MARKET LETTER

April 2024

The US equity market delivered a remarkable start to the year, following a very similar path to what investors experienced throughout 2023. In total, the S&P 500 was up more than 10% in the first quarter with nearly half of that move attributed to just a few of the largest companies in the world. The S&P 500 has delivered 22 all-time highs so far in 2024. The move higher was its best first quarter performance since 2019. Investor optimism was driven by new advancements and continued excitement around generative artificial intelligence (AI) and its accompanying benefits. Generative AI was not the only positive development in the first quarter, however. Economic data continues to improve at a quicker-than-anticipated pace resulting in higher interest rates and a significant reduction in Fed rate cut expectations. Better employment numbers and improving productivity data have led many to accept the soft or no landing scenario that was nearly unthinkable at this time last year.

We have been longstanding investors in many of the companies currently driving the AI revolution and believe we are in the very early innings of what artificial intelligence has to offer the world. It is difficult to pick the long-term winners in any game-changing technology, but the early leaders are indisputable and include many of the technology powerhouses that have become household names in recent years. Generative AI has the potential to change the world in the way electricity or the internet have in the past. It is our belief that while companies like NVIDIA Corp (NVDA) and Microsoft Corp (MSFT) in the US equity market dominate headlines, there will be a broadening out of AI winners in the future. Benefits will include enhanced productivity and the potential for accelerated economic growth. Outside of developing your own AI technology, we believe the best way to participate in future gains is by owning pieces of proven businesses currently investing significant resources to deliver revolutionary technology in the coming years.

Developments in AI have dominated the headlines over the past few months, but the resilience of the US economy has been the quiet driver of strength in equity market returns. The US economy has now delivered 39 straight months of job gains with the pace accelerating in recent months. The March jobs report came in well ahead of investor expectations and was the strongest report since last spring. With nearly three million jobs added in the last twelve months, the strength of this economy is tough to dispute. Combining a resilient jobs market with improved productivity, rising wages, and overall solid economic growth demonstrates an outlook that is increasingly positive.

While there is no imminent sign of slowing in the jobs market or the economy, strength is unlikely to continue at this pace indefinitely. There are challenges on the horizon including both higher-for-longer interest rates and rising commodity prices, as well as global geopolitical uncertainty. Anecdotally, data points such as six straight months of declining F-150 sales and relatively low consumer confidence show that, while all looks good on Wall Street, Main Street may be feeling a bit more pressure. The Federal Reserve does not control all interest rates but they have a strong influence on short-term rates through changes in their policy rate. The Fed's dual mandate of price and employment stability drives policy decisions. Recent inflation readings show improvement from this time last year, but still, persistent, above-target inflation is holding overall Consumer Price Index (CPI) above 3%. Coming into 2024, expectations were for as many as six cuts to the Fed Funds rate with some predicting the rate to move as low as 4% (currently 5.5%) by year-end. After a strong first quarter of economic data with inflation numbers that have remained persistently above the Fed’s 2% target, markets are now pricing in just three cuts, with some forecasters calling for no action by the Fed in 2024.

On the geopolitical front, wars in Europe and the Middle East, a questionable Chinese economy, and continued challenges in shipping and supply chains present headwinds for global Gross Domestic Product (GDP) growth. And, the upcoming presidential election in the US introduces uncertainty in a market that is currently experiencing near-record low volatility.

Given potential concerns on the horizon, an investor's solace is in owning quality businesses whose cash flow and earnings growth are less reliant on overall economic forces, allowing participation when times are good while protecting capital in tougher environments. We continue to focus on uncovering and investing in what we believe are great businesses with deep economic moats, delivering consistent free cash flow and earnings growth over time. As we have often said, what determines investment success is “time in the market, not timing the market.”

Alta Capital Management

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The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap universe.

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Gross Domestic Product (GDP) is the standard measure of the value added created through the production of goods and services in a country during a certain period.