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JULY 2024 MARKET COMMENTARY

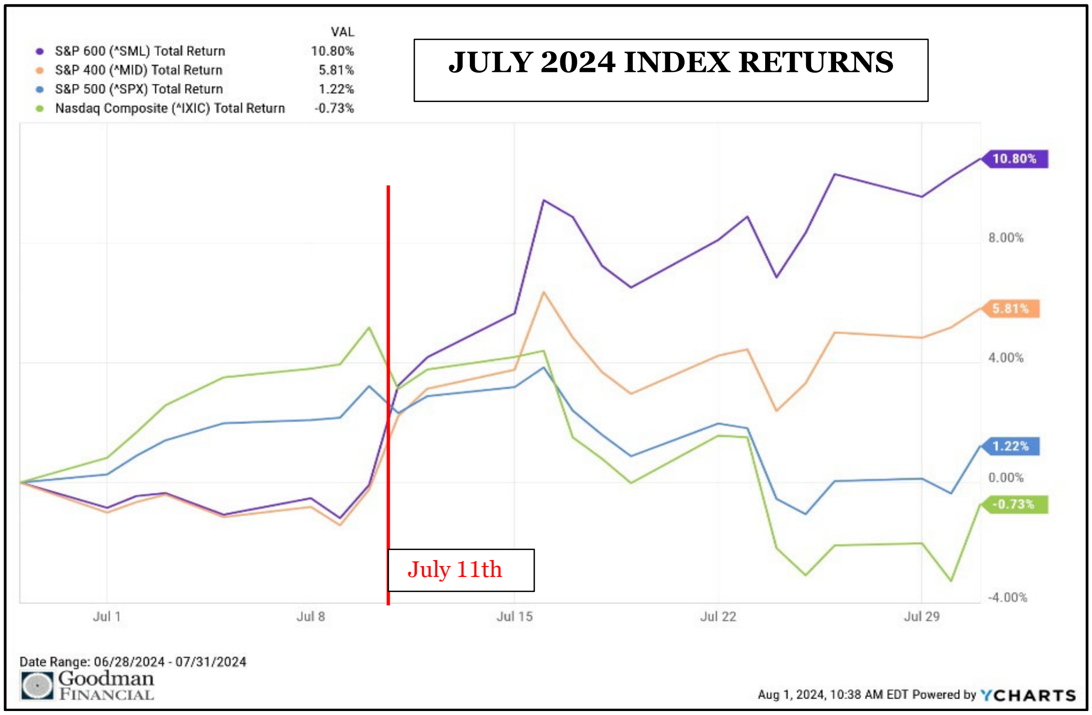
EQUITY & FIXED INCOME MARKETS COMMENTARY

This month, the market latched on to the high likelihood of a Fed rate cut in September, causing a meaningful rotation out of mega-cap stocks and into almost all other stocks, as discussed below. The S&P 500 rose by 1.2% in July, while the Blended Equity Benchmark was up 4.5% for the month, helped by the significant outperformance of mid and small-cap stocks, as the Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index rocketed higher for the month by 5.8% and 10.8%, respectively. Meanwhile the Dow Jones Industrial Average increased by 4.5% in July, while the mega-cap heavy NASDAQ Composite Index *dropped* by -0.7% for the month. International stock indices lagged in July, with developed markets up 2.9% and Emerging markets down -0.1%. Bond indices were higher in July, as the 10-year U.S. Treasury bond yield fell significantly to 4.05%, from 4.37% last month.

THE LONG AWAITED ROTATION

One of our predictions entering 2024 that we laid out in our ***Q4 2023 Client Letter*** was that "we believe the gains will broaden out among stocks, especially the small and mid-cap ones relative to the mega-cap stocks". Through the first half of 2024 that prediction could not have been more wrong as the AI mania continued to power ever higher the "Magnificent Seven ("Mag 7") stocks (Apple, Amazon, Google, Meta, Microsoft, Nvidia and Tesla), which have a combined weight of over 30% weight in the S&P 500. Then, on July 11th, everything changed. On that day, the most recent consumer price index (CPI) was released and came in meaningfully lower than expected, which caused investors to immediately raise the odds to near certainty of an expected first rate cut by the Federal Reserve (Fed) in September. It was then off to the races for the broader market as a vicious rotation out of mega-cap stocks and into small and mid-cap stocks began. It was as if someone rang a bell and declared "it's time to sell those big winners and buy all those stocks that have been left behind"! From July 11th through month-end, the S&P 600 Small-cap Index was up 10.8%, the S&P 400 Mid-cap Index was up 6.0% and the S&P 500 Large-cap Index was ***down*** -2.0%. Meanwhile, the mega-cap laden NASDAQ Composite Index was also ***down*** by -5.6% and the aforementioned Mag 7 stocks dropped an average of -9.7% over that same period.

In our ***Q2 2024 Client Letter*** released a few weeks ago, we highlighted just how stretched the mega-cap stocks outperformance relative to small and mid-caps has been, comparing it to similar periods of significant mega-cap outperformance in December 1999 and September 2020. We showed how in both of those prior examples, small and mid-cap stocks significantly outperformed mega-cap stocks in the following year and then suggested we could be in store for a similar such outcome in the coming year, citing the Fed lowering rates as one potential catalyst for such a change. We certainly didn't expect the potential start of such a rotation out of mega-cap stocks and into small and mid-caps to begin so quickly! Of course, it is still too early to say if this is only the beginning of a longer and continuing rotation or just a short-lived "revenge rally" of the broader market against those mega-caps. We believe the current broadening of the market still has room to run, though the pace of such a continued recovery will likely be slow and uneven from here. So far, in this short three weeks or so, the broadening has been a combination of both meaningful declines in the mega-cap stocks from July 11th through month-end (as mentioned above) and a significant rally in small and mid-cap stocks, over the same period. It is likely that continued relative performance of small and mid-cap stocks from here will come less from a continued rally in those stocks but more likely from continued declines in the mega-cap stocks as their elevated valuations start to come back to earth. If right, this should bode well for GFC equity portfolios.



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REFERENCED INDICES

It is not possible to invest directly in an index. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses.

- **S&P 500® Index** – a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 500® Equal Weight Index** (EWI) – the equal-weight version of the S&P 500® Index. The index includes the same constituents as the capitalization-weighted S&P 500® Index, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% – of the index total at each quarterly rebalance.
- **S&P MidCap 400® Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P SmallCap 600® Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Blended Equity Benchmark** – a customized index comprised of a blend of a 50% weight to the S&P 500® Index, 30% to the S&P MidCap 400® Index and 20% to the S&P SmallCap 600® index.
- **Dow Jones Industrial Average® (The Dow®)** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with a maturity greater than 1 year but less than 10 years.

HYPOTHETICAL PERFORMANCE DATA

Following are limitations inherent in the presented hypothetical performance results:

- The actual performance achieved by a client account may be affected by a variety of factors, including the initial balance of the account, the timing of additions and withdrawals from the account, modifications to the client's portfolio to meet the specific investment needs or preferences of the client, the duration and timing of the investment, among other factors.
- Performance results for clients that invest in equity securities will vary from the hypothetical performance due to, for example, investment cash flows, frequency and precision of rebalancing and tax-management strategies.
- The results do not represent the impact that material economic and market factors might have on an investment adviser's decision-making process if the adviser were actually allocating a client's account in accordance with the GFC Equity Composite. Accordingly, the results may have over or under compensated for the impact, if any, of certain market factors such as lack of liquidity, money flow and other factors.
- Hypothetical returns are dependent on the market and economic conditions that existed during the period. Future market or economic conditions can adversely affect the returns.

Equity Composite

These performance results represent the hypothetical results of the GFC Equity Composite and do not represent the actual performance achieved by any one GFC client. Net returns reflect the maximum investment management fee under our current fee schedule of 1.25%. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the particular securities provided as being representative of certain market segments, strategies, and conditions of GFC's performance shown and the actual performance results achieved by any particular client.

The GFC Equity Composite is the basket of all equity holdings in client accounts managed by GFC. These equity holdings included a combination of equity funds and individual stocks. Composite performance results reflect the reinvestment of dividends and other earnings and are shown after the payment of all brokerage expenses and other transaction costs. The inception of the Equity Composite is December 31, 1990.

Fixed Income Composite

These performance results represent the hypothetical results of the GFC Fixed Income Composite and do not represent the actual performance achieved by any one GFC client. Net returns reflect the maximum investment management fee under our current fee schedule of 1.25%. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the particular securities provided as being representative of certain market segments, strategies, and conditions of GFC's performance shown and the actual performance results achieved by any particular client.

The GFC Fixed Income Composite is the basket of all fixed income holdings in client accounts managed by GFC. These fixed income holdings included preferred shares, fixed income funds, and individual corporate, municipal, and agency bonds. Composite performance results reflect the reinvestment of dividends and other earnings and are shown after the payment of all brokerage expenses and other transaction costs. The inception of the Fixed Income Composite is December 31, 1990.