

Hopeful Signs for Manufacturing



- ISM New Orders (blue line) are a leading indicator for Manufacturing PMI's. **The New Orders Diffusion Index has generally led the New Orders index** by a couple of months and is **suggesting improvement in New Orders**.
- We still believe the **new capital cycle should lead to better manufacturing activity**.

Source: Strategas Q2 24 Review in Charts
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6

Job Openings and Quits Rate Cooling

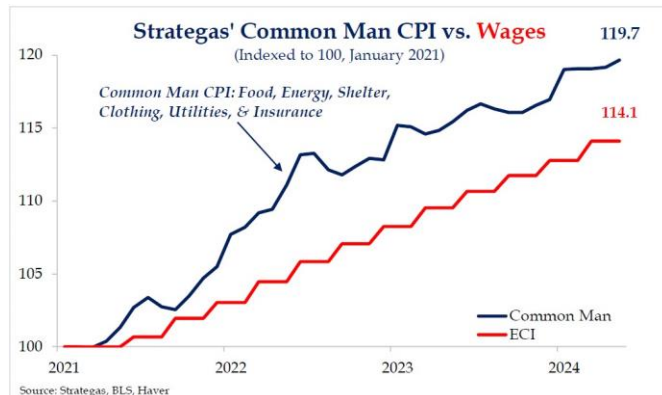


Job Openings and Quits have declined from their highs but remain generally stronger than pre - pandemic. **This cooling should ease wage worries and may allow Fed easing** later this year.

Source: 22V - G. MacDonell 7-2-24
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7

Inflation Measures Run Higher than Wage Growth

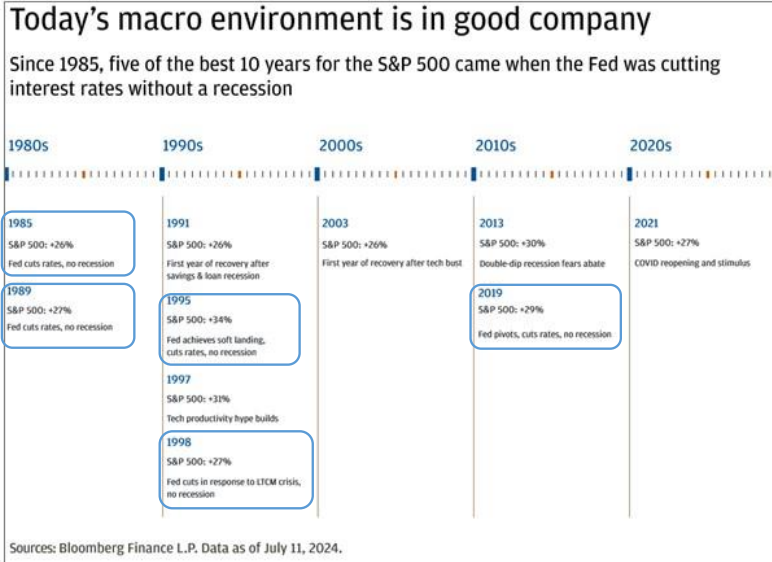


- Strategas “Common Man CPI” (blue line), is up almost 20% since 2021.
- The Employment Cost Index (red line) is up about 14% over that time frame.
- **This ~6% gap between inflation and wages would explain why voters everywhere are angry**, and incumbents should beware.

Source: Strategas Q2 24 Review in Charts
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8

Fed Easing Without Recession Prompts Good Markets

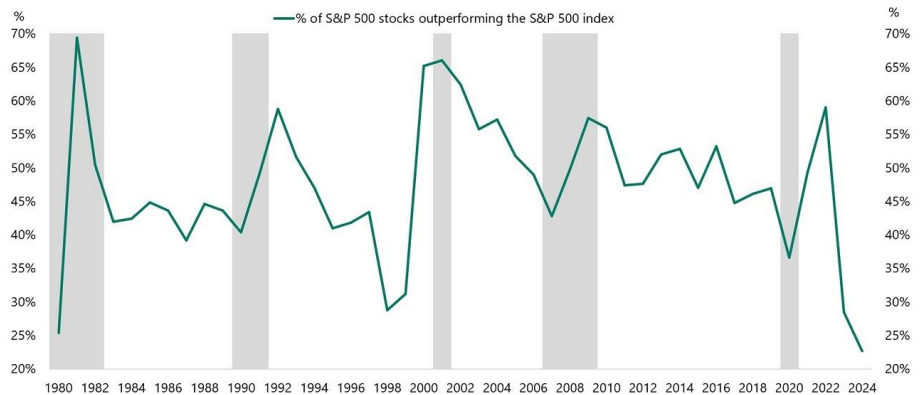


Source: JPMorgan, Market Observations Report 7 -15-24
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A Very Narrow Market This Year



Record-low percentage of stocks outperforming the S&P 500 index



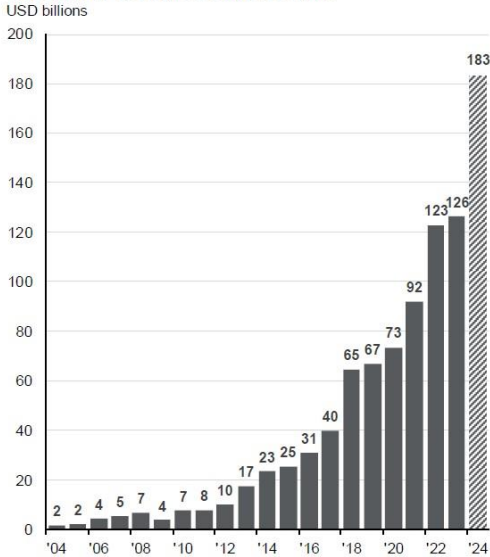
As earnings broaden, this should recover.

Source: Bloomberg, Apollo Chief Economist. Note: Annual data is from January 1 to December 31 for each year. The 2024 data is as of July 2, 2024 (year -to-date). Commentary contains subjective judgements, management opinions and assumptions subject to change without notice. Commentary is based on information as of the period covered by this material. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but not guaranteed

AI Spending Surges and Adoption Rates are Increasing

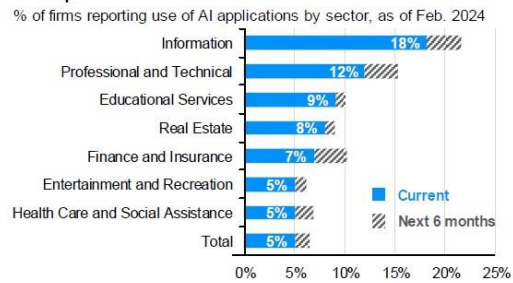


Capex from the major AI hyperscalers*



- Capital Spending (left) for AI infrastructure has **tripled** over the past 5 years.
- Adoption rates (below) are steadily increasing, **though not as quickly as capital spending**.

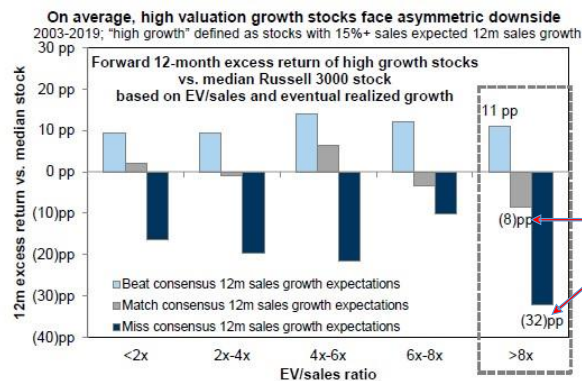
AI adopters



Source: JPM - Guide to the Markets 07 -24. Commentary contains subjective judgements, management opinions and assumptions subject to change without notice. Commentary is based on information as of the period covered by this material. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but not guaranteed.

11

Lopsided Risk Profile for the Mag 7



Sales misses result in 32% lag (vs median) over following year. Sales meeting estimates results in 8% lag.

- **Highly valued growth stocks (>8X Enterprise Value to sales) carry much more performance risk** than other stocks if they miss or even match estimates (outlined box above).
- Upside returns for revenue beats are slightly but not significantly higher.
- **Five of the Magnificent Seven qualify as highly valued growth stocks.**

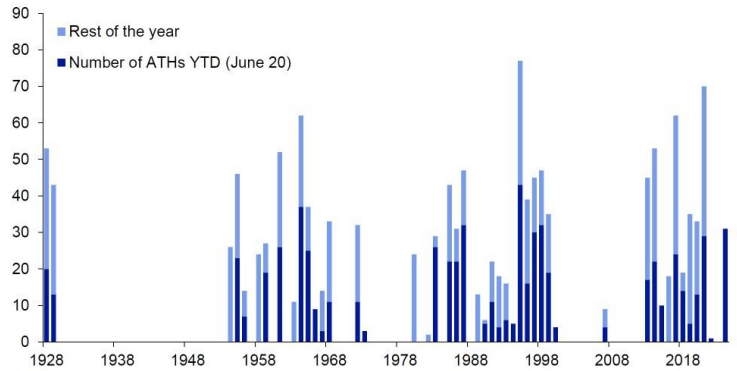
Source: Goldman Sachs Weekly Kickstart 6 -28-24- Magnificent 7 stocks include Apple, Alphabet, Amazon, Microsoft, Meta, NVIDIA and Tesla. Commentary contains subjective judgements, management opinions and assumptions subject to change without notice. Commentary is based on information as of the period covered by this material. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but not guaranteed.

12

First Half All Time Highs Lead To Second Half ATHs



Number of ATHs per year in S&P 500 since 1928



Source: Bloomberg Finance LP, Deutsche Bank

New All Time Highs in the first half generally **precede more** (and often many more) in the second half. This bull has room to run.

Source: Deutsche Bank - Jim Reid - June 2024 Charts that make you go WOW.
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13

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Curt Scott, CFA
Jack White, CFA
Jack Holden CFA
Shaun Siers, CFA

07/17/2024
S&P 500 - 5,588
Russell 1000 Value - 1,797

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The performance information is presented on a trade date basis, both gross and net of management fees, net of transaction costs and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .60% applied monthly. Prior to September 2001, the management fee schedule applied to the composite was .50%. Actual investment advisory fees incurred by clients may vary. The currency used to calculate and express performance is U.S. dollars. All cash reserves and equivalents have been included in the performance.

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