



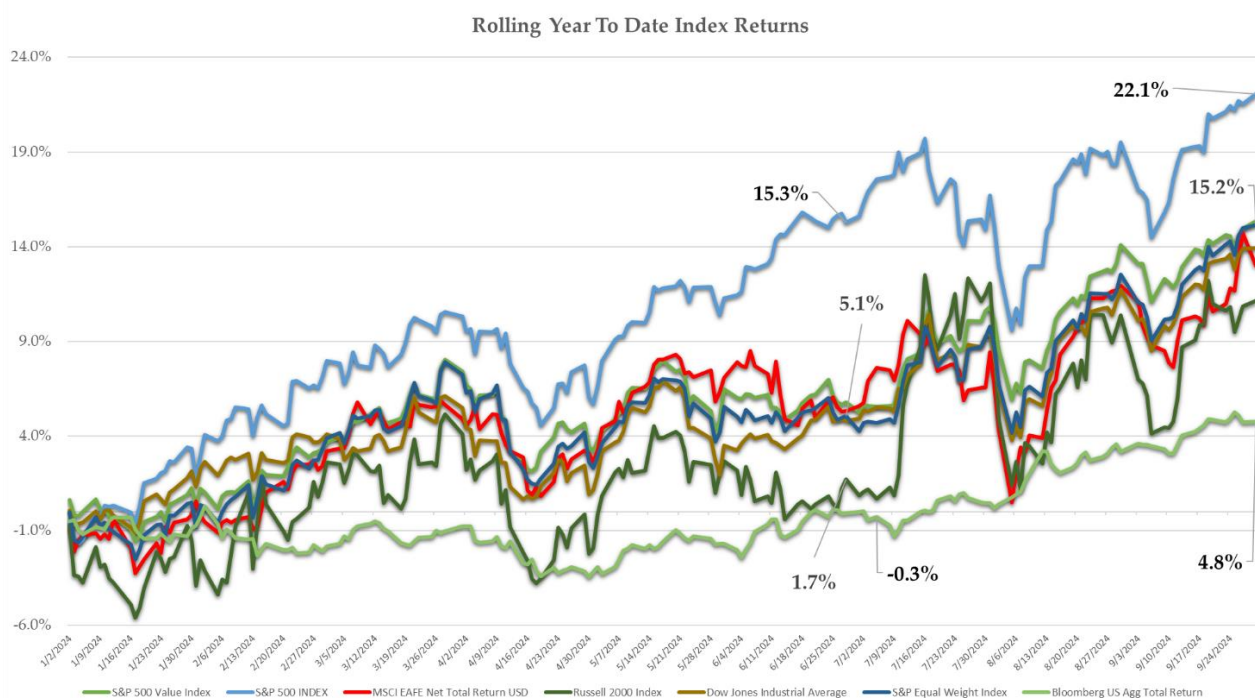
October 2024

Dear Turtle Creek Client,

U.S. stocks continued to surge through the third quarter while interest rates posted sharp declines across the yield curve. In contrast to the second quarter, where stock advances were driven by a small handful of mega-cap technology companies, third quarter returns were broad-based with small stocks, cyclical sectors, and rate sensitive companies leading the market. International stocks also delivered strong gains that outpaced U.S. performance during the period. The Chinese stock market posted particularly strong results due to stimulus measures enacted to revive its flailing economy.

U.S. markets had entered the third quarter on a note of pessimism, the primary theme being recessionary concerns due to the lingering impact of restrictive Central Banker policies. Hope for a “soft-landing” economic scenario was resurrected during the quarter, however. The Federal Reserve delivered its first Federal Funds Rate cut since 2019 and economic data that had featured bleak results in the run up to the quarter stabilized. Hiring, manufacturing production, housing, and consumer spending reports all met or exceeded estimates while GDP growth finished at solid 2.8%. Inflation reports continued to improve as well, with indicators such as the Consumer Price Index (CPI) and the Personal Consumption Expenditures Price Index (PCE) improving during the quarter and marching closer to levels targeted by the Federal Reserve.

With an increasingly accommodative Central Bank and a healthy economy, the backdrop for investors remains an encouraging one. Valuation-driven adjustments to your stock holdings do seem appropriate given the outsized returns in certain corners of the market during the quarter. In general, however, the outlook for investment returns remains positive.

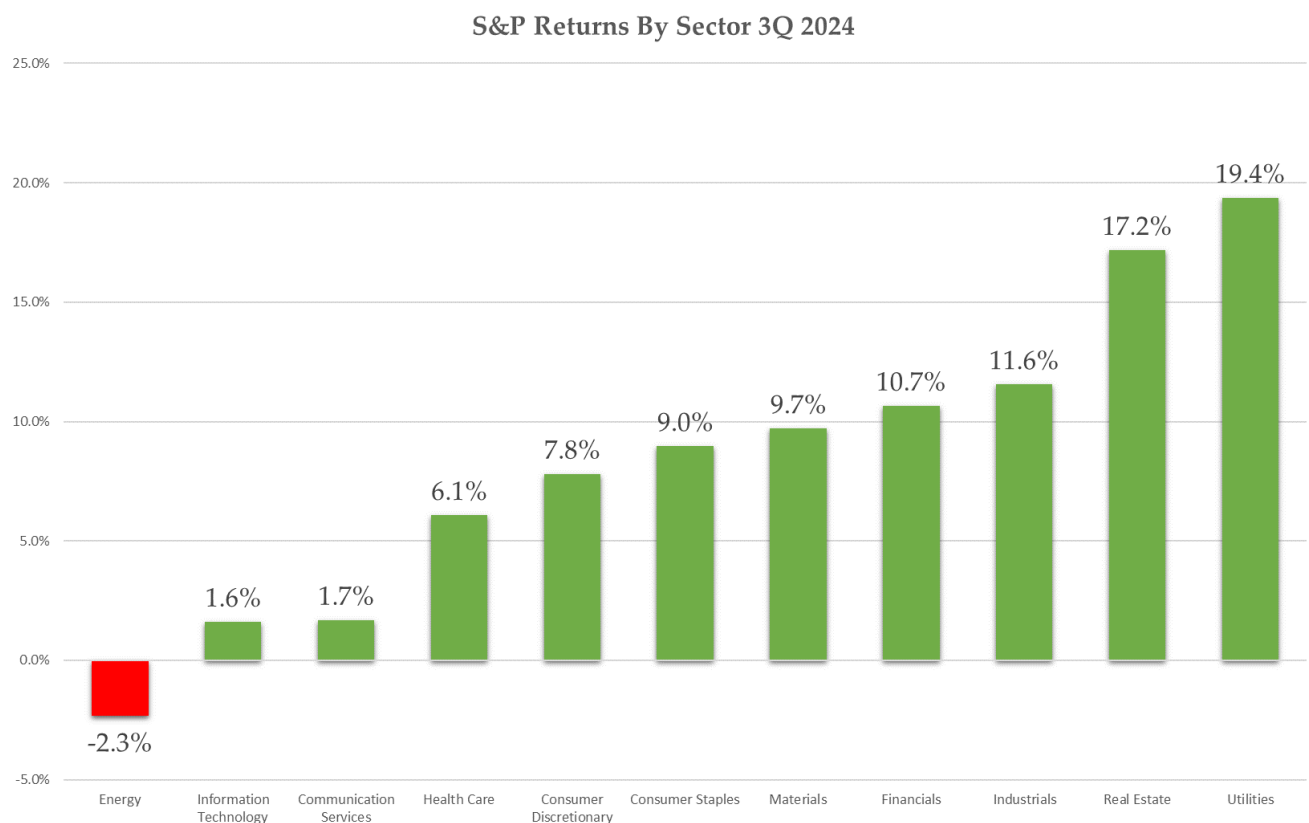


Source: Bloomberg

Second Quarter Stock Market Performance

U.S. Stocks (as measured by the S&P 500 Index) advanced 5.9% during the second quarter, pushing full year returns to 22.1%. Market leadership shifted dramatically during the period, with laggard economic sectors posting double-digit returns and growth-oriented technology and communications companies trailing the overall market.

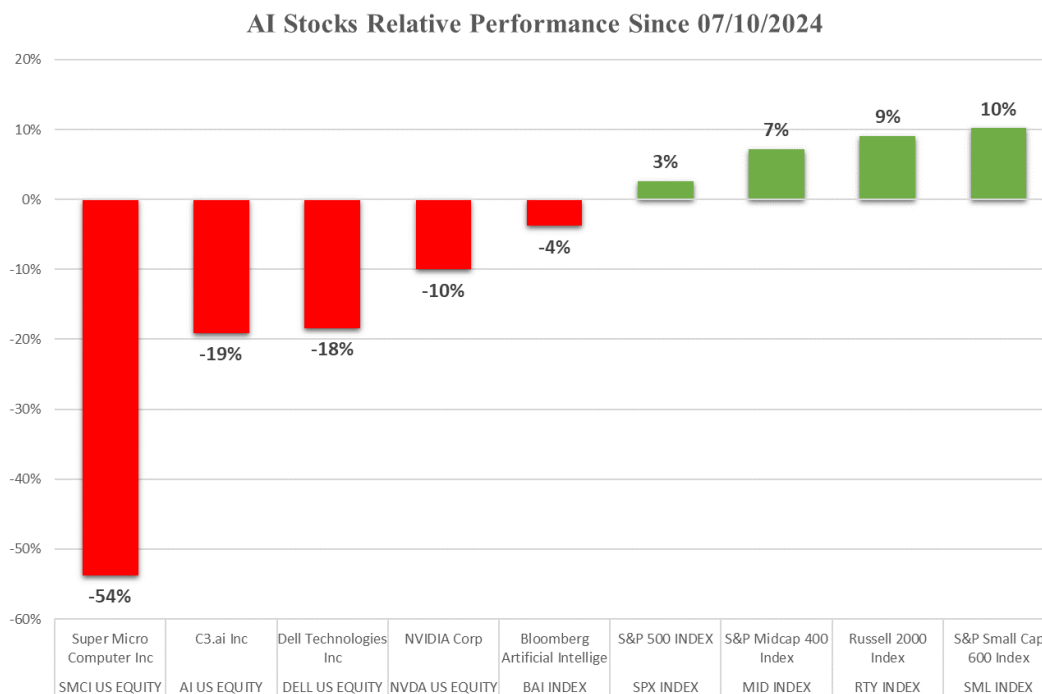
Rate-sensitive stocks in the Real Estate and Utilities sectors posted the strongest results, a performance linked to a general drop in borrowing costs through the quarter. Cyclical sectors such as Industrial and Financial companies also lead the overall market, reflecting increasing confidence by investors in strong economic growth over the near-term. Energy stocks were the only outlier, dropping during the quarter due to strong commodity production pressuring oil and natural gas prices.



Source: Bloomberg

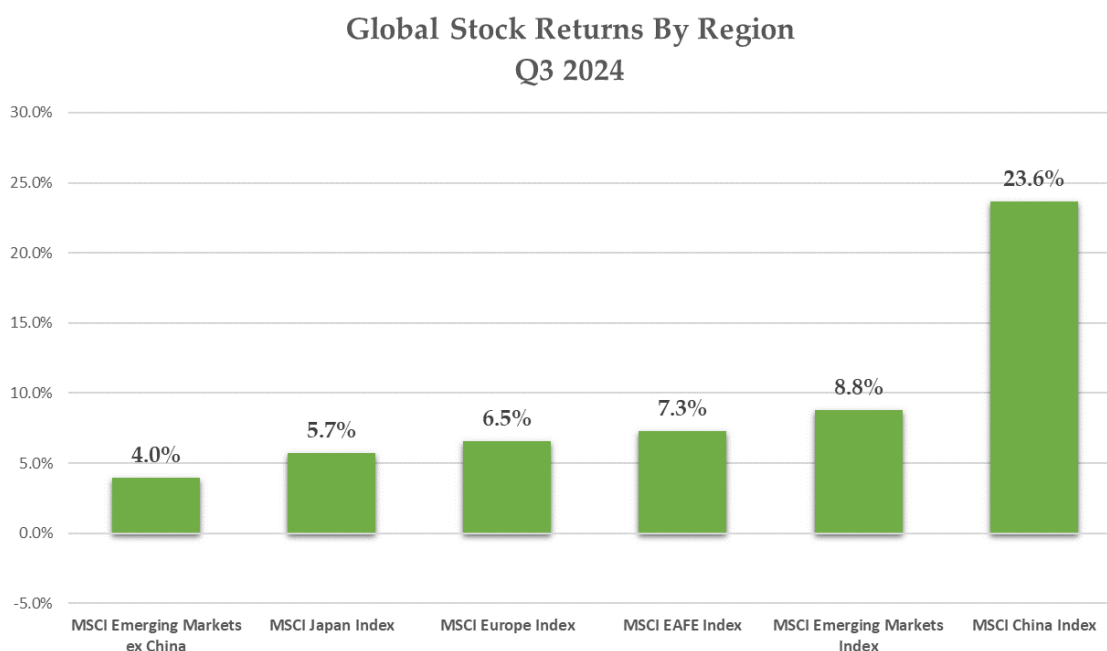
July exhibited what appears to be a short-term peak in the speculative fervor over artificial intelligence. The Bloomberg Artificial Intelligence Index had more than doubled since the end of 2022 but dropped sharply at the mid-point of the quarter as investors reacted negatively to several quarterly earnings reports that did not live up to increasingly lofty expectations.

A.I. hardware vendor Super Micro Computer shed more than half of its market value in just a few months while other popular Artificial Intelligence stocks like Dell Technologies, Okta, and C3.ai dropped 20% or more from July to September. The posterchild for AI optimism, Nvidia Corporation, lost nearly 30% of its value through July but then recouped some of its losses as demand for its Hopper processors remained strong. It still finished the quarter 10% below its July peak.



Source: Bloomberg

International stocks posted strong returns in most every region of the world, highlighted by a nearly 24% surge in Chinese stocks. We have noted in previous letters the myriad challenges currently facing the Chinese economy, one of which was their government's recent hesitance to enact bold measures to revive economic growth. Chinese officials reversed course in a big way during the quarter, announcing both fiscal and monetary measures to stop the ongoing Chinese property slump and revive lending to the private sector. Chinese shares surged in response. Developed market international stocks also posted solid results as the European Central Bank and the Bank of England also cut rates during the quarter, alleviating recession fears in those parts of the world.

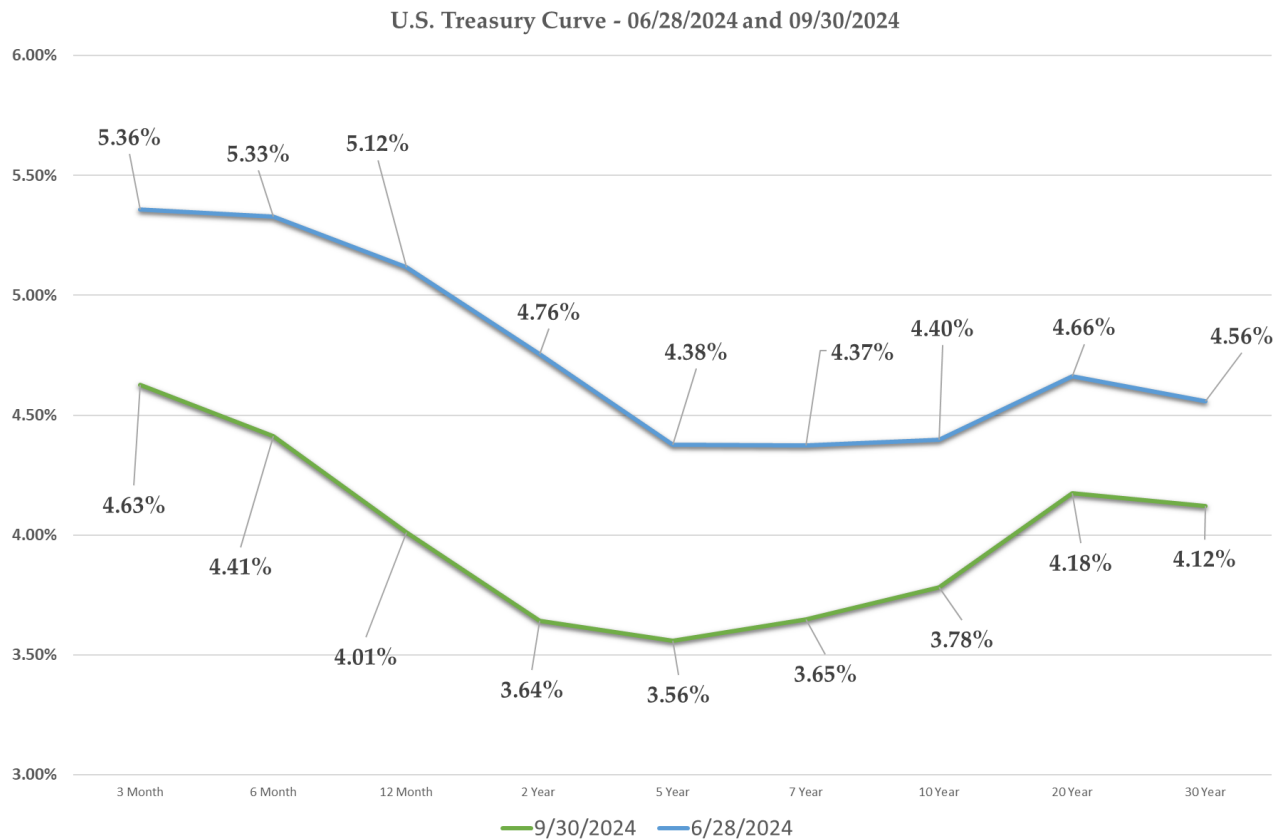


Source: Bloomberg

Fixed Income Markets

The entirety of the Treasury yield curve sank during the quarter as inflation indicators continued to weaken and the Federal Reserve Bank shifted to a more accommodative policy stance. Fed Governors, wary of the lingering impact of their recently restrictive monetary policy and spooked by the noticeably weak economic data entering the quarter, went big by cutting the Fed Funds Rate 50 basis points during their September meeting and signaled willingness to cut further to maintain employment and economic growth.

This wholesale downward shift in the yield curve contained multiple signals for investors. Bond market participants have taken the Fed at their word and factored into shorter-term yields several more rate cuts over the next two years. The decline in longer dated yields reflects increasing confidence that inflation has been contained for the foreseeable future, and more traditional interest rate regime will be in place going forward.



Source: Bloomberg

A Note on the Upcoming Presidential Election

With the Federal elections just weeks away in November, the age-old tradition of gauging the impact of a new Presidential administration on stock market values is in full swing. Turtle Creek urges you to refrain from such speculation, as the tale of the historical tape shows that markets tend to prosper no matter the political backdrop.

We surveyed S&P 500 performance through every administration going back to the end of World War 2, and no clear pattern emerges. Harry Truman and Dwight Eisenhower both enjoyed nearly identical and robust stock market returns despite vastly different party platforms. LBJ and Richard Nixon both

struggled through the weight of the 1970s stagflation. Most importantly, all Presidents but one enjoyed positive stock market returns during their administration. Only George W. Bush, whose administration was bracketed by the Dot.com crash of 2001 and the Great Recession of 2008, saw stock market losses under his tenure.

S&P 500 Return Under Presidential Administrations

President	Party	Inauguration Date	End of Term	S&P 500 Return Annualized
Joe Biden	Democrat	1/20/2021	9/30/2024	13.23%
Donald Trump	Republican	1/20/2017	1/20/2021	16.33%
Barack Obama	Democrat	1/20/2009	1/20/2017	16.29%
George W. Bush	Republican	1/20/2001	1/20/2009	-4.62%
Bill Clinton	Democrat	1/20/1993	1/20/2001	17.43%
George H.W. Bush	Republican	1/20/1989	1/20/1993	14.59%
Ronald Reagan	Republican	1/20/1981	1/20/1989	15.07%
Jimmy Carter	Democrat	1/20/1977	1/20/1981	11.99%
Gerald Ford	Republican	1/9/1974	1/20/1977	7.67%
Richard Nixon	Republican	1/20/1969	1/9/1974	1.57%
Lyndon Baines Johnson	Democrat	10/22/1963	1/20/1969	9.62%
John F. Kennedy	Democrat	1/20/1961	10/22/1963	10.88%
Dwight D. Eisenhower	Republican	1/20/1953	1/20/1961	15.56%
Harry S. Truman	Democrat	1/20/1945	1/20/1953	15.88%

Source: Bloomberg

Investment Strategy

With an increasingly supportive Federal Reserve and renewed strength in economic growth and corporate profits, Turtle Creek remains optimistic regarding the risk assets in your portfolio. Certain industries such as Retailers, Financials, and Consumer Staples currently look fully valued based on our methodologies, and we will reduce those positions in a tax efficient manner if possible. The struggles in Energy companies have presented an interesting tactical opportunity and many ultra-high quality market leaders now appear much more attractively valued at this juncture. We still see opportunity in the ongoing market shift away from mega-cap growth companies and towards smaller capitalization stocks and international companies.

We have urged a shift to longer-term maturities in your fixed income portfolio for several quarters now, and the recent, wholesale retreat in yields during the quarter vindicated this view. Looking forward, we expect shorter-term yields to continue to sink as the Federal Reserve works through its easing cycle. Longer-term yields seem appropriate at current levels, indicating a continued focus on longer dated bonds for your portfolio.

Risks of course do remain. Specifically, recessionary trends could once again appear as the long and variable lags of restrictive Federal Reserve Policy work their way through the economy. In terms of AI stocks, valuations remain excessive even after the pullback of the late third quarter and any shift in sentiment could spur volatility in these shares. Based on the current market backdrop, however, we urge investors to stay the course with their current plans.

Finally, we want to highlight the news that one of our principals, Craig Knocke, was invited during the quarter to be a member of the Securities and Exchange Commission Investor Advisory Committee in Washington D.C. This committee was established under the Dodd-Frank Wall Street Reform and Consumer Protection Act and advises the Securities and Exchange Commission on regulatory priorities.

and initiatives to protect investors and promote the integrity of the U.S. securities markets. He will be joining an esteemed group of academics, investment managers, public policy professionals, and public servants as part of this engagement.

As always, we look forward to discussing these topics or any other subject with you soon.

Sincerely,

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