

FORTITUDE CAPITAL MANAGEMENT

Independence · Integrity · Insight

800 Roosevelt Road
Bldg. B, Suite 413
Glen Ellyn, IL 60137
630.545.2800
fortitudecapitalmgmt.com

July 15, 2024

“Those who have knowledge don’t predict. Those who predict don’t have knowledge.” – Lao Tzu, sixth-century BC poet

“The greatest obstacle to discovery is not ignorance – it is the illusion of knowledge” – Daniel J. Boorstin

Fellow Investors:

The year is half over. Boy did that go fast, especially for the cicadas. The remainder of 2024 is set up to be very interesting with an economy starting to show signs of stress, expectations for interest rate moves and, of course, that pesky election. As the above quotes reference, predicting is easy, being correct in your predictions is more likely to be by chance. Of course, that never stopped “experts” from making predictions.

The US equity markets remained positive through the quarter, but the indices continue to be driven by a very few names. The S&P 500 index was up 3.92% in the second quarter and 14.48% for the first half (15.29% for a total return). Due to its weighting and performance, about a third of the YTD return was due to Nvidia. After the top ten contributors, the rest of the S&P 500 was up only 3.5%. The tech heavy Nasdaq Composite benefited even more from the attention investors are giving to artificial intelligence as it increased 18.13%. The Dow Jones Industrials performed similarly to the bottom 490 of the S&P with a first half gain of 3.79%. There is only one company that appears in the top ten of the S&P and Dow Jones Industrials, Microsoft. As a reminder, the S&P 500 is weighted by market capitalization while the Dow Jones Industrials is weighted by share price. Small-caps lagged the larger markets gaining only 1.7% through the end of June as measured by the Russell 2000. International equity markets also lagged the US large-caps with developed markets returning 5.7% (MSCI EAFE) and emerging markets gaining 7.7% (MSCI EME).

Interest rates continue to defy the predictions thanks to the persistence of inflation. The ten-year treasury rate started the year at 3.88% and finished the first half at 4.28%, peaking at 4.70% in April. The yield curve remains inverted as the short-term rates stayed higher than the longer maturities. The two-year treasury rate started the year at 4.23% and ended the second quarter at 4.71%. The Federal Reserve has now held rates steady for a year, which contrasts with predictions last year of up to seven rate cuts in 2024. The predictions are now for one, maybe two cuts, and some are suggesting there may be no cuts this year. Again, so much for predictions.

While not high by historic standards, the economy became used to the low rates that persisted from 2010, especially at the short end, and then was shocked by the sharp increase that began in 2022 to fight inflation. This has stressed the US consumer. The US economy is driven by the consumer (approximately two-thirds of GDP) and the higher rates along with the persistent inflation are disrupting consumers and their budgets. Inflation has come down from its peak and the initial June reading was a trailing twelve-month rate of 3.0%. That level, while above the Fed’s 2.0% target, is not actually higher than the 50-year average. However to repeat, we became used to a very low level and then a sharp run-up to as high as a 9% annual rate and a three year cumulative of 20% shocked the economy and consumers. Wage

FORTITUDE CAPITAL MANAGEMENT

Independence · Integrity · Insight

800 Roosevelt Road
Bldg. B, Suite 413
Glen Ellyn, IL 60137
630.545.2800
fortitudedecapitalmgmt.com

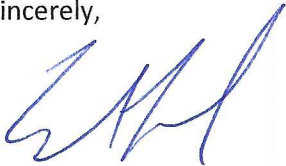
growth has not kept pace leaving people feeling behind and that is reflected in the Consumer Sentiment reading which is well below the long-term reading.

There were many predictions of a coming recession as interest rates shot up and inflation raged, but again, the predictions have not become reality, yet. We will have a recession at some point, they are inevitable economic cycles. Some economic sectors may be in a recession already. The jobs data may be an indicator worth noting as job creation has not been robust, has consistently been subject to downward revisions and been dominated by government and healthcare jobs. The unemployment rate has crept up to 4.0%, which is also still well below the 50 year average of 6.2%. However, the recent jobs numbers have been skewed to part-time jobs, not a positive sign for the economy. How many of these part-time jobs are being taken by already employed people to make ends meet in the current environment?

The equity markets are driven by earnings and expected growth. The headlines are grabbed by the largest few companies and to some extent that has been justified by their earnings and growth. The top ten companies represent 37% of the weighting in the S&P 500 and contribute 26.8% of the earnings. They also sport a higher P/E ratio (30.3x), reflecting the market's view of their continued growth. The remaining companies in the S&P 500 plus mid and small-caps have not matched the leaders. The remaining stocks in the S&P have a combined P/E of 17.6x, just about the long-term average of 16.7x for the overall index. While it is not a prediction (you know how we feel about predictions), at some point we expect a more balanced performance across index companies and market capitalizations.

Markets look forward and price in the consensus view of all participants. Uncertainty is penalized and right now the only thing that the market seems certain of is the future of artificial intelligence and it may be overzealous as to that. Time will tell. The uncertainty of economic conditions may be weighing on markets, giant tech excepted. We are believers in reversion to the long-term mean, despite the ups and downs that must be experienced along the way. We emphasize understanding your individual situation, risk tolerance, and liquidity needs and timing in order to construct portfolios that investors can be confident in during good times and bad. We do not know what times are ahead and we do not make predictions, however a well-diversified portfolio tailored around the individual and patience is our prediction for eventual success.

Sincerely,



Erik Ford



Jason Marrs

¹The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. It's handy for comparing a company's

FORTITUDE CAPITAL MANAGEMENT

Independence • Integrity • Insight

800 Roosevelt Road
Bldg. B, Suite 413
Glen Ellyn, IL 60137
630.545.2800
fortitudecapitalmgmt.com

valuation against its historical performance, against other firms within its industry, or the overall market. P/E can be estimated on a trailing (backward-looking) or forward (projected) basis. The figures cited above are forward-looking.

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest publicly traded companies in the U.S. It is not an exact list of the top 500 U.S. companies by market capitalization because there are other criteria to be included in the index.

The Dow Jones Industrial Average (DJIA) is a stock market index that tracks 30 large, publicly owned blue-chip companies trading on the New York Stock Exchange (NYSE) and Nasdaq. As the economy changes over time, so does the composition of the index. Stocks with higher share prices are given greater weight in the index. So, a higher percentage move in a higher-priced component will have a greater impact on the final calculated value.

The term Russell 2000 Index refers to a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index. The Russell 3000 is a capitalization weighted index representing approximately 96% of the investable U.S. equity market.

The MSCI EAFE Index serves as a performance benchmark for the major international equity markets and includes companies in 21 countries in Europe, Australasia, and the Far East (East Asia).

The MSCI EME is an emerging markets index that captures large and mid-cap representation across 24 Emerging Markets (EM) countries. With 1,376 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy.