MARKET LETTER

October 2024

The S&P 500 and Nasdaq indices reached all-time highs in the third quarter driven by a broadening of performance as eight of eleven sectors outperformed the S&P 500, while large cap technology rose modestly. Further analysis reveals very heterogeneous performance between sectors and by market capitalization. In contrast to the first half of 2024, when technology shares dominated and ~80% of S&P 500 stocks lagged the index, technology lagged as a sector in the 3rd quarter (Q3), and 67% of S&P 500 stocks outperformed, with smaller capitalization stocks leading the charge in all styles. In total, all sectors had buoyant performance with the exception of energy, which registered a decline amid soft oil-based commodity prices. We are encouraged by this broadening and view changes in market leadership as a healthy sign for the equity markets and active strategies specifically.

On the macroeconomic front, inflation finally ebbed below 3% in many developed markets with a trajectory towards 2-2.5%. With the US Consumer Price Index (CPI) approaching the key 2% target, the focus for the Fed has turned to growth and maintaining labor market stability. The Fed eased 50bps in September, and economists are now pricing in a Fed funds rate of 3.5% by May of 2025, from 5% currently. Looser financial conditions are supportive of Gross Domestic Product (GDP) growth generally, and particularly for those segments exhibiting mixed signals such as industrial manufacturing, real estate and services.

While consumer spending appears resilient in aggregate, bifurcation is evident. Consumption strength seen in higher income cohorts is occurring simultaneously with rising pressure among lower income groups. As an example, while Ferrari was setting sales records in 2024, automobile and credit card delinquencies were also steadily rising to levels not seen since the Great Recession of 2008-2009. We are in an unusual era when the averages can mask historically larger deviations within the data set and believe a commonly held belief that things are chugging along fine based upon the average performance of the relevant economic yardstick.

This is also the type of environment where stock selection can add significant value: breadth of performance within and between sectors offers the opportunity to add value relative to passive baskets of stocks. What has been confounding over the last several years is that despite the large deviations in performance between and within sectors, market performance has been dominated by a narrow basket of about ten stocks that fall within three sectors but have common drivers involving artificial intelligence (AI) and related capital spending in IT hardware and software. Despite the performance changes highlighted for Q3, the largest technology stocks continue an extraordinary period in which such a narrow group has contributed half of the year to date S&P 500 returns and have materially distorted the S&P forward price to earnings ratio: the “Magnificent 7” technology companies of the S&P 500 represent ~31% index weight and trade at 33x forward earnings compared to just 17x for the equal weighted S&P 500 index. We maintain exposure to companies poised to benefit from the unprecedented spending on AI and datacenter expansion, including Microsoft, Amazon, Google, Nvidia and Broadcom, but also believe that a diversified portfolio of businesses with broad economic exposure is the best way to generate returns and compound capital over time.

Finally, we would be remiss if we did not mention one of the features of 2024 being the US Presidential election in November. Consistent with previous election cycles, we are cognizant of specific risks that an administration may present to a company or group of companies, but we do not forecast actions a presidential administration may take as a primary driver of our stock selection methodology. As a result, we will proactively monitor for company specific impacts and act accordingly.

ALTA CAPITAL MANAGEMENT

The information and statistics contained in this report have been obtained from sources we believe to be reliable but cannot be guaranteed. Any projections, market outlooks or estimates in this letter are forward-looking statements and are based upon certain assumptions. Other events which were not taken into account may occur and may significantly affect the returns or performance of these investments. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged and you cannot invest directly in an index. Index returns do not include fees or expenses. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. Strategy holdings and sector allocations are subject to change and should not be considered a recommendation to buy or to sell any security. Actual client portfolio returns may vary due to the timing of portfolio inception and/or client-imposed restrictions or guidelines. Actual client portfolio returns would be reduced by any applicable investment advisory fees and other expenses incurred in the management of an advisory account. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Alta Capital Management, LLC. To the extent that a reader has any questions regarding the applicability above to his/her individual situation of any specific issue discussed, he/she is encouraged to consult with the professional advisor of his/her choosing.

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

NASDAQ stands for National Association of Securities Dealers Automated Quotations and is the second-largest stock exchange in the world.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a representative 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.

The "Magnificent Seven" companies include, Alphabet (GOOGL), Microsoft (MSFT), Amazon (AMZN), Apple (AAPL), Meta (META), Tesla (TSLA) and Nvidia (NVDA).