INVESTOR QUARTERLY

Assets Rally Despite Fed Deferring Rate Cuts

Markets Rallied Despite Higher Inflation & Lower Rate Cut Probability

Following a sharp 2023 rally in financial assets, 1Q24 witnessed ongoing price momentum on robust technology earnings and an improving economy, despite those factors potentially deferring a Fed rate cut to the back-half of 2024, if at all. Yields rose throughout the quarter as inflation readings broke their downward trend, indicating stubborn prices.

Rockingstone Performance

We finally posted a solid quarter in what had been a sustained period of lackluster results. A broadening market where the equal-weight S&P began to outperform the market-weight S&P helped. We also benefited from more balanced asset allocation and select stock picking, especially NVDA, JPM, HD, AMZN and ISRG, over-weights in energy and industrials.

Of the Several Factors Driving 2024 Returns, Inflation is Paramount

The trend of generally declining inflation seemed to break in 1Q24, although whether the Feb/Mar reports signaled a temporary hiccup, or the start of re-accelerating price pressure, is unclear. Geopolitics and CRE default risk will likely have some influence, but we see the future path of inflation and thus interest rates as the key determinant for market performance from here.

Implications for Portfolios

Our long-term value-bias and more equal weight approach make us cautious on the S&P 500. We see opportunities in small and mid-caps, industrials and quality growth. We have also increased exposure to select foreign assets, although confess international (except Japan) has been a value trap the last several years, especially given the strength of the USD.

S&P500 Forecast & Other Key Indicators

We forecast: EPS (2024/2025: $235/$260), S&P500 (2024 year end = 4950), GDP (2024: +1.9%), Gold ($2400), Oil ($75), 10-yr US Bond Yield (4.8%), Inflation (3%), 5-yr expected CAGR (US Large Cap +1%, US Mid Cap +6%, US Small Cap +9%, Developed +0%, EM +8%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

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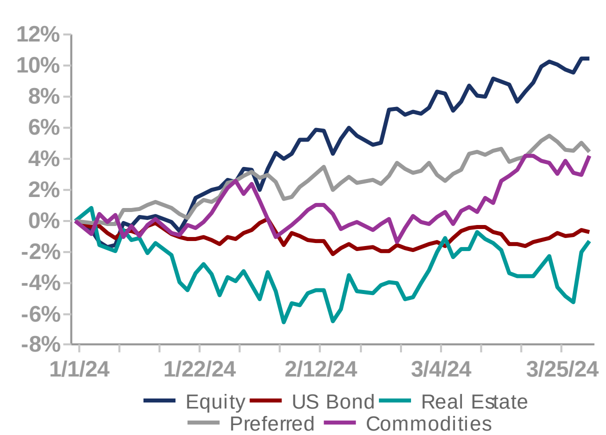
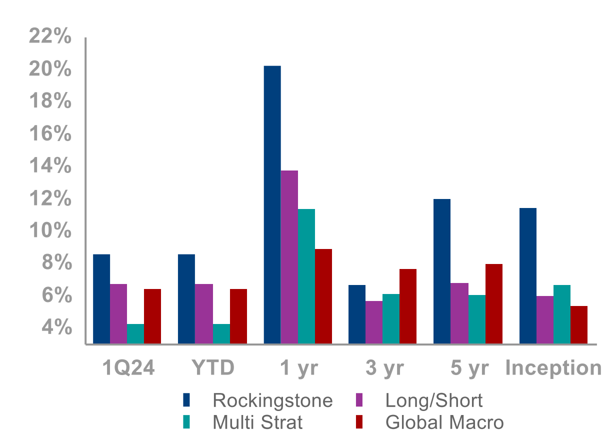
Figure 1: 1Q24 Asset Class Performance[i]



Source: FactSet

Figure 2: Rockingstone: 1Q24 & Historical Annualized Returns[ii]



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices, Inception = 5/30/2009

Please see our End Notes and Disclosures (pages 28-29 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.

Rockingstone Advisors LLC

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Sticky Prices Keep Fed on Sidelines

Driven by higher energy and shelter costs, recent inflation readings have broken a trend of lower sequential prices that began in the spring of 2022

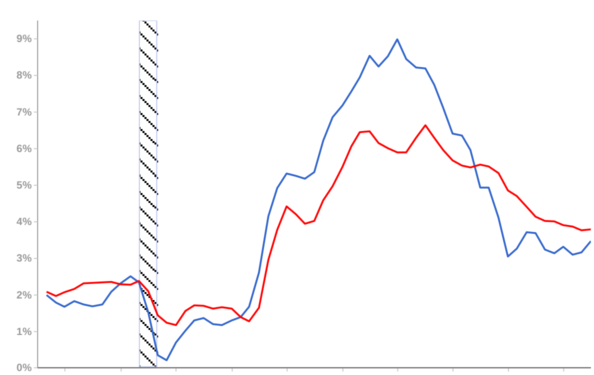
CPI and PCE Break Trend

After peaking in June of 2022 (Figure 3), the change in CPI generally posted declines every month for a year, bottoming in June 2023. However, since then, CPI has stopped declining and appears to be bouncing between annual increases of 3.1% and 3.5%, evidencing stubbornly high prices. The latest CPI data for March 2024, released April 10th, indicated a rise of 0.4%, annualizing to a 3.5% increase, well above the Fed's 2% target rate, fueled by increases in shelter and gasoline. According to the BLS, these two indices accounted for more than half the monthly increase in the index for all items. In addition, while food at home was unchanged, food away from home rose 0.3% month over month. While core CPI (excluding food and energy) figures never rose as high nor fell as far as non-core, March's data continue to show elevated prices. Core CPI prices rose 0.4% in March, annualizing to 3.8%, fueled by increases in car insurance, medical and personal care and apparel.

Another inflation benchmark (there are several) and the one adopted by the Fed in 2012 as its primary measure of inflation, PCE readings (Figure 4) continue to show steadier progress on inflation. That said, February's PCE data rose 0.3%, down from 0.4% in January but up from 0.1% in December, leading to an annual rate of 2.5%. Core PCE also rose 0.3% in February, leading to an annualized rate of 2.8%. PCE data releases lag that of CPI by a few weeks, so we will not get the March PCE reading until April 26th.

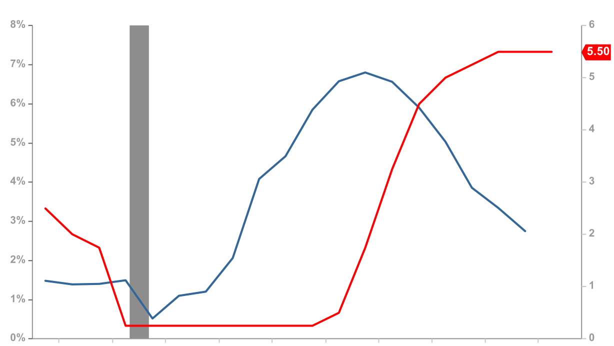
According to the Bureau of Economic Analysis (BEA), PCE increases were fueled by several factors. Within services, the largest contributors to the increase were international travel, transportation services and financial services and insurance. Within goods, the largest contributor to the increase were motor vehicles and parts (led by light trucks). Spirits and children's apparel also saw material increases.

Figure 3: CPI, Core (Red) and Non-Core (Blue)



Source: FactSet

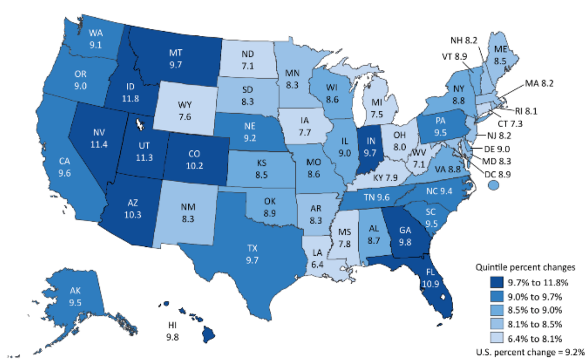
Figure 4: PCE (Blue) and Fed Funds Target Rate (Red)



Source: FactSet

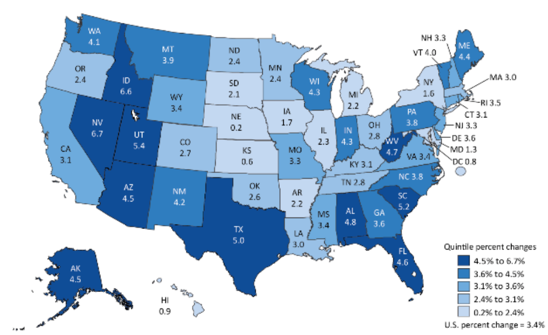
Notably—and with clear implications for the 2024 election cycle—price level increases experienced by consumers vary greatly by state, although the data are available from the BEA only with a substantial lag. The latest state-by-state data are from 2022; the 2023 data will not be available until October 3, 2024. Figure 5 below shows price level changes for 2022 vs. 2021 by state, while Figure 6 depicts GDP growth by state in 2023.

Figure 5: PCE by State, 2022



Source: Bureau of Economic Analysis

Figure 6: GDP by State, 2023



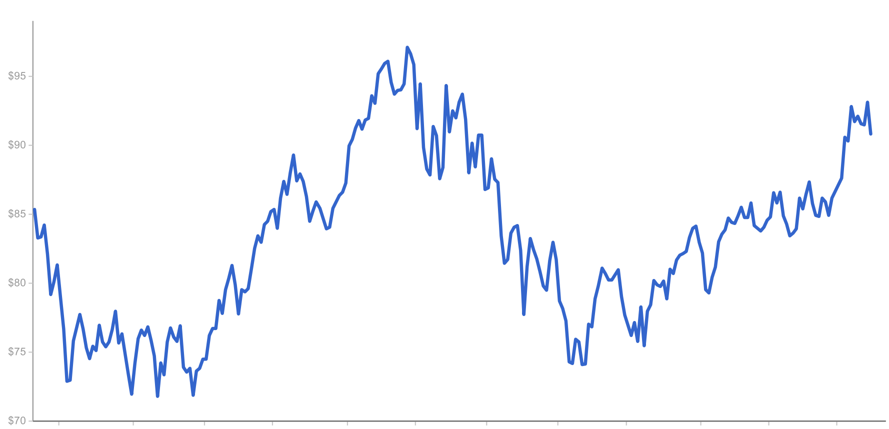
Source: Bureau of Economic Analysis

Predicting the path of inflation—like all predictions—is inherently difficult, but there are some tools available to increase the probability of a more accurate assessment of future outcomes. We begin our analysis by examining the energy markets and then housing and commercial real estate.

Energy Outlook

The recent rise in crude oil prices has been a material contributor to inflationary pressures. We have written previously how increases in oil prices are not only a factor at the gas pump but are also a factor in higher input prices across the entire economy owing to oil's role as a key component in everything from plastics to fertilizer to cosmetics.

Figure 7: Brent Crude Prices



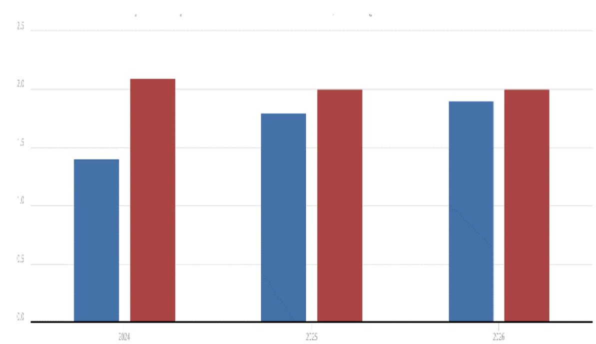
Source: Factset

The rise in Brent crude prices has been driven by a combination of (i) stronger-than-expected economic growth; (ii) efforts by OPEC+ to limit supply and (iii) geopolitical conflict—specifically the impact from the war between Iran (and its proxies) and Israel, as well as the war between Russia and Ukraine.

First, GDP growth continues to surprise to the upside. The BEA released its third revision of 4Q23 GDP growth, indicating an annualized increase of 3.4%, driven by a combination of strong consumer spending, government (federal, state and local) spending, exports and non-residential fixed investment.

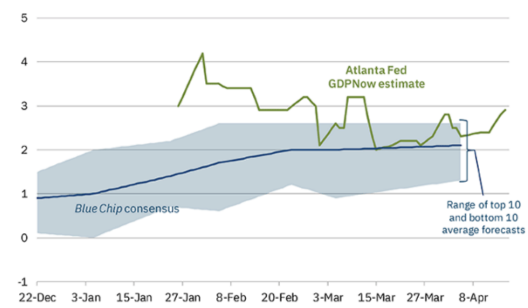
The surprisingly robust figures—not just for the fourth quarter but for prior quarters as well—have forced the Fed to revise upward its GDP forecast. In December of 2023, the FOMC was forecasting 2024 GDP growth of 1.4%; as of their March 20th meeting, that figure had been revised higher to 2.1% (Figure 8), as was the Fed's 2025 GDP forecast, which rose from 1.8% to 2.0%. The higher growth forecasts are also evidenced in the Atlanta Fed's GDPNow forecast: as of April 16, 2024, the GDPNow forecast predicts 1Q24 real GDP (seasonally adjusted) to be 2.9% (Figure 9). Blue Chip consensus forecasts are also rising.

Figure 8: FOMC Projections, 12/13/23 (blue) vs. 3/20/24 (red)



Source: FRED

Figure 9: Atlanta Fed GDP Now



Source: Atlanta Fed

Second, OPEC+ supply curbs of about 2 million barrels a day have remained in force, despite higher oil prices, with no production increases planned, according to its statement following its April 3rd meeting. While OPEC+ will meet again in June, it is unlikely, in our view, that the alliance will relax the cuts and restore production given the IEA's estimate that increased production would tip world markets back into an oil surplus.

Lastly, geopolitical risks have clearly driven energy markets higher, with the conflict between Israel and Iran arguably the most important driver of this risk, but closely followed by Russia and Ukraine. Following the terrorist attacks on Israel of October 7, 2023, and Israel's response, the risk of an escalating conflict in the Middle East has continued to grow. That said, Iran's response to Israel's killing of several Iranian officers in Syria was muted at best, and it appears presently that the Israel cabinet is not inclined to risk further escalation in response given its limited retaliatory strikes on Iran on April 18th. Since the Iranian attack, oil futures have declined.

Putting this all together, while GDP figures remain solid, we anticipate a very slight deceleration in economic growth through 2024 and into 2025 as excess savings are depleted and Fed Funds rates continue to be restrictive. We expect fiscal policy to be less stimulative after the elections. Our assumption is that growth outside of the US improves, but not materially, as China remains mired in over-investment and Europe continues to adopt policies that restrict economic growth. We do not expect OPEC+ to raise production, given current supply-demand dynamics. The geopolitical risk appears to have improved slightly, though there is always a risk of an unforeseen escalation in the Middle East. Notably, oil futures are showing a steady decline in the out-months, from roughly $81 a barrel for June delivery to $77 a barrel for December delivery. As recently as last week oil futures indicated sub-$80 a barrel oil in December; today September's delivery is sub-$80.

Shelter

In addition to energy, higher shelter costs (36% of the CPI basket) have been a large component of rising inflation, as seen in Figure 10. Shelter costs include the sum of owners' equivalent rent—OER— (26.8%), rent of primary residence (7.7%), lodging away from home (1.3%) and home-owner's or renter's insurance (0.4%). Higher shelter costs create a conundrum for the Fed as new housing supply is sensitive to higher interest rates, and tighter monetary policy would hurt housing supply because it generally increases the cost of acquisition, development and construction (AD&C) financing so critical to the housing industry.

Figure 10: CPI, Shelter (red) vs. All Items (blue)

Source: BLS

Figure 11: Housing Market Index (blue, LHS) and Starts (red, RHS)

Source: NAHB

Figure 11 above depicts the Housing Market Index (HMI), a survey of homebuilder sentiment and new housing starts. April sentiment remains at 51, just slightly above neutral, as 22% of homebuilders cut prices, down from 24% in March and 36% in December. New housing starts continue to climb, with combined January and February permits +38% YoY, with the western region seeing the most growth (+54%) and the northeastern region seeing the least growth (+22%).

Yet much of the increase in shelter costs is coming not from OER but from apartment rents, especially in the northeast. According to Costar, the first quarter witnessed the strongest rebound in demand for multifamily units, as 104,400 units were absorbed, the highest number since 3Q21. However, despite strong demand, vacancy rates increased from 7.7% to 7.8% given the supply of 140,000 units delivered in the quarter. This is the tenth consecutive quarter in which supply exceeded demand, but the 10 basis point increase in vacancy rates was the smallest in ten quarters, indicating that excess supply is finally being absorbed by the market.

Despite an ongoing heavy supply of new multifamily units entering the market (over a million new units in 2023 to 1H24), it appears that once this current supply spike is absorbed, there is relatively limited supply of new units to be delivered in 4Q24 and into 2025 given the decline in the availability of funding that occurred after the Fed began to raise rates in early 2022. That lack of new future supply was evidenced in the decline of multifamily permits, which were down 22% for January and February 2024 compared to the year ago period, according to the NAHB.

In sum, ongoing supply, particularly in multifamily, should limit rent rises to the low single digits throughout 2024. Limited inventory continues to drive single family prices higher in markets without substantive new building, such as the northeast, limiting the chance that OER declines.

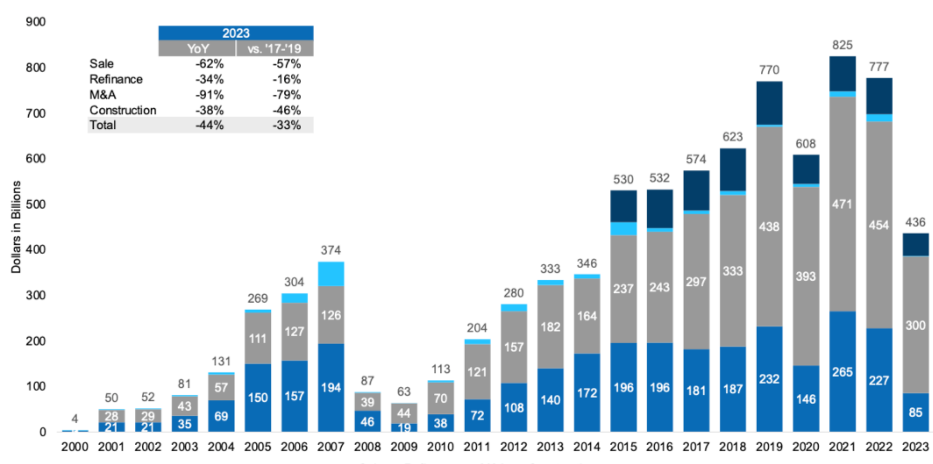
While inflationary pressures and rising interest rates are the higher probability risk for investors to manage, there are some potential deflationary risks that could be problematic for the economy and for the banking system. The most important of these deflationary risks, in our view, is the $1.4 trillion of commercial real estate loans that are scheduled to mature in 2024 and 2025. We examine this issue in more detail below.

Commercial Real Estate (CRE) Debt "Wall"

There is an adage on Wall Street that the seeds of the next crisis are sown in response to the first crisis. In addition to the inflationary challenges previously cited, we highlight that the Fed is also being forced to deal with a looming CRE debt "wall." The conundrum for policy makers is that higher interest rates are the tool needed to offset the energy and housing pressures but, importantly, lower rates may be needed to alleviate some of the risk associated with close to a $1 trillion of real estate loans that require refinancing.

The Federal government and the Federal Reserve's response to the pandemic was an overwhelming amount of fiscal and monetary stimulus designed to "bridge" the economy while it was effectively shut down. Interest rates were cut to zero and the Fed added trillions in dollars of bond purchases, effectively creating negative interest rates. Negative interest rates, in turn, fueled a borrowing and financing boom, most notably, in assets that are easily leveraged: real estate and corporate buy outs, among them. Figure 12 below shows the massive amount of new loans issued in 2021-22, amounting to more than $1.6 trillion.

Figure 12: Commercial Real Estate Debt Origination Volume



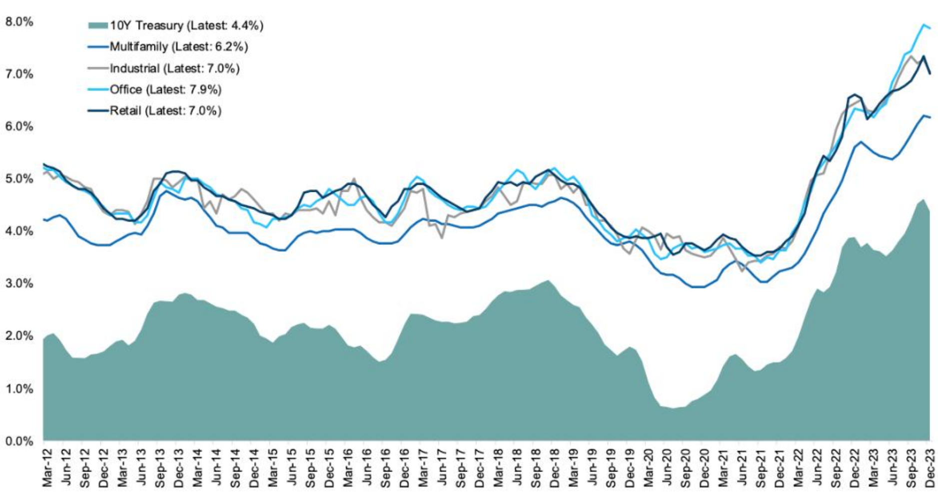
Source: Newmark Research

Immediately after the pandemic, there was an expectation that employees would return to their offices and resume their historical work and commuting patterns. However, given a taste of the freedom and flexibility of working from home or in some exotic locale, especially for those with long commutes or who require flexibility for child or elder care, workers were very reluctant to return to the office. In response, corporations tried to adapt—allowing remote work when feasible and adopting a hybrid solution in lieu of full-time return.

As a result, demand for office space declined sharply, with US office vacancy rates rising to a record 19.7% at the end of 2023. And as office leases expired, renewals saw material pricing degradation. This pricing erosion, however, is still in the early stages of the lease cycle given the long-term nature of most office leases, implying there is additional pricing contraction to come as five- to seven-year leases, signed pre-Covid, come up for renewal.

The combination of lower rents and higher operating costs are a toxic combination for landlords, and while the office segment has seen the most severe degradation in operating income, there is sufficient stress in select multifamily and industrial properties as well.

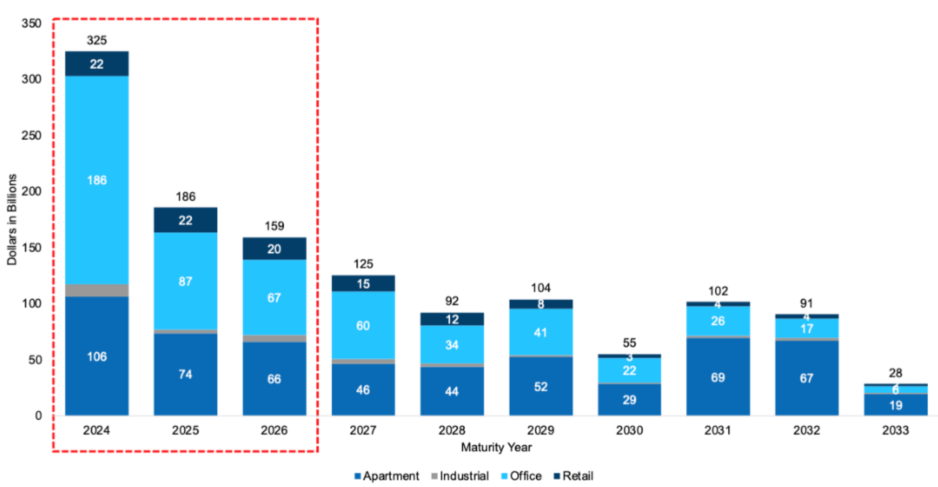
Figure 13: Average Interest Rate on Fixed Rate CRE Origination



Source: Newmark Research

Lower net operating income is a major challenge in and of itself, but when combined with near-term maturities of debt that must be refinanced at the same time lenders are reducing exposure and liquidity to the sector and at higher interest rates (Figure 13), the outlines of a potential financial shock begin to be drawn.

Figure 14: $1.3 Trillion of Outstanding CRE Debt is Potentially Troubled



Source: Newmark Research

Newmark estimates that as much as $929 billion is scheduled to mature in 2024, with another $573 billion in 2025, of which the bulk are held by commercial banks, followed by debt funds, CMBS, insurance companies and government agencies.

Of the $929 billion maturing in 2024, Newmark believes that as much as $325 billion of CRE debt maturing is potentially troubled, as is $186 billion in 2025 and another $159 billion in 2026, comprised primarily of office and apartments, with industrial and retail rounding out the rest (Figure 14 on the prior page).

Real estate sponsors and limited partners are now making equity infusions on maturity defaults in the hope that major recapitalizations can be delayed until interest rates begin to come down. If sufficient liquidity cannot be found to recapitalize the wall of debt maturities, defaults will grow, with forced sales putting additional pressure on prices. Sponsors who cannot or will not recapitalize can expect a loss of perhaps $0.50-$0.60 on the dollar, according to some industry participants. Manulife Financial Corp., a Toronto-based insurer, recently wrote down its US office exposure by 40%. But as an insurance company, it has the luxury of not having to refinance in the face of higher rates or being a forced seller into a market with limited liquidity. Real estate equity funds, followed by banks, may not be so fortunate, in our view.

Conclusion

Taken together, inflationary pressures should see some relief from the energy component as the geopolitical risk premium in energy prices declines. Given oil's role as an input in the prices of other goods and services, lower oil prices should also beneficially impact inflationary pressures in measurements of core inflation.

However, it is difficult to make the case that shelter prices are going to see a similar price decline, especially as home prices are in part being fueled by local regulatory and permitting rules that limit the supply of new housing. "Higher for longer" interest rates work against increases to housing supply, and declines in new multifamily permits indicate that as the initial spike of new supply is absorbed by the market in 2024, there appears to be limited new supply coming to the market in 2025 and into 2026.

While inflationary pressures are the most likely market force exerting negative pressure on the returns of financial assets, there is a potential deflationary or at least disinflationary force in the form of re-equitizing billions in office and multifamily debt that is maturing in 2024 and 2025 that must be monitored, especially as it seems unlikely interest rates will decline 200-250 basis points necessary to refinance without equity injections.

From an investment standpoint, we have generally been skeptical that the Federal Reserve would cut interest rates six times in 2024. That was what markets expected in 1Q23 and our inflation analysis suggests even cuts in 2024 are at risk. If inflation remains stubbornly above the 2% target, this suggests yields will also remain somewhat elevated.

As a result, we made a number of moves in late 2023 and 1Q24 to try and prepare portfolios including (i) maintaining over-weights in energy and industrials, (ii) paring back exposure to technology so it is roughly in line with benchmark weightings, (iii) increasing exposure to large cap financials and exiting regional banks, (iv) generally boosting "value" investments including small and mid caps, and (v) in balanced / yield accounts that hold fixed income, to increase the weighting of floating rate debt.

Forecast: 2024

Rockingstone Advisors: Our Latest Forecasts

Based on our work on the components of CPI and PCE driving 1Q24 inflation higher, we revised upward our forecast for inflation, and hence also for 10-year Treasury yields. The S&P final 2023 earnings were $213 vs. $210 we were forecasting, so the higher base number drives our 2024 forecast higher as well. We introduce a 2025 EPS forecast. As we expect inflation to peak relatively soon at levels just ahead of where we are currently, we believe that energy will continue to see some erosion in prices. We see the following:

Figure 15: Key Metric Forecast

	Year End December	
Metric	Band	Point
US Real GDP (2024)	+1.7% to +2.1%	1.9%
S&P 500 2024 EPS (RSA/Street)	NA	$235 / $239
S&P 500 2025 EPS (RSA/Street)	NA	$260 / $273
S&P 500 2024 Index	4750 - 5250	4950
10-Yr US Treasury Yield	4.2% - 5.0%	4.8%
Oil (WTI-2024 End)	$65 - $80	$75
Gold (2024 End)	$2,250 - $2,500	$2,400
Inflation (PCE - NTM)	+2.9% to +3.5%	3.1%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. S&P 500 2024 & 2024 EPS. Final "operating" EPS in 2023 were $213. Although we remain below consensus, our forecast has increased modestly to $235 (implying 10% growth year over year) from our previous $230 a share. This year we see partly inflation driven sales growth, slightly stronger GDP, and share repurchases offsetting margin degradation. Looking to 2025, we establish a $260 estimate which implies 10% growth of which 2-3% comes from share repurchase activity.

2. S&P 500 2024 Year-end Index. We have increased our S&P500 price forecast to 4950 from our previous 4600. As this newsletter goes to "print" the large cap, tech dominated Index has pulled back from 5246 or a 6% drop from the recent peak. In part, our increased target for this year reflects the usage of next year's earnings. As noted in the previous paragraph we are using a 2025 EPS forecast of $260. Applying a 19x P/E multiple supports our updated target. There are puts and takes around using an above average P/E multiple. On the one hand, GDP has accelerated, companies are generally performing well, and the consumer is in good shape. On the other hand, yields have risen, and clearly geopolitical risk is elevated. As a second tool, we emphasize our 5-year asset return forecast (see next section), also points to limited returns for the S&P500.

ROCKINGSTONE ADVISORS LLC

Five Year Asset Value Forecast[iii]

US Large-cap & Non-US Developed Markets: Muted Return Outlook

Our main assumptions regarding capital markets are that asset values mean-revert (with respect to margins and P/E multiples) over time. We analyze equities using four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields, and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Within our outlook for total returns, we expect the “give” of sales growth, valuation (sometimes) and dividends to be partly offset by the “take” of mean-reverting margins. We expect sales growth to be relatively close to long-term average performance, although how a potential recession vs. pass-through pricing impacts top line results is unclear. Profit margins have come down vs. the recent past but are still modestly above historical levels and thus remain mostly dilutive to expected returns.

Based on our most recent analysis, Non-US Developed Market stocks now appear equal to if not slightly negative in terms of the next 5-year returns. This is mostly due to likely margin pressure in coming years. Meanwhile US large cap stocks also appear to offer low long-term return potential from current levels, looking out over the next 5 years, based mostly on the expectation of valuation / multiple contraction. The remaining equity indices offer more reasonable returns, based on our calculations, in our view.

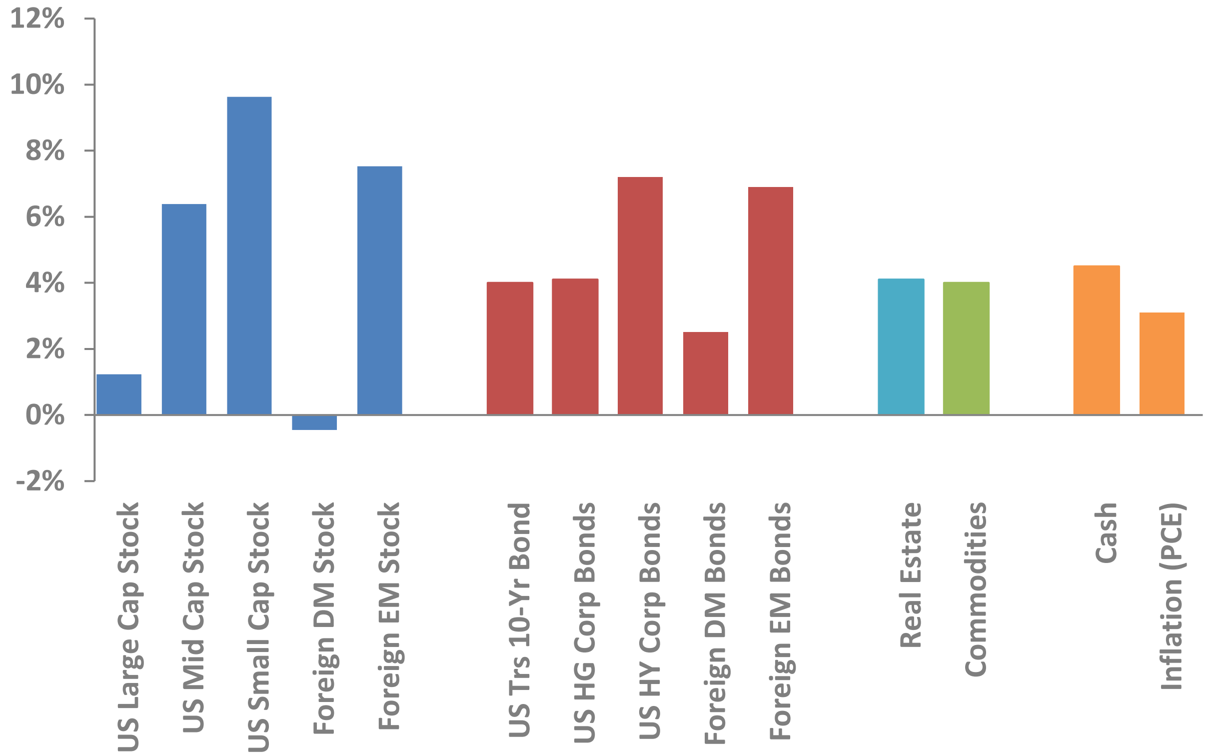
Figure 16: Five-Year Total Equity Return Calculations (Incremental Contribution)

Asset	**Index**	**LT Exp. Return**		**Sales**		**Profit Margin**		**Div.Yield**		**Valuation**
US Large Cap Stock	S&P500	1.2%	=	4.5%	-	0.7%	+	1.5%	-	4.1%
US Mid Cap Stock	S&P400	6.4%	=	4.7%	-	1.7%	+	1.8%	+	1.7%
US Small Cap Stock	S&P600	9.6%	=	6.0%	-	0.0%	+	2.3%	+	1.4%
Foreign DM Stock	MSCI-EAFE	-0.5%	=	1.2%	-	2.9%	+	3.1%	-	1.9%
Foreign EM Stock	MSCI-EM	7.5%	=	4.6%	+	0.1%	+	3.0%	-	0.2%

Source: Rockingstone Advisors

In fixed income (see the next page for various assumptions), we expect the “give” of coupons will be exceeded by the “take” of mean-reverting inflation and real rates, both of which are below their historical mean. Rates have risen significantly in 2024 YTD, based on the combination of slightly higher than expected inflation, an accelerating economy and the associated Federal Reserve response (i.e. likely fewer if any rate cuts this year).

Figure 17: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance Review

Building on a Strong 2023, Stocks Post a Solid 1Q24 amid Widening Breadth

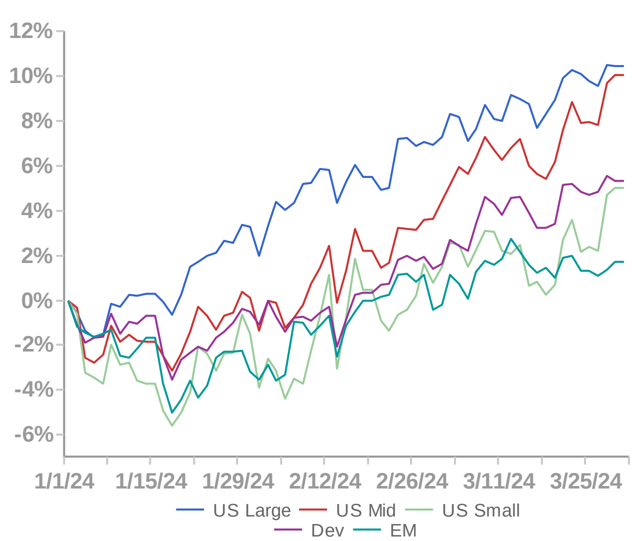
Stocks capped an exceptionally strong year in 2023, although there was a wide dispersion across indices.

This trend generally continued into the first quarter, with the S&P again posting superior returns (+10.4%), besting the Equal Weight S&P (+7.8%), US mid-caps (+7.8%), and US small-caps (+5.0%), which delivered roughly half of the S&P 500's returns. International Developed rose 5.3% while Emerging Markets rose just 1.7% due to on-going concerns around China's economic growth.

The quarter-end figures, however, mask a rotation that began in early March out of the winners of 2023 and into some of the laggards. In the month of March, value materially outperformed growth (VTV +4.5% vs. VUG +0.3%), small (+2.4%) and mid-cap stocks (+3.6%) outperformed large (+2.3%), and International Developed (+2.6%) just edged US (+2.3%). Whether this trend continues throughout 2024 is tough to tell, but based on historical relationships and ratios, the outperformance of US large cap growth seems unsustainable, in our view.

The rally in equities, in our view, was a function of several factors, including (i) ongoing solid GDP figures and other favorable economic prints, (ii) the expectation that corporate earnings might accelerate, (iii) expectations of 2H24 Federal Funds rate cuts despite some signs of accelerating inflation during the quarter, and (iv) favorable fiscal spending in an election year.

Figure 18: 1Q24 Equity Performance [iv]



Source: FactSet

Figure 19: 12M24 Equity Performance

Source: FactSet

Fixed Income Performance Review

Interest Rates Resume their March Higher in 1Q24

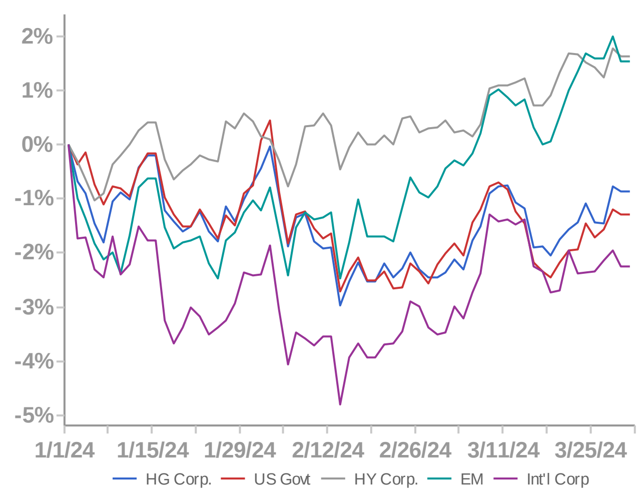
The first quarter began with the US Treasury 10-year yield of around 3.9%, down about 100 basis points from the highs achieved in October 2023 of around 4.9%. This decline in interest rates helped to underpin the 4Q23 rally in financial assets that continued into 2024.

However, a stream of favorable inflation readings (PCE and CPI) that depicted a general trend of declining price levels throughout 2023 began to reverse in February 2024 and into March. This led to a back-up in interest rates, as the 10-year yield rose from 3.9% to end the quarter at 4.2%, an increase of 30 bps.

The higher inflation readings in 1Q24 were due, in part, to higher commodity prices (led by agriculture, energy and precious metals) amid ongoing solid economic growth and a still fairly tight—albeit loosening—labor market. Stronger economic growth led to spread products outperforming Treasuries, as BBB spreads narrowed, and CCC spreads narrowed.

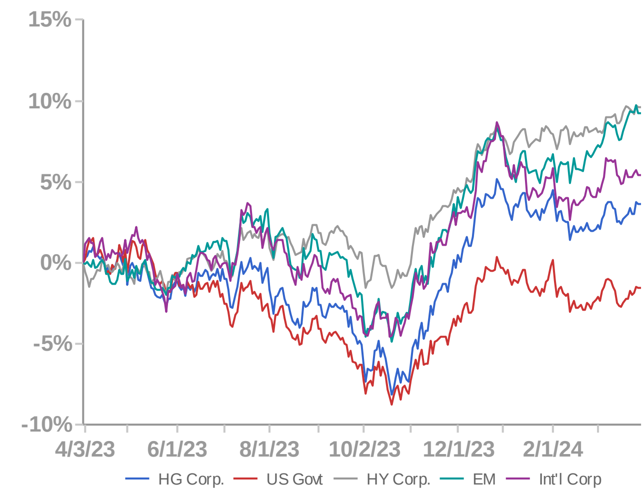
We focus on the following performance numbers for 1Q24 and 12M24, respectively: US High Grades (-0.9% and +3.5%), US Governments (-1.3% and -1.6%), US High Yield (+1.6% and +9.2%), Intl Developed (0.0% and +5.1%), Emerging Markets (+1.5% and +8.9%).

Figure 20: 1Q24 Fixed Income Performance[v]



Source: FactSet

Figure 21: 12M24 Fixed Income Performance



Source: FactSet

Commodity Performance Review

The Commodity Complex Rises on Growth, Inflation and Geopolitical Risk

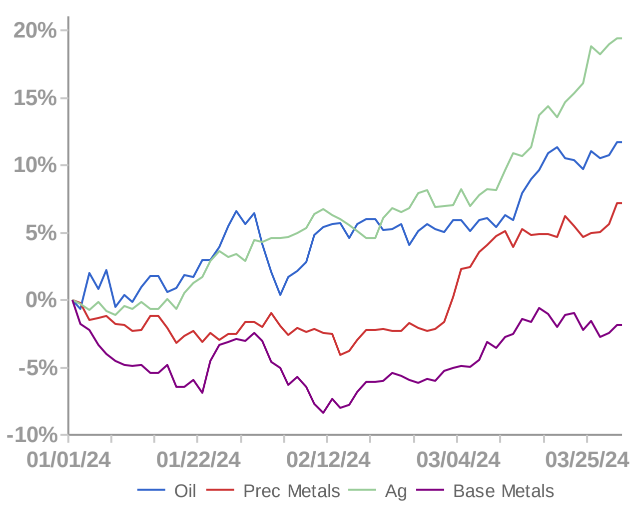
After posting declines in the first half of the quarter as investors chased strong equity performance, the commodity complex caught a bid mid-quarter, fueled by a combination of stronger economic growth, rising inflation and heightened geopolitical risk. Economic growth drives demand for industrial metals like copper and nickel, while higher inflation generally drives demand for precious metals like gold, and geopolitical risk is perceived potentially to disrupt the supply of commodities such as oil. The combination of stronger demand and lower supply naturally drives prices higher.

As noted in the past, we emphasize investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because unlike stocks and bonds, commodities do not generate a stream of cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting their price. Lastly, because commodities are most often priced in $US and traded globally, they are considered a store of value, especially if the dollar declines.

Commodities were up 4.2% in the quarter, led by agriculture, which rose 19.4% on a surge in cocoa prices and higher livestock prices. Grains, soybeans and other soft commodities declined in the quarter. Oil rose 11.7% in the quarter on stronger anticipated demand for gasoline and jet fuel and enhanced supply risk given geopolitical issues in the Middle East. Strength in the energy complex, however, was not uniform, as natural gas prices declined on a warmer than expected winter season. Precious metals also recorded gains in the quarter, rising 7.2% primarily on the strength of gold prices. Industrial metals lagged, despite a surge in copper prices, perceived to be a derivative AI play.

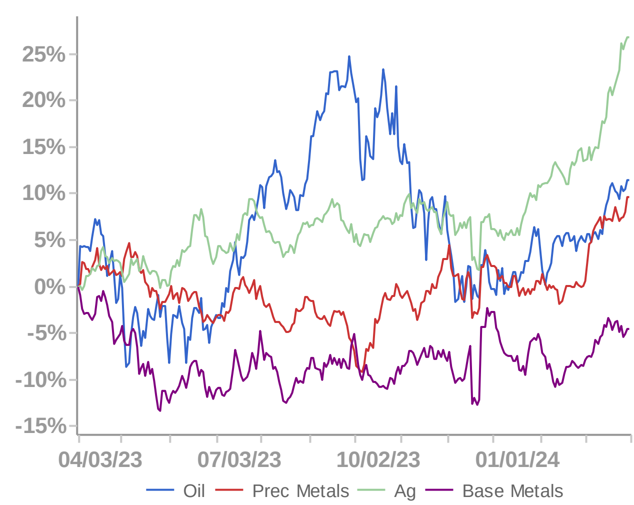
We typically invest in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We highlight the following returns during the 1Q24 and 12M24, respectively: Oil (+11.7% and +11.0%), Precious Metals (+7.2% and +0.3%), Agriculture (+19.4% and +25.9%), Base Metals (-1.9% and -4.6%).

Figure 22: 1Q24 Commodity Performance[vi]



Source: FactSet

Figure 23: 12M24 Commodity Performance



Source: FactSet

Digital Asset Performance Review

Crypto Has Another Moment in the Sun

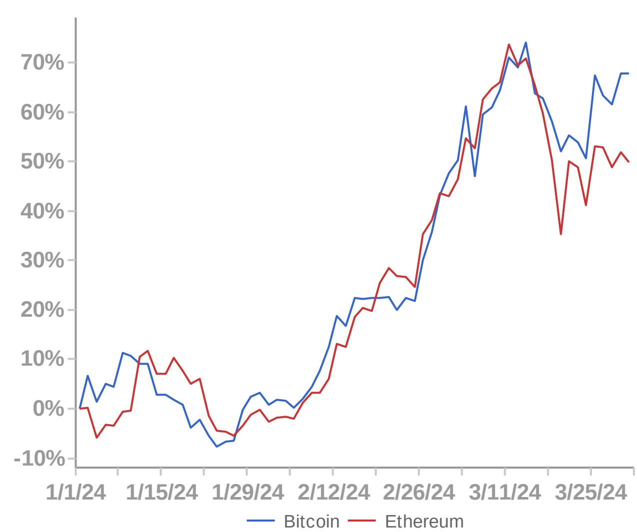
Digital assets rebounded in 2023 but have surged so far in 2024. Despite the criminal activities across several crypto exchanges and unwinding of massive leverage, the asset class has continued to establish itself, including the SEC approving the use of ETFs.

As noted in prior reports, we do not believe digital assets are a substitute for equities or bonds or other cash flow-driven securities. To reiterate: there is no cash flow associated with the asset class, and as value investors, we generally prefer to acquire a stream of free cash flow.

But it is noteworthy that many assets do not generate cash flows and are still widely recognized as being stores of value, including art or precious metals or coins or rare books. All of these "non-cash flow generating" assets trade with intermittent price discovery, albeit through Dutch or private auctions.

We have encouraged clients to consider having a modest 1-2% of net worth position for the long term. We note the following performance regarding 1Q24 and 12M24, respectively, results: Bitcoin (+67.1% and +150.4%) and Ethereum (+49.9% and +92.9%).

Figure 24: 1Q24 Digital Asset Performance [vii]



Source: FactSet

Figure 25: 12M24 Digital Asset Performance

Source: FactSet

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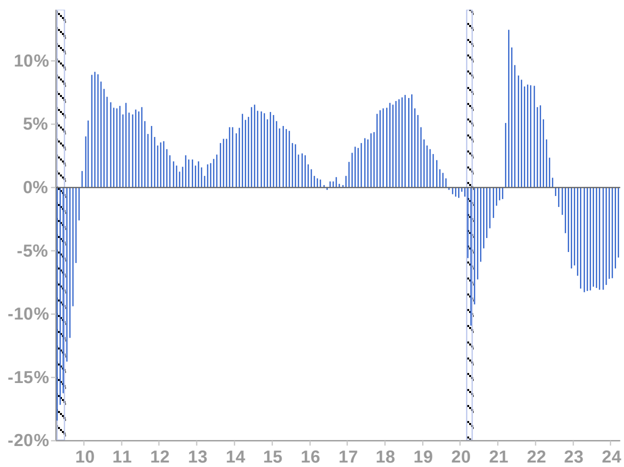
Chart Book

Leading Indicators

Figure 26: Index of Leading Economic Indicators

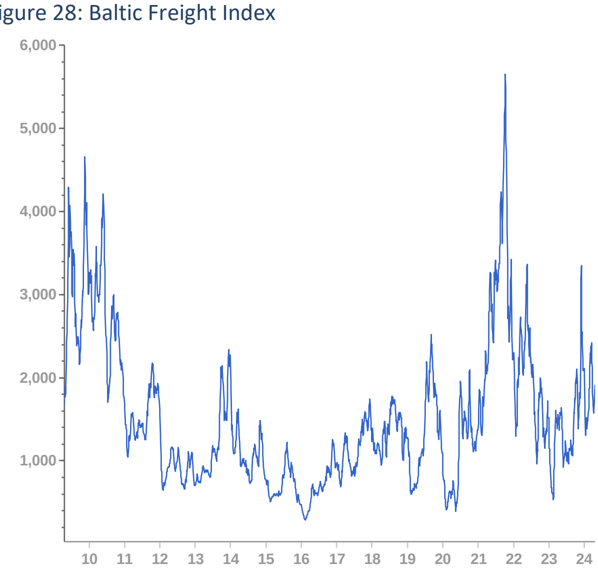


Source: FactSet

Figure 27: ISM New Orders

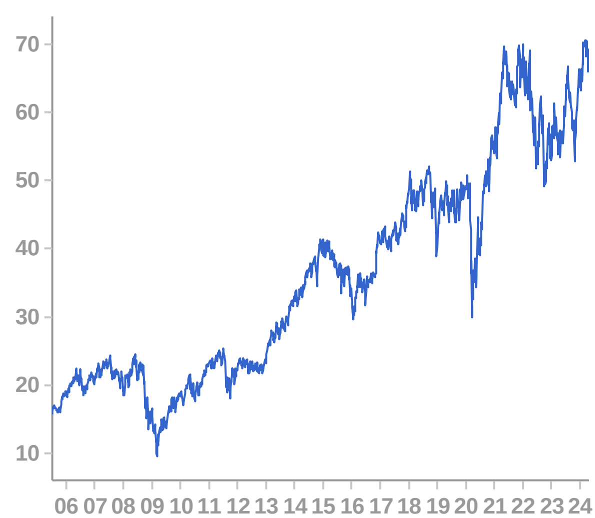
Source: St. Louis Federal Reserve, FRED Database

Figure 28: Baltic Freight Index



Source: FactSet

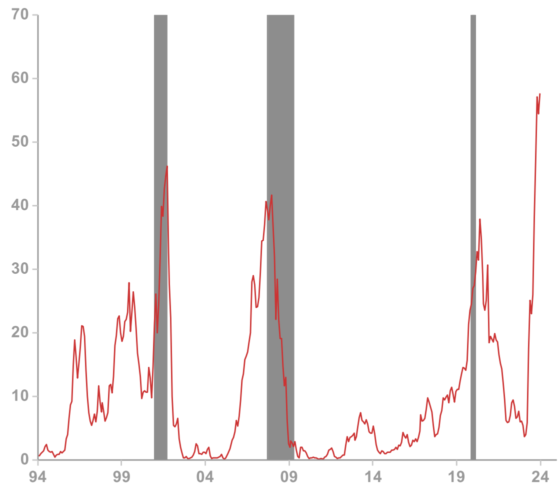
Figure 29: DJ Transports



Source: FactSet

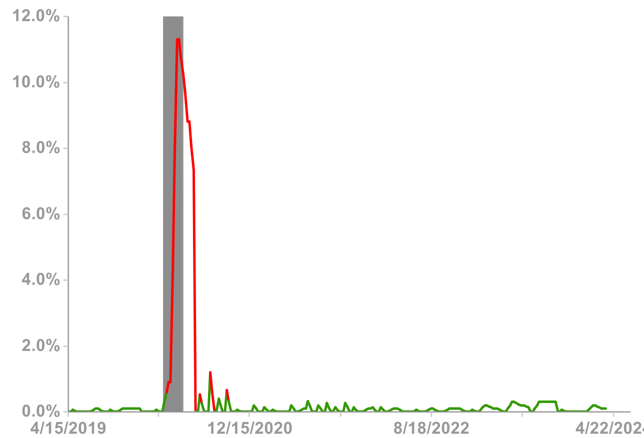
Real-time Recession Risk Indicators

Figure 30: Treasury Spread Recession Predictor



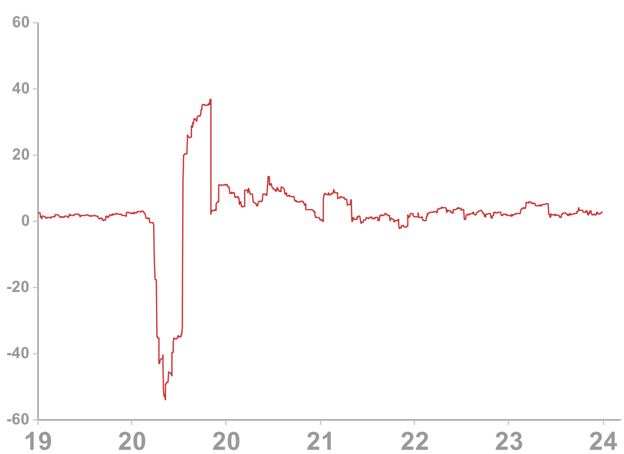
Source: FactSet, FRED Database

Figure 31: Sahm Real-time Recession Predictor



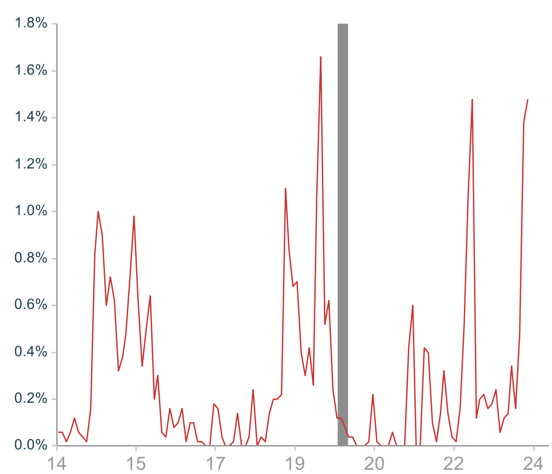
Source: St. Louis Federal Reserve, FRED Database

Figure 32: GDP Now (Atlanta Fed)



Source: FactSet; FRED Database

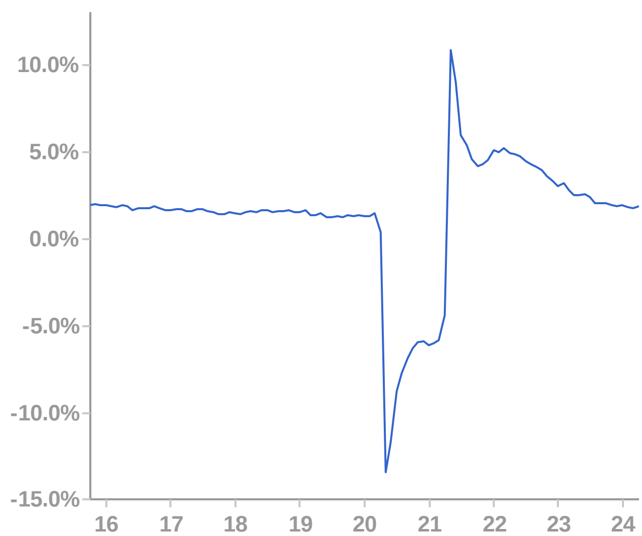
Figure 33: Smoothed US Recession Probabilities



Source: FactSet; FRED Database

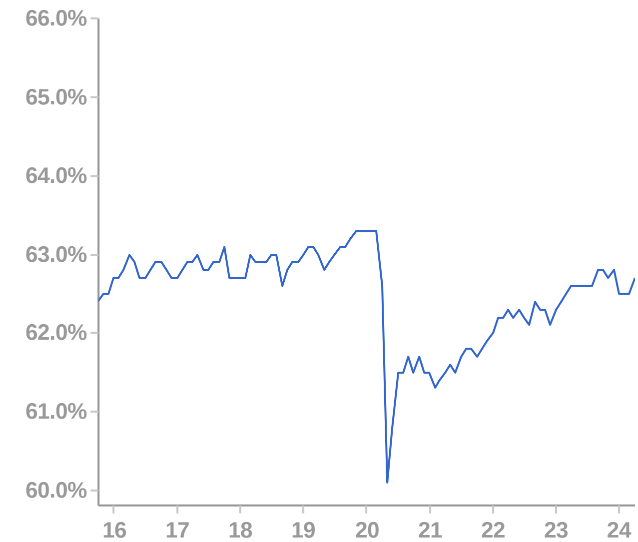
Labor Market Indicators

Figure 34: Payroll Growth (Establishment Survey, % Chg YoY)



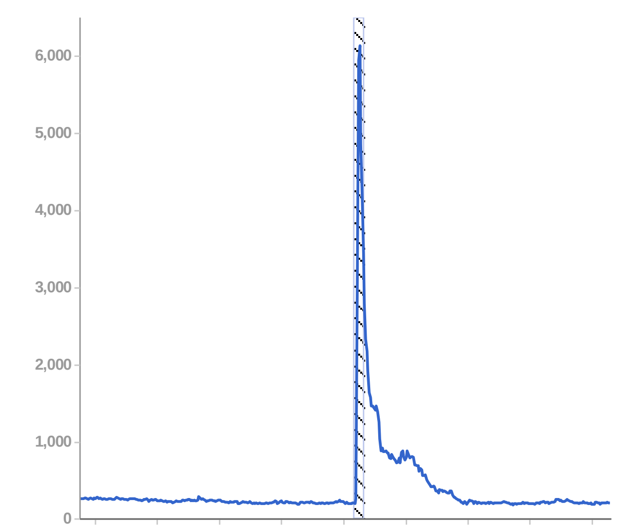
Source: FactSet

Figure 35: Labor Participation Rate (% of Workforce)



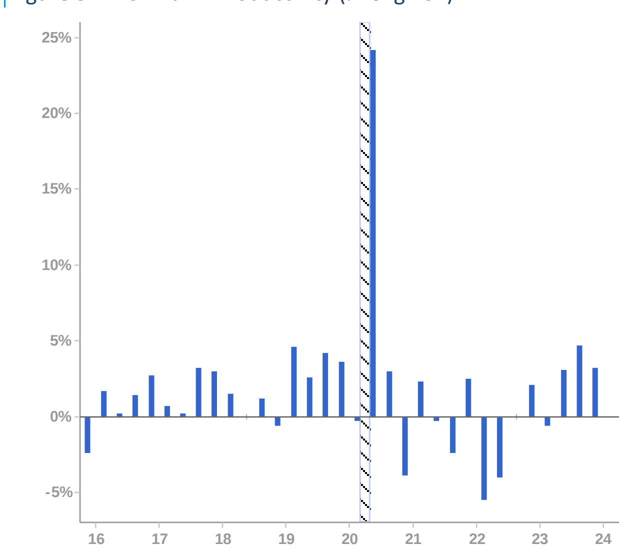
Source: FactSet

Figure 36: Initial Unemployment Claims



Source: FactSet

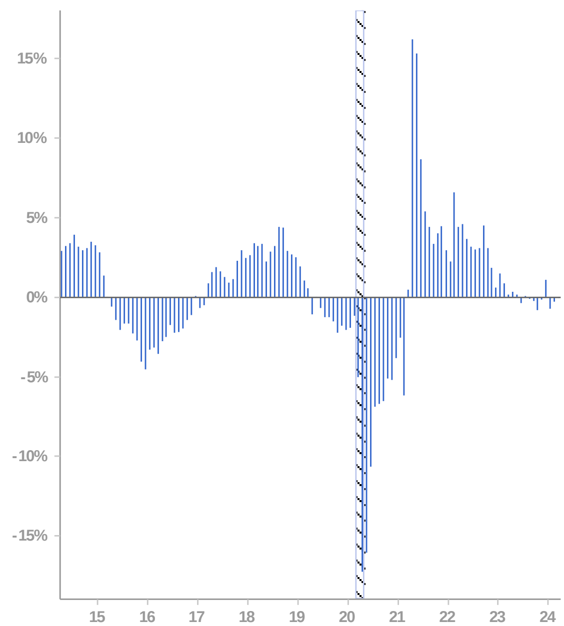
Figure 37: Non-Farm Productivity (% Chg YoY)



Source: FactSet

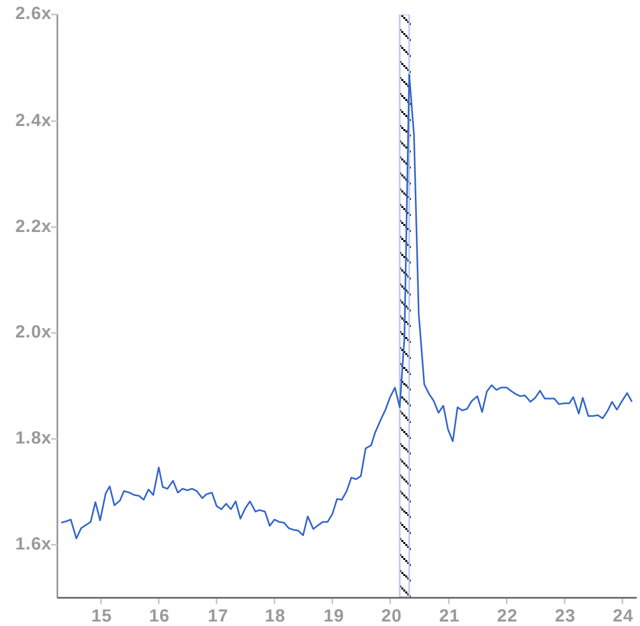
Production and Business Activity Indicators

Figure 38: Industrial Production (% Chg YoY)



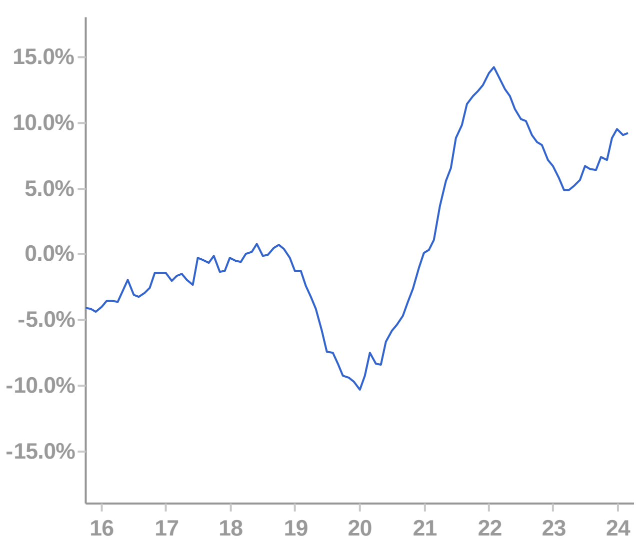
Source: FactSet

Figure 39: US Inventory to Shipment Ratio



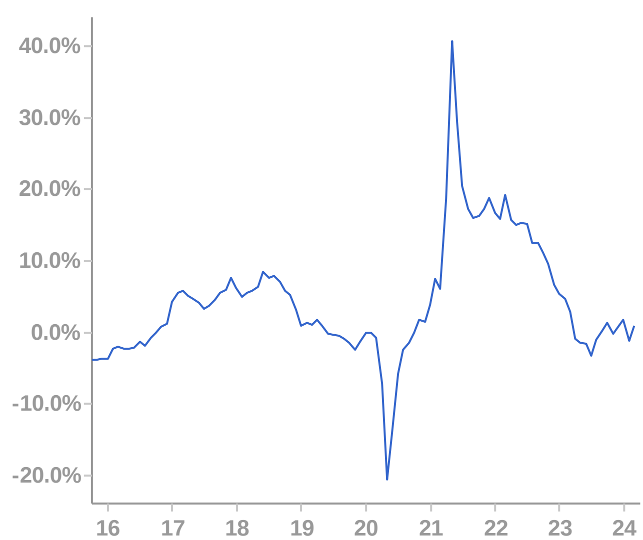
Source: FactSet

Figure 40: Unfilled Orders (% Chg. YoY)



Source: FactSet

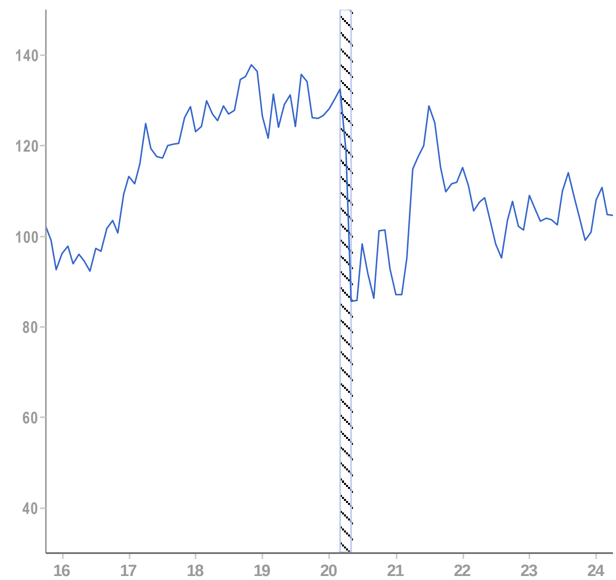
Figure 41: Business Sales (% Chg. YoY)



Source: FactSet

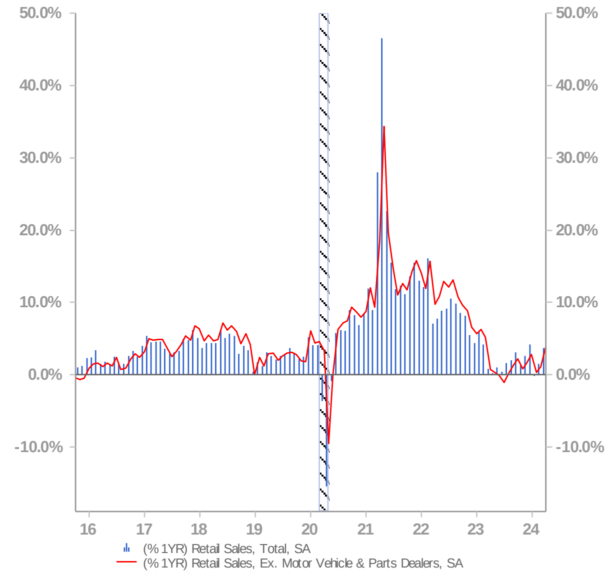
Consumer and Household Activity Indicators

Figure 42: University of Michigan Consumer Sentiment



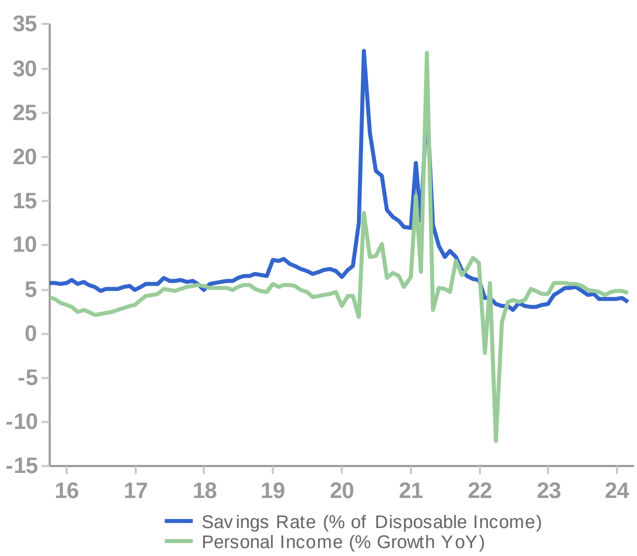
Source: FactSet

Figure 43: Retail Sales



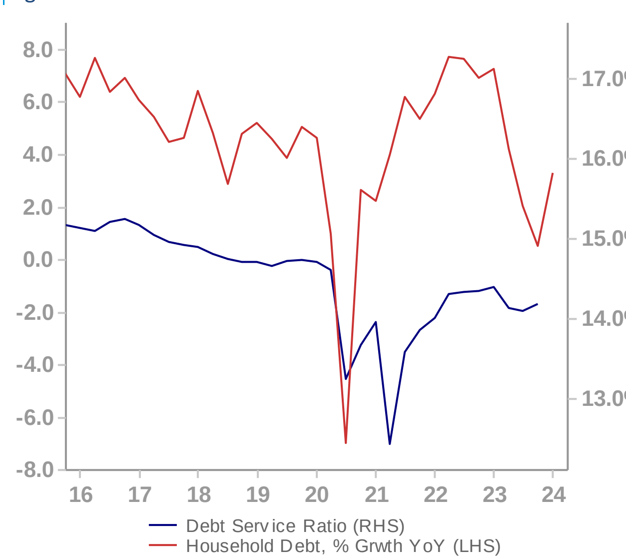
Source: FactSet

Figure 44: Personal Income and Savings Rate



Source: FactSet

Figure 45: Household Debt



Source: FactSet

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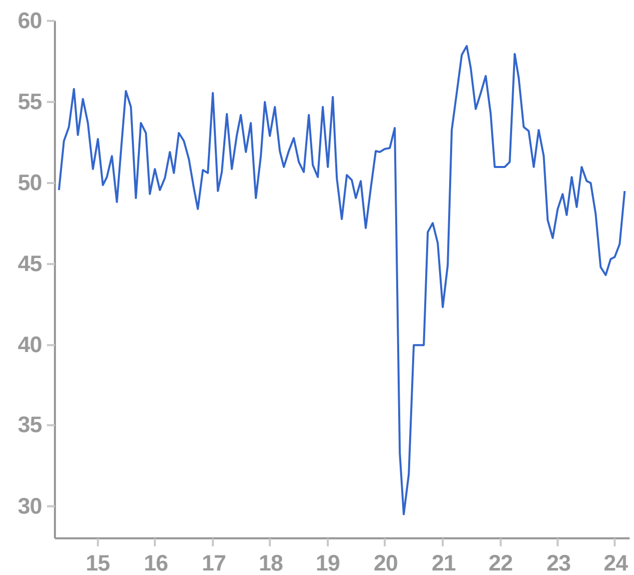
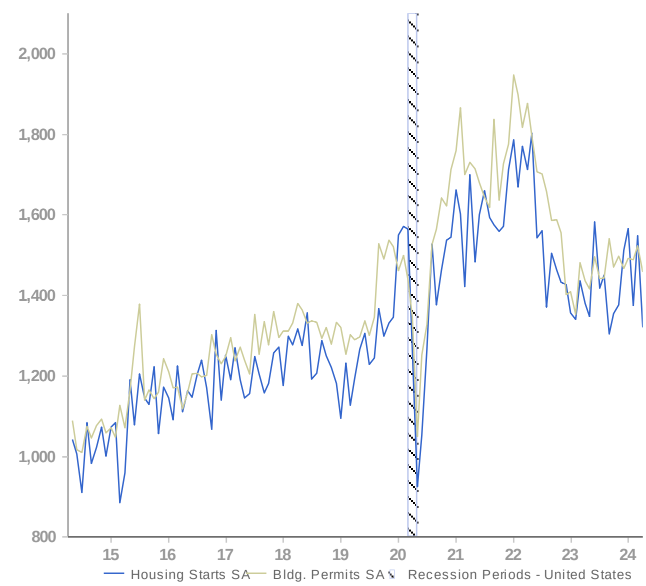
Housing and Construction Indicators

Figure 46: Architecture Billings Index



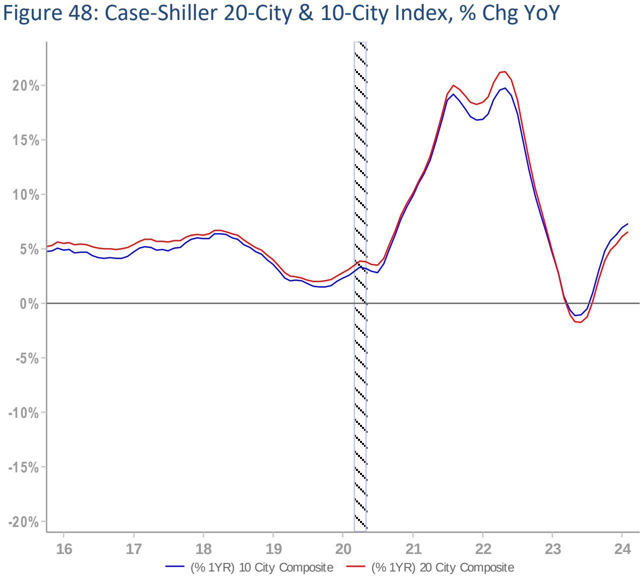
Source: FactSet

Figure 47: Housing Starts and Building Permits



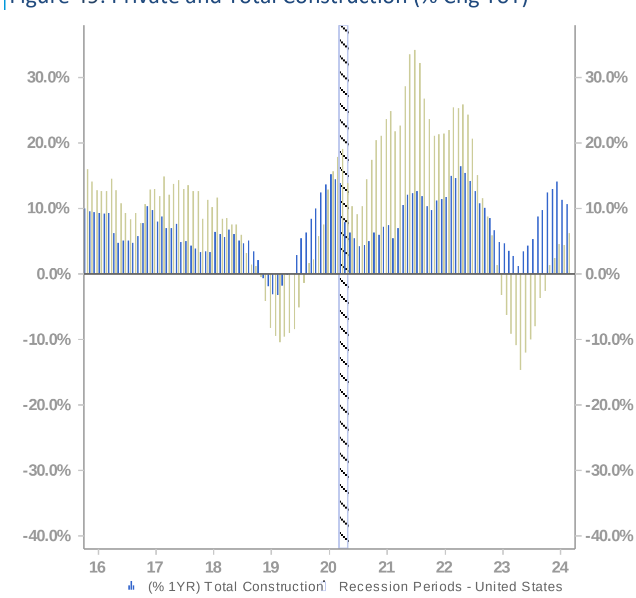
Source: FactSet

Figure 48: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

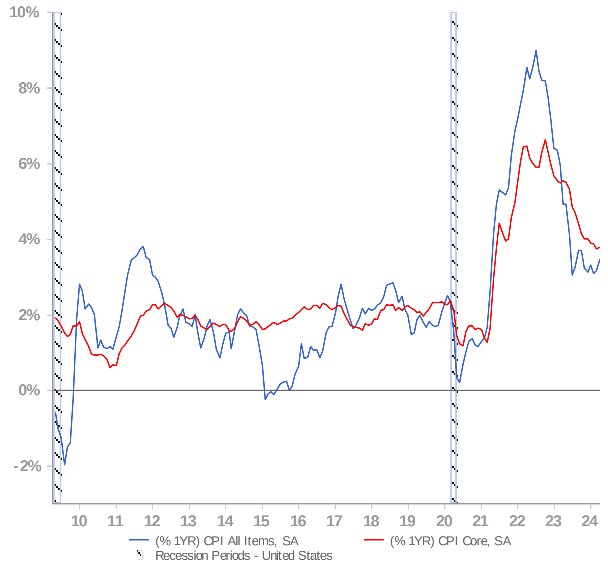
Figure 49: Private and Total Construction (% Chg YoY)



Source: FactSet

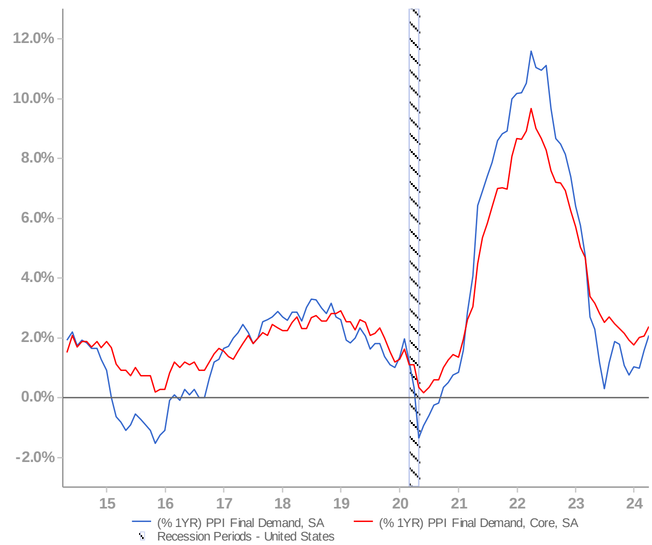
Price Indicators

Figure 50: Consumer Price Index



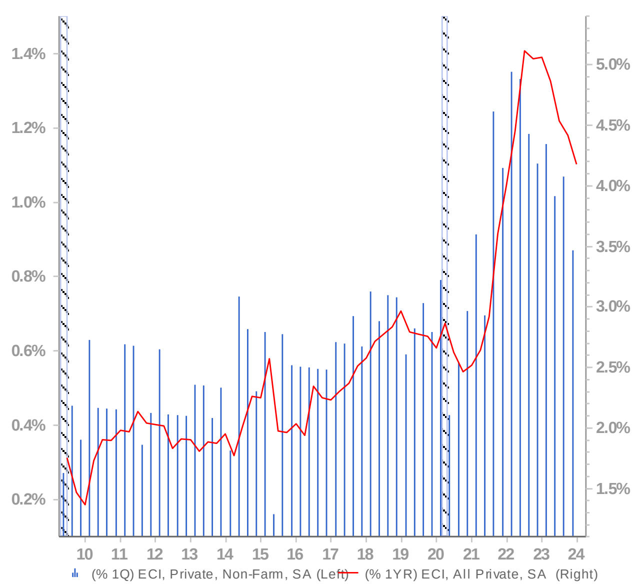
Source: FactSet

Figure 51: Producer Price Index



Source: FactSet

Figure 52: Employment Cost Index



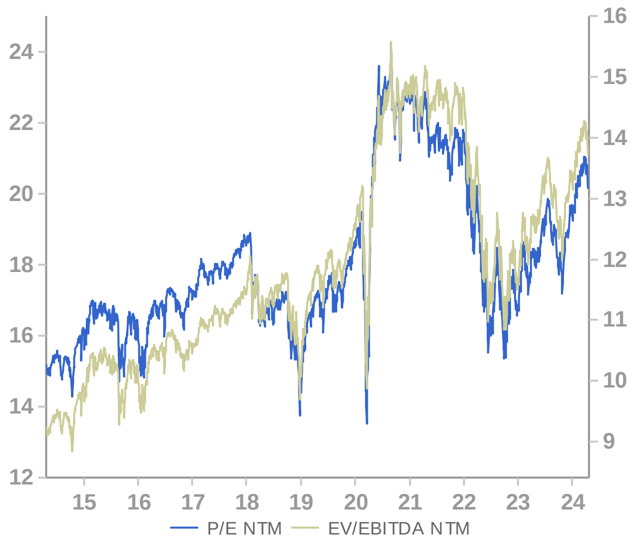
Source: FactSet

Figure 53: 10-Year, 5-Year Forward Inflation Expectations

Source: FactSet

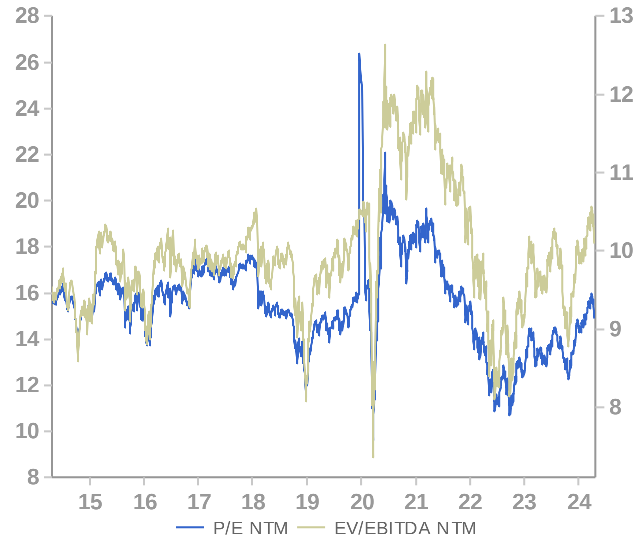
Valuation Indicators

Figure 54: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



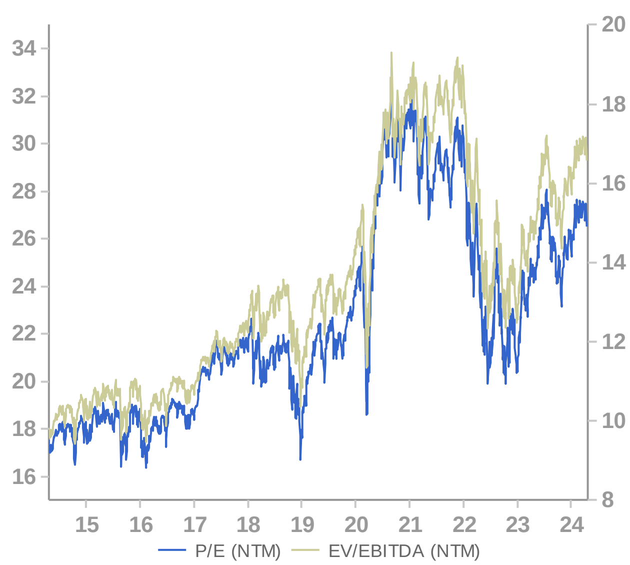
Source: FactSet

Figure 55: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



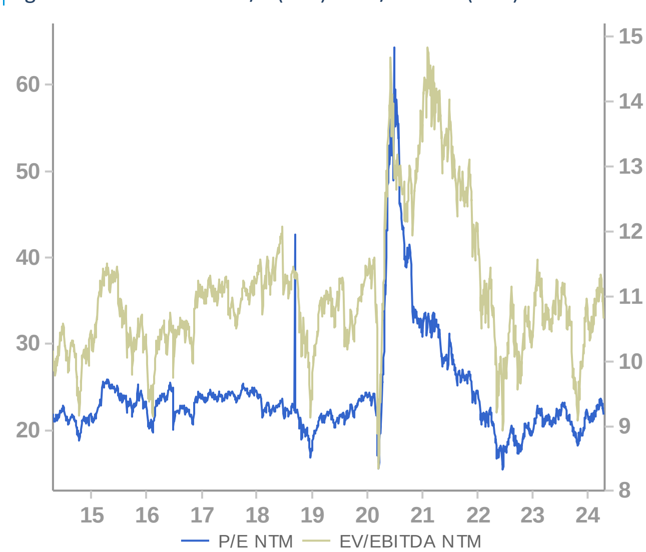
Source: FactSet

Figure 56: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

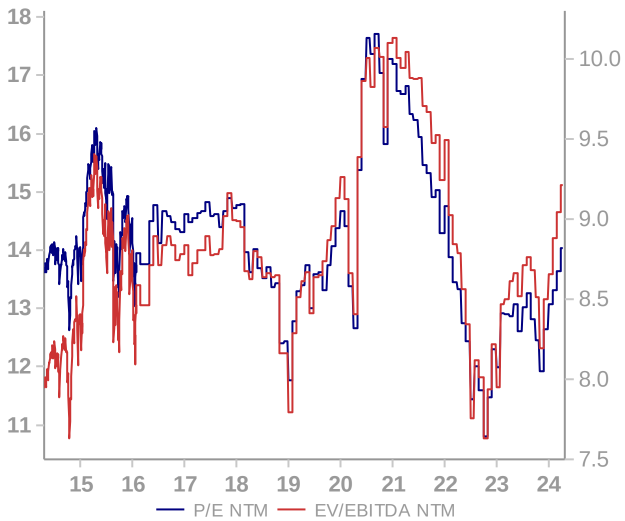
Figure 57: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

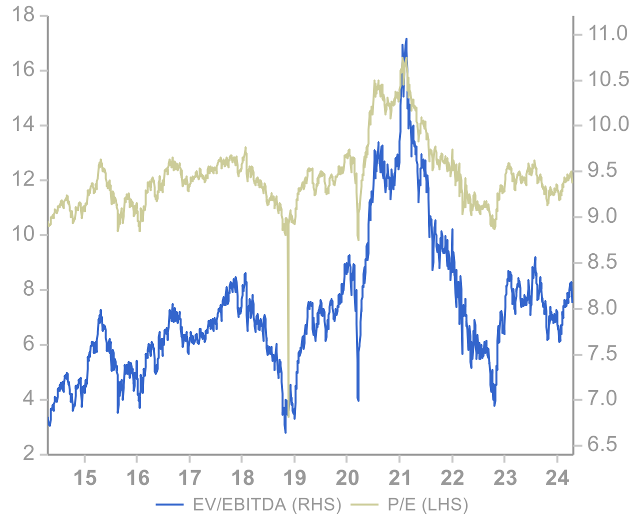
Valuation and Volatility Indicators

Figure 58: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



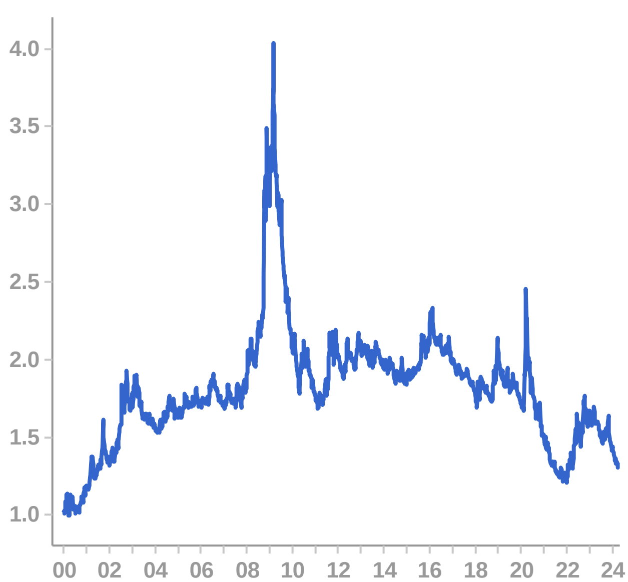
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 59: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



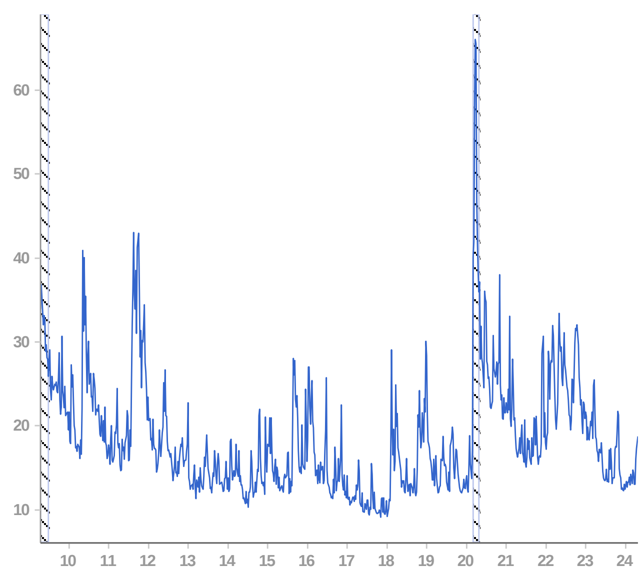
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 60: S&P 500 Dividend Yield



Source: FactSet

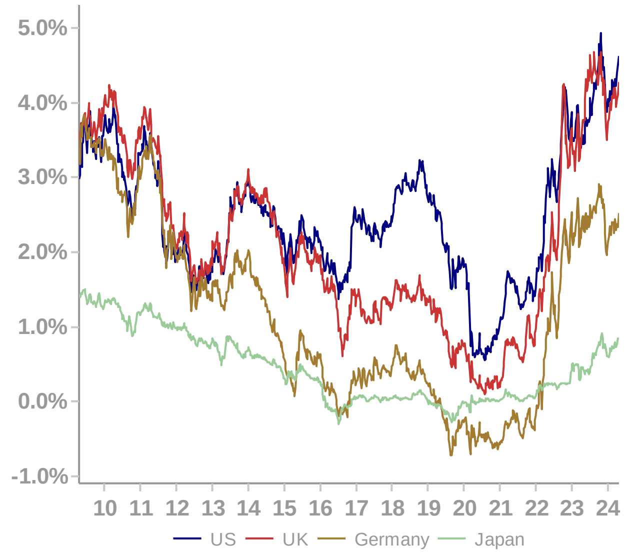
Figure 61: CBOE Volatility Index



Source: FactSet

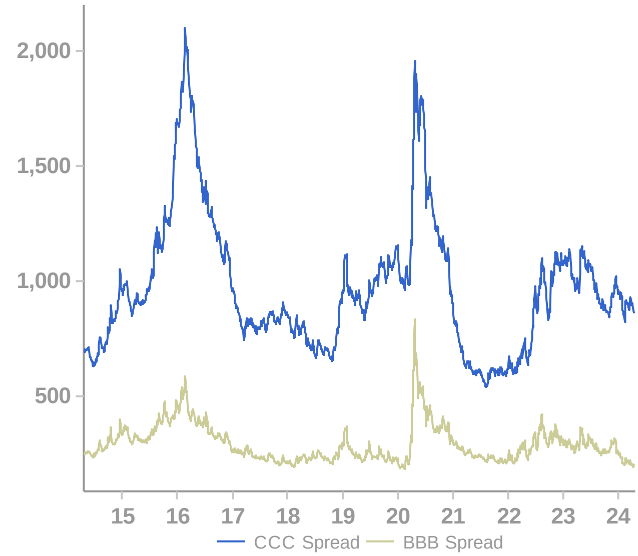
Bond Market Indicators

Figure 62: 10-Year Global Bond Yields



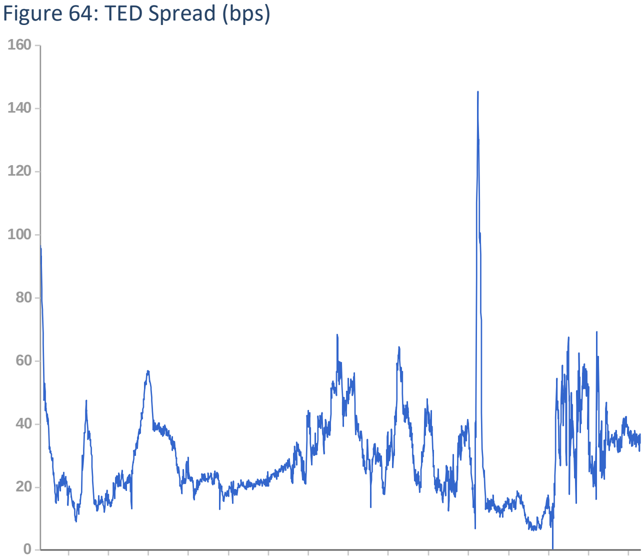
Source: FactSet

Figure 63: CCC and BBB Spreads (Option Adjusted)



Source: FactSet

Figure 64: TED Spread (bps)



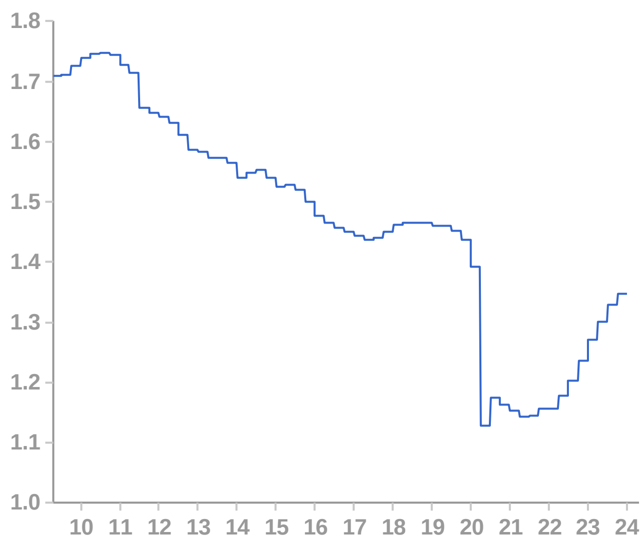
Source: FactSet

Figure 65: 10-Year Minus 2-Year Treasury

Source: FactSet

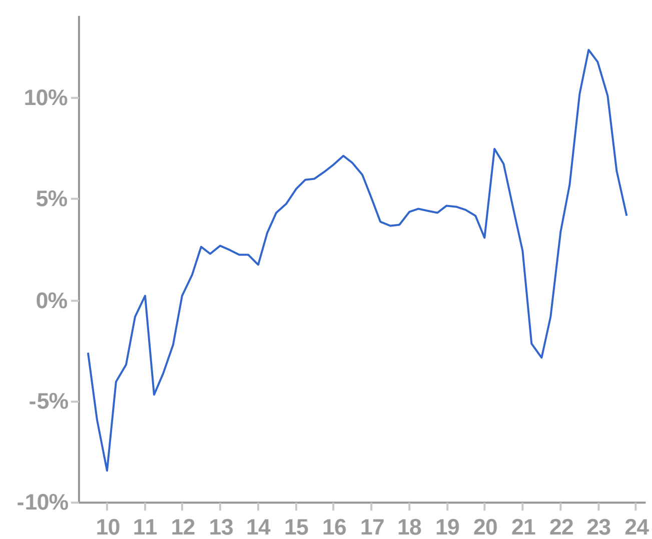
Liquidity and Other Indicators

Figure 66: Velocity of M2 Money Stock



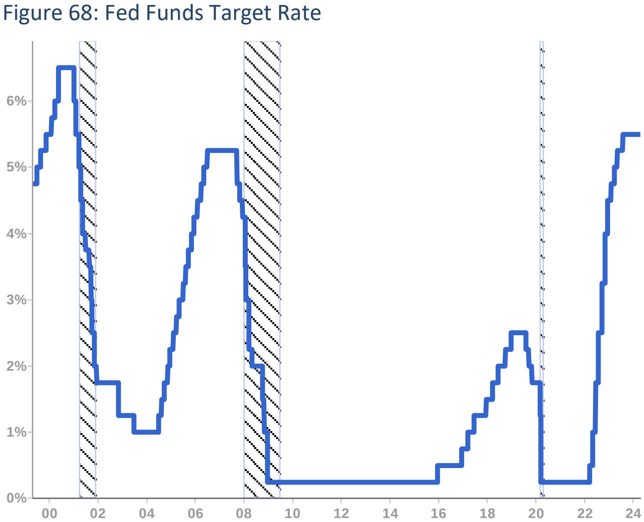
Source: FactSet

Figure 67: Loan Growth (Non-Financial, Private Sector)



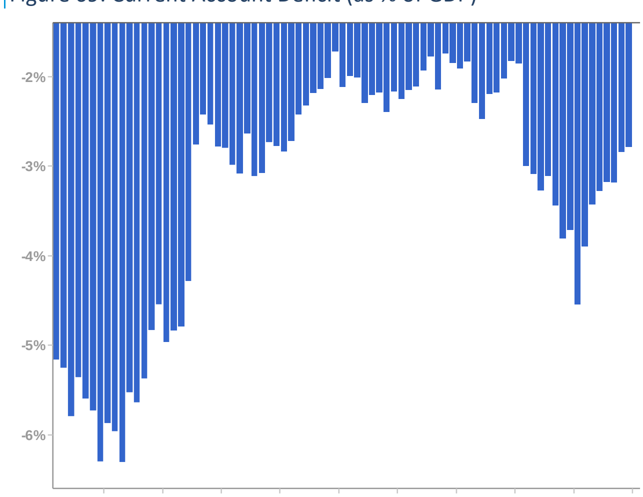
Source: FactSet

Figure 68: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 69: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of March 31, 2024; most other prices and yields are as of April 19, 2024.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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212-430-2240

brandt@rockingstoneadvisors.com
eric@rockingstoneadvisors.com

[i] Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

[ii] Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

[iii] Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

[iv] Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO's valuation and total return was inflated as of the end of the first quarter.

[v] Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

[vi] Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

[vii] Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.