SAPPHIRE
FIDUCIARY ADVISORS

July 8, 2024

Dear clients and friends,

The S&P 500 index delivered a total return of 4.3% during the quarter and a year-to-date return of 15.3% through June 30, 2024. It is worth noting that the price return of the Magnificent 7 was 33%, while the S&P 500 price return ex-Magnificent 7 was only 5% during the first half of 2024. This situation (characterized by price performance of a concentrated group of stocks that is dramatically different from most stocks) is known as bad breadth, which may portend a reckoning. While the S&P 500 index appears to be expensive relative to its history, the top ten stocks (by market capitalization) that skew the data possess extraordinary competitive advantages, as well as growth rates that help justify their elevated valuations.

Source: Charles Schwab, Strategas, as of 6/20/2024

The bond market as measured by the U.S. Aggregate index declined 0.7% year-to-date, despite its 5.0% yield. Unlike duration-neutral, core bond strategies that are benchmark-oriented, we have taken advantage of the inverted yield curve for clients with balanced accounts and have been delighted with the results.

A significant concern on the economic front is the federal deficit, which is expected to approach $2 trillion during 2024. This hard-to-imagine number represents approximately 30% of federal spending this year. The inflationary aftermath of stimulus, coupled with the prospect of increased military spending and tariffs, present risks to the economy, asset prices, and purchasing power. Real GDP appears to be advancing more slowly than its long-term trend of 2%, while inflation continues to persist above the stated target of 2%. The ratio of net debt to GDP is currently 99% and is expected to climb to no less than 122% by 2034. We are concerned that bond vigilantes will demand materially higher long-term yields from Uncle Sam unless GDP growth accelerates, federal government spending is curtailed, and inflation is tamed.

In light of these and other factors, we believe that careful security selection and strategic yield curve positioning will be key drivers of differentiated investment results. An index is not a fiduciary, but Sapphire is.

We appreciate your continued partnership and friendship. Should you have any questions or wish to discuss your portfolio in more detail, please reach out to us.

Respectfully,

Paul Stropkay, CFA

Sources

• J.P. Morgan Asset Management *Guide to the Markets®* U.S. 3Q 2024 as of June 30, 2024

Disclosures

Past performance is no guarantee of future results. No guarantees are implied. The views in this letter are intended to assist investors in understanding the firm's present investment methodology and do not constitute investment advice. For more information including additional disclosures, please visit our website.

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