MUHLENKAMP

QUARTERLY LETTER, APRIL 2024

Fellow Investors,

It's been a quiet quarter for economic news. Inflation as measured by the Consumer Price Index (CPI) was 3.2% on February 29th, up from January's 3.1% and not far from the recent low in June '23 of 3.0%. Real (inflation adjusted) GDP growth was 2.5% for the 4th Quarter of 2023 with the Atlanta Fed's "GDP Now" calculation showing an estimated current GDP growth of 2.8% on April 1, 2024. Based on those measurements of inflation and economic health, the Federal Reserve decided at their March meeting to leave the Federal Reserve Target Rate unchanged in the range of 5.25 – 5.5% and to continue shrinking their balance sheet as they have been since the summer of '22. Short-term interest rates remain above long-term interest rates (the yield curve is inverted) and we expect this will revert to a normal, positively sloped yield curve at some point. We don't know if this will happen because the Federal Reserve cuts short-term rates (they keep hinting that they will this year) or because long-term interest rates rise, or a combination of the two.

The markets in the first quarter, however, have not been so quiet. The S&P 500 Total Return index is up about 10% from January 1st through the end of March. The best performing stocks were technology companies believed to be beneficiaries of developments in artificial intelligence followed by companies that will benefit from increased infrastructure spending. Long duration bonds have sold off a little this year with the S&P U.S. Treasury Bond 20+ Year Index down 4.01% first quarter. The spot price of gold is at all-time highs at the end of March.

We think it remains possible that we see a recession in the near future. An inverted yield curve has historically been a reliable predictor of recessions and we are unwilling to say, "this time is different." Commercial real estate remains troubled with low occupancy rates and declining asset values, which puts pressure on banks and other organizations that lent money against those buildings. That's a significant drag on the economy and tends to be deflationary. Conversely, it remains possible that we are in the midst of an inflationary boom driven by government and corporate spending—the opposite of a recessionary bust. Our portfolio should do well under either scenario: some of our holdings we expect will do best in an inflationary environment (energy) while others will shine if we enter a recession (healthcare and cash). As we get more clarity on our economic future we will adjust accordingly. One area where we put a little cash to work this quarter was in our holdings of companies that have positive exposure to the price of gold. Even though gold has been going up, the price of mining and royalty companies has not. We added to our holdings of gold miners and royalty companies expecting that their share prices will eventually move with the price of gold.

As always, please get in touch with us if you have any questions, we'd love to hear from you.

With our best wishes for your continued success and good health,

Jeff Muhlenkamp, Portfolio Manager
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CPI *- The Consumer Price Index ("CPI") measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation. One cannot invest directly in an index.*

GDP *(Gross Domestic Product) is the total market value of all goods and services produced within a country in a given period of time (usually a calendar year).*

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S&P 500® Index *– The S&P 500® Index is a widely recognized, unmanaged index of common stock prices. The S&P 500® Index is weighted by market value and its performance is thought to be representative of the stock market as a whole. One cannot invest directly in an index.*

S&P U.S. Treasury Bond 20+ Year Index *– Is designed to measure the performance of U.S. Treasury bonds maturing in 20 or more years. One cannot invest directly in an index.*

Past performance does not guarantee future results.

The comments made in this letter are opinions and are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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