GW&K
ESTABLISHED 1974
50 YEARS

INVESTMENT REVIEW
2Q 2024

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ECONOMIC COMMENTARY

BY HAROLD G. KOTLER, CFA
Founder-Chairman, Chief Investment Officer

The old saying "the more things change, the more they stay the same" is appropriate in many areas of our lives, but not in the world of innovation and technology. In fact, we have come to depend on and respond to technological advances that completely displace our old way of doing business. Some of us can easily recall how we thought the Sperry Rand computer was the pinnacle of electronic data engineering. Then came Digital Equipment and all the minicomputers. Now our mobile devices can process and display information on a scale that was inconceivable in the early stages of the digital revolution. How our lives have changed.

Imagine the economic fallout from Covid if we didn't have the capacity to work remotely? Even though companies like ours had no ability to work in-office, we were still able to meet our clients' needs. The economy did not fall apart. Business continued without interruption. What a remarkable story, one that was only possible because of the important investments in technology that had been made by the public and private sectors.

We are again on the precipice of a whole new world with Artificial Intelligence (AI). Although AI is a buzz word and people have been scrambling to figure out its potential impact, my suggestion is that we have no idea of the magnitude of AI's influence on our world. As we were totally unaware of what companies like Google, Tesla, and Apple would do to our lives, this is the same situation in spades. AI will allow businesses to become more profitable and efficient. It will drive up profit margins and allow for a new level of growth.

We unfortunately live in a world where cooperation is no longer the mantra. Now countries look inside their own borders for solutions at the expense of collaboration. Many of the world's most mature economies enjoy little population growth. For those on the lower end of the income scale, the prospect for a better life must come from increased productivity (output per man hours). Which leads back to AI. As this technology becomes developed and rolled out, it will bring a new opportunity for economic growth, and not just for the top wage earners, but for the broader population as well.

> *"Although I can't begin to predict where all this is going, its evolution is occurring at precisely the right time. All pretty neat. It fits in with my underlying belief that capitalism is a living, breathing energy which creates and sustains."*

There will be plenty of discussion about disruptions and job losses, even as new opportunities become apparent. This tension has always been there. The history of social development is all about reinventing. The key point is we will not know the degree and extent of the changes we are about to witness, but it will be profound. Most likely it will impact all of our lives and much of what we do.

Continued on next page

Just as we had no idea that Covid was on our doorstep but had the capability to tackle it, mature economies might be more equipped than we think in their struggle to find growth. While AI has been in our lives for a few years, its power is becoming more evident, its uses more extensive. Maybe, just maybe, we have a need for a new technology and it comes into our lives at the most important point.

Although I can't begin to predict where all this is going, its evolution is occurring at precisely the right time. All pretty neat. It fits in with my underlying belief that capitalism is a living, breathing energy which creates and sustains. And it is consistent with my long-expressed themes of lower interest rates and equity markets reflecting faith in the future. Therefore, we continue to invest with the belief that healthy change is a fact and, although there are many concerns, we must live with the belief that innovation and technology take humanity to the next level of healthy existence.

Harold G. Kotler, CFA
Founder-Chairman, Chief Investment Officer

GW&K NEWS

CELEBRATING 50 YEARS OF TRUSTED PARTNERSHIPS

GW&K ESTABLISHED 1974 | 50 YEARS

This year marks GW&K's 50th anniversary, and we couldn't be more excited to celebrate all that GW&K has accomplished over this last half century with you. This significant milestone is a testament to the enduring relationships we have built, the shared successes we have achieved, and the trust our clients have in us. Thank you.

Since 1974, we have been committed to nurturing long-term relationships based on investment excellence, transparency, integrity, and mutual respect. Through every market cycle, economic challenge, and personal financial goal, GW&K's mission has been to help clients in the pursuit of their investment objectives through the management of thoughtfully conceived and consistently applied investment strategies. Our commitment to excellence and adaptability has been instrumental in our ability to thrive through the years. We are proud of the enduring success of this company and remain faithful to supporting the values that define us and earn our clients' trust every day.

Looking ahead, we are excited about the future and the opportunities it holds. The next 50 years promise to be even more dynamic and transformative. We are committed to staying at the forefront of investment management, leveraging cutting-edge technologies, and adapting to evolving market trends to deliver strong performance and a high-quality client experience.

We believe that our shared values of trust, integrity, and long-term perspective will remain at the core of all we do, and we will work hard to continue to help our clients meet their financial goals. We look forward to many more years of collaboration and success together and we thank you once again for your continued support and partnership. Here's to the next 50 years of innovation, growth, and shared success!

$51.2 BILLION | TOTAL ASSETS UNDER MANAGEMENT

176 | EMPLOYEES

49 | INVESTMENT PROFESSIONALS

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SECOND QUARTER 2024

ECONOMY

- The economy continued to grow at a moderate pace in Q2, with the Atlanta Fed estimating GDP growth of 1.7% following 1.4% for the previous quarter. Consumer spending remains a key pillar of strength.
- A modest uptick in the unemployment rate and declining job openings have signaled a labor market that may be cooling. Payroll growth has remained solid, in line with last year's pace.
- Progress toward disinflation has resumed after a brief stall. The Fed's preferred measure of core PCE inflation rose at a 2.7% annual rate over the past three months, but remains above the Fed's 2% inflation target.
- Despite potential headwinds from higher interest rates, most economists believe a recession will be avoided due to the strong labor market and generally supportive financial conditions.

FED ACTION

- In June, the Federal Open Market Committee (FOMC) opted to keep interest rates steady and projected only one quarter-point rate cut for 2024, down from three cuts projected previously.
- The FOMC also confirmed that it will continue reducing its holdings of Treasury securities and agency debt and mortgage-backed securities, in line with the plan announced in May.
- Chair Powell emphasized that the Fed needs greater confidence in sustainable progress towards 2% inflation before considering rate cuts, despite recent inflation improvement.
- Futures markets project slightly more monetary easing than FOMC members for this year and next. However, they anticipate a shallower path for rate cuts beyond 2025.

BOND MARKETS

- Treasury yields finished the quarter 13-22 bps higher, with the longer end leading the selloff. The inversion of the 2/10's segment marked a record 23 months, historically a signal for an eventual recession.
- Investment grade and high yield corporate spreads widened by 4 bps and 10 bps, respectively, still within a few bps of their post-GFC tights. The sector is supported by economic resilience, strong earnings and appealing all-in yields.
- Agency mortgage-backed securities continued to trade directionally with rates as 30-year nominal spreads widened modestly.
- Municipal bond yields rose across the board in 2Q, driven by elevated tax-exempt supply and Treasury market volatility.

INDEX PERFORMANCE

06/30/24

	QUARTER	YEAR TO DATE
Bloomberg 10-Year Municipal Bond Index	-1.04%	-1.57%
Bloomberg Aggregate Bond Index	0.07%	-0.71%
Bloomberg High Yield Index	1.09%	2.58%
Dow Jones Industrial Average	-1.27%	4.79%
S&P 500 Index	4.28%	15.29%
Russell 2000 Index	-3.28%	1.73%
MSCI World Small Cap ex USA Index	-1.56%	0.98%
MSCI World Index	2.63%	11.75%

DOMESTIC EQUITY MARKETS

- US equity markets diverged in 2Q. Large cap stocks advanced fueled by disinflation, a still resilient economy, and rapidly accelerating demand for AI solutions. In contrast, small cap stocks languished against a backdrop of higher-for-longer interest rates and signs of slowing consumer and industrial demand despite decent corporate earnings results.
- The S&P 500 gained 4.3% and outpaced the Russell 2000 (-3.3%) by 756 bps. Market leadership further narrowed within the large cap market with six stocks propelling the market higher.
- Within large caps, growth sectors led. Information Technology was the best performer followed by Communication Services and Utilities. Cyclical groups lagged with Materials, Industrials, and Energy declining most.
- Growth outperformed Value in both the large and small cap markets, and investors demonstrated a slight preference for quality factors.

GLOBAL EQUITY MARKETS

- Non-US developed markets fell modestly in Q2, with another multidecade low in the Japanese yen and the announcement of snap elections in the UK and France among the key developments.
- Large caps held up slightly better, as the MSCI World ex USA Index fell -0.6% and the MSCI World Small Cap ex USA Index declined -1.6%. Currency detracted — the US Dollar Index rose 1.3%.
- Japan rose modestly in local currency while yen weakness weighed on US Dollar performance. Europe advanced on monetary easing and signs of a nascent economic recovery though political uncertainty tempered the rally.
- Financials was the top-performing sector for both large and small caps, while Consumer Discretionary, Real Estate, and Materials trailed the Index. Health Care and Energy were also among the sector leaders for large caps.

INVESTMENT STRATEGIES

MUNICIPAL BOND

We combine a rigorous, research intensive, credit selection process with active management. Our goal is to take advantage of market inefficiencies and find opportunities across the yield curve to protect and grow principal and income.

TAXABLE BOND

Our multi-sector approach takes advantage of the relative valuation among distinct bond sectors and the increased opportunities to generate income and capital appreciation. We build diversified, yield-advantaged portfolios that generate steady, incremental income and provide downside risk protection.

DOMESTIC EQUITY

We develop a deep understanding of the companies in which we invest through disciplined and intensive fundamental research. Our focus is on finding well-managed, quality companies, which are resilient.

GLOBAL EQUITY

We take advantage of market inefficiencies to find quality growth companies that may be undervalued, underappreciated, or under-researched. Our rigorous, bottom-up process focuses on a company's upside potential and downside risk.

MUNICIPAL BOND STRATEGIES

16 MUNICIPAL INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

Municipal bond yields rose across the board in the second quarter, driven by elevated tax-exempt supply and Treasury market volatility. It all began in April, with broader rates spiking in response to accelerating job growth and a number of higher-than-expected inflation prints. Municipal bonds actually hung in well despite the month-long Treasury rout and demand for the asset class appeared unlimited. But as April turned to May, the picture changed dramatically. At the macro level, growth and inflation started to ease just as the Fed had emphasized its data-dependent framework, leading to a rebound in Treasury prices. By then, however, municipal bonds were dealing with an onslaught of supply in the face of extremely rich relative value ratios, a combination which proved too much to digest without significant seller concessions. Trading remained orderly and new deals cleared the market without any major hiccups, but it took a significant May correction to do so. In June, a measure of normalcy returned to the market. Issuance remained elevated, but summer technicals kicked in. Heavy June 1 rollover demand, the beginning of a seasonal pattern that should extend through August, led to a relief rally that pared earlier losses. The 10-year municipal/Treasury ratio, which began April under 60%, pushed out as far as 71% before settling back to 65% to end the quarter.

The backup in municipal bond yields produced mixed performance for the quarter and led to other interesting outcomes. Intermediate maturities took the brunt of the losses, as investors shied away from that segment of the curve with the lowest absolute yields. The short and long ends, by contrast, posted positive returns, as each area benefited from higher carry and smaller rate adjustments. Both five- and 10-year yields jumped north of 30 basis points (bps) for the April-June period, while the two-year rose 14 bps and the 30-year edged up only 4 bps. As a consequence, the inversion of the curve became much less pronounced, with the 2/10's segment moving to -27 bps from -46 bps. At the same time, the long end lost some of its own advantage against the belly of the curve, with 10/30's slope falling to 88 bps from 117 bps. Investor preference for the maximum yields also led to tighter credit spreads. Enticed by a stable economy, strong fundamentals, and historically low default rates, investors reached down in quality, leading to the outperformance of BBB and single-A names within the investment grade universe. High yield did even better, as limited supply and unusually large inflows into that sentiment-driven space had mutual fund managers bidding up a shrinking pool of available product.

The outlook for municipal bonds improved significantly over the course of the quarter. Absolute yields finished June at the top end of their long-range averages. Relative value ratios have finally eased off ultra-tight levels, providing more cushion against Treasury volatility going forward. Municipal bond credit fundamentals should prove resilient even if we see some economic slowing, with conservative budgeting practices supported by record-high reserves. In the near-term, we could even see strength from the typical summer blend of elevated reinvestment flows and tapering issuance. And yet, there is also room for caution. The long end of the curve has flattened substantially, squeezing out some of the extra yield and roll that had been available over the last few quarters. And while municipal bond fundamentals are unambiguously positive, spreads have compressed substantially, reducing the potential for gains from further tightening. And finally, with the election only a few months away, we could see an increase in volatility and headline-driven pullbacks. We will respond to unfolding circumstances with our active-management approach, looking to mitigate the risks that emerge and take advantage of the opportunities that present themselves.

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Kara M. South, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND
2–8 YEAR ACTIVE MUNICIPAL BOND
2–8 YEAR ACTIVE MUNICIPAL BOND ESG
MUNICIPAL BOND
MUNICIPAL BOND ESG
MUNICIPAL BOND PLUS
MUNICIPAL ENHANCED YIELD

"Municipal bond credit fundamentals should prove resilient even if we see some economic slowing, with conservative budgeting practices supported by record-high reserves. In the near-term, we could even see strength from the typical summer blend of elevated reinvestment flows and tapering issuance."

TAXABLE BOND STRATEGIES

12 TAXABLE INVESTMENT PROFESSIONALS

21 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

John B. Fox, CFA	Partner, Director, Fixed Income
Mary F. Kane, CFA	Partner, Portfolio Manager

GW&K TAXABLE BOND STRATEGIES

- SHORT-TERM TAXABLE BOND
- INTERMEDIATE TAXABLE BOND
- CORE BOND
- CORE BOND ESG
- ENHANCED CORE BOND
- ENHANCED CORE BOND ESG
- TOTAL RETURN BOND
- CORPORATE BOND OPPORTUNITIES
- SHORT-TERM FOCUSED HIGH INCOME

After an unsteady start to the quarter that saw upside surprises to both growth and inflation, evidence emerged that the lagged effects of tight monetary policy might finally be working. A stream of high frequency data prints painted a picture of a robust economy that was downshifting to a slower-growth trajectory. Signs of progress on inflation appeared as the Fed's favored core inflation gauge slowed to 2.6% year-over-year, its lowest point since March of 2021. In the absence of significant weakening in the labor market, the Fed indicated they would require several more months of similar data before they would feel comfortable easing monetary policy. With that backdrop, the FOMC held rates steady for a seventh straight meeting, and in a surprisingly hawkish move, dialed back rate cut expectations for 2024 from the three signaled in March to only one. Slightly more optimistic that the upside risks to growth and inflation were fading, the market projected the Fed would push through two quarter point cuts this year, with the first fully priced for November.

Mixed signals in the economic data drove interest rates in a roller coaster pattern. In the opening weeks of April, rates surged on stronger growth and elevated inflation data, which made it increasingly difficult to argue that the hot prints in the first quarter were an aberration. Shortly thereafter, rates retraced much of that selloff as a package of weaker economic data, including benign inflation readings, bolstered the case for lower rates. Treasury yields finished the quarter 13-22 bps higher, with the longer end leading the selloff. Meanwhile, the ongoing inversion of the 2/10's segment marked a record continuous 23 months, an unrelenting signal that the bond market still predicts an eventual recession. If the economy does manage a soft landing, this will go down as the biggest false signal in history.

Unable to keep pace with the significant rate rally in the latter part of the quarter, investment grade and high yield corporate spreads widened slightly by 4 bps and 10 bps, respectively. Despite the modest movement, spreads are still within a few basis points of their post-GFC tights. The sector is supported by continued economic resilience, strong earnings, and appealing all-in yields. The stable spread performance is noteworthy against an environment of heavy investment grade issuance and the most active high yield calendar in two years.

Agency mortgage-backed securities continued to trade directionally with rates as 30-year nominal spreads widened a modest 10 bps. Spreads remain attractive from a historical standpoint and relative to corporate bonds. Year-to-date, higher coupons have generally outperformed Treasuries due in large part to their higher carry. Lower coupons lagged due to expectations for technical selling pressures from regional bank portfolio reallocations. Asset-backed securities outperformed the broader MBS market due to stable spreads and their shorter duration profile during a rate selloff.

With the first rate cut priced a few months away, we have likely seen the peak in interest rates for this cycle. On the other hand, with the Fed signaling a data-dependent position, we think it would be difficult for rates to rally much further from here and look for Treasury yields to remain rangebound throughout the summer.

> *"The current environment of healthy underlying growth, downshifting inflation, and a supportive Fed provides a favorable backdrop for carry seeking behavior. Spreads remain tight but are supported by solid credit fundamentals and some of the highest yields in years."*

The current environment of healthy underlying growth, downshifting inflation, and a supportive Fed provides a favorable backdrop for carry-seeking behavior. Spreads remain tight but are supported by solid credit fundamentals and some of the highest yields in years.

After multiple quarters of conflicting economic data, there are formidable signs that the effects of higher-for-longer interest rates may finally slow economic activity enough to remove further upside risks to inflation. Recent data suggests the long-resilient consumer is finally pulling back on spending, and the labor market is cooling toward pre-pandemic levels. Pricing pressures are slowly easing toward the Fed's 2% target, yet the demand side effects on services and housing inflation should keep the Fed data dependent and hesitant to cut rates in the near term. As growth downshifts to a more modest level, we believe the biggest threat to the economy is the Fed will wait too long before easing, risking a potential downturn.

DOMESTIC EQUITY STRATEGIES

Large cap equities are still on a roll, posting their sixth gain in the last seven quarters. While higher-for-longer interest rates created a market headwind in the quarter, it was more than offset by the favorable impact of AI-driven growth, slowing inflation, a decent economy and solid earnings. The S&P 500 posted a 4.3% return in the quarter, pushing its first half return to 15.3%. However, this continued strength in the equity Index hides the underlying narrowness of the market, as most of the gain came from the Magnificent 7, with AI leader Nvidia's stellar returns leading the pack. On an equal-weighted basis, stocks in the S&P 500 posted a loss of -3.0% for the quarter. As one might thus expect, the Magnificent 7-heavy Information Technology and Communication Services sectors posted the strongest returns, followed by the defensive Utilities sector. On the flip side, the more cyclical and interest-rate sensitive Industrials, Materials, Energy, Financials, and Real Estate sectors lagged. The Russell 2000 Index of small cap stocks, lacking the power of the Magnificent 7, posted a -3.3% quarterly decline, lagging large caps by over 7%. The first-half return remains modestly positive at 1.7%. Small cap performance trailed large caps by over 13 percentage points, its widest first half deficit in over 50 years. Only the defensive Consumer Staples and Utilities sectors posted gains in the quarter, while Consumer Discretionary and Industrials lagged on economic slowdown concerns.

Given the strength of the high-growth Magnificent 7 stocks, large cap Growth maintained a sizable 10.5% performance advantage over Value in the quarter, stretching the year's lead to 14.1%. Among small caps, Growth maintained a more modest advantage over Value of 0.7% for the quarter and 5.3% for the year. Even among small caps, year-to-date performance was quite narrow, driven by AI beneficiary Super Micro Computer and bitcoin play MicroStrategy, although both stocks took a breather in the second quarter. With the Russell rebalance at quarter end, these "small cap" names have now graduated from Russell's smaller cap benchmarks. As it was last quarter, market performance had a slight quality bias, with factors such as larger size, high ROE, and low beta outperforming.

The Fed still seems to be doing its part in successfully managing the economy to a soft landing, with inflation cooling, a steady economy, and positive corporate earnings growth. While the Fed seems in no hurry to start reducing rates given the somewhat stubborn drop in inflation, the question remains when, rather than if, rates will be cut. Markets now anticipate one rate cut this year, with four more likely in 2025. Several factors remain supportive of this favorable economic and inflation outlook, including better PCE, PPI, and CPI inflation readings, still solid jobs reports, positive GDP, and favorable personal income growth.

Still, there is a growing list of economic clouds on the horizon that might still push us into recession, which would not be unheard of given the typical lagged effect of the Fed's tightening cycle and the inverted yield curve. In particular, lower income consumers are struggling with higher interest rates, inflation, and exhausted savings, as retail sales are showing signs of stress and loan default rates are trending up. In addition, several industries within the Industrials sector are struggling with weaker demand and pressure on profitability, confirmed by weakness in the ISM Manufacturing survey. And then there are the many imponderables out there, including war in Ukraine and the Middle East, political dysfunction in the US, and the rising influence of far-right parties in several European countries.

Yet, corporate balance sheets remain quite resilient, giving support to equity markets in the form of share buybacks, dividends, and acquisition activity. However, equities have gotten quite expensive, with the average large cap stock now selling at almost 23x earnings.

14 EQUITY INVESTMENT PROFESSIONALS

25 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Aaron C. Clark, CFA	Partner, Portfolio Manager
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager

GW&K DOMESTIC EQUITY STRATEGIES

- EQUITY DIVIDEND PLUS
- DIVERSIFIED EQUITY
- SMALL/MID CAP CORE
- SMALL/MID CAP GROWTH
- SMALL CAP VALUE
- SMALL CAP CORE
- SMALL CAP GROWTH

> *"With markets expensive and the outlook for economic growth and inflation somewhat uncertain, we will rely on our often-stated philosophy of sticking with quality businesses operated by experienced management teams as the best way to get through uncertain times and outperform our benchmarks over the long term."*

GLOBAL EQUITY STRATEGIES

9 EQUITY INVESTMENT PROFESSIONALS

25 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Partner, Portfolio Manager

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

"When focused solely on economic and business fundamentals, we continue to find much to like in global markets; however, we think that some geopolitical risks remain underpriced."

Global equity markets spent the quarter moving around but going nowhere. An April selloff led to a May rally only to end June slightly lower but off the worst levels. The large cap MSCI World ex-USA (-0.6%) and small cap MSCI World ex-USA Small Cap (-1.6%) both declined in USD terms. However, markets continue to do better in their local currencies as the US Dollar Index outperformed again (+1.3%). Dollar strength is broad based, but particularly noticeable versus the Japanese yen (-5.9%), which is now at multidecade lows.

Most likely related, the Japanese equity market, as represented by the TOPIX, proceeded to hit 34-year highs. Yet, companies in Japan are starting to mumble about the currency being too weak, with the average company using 143 yen to the dollar versus the current spot price of 161 in their earnings forecasts. Generally speaking, a weak yen is positive for exporting companies and negative for those serving domestic demand. However, despite popular perception, the makeup of Japan's economy is primarily consumption driven, similar to the US. The concern is that yen weakness is now driving a decline in purchasing power, which could become counterproductive if it hurts consumer sentiment. The interactions between weak currency, inflation, pricing power, and wage increases are complicating the analysis.

Foreign investor excitement towards the Japanese market faded a bit during the quarter despite strong business fundamentals and improvements in shareholder returns. The unwinding of cross shareholdings, in particular, picked up momentum, and while it can serve as a headwind in the short-term (e.g., companies selling each other's stock), it should be a long-term positive as business returns improve, managements focus on core competencies, and shareholder concerns take precedence. This will be a long process, but we continue to see Japan as the most attractive equity market.

Parliamentary elections in the EU went as we expected, but led to a surprise French general election, which has worried the financial markets as the far right and left parties are likely to make significant headway. Fiscal spending issues have long plagued France, especially when compared to its peer Germany, but the election has brought the concerns to the fore. How the European Central Bank (ECB) manages a policy that is appropriate for both the German and French economies at the same time is a real head scratcher and a potential fault line in Europe. Labor's strong victory in the UK election is exactly as we expected, and we continue to expect a majority, center left government to be seen as a sign of stability, making the UK more attractive for investment. The UK and EU periphery remain some of our preferred markets.

Moving to interest rates, Europe kicked off the global developed market rate cutting cycle first with the Swedish Riksbank and then the ECB and Swiss National Bank all cutting rates by 25 bps. This despite the EU GDP surprising to the upside while inflation appears to be returning to targets. Clearly there is a bias towards cutting everywhere except Japan and Australia, but these moves have little impact on how we are currently investing.

When focused solely on economic and business fundamentals, we continue to find much to like in global markets; however, we think that some geopolitical risks remain underpriced. Events with low likelihood, but potentially large impacts are seldom priced accurately. Investors, for example, seemed to have already forgotten about the Iranian missile attack on Israel and are paying little attention to the growing conflict in the South China Sea. There is little we can do about this directly except to maintain appropriate diversification and avoid those areas which may be most exposed.

At the micro level we found the recent earnings season to be decidedly mediocre. Inventory destocking continues while accumulated inflation and falling savings have weakened end demand. Pricing power, with the notable exception of Japan, is becoming a concern. New growth areas related to AI and the electrification of industry are booming, while formerly hot EVs, batteries, and green energy pull back. Overall, we think this variability within markets should help our ability to differentiate the winners and we are quite bullish on our prospects.

Our passion for providing thoughtful and highly disciplined investment strategies, combined with a deep commitment to personal service, results in long-term relationships built on trust. We believe accessibility, a willingness to listen, and a desire to educate can be just as important as investment acumen. With 50 years' experience managing assets for individuals and families, we are a partner you can trust.

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