INVESTOR QUARTERLY

The Fed Threads the Needle

Despite a Pessimistic Consensus, 2023 Proves to be an Excellent Year

There was no lack of concern heading into 2023, yet despite war, rising rates and a regional banking crisis, risk assets rallied, led by large-cap tech and anything AI associated, while "value" under-performed. The 10-year Treasury peaked on October 18th at 5% and began to decline as inflation pressures ebbed.

Rockingstone Performance

Due to a short position post the regional bank crisis and our more equal weight portfolio approach, we generally under-performed benchmarks in 2023. Yet our 2H23 was much improved, particularly as market breadth expanded and we closed out our hedge position. Select stocks such as BKNG, MSFT and NVDA partly offset conservative asset allocation.

Earnings, Fed Rate Cuts & Politics: 2024 Performance Drivers?

Markets ended 2023 expecting near-term Fed rate cuts, ignoring US debt / deficits, extrapolating positive inflation trends and assuming strong growth in corporate earnings. While we are generally positive, recognizing strong consumer demand and robust corporate margins, we are a little less sanguine on the timing of rate cuts and growth in earnings.

Implications for Portfolios

Although our long-term value-bias and more equal weight approach limited returns in 2023, we remain committed to this strategy across portfolios. We are wary of AI-driven excess in the tech dominated S&P and see opportunities in small and mid-caps, industrials and quality growth. We have also increased exposure to international assets, expecting a weaker $US.

S&P500 Forecast & Other Key Indicators

We forecast: EPS (2024: $230), S&P500 (2024 year end = 4600), GDP (2024: +1.5%), Gold ($2050), Oil ($65), 10-yr US Bond Yield (4.1%), Inflation (3%), 5-yr expected CAGR (US Large Cap +1%, US Mid Cap +6%, US Small Cap +8%, Developed +3%, EM +9%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management and corporate advisory 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.

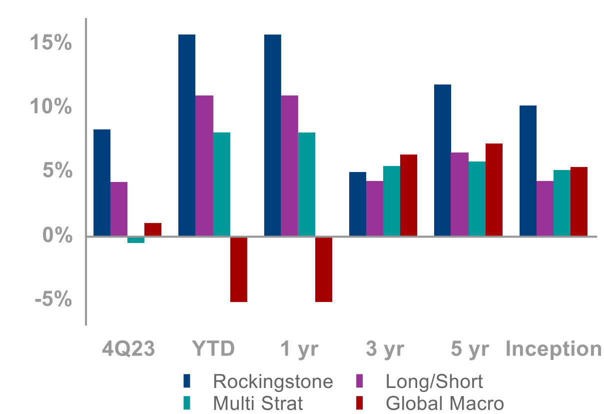
Thank you for your interest. You can find more information (and some interesting articles) at:

www.rockingstoneadvisors.com

Figure 1: 4Q23 Asset Class Performance[i]

Source: FactSet

Figure 2: Rockingstone: 4Q23 & Historical Annualized Returns[ii]



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

Please see our End Notes and Disclosures (pages 31-32 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.

ROCKINGSTONE ADVISORS LLC

Table of Contents

ROCKINGSTONE ADVISORS LLC

The Fed Threads the Needle

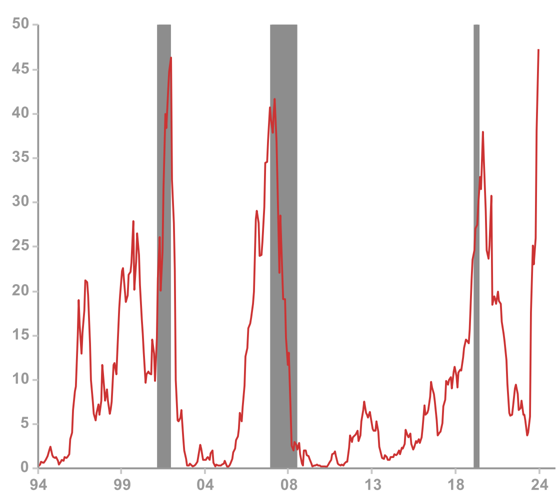
Consensus Expectations for US Recession Prove Incorrect (For Now!)

Economic Review

Most global asset prices jumped in 2023. This occurred despite the G-10 central banks– including the US Federal Reserve (see Fig 4)– pursuing an aggressive tightening plan via rate hikes beginning in early 2022. Those hikes precipitated a material contraction in the value of financial assets from late 2021 through October 2022, at which point most equity and fixed income asset prices bottomed, as inflation figures started to improve. That said, while markets rebounded in early 2023, it looked unlikely that the Fed would be able to engineer a soft landing due to broad-based pessimism around bank losses and tightening credit. These two factors, plus the sense that the Fed was late in responding, thereby requiring a more aggressive rate hike path than normal, appeared to be pushing the economy into recession. Meanwhile, two of the three largest global economies – China and the EU – witnessed significant moderation of their GDP growth.

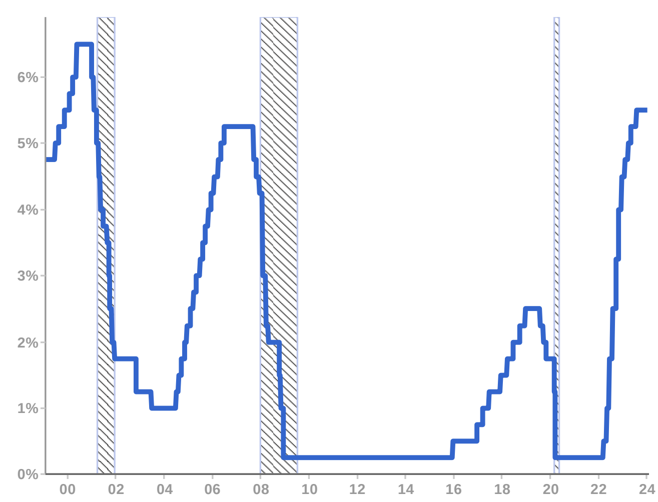
China GDP growth dropped from a range of 6-8% earlier last decade to a more pedestrian 2-3% recently (if one believes official figures). Leaving aside the overarching implications of greater totalitarianism and a crackdown on foreign and domestic business leaders, high debt levels, a slow-moving real estate contraction and significant youth unemployment have all combined to slow growth. In the EU, GDP growth has decelerated to just above 0% in the past year or so, fueled by challenging demographics, dependence on exports to China, a costly energy regime and an excessive regulatory state that slows technological innovation.

Figure 3: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 4: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Remarkably, the US economy has thus far avoided a recession and materially decelerating growth rates as the Fed managed to "thread the needle" by successfully reducing inflation by hiking rates and thereby slowing labor costs, without driving unemployment higher. While some may argue the US economy has simply witnessed a "rolling recession" whereby specific industries (housing, industrials) are witnessing contraction while others (tech and consumer discretionary) are expanding, the reality is that US GDP continues to surprise on the upside. Avoiding recession in 2023 was a surprise to most forecasters and ultimately good news. Yet we note the "Treasury Spread Recession Predictor" (see Figure 3) has jumped of late, consensus expectations have moved away from a "hard landing", the yield curve remains inverted and equity market valuation has jumped in the last year.

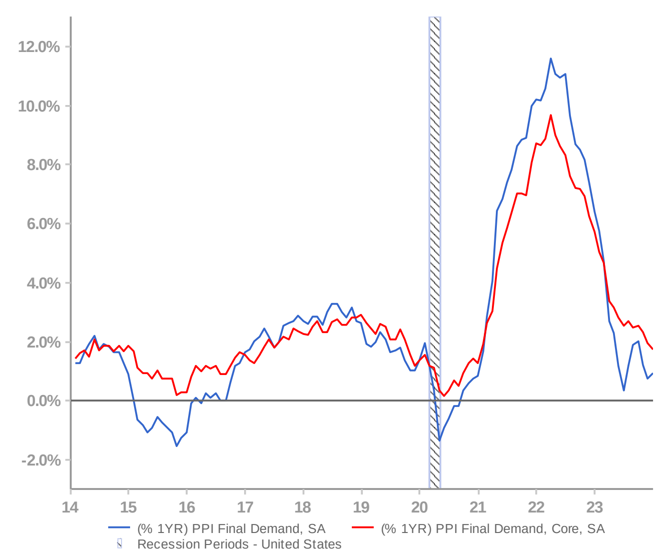
The War on Inflation

Perhaps the most important development in 2023 was that central banks were largely successful in easing inflation pressure, with the US in the lead. Specifically, 2022 inflation, as measured by the US CPI, was up almost 7%, while the 2023 inflation rate has dropped below 4% (see Figure 5). The relatively quick rollover for PPI inflation also helped companies manage profit margins. Importantly and a critical input for monetary policy makers, long-term inflation expectations have come down.

Figure 5: Consumer Price Index

Source: FactSet

Figure 6: Producer Price Index



Source: Factset

We believe that a favorable inflation environment is one of the most significant inputs to market and asset price direction for 2024. As we have noted in prior newsletters, fiscal policy has been highly stimulative, adding to long term US debt and ongoing annual deficits. To the extent policy makers get control over spending (generally a rare event, and almost impossible in a presidential election year), this will help inflation, but likely curb demand.

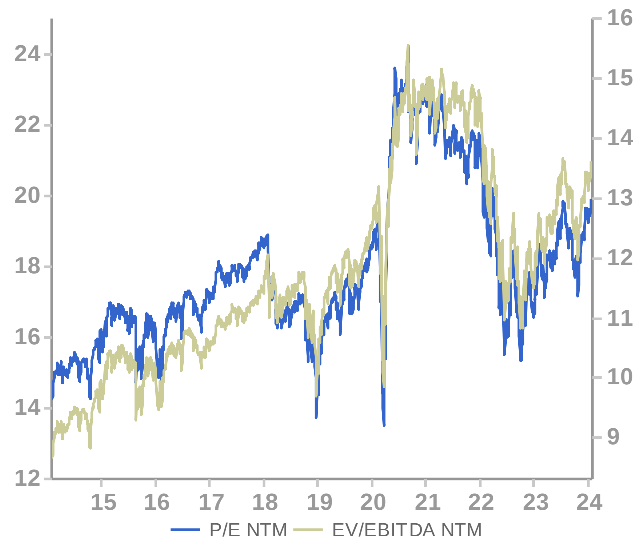
Conversely, we can envision a scenario where inflation surprises to the upside. Factors that could drive inflation higher are fiscal policy excess, geopolitical risks, trade disputes and supply chain challenges, or built-in COLA clauses to entitlement spending (i.e. Social Security and Medicare).

Market Reaction

Markets often focus on the second derivative (i.e. the rate of change of the rate of change), having discounted already the first. To the extent the Federal Reserve has "thread the needle" and is now more likely to cut the discount rate given moderating inflation, investors jumped into risk assets as they bottomed in 3Q23 and then rallied into 4Q23. We also note the increase in asset prices was not limited to the US, as most global markets moved higher.

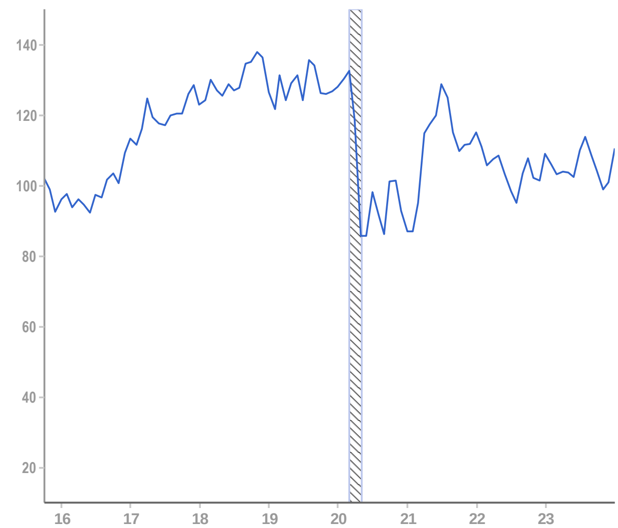
Indeed, the P/E multiple of the large cap tech-dominated S&P 500 (see Figure 7) declined from about 22x in 2021, bottomed out in mid to late 2022 at around 15x, but jumped back to around 19x at the end of last year. Again, we see this jump in P/E as a function of (1) a massive decline in yields during 4Q23, (2) expectations that management teams have successfully navigated the worst of PPI inflation pressure, and (3) consumer sentiment continuing to be resilient (see Figure 8).

Figure 7: S&P500 Valuation: P/E (LHS) & EV/EBITDA (RHS)



Source: FactSet

Figure 8: Univ of Michigan Consumer Sentiment Survey



Source: FactSet

Summary: What We Expect for Markets In 2024

We see the key drivers for market direction in 2024 to be (1) whether inflation continues to moderate, (2) the Federal Reserve starts to cut interest rates and (3) corporate earnings meet double digit growth expectations. To be sure there are other issues as well, such as ongoing wars in eastern Europe, the Middle East and festering disputes in the South China Sea, US elections, and excessive global leverage, but inflation, rates and earnings are the primary drivers of equity and bond returns, in our view.

In perspective, 2023 – at least for the S&P 500 – exhibited only two material drawdowns during the year, including the regional banking crisis in late Feb / early March, as well as the Aug-Oct period of rising rates, when the 10-year Treasury Yield broached 5%. We expect more volatility across markets in 2024 as it is unlikely the high-multiple, large cap tech sector dominates once again, albeit year-to-date quality large growth is leading equity markets. It is possible clients will see more trading activity this year vs. what is typical as we expect to see more highs and lows in market indices.

Nevertheless, we are close to fully invested as this newsletter goes to publication, with a bias towards "value" type investing (i.e. industrials, financials, energy). Based on our 5-year asset forecast, there is more potential in small- to mid-caps and Emerging Markets than large-cap developed markets. Certainly vs. the tech-dominated large-cap S&P 500, these other asset classes have much lower multiples! We are slightly under-weight technology and the same holds true for defensives (such as healthcare, consumer and utilities).

ROCKINGSTONE ADVISORS LLC

Rockingstone: 2023 Performance

A Detailed Review of our Strategies and Performance

We review Rockingstone's portfolio strategies and relative performance at the end of each calendar year. As a reminder, our firm does not manage a fund where all investors are pooled into a single portfolio. Rather, we manage "separate accounts," meaning each account is customized to the individual needs of the client, based on his or her benchmark. In turn, the benchmarks used are broadly founded on six distinct strategies:

- **Absolute Return** (a portfolio where we will be more actively short albeit with a long bias -- in attempting to achieve 6-8% annual returns with less volatility -- than in our more aggressive strategies; benchmark includes CS Multi Strategy Index)
- **Balanced** (a broad-based portfolio comprised of equities, preferreds, real estate and debt, typically benchmarked against a retirement date fund or balanced mutual fund such as VSMGX)
- **Best Ideas** (a US focused all-equity portfolio typically benchmarked against the S&P 500 by using the SPY ETF)
- **Global Equities** (a global equity portfolio typically benchmarked against the MSCI All-Country World index)
- **Personalized Portfolios** (portfolios constructed to meet a specific client need or requirement such as no mining or gambling stocks or no high carbon energy investments; the benchmark is the Impax Sustainable Allocation Fund)
- **Yield** (a portfolio where we attempt to generate 4-6% annual income without material interest rate risk)

We work with all clients to get a perspective on their risk tolerance and then mutually agree on the benchmark that works best for their particular circumstances. Lastly, in the sections below, we emphasize the portfolio management statistics detailed for each strategy are relative to that specific strategy's benchmark. For example, in our "Global Equites" portfolios we use the alpha and beta figures relative to the MSCI-ACWI.

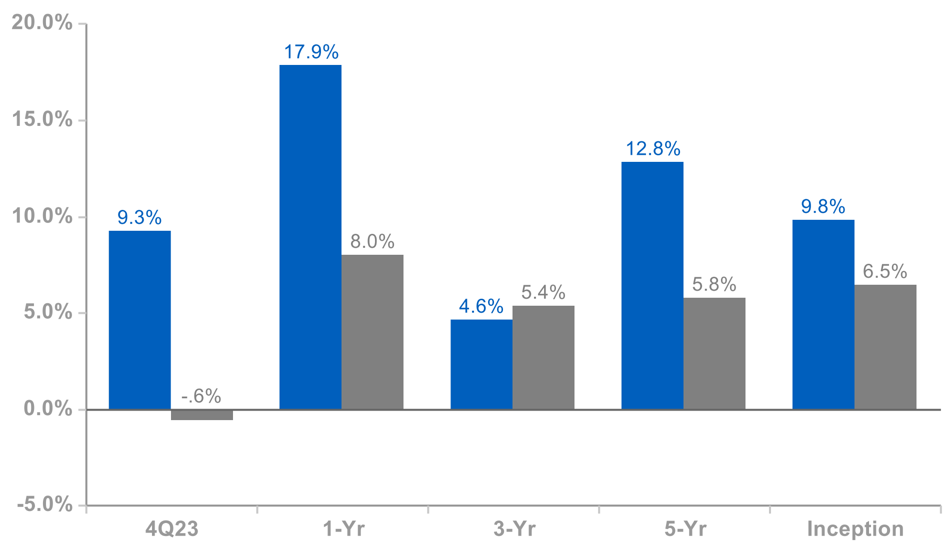
Absolute Return

Our "Absolute Return" portfolios use the Credit Suisse Multi-Strategy Index as the primary benchmark. We use an unconstrained strategy to generate the highest, risk-adjusted return possible. For example, in the "Absolute Return" strategy we may short more aggressively or have greater exposure to commodities or potentially use options to enhance returns.

Because we believe stocks generally go up over the long term, our bias is to be long and to use shorts selectively to manage through events we believe may lead to a sustained period of equity declines. Given that we manage individual accounts with restrictive margin allowances, we cannot hedge to the same extent assumed within the CS Hedge Fund indices.

Our 2023 year-end allocation reflected the following: 78% US stocks, 18% non-US stocks, 4% other. Using our Morningstar portfolio software, we note the 3, 5 and 10-year beta for our "absolute return" portfolio has been 0.83, 1.12 and 1.21, respectively. We emphasize that even with the high beta, our alpha generation has been solid: 3-year = 1.20, 5-year = 7.54, 10-year = 4.20.

Figure 9: RSA "Absolute Return" (Blue) vs. CS Multi-Strategy (Gray)



Source: Rockingstone Advisors, Morningstar Office, Inception = 5/30/2009.

Our top 5 individual stock investments at the end of 2023 included: (1) NVIDIA, (2) Apple, (3) Berkshire Hathaway, (4) Alphabet, (5) S&P Global. The top 5 ETFs included: (1) SPY – S&P500, (2) XLK – Technology, (3) IWM – Russell 2000, (4) VEA – Developed Markets, (5) IGV - Software.

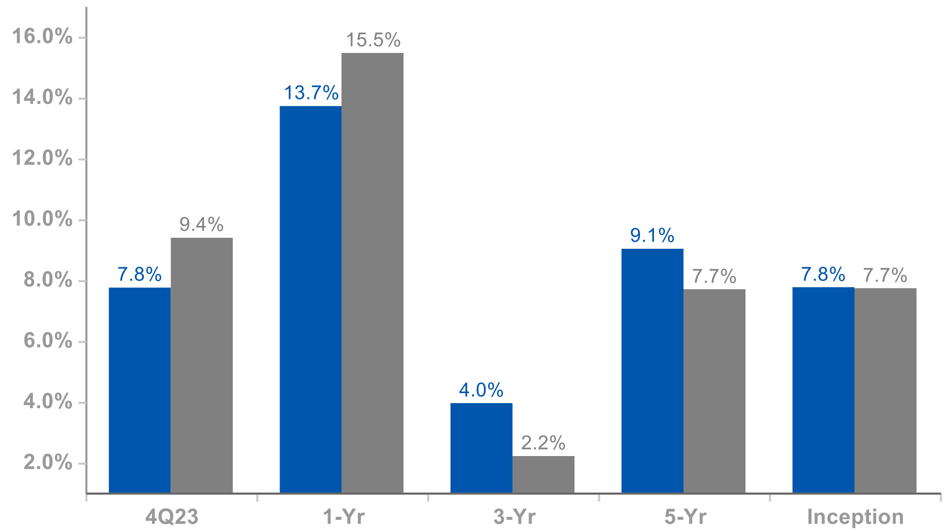
Balanced

Our "balanced" portfolios include a combination of global equities, fixed income and hybrids. For comparison purposes, the key benchmark we use for clients is the Vanguard LifeStrategy Moderate Growth Fund (VSMGX). VSMGX has an allocation of 35% US stocks, 25% non-US Stocks, 38% bonds and 2% cash.

Last year we were over-weight US stocks, close to equal non-US stocks while significantly under-weight bonds vs. the benchmark. The above weightings helped performance, although this was offset in part by our short position on the S&P 500 (following the February regional banking crisis), our under-weight in technology as well as over-weight in industrials and energy.

It is worthwhile noting that short term rates were more compelling in 2023. With the Federal Reserve raising the short-end of the curve, investors holding cash equivalents could generate around 5% income on minimal to no risk securities. With "balanced" accounts being inherently less risk-seeking vs. all equity portfolios, we note last year portfolios held a greater amount of short duration bond ETFs, including JPST and VGSH.

Figure 10: RSA "Balanced" (Blue) vs. Benchmark Vanguard Life Strategy (Gray) Portfolio Perf.



Source: Rockingstone Advisors, Morningstar Office, Inception = 7/24/2009.

Rockingstone out-performed over the last 3-, 5- and 10-years, which was achieved with lower portfolio risk than the benchmark. During those time periods the "balanced" portfolios had a beta of 0.92, 0.85, and 0.90, respectively. In terms of alpha generation, we note the following statistics: 3-year = 2.32, 5-year = 2.71 and 10- year 1.39.

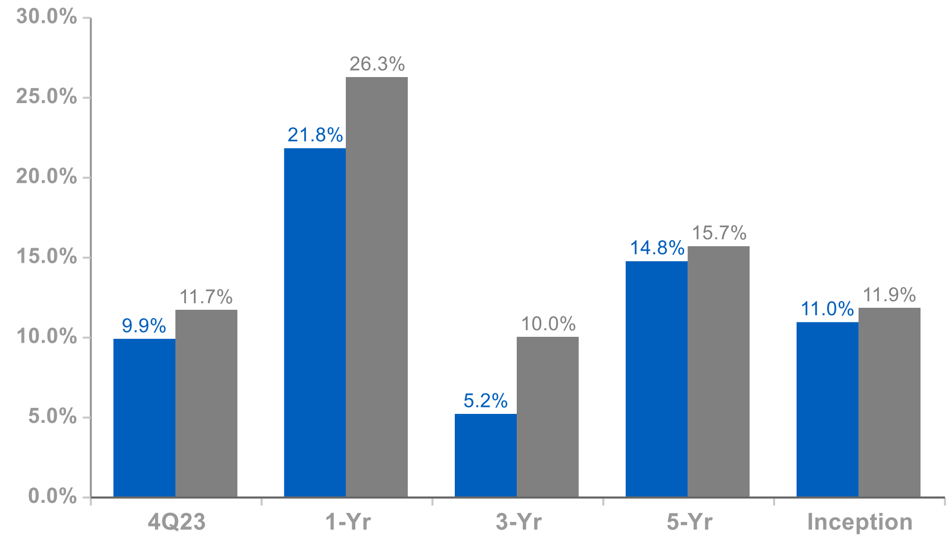
At the end of 2023, our top 5 individual stock investments included: (1) Microsoft, (2) Apple, (3) Linde, (4) TransDigm, (5) NVIDIA. Meanwhile our top 5 ETFs included: (1) JPST – JP Morgan Ultra-Short Income, (2) VGK – Europe, (3) VGK – Developed Markets, (4) VGSH – Short Term Treasuries, (5) XLK - Technology.

Best Ideas

Our "Best Ideas" portfolios use the S&P 500 as a benchmark. The S&P 500 is a 100% US-based market-cap weighted index, therefore with an inherent bias towards large-cap companies. While 2022 saw a rotation away from most tech / growth companies, the exact opposite occurred in 2023. Up until the last two months of the year, the S&P was led almost exclusively by the largest seven tech companies. The narrow breadth of the market resulted in the leaders being dubbed "The Magnificent Seven!"

During 2023, we under-performed the S&P (+26.3%) vs. our "Best Ideas" portfolios (+21.8%). There were two primary reasons for this under-performance including (1) our equal-weight approach of holding 40-50 positions as well as employing a risk management philosophy of limiting any one stock position to not exceed a 4% weighting, and (2) being insufficiently exposed to risk when we used a short position to hedge accounts after the regional banking crisis in late February. From a sector perspective, we were under-weight technology and over-weight industrials, energy and financials. Partly offsetting the above factors was solid individual stock performance, including NVIDIA, Microsoft, Apple, TransDigm and Constellium.

Figure 11: RSA "Best Ideas" (Blue) vs. S&P500 (Gray) Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 1/1/2015.

The 3-year and 5-year beta for our "Best Ideas" portfolio was 0.87, which implies we have managed risk to being 85-90% of the market. Looking over the last 5 years, this resulted in significant alpha generation of 1.68, although over the last three years we have delivered negative alpha of 2.86. As a reminder, "alpha" is used to measure the excess return created by a portfolio manager above whatever return is generated by the market / benchmark.

Although our approach is generally to hold a roughly equal weight of ETFs and individual stocks, our "Best Ideas" portfolios often have a greater exposure to the latter. At the end of 2023, our top five individual stock investments include: (1) NVIDIA, (2) Mastercard, (3) Microsoft, (4) Apple, (5) TransDigm. Meanwhile our top 5 ETFs included: (1) XLK – Technology, (2) XLV – Healthcare, (3) SPY – S&P500, (4) IWM – Russell 2000.

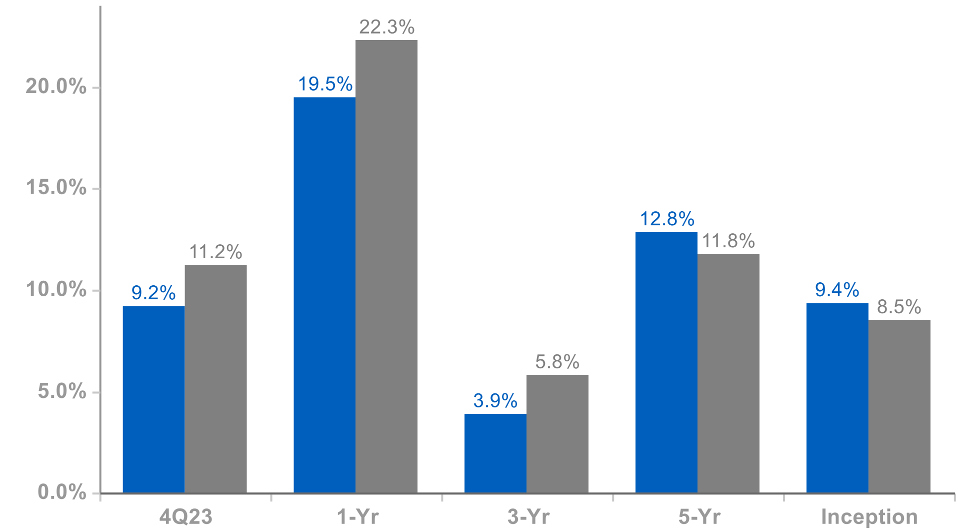
Global Equities

Our "Global Equities" portfolios use the MSCI All-Country World Index (ACWI) as a benchmark. The MSCI-ACWI uses a non-US stock weighting of 37%. Specifically, the geographic exposure includes 17% Europe, 16% Asia and 67% Americas.

Rockingstone's portfolios under-performed the ACWI in 2023. Although we were over indexed to the US vs. the benchmark, our short position on the S&P 500 (starting in February with the US regional banking crisis) limited performance. In addition, we were only equal weight technology while over-weight industrials and energy. Our individual stock picking was value add and helped to offset our overly conservative asset allocation, but picks were insufficient to overcome the sector / risk exposure noted above. Lastly, as we have emphasized, we generally manage more equal-weight holdings and that hurt returns vs. our market-weight benchmark.

We note the 3- and 5-year beta for our "Global Equities" portfolio is 0.90 and 0.87, respectively. This points to our portfolios having about 85-90% of the risk of holding the MSCI-ACWI alone. Therefore, our alpha generation over the last three years and five years has been -0.69 and +2.99, respectively.

Figure 12: RSA "Global Equity" (Blue) vs. Benchmark MSCI-ACWI (Gray) Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 1/2/2015.

We typically have held greater ETF exposure in our "global equity" portfolios as compared to the "best ideas" portfolio. At the end of 2023, our top five individual stock investments included: (1) NVIDIA, (2) Microsoft, (3) Apple (4) Constellium, (5) Meta Platforms. Meanwhile our top 5 ETFs included: (1) XLK - Technology, (2), VEA – Developed Markets, (3) VGK - Europe, (4) XLV - Healthcare, (5) IWM – Russell 2000.

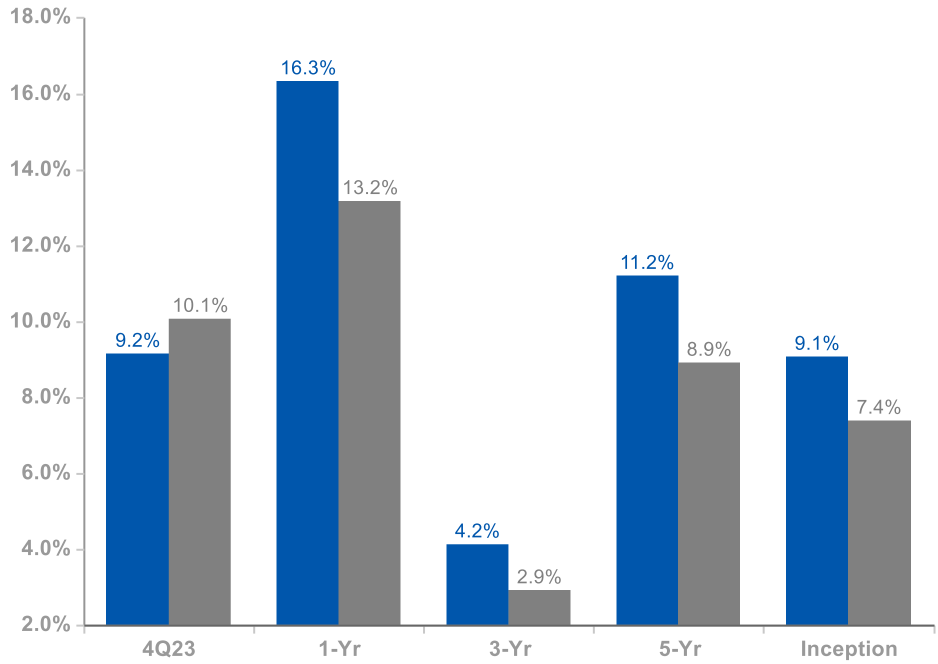
Personalized Portfolios

Because Rockingstone manages individual portfolios, there are occasions where a particular client may want to exclude certain securities. For example, a client may want to exclude mining or gambling or hydro-carbon intensive businesses. Alternatively, we may manage a portfolio for a client that has inherited a significant amount of a particular stock with a low tax basis and thus need to consider that over-weight position and the tax consequences to a greater degree than other clients.

As a result, we emphasize the "Personalized Portfolios" as a group is less indicative of performance vs. one particular benchmark. We are using the Impax Sustainable Allocation Fund (PAXWX) to reflect one client's preference for portfolios not holding any carbon intensive individual stocks. The benchmark is a balanced fund, i.e. it includes US stocks (48% weighting), non-US stocks (10%) as well as bonds (40%) and cash (2%). Similar to other strategies, we use both ETFs and individual stocks to construct the portfolio.

Using our Morningstar portfolio software, we note the 3- and 5-year beta for these portfolios has been 1.01 and 1.11 respectively. This indicates there is about 10% more volatility in our current personalized portfolios vs. the benchmark. This is a function of holding significantly less bond exposure than the benchmark. Alpha generation has been positive including 1.22 for the last 3-years and 1.57 for 5-years.

Figure 13: RSA "Personalized Portfolios" (Blue) vs. Sustainable Allocation (Gray) Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 10/20/2016.

Our top 5 individual stock investments at 2023-end included: (1) Costco, (2) Apple, (3) S&P Global, (4) Microsoft, (5) Mastercard. Meanwhile our top 5 ETFs included: (1) KLD – MSCI Social 400, (2) SPYX – S&P500 excluding Fossil Fuels, (3) JPST – Short Duration Income, (4) XLK – Technology, (5) VT – Vanguard Total World Market Index.

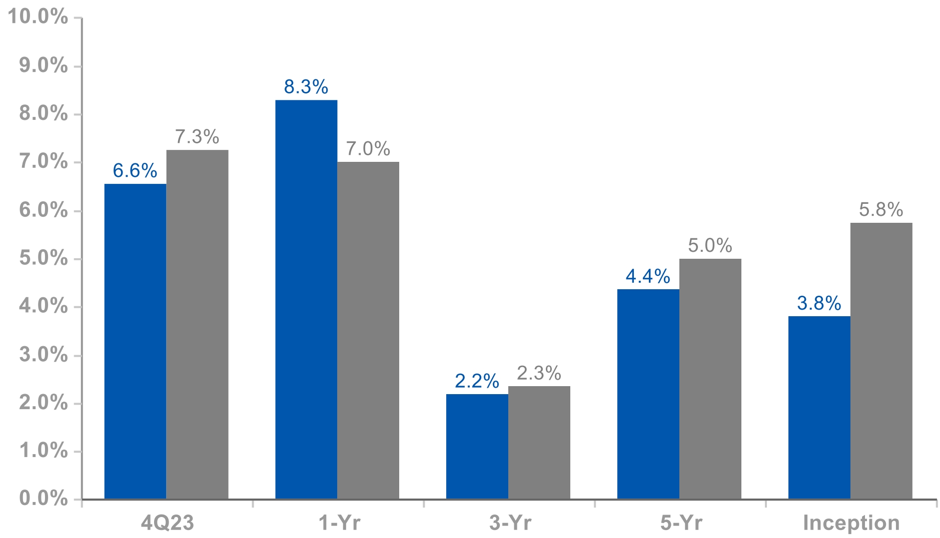
Yield

For retirement accounts and those investors interested in generating income, we construct portfolios using a combination of high dividend yielding stocks and ETFs, select bond ETFs as well as hybrid ETFs. Our goal with these portfolios is to generate an absolute annual return of 4-6%, with the bulk of that return coming from dividends / income.

Looking back over the last decade, except for 2023, it was very difficult to generate income given the easy monetary policy across central banks. That changed dramatically in 2022 with the Federal Reserve's pivot. Investors with significant cash finally had the opportunity to generate 5% nominal returns with minimal risk (albeit in a high inflation environment). And many investors indeed sent trillions of dollars into money market funds, CDs and short duration / high yielding ETFs.

With the understanding that most of our clients who use the "yield" benchmark are retired, we also took advantage and bought more short duration money market funds, CDs and Treasuries. On the other hand, equity markets rallied as 2023 came to a close, partly on the rollover in interest rates. If equity investors are accurate in anticipating a more dovish central bank, investors relying upon income from short term instruments will have a quandry at some point in 2024.

Figure 14: RSA "Yield" (Blue) vs. Simple Global Yield Benchmark (Gray) Portfolio Performance



Source: Rockingstone Advisors, Morningstar Office, Inception = 12/27/2011.

Our "yield" portfolios over the 5-year and since inception (2011-end) have generated returns around the low end of our 4-6% target. We emphasize the following portfolio statistics: Beta (3-year = 0.89, 5-year = 0.92, 10-year = 0.98), Alpha (3-year = +0.28, 5-year = -0.02, 10-year = -1.60).

Our top five liquid holdings at the end of 2022 included: (1) JPST – Ultra Short Income, (2) VYM – High Dividend Yield, (3) XLK – Technology, (4) VYMI – High International Dividend Yield, (5) JPIE – JP Morgan Income. We note individual stocks make up a smaller weighting in this strategy and include NMFC, P&G, and PepsiCo.

NB: We note portfolio analytics generated by our Morningstar software, specifically alpha and beta referenced in the above section, are based off of gross return calculations.

ROCKINGSTONE ADVISORS LLC

Forecast: 2024

Rockingstone Advisors: Our Latest Forecasts

As the calendar turns, we shift our attention from 2023 exclusively to 2024. Inflation has moderated both in reported figures and in terms of expectations. The change in S&P 500 earnings bottomed in 3Q23 although the early read on 4Q23 is mixed. Yields have dropped precipitously at the same time the market has jumped. All of the above makes our year ahead forecast a bit challenging, but nevertheless we adjust / publish our outlook to reflect the following:

Figure 15: Key Metric Forecast

	Year End December	
Metric	Band	Point
US Real GDP (2024)	+1.0% to +2.0%	1.5%
S&P 500 2024 EPS (RSA/Street)	NA	$230 / $240
S&P 500 2024 Index	4500-5000	4600
10-Yr US Treasury Yield	3.5% - 4.5%	4.1%
Oil (WTI-2024 End)	$60 - $75	$65
Gold (2024 End)	$1,950 - $2,150	$2,050
Inflation (PCE - NTM)	+2.5% to +3.5%	3.0%

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 EPS. The early read on 4Q23 earnings reports, while mixed, support the idea that full year 2023 EPS will come in around $210-212. Looking at this year's outlook, we forecast EPS of $230 or 9% growth. We are more cautious than consensus, which is looking for about 11% YoY growth in earnings. As this Quarterly Newsletter goes to print, we note EPS expectations have declined slightly, from $245 to $240. It is important to monitor any change to consensus estimates as companies report their earnings and provide guidance going forward, as delivering on EPS expectations in 2024 is going to be, in our opinion, a key driver for broader indices to maintain current levels.

2. S&P 500 2024 Index. When we last published our Quarterly Newsletter, the target established for the S&P 500 was 4000. Needless to say, most investors have been surprised at the jump in the index to more than 4900. As we have noted earlier, the combination of yields declining on the back of ameliorating inflation and better corporate earnings outlook forced investors off the sidelines, ourselves included. Indeed, the S&P 500 forward P/E multiple has jumped from around 17x to the current 20-21x (4900 / $240). Given the decline in discount rates, we are cautiously embracing a 20x multiple on our $230 EPS estimate to justify our 4600 S&P target for 2024. We also note (see next section) that our incremental analysis on long term asset returns supports the view the S&P 500 offers minimal upside from current levels.

ROCKINGSTONE ADVISORS LLC

Five Year Asset Value Forecast[iii]

Large-cap Returns Continue to Look Muted

Our main assumptions regarding capital markets are that asset values mean-revert (with respect to margins and P/E multiples) over time. Despite a world that has been led by growth and the S&P500 seemingly becoming a quasi-large cap tech index over the last decade, we see no reason to question this value-biased axiom.

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.

As usual based on our outlook for total returns, we expect the “give” of sales growth, valuation 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 are back above historical levels, so they are now dilutive to expected returns.

Based on our most recent analysis, US large cap stocks appear to offer the lowest long-term return potential from current levels, looking out over the next 5 years, based on margin pressure and valuation / multiple contraction. The remaining equity indices offer more reasonable returns, in our view. In general, profit margins appear set to be a drag across returns, sales are broadly accretive, as are yields, although valuation presents a mixed picture.

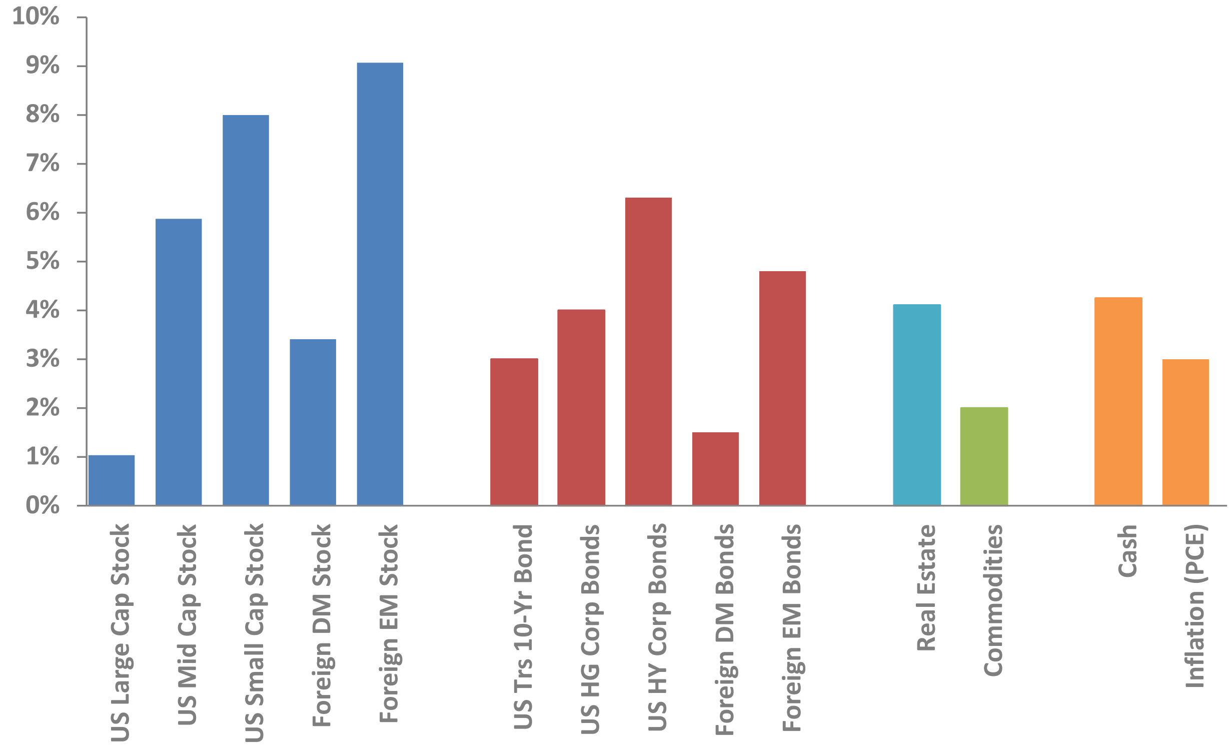
Figure 16: Five-Year Total Equity Return Calculations (Incremental Contribution)

Asset	Index	LT Exp. Return		Sales		Profit Margin		Div.Yield		Valuation
US Large Cap Stock	S&P500	1.0%	=	5.2%	-	1.0%	+	1.5%	-	4.7%
US Mid Cap Stock	S&P400	5.9%	=	4.8%	-	2.5%	+	1.7%	+	1.9%
US Small Cap Stock	S&P600	8.0%	=	6.0%	-	1.3%	+	2.2%	+	1.1%
Foreign DM Stock	MSCI-EAFE	3.4%	=	1.0%	-	3.5%	+	3.5%	+	2.4%
Foreign EM Stock	MSCI-EM	9.1%	=	4.7%	+	0.1%	+	3.1%	+	1.2%

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. While rates have risen since YTD, the trend since October 2022 has been a decline. Of course, short-term returns may not necessarily match our longer-term return predictions; markets are significantly more random over the short-run than the long-run.

Figure 17: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance Review

A Strong Finish to a Solid Year

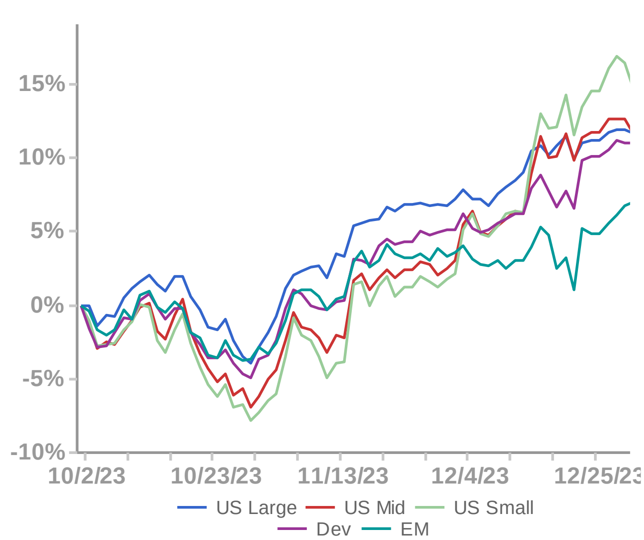
While global equities performed very poorly in 2022 and the consensus was that 2023 was going to be a tough year, the opposite turned out to be true. Global equity indices were up 21.9%, while the S&P500 generated a 26.3% total return last year. Although the breadth of the market was narrow, i.e. "The Magnificent Seven" accounted for most of the gains throughout the year, the last few months saw companies that had been left behind start to catch up. Once again in 2023, "growth" investing massively outperformed "value."

The rally in equities, in our view, was a function of several factors, including (1) the Fed's action to avert a regional bank contagion, (2) inflation moderating to a point where investors felt the Fed could actually lower rates in 2024, (3) corporate earnings stabilizing in 3Q23 and (4) GDP growth remaining in the mid-single digits.

As most investors know, yields have an outsized influence on equity values. In point of fact, only a handful of growth stocks performed well in 1H23. As inflation pressures continued to ebb, coupled with decent demand for Treasuries in the fall debt auctions, yields dropped precipitously. This resulted in a flood of cash into equities, spurring the 4Q rally.

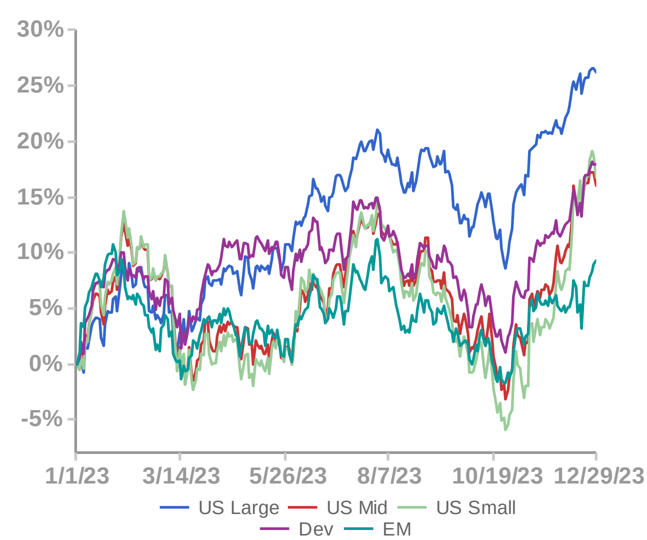
We note the following performance regarding 4Q23 and 12M23, respectively, results: US large-cap (+11.4% and +26.2%), US mid-cap (+11.5% and +16.7%), US small-cap (+14.5% and +16.8%), Developed (+11.0% and +17.9%), Emerging (+7.0% and +9.3%).

Figure 18: 4Q23 Equity Performance [iv]



Source: FactSet

Figure 19: 12M23 Equity Performance



Source: FactSet

Fixed Income Performance Review

A Wild Ride in the Supposedly Staid Bond Market

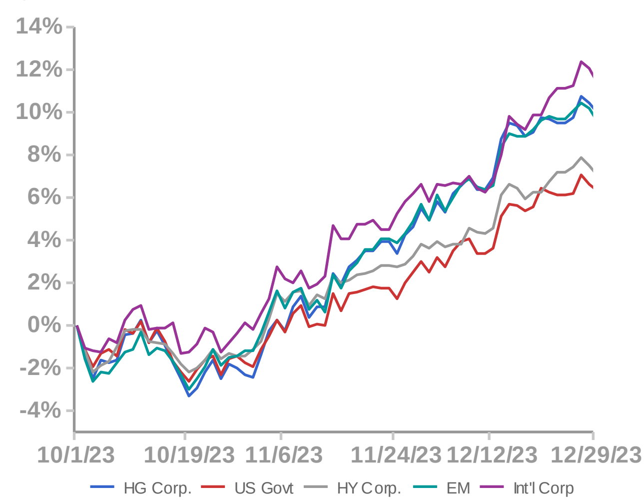
As most investors know, bond prices move in the opposite direction of yields. This was painfully true in 2022 as the Federal Reserve hiked interest rates numerous times that year. Thus, investors were wary over fixed income returns in 2023 amid the continued backdrop of an aggressive Federal Reserve focused on curtailing inflation.

While bond funds had mixed performance through the first six to nine months of 2023, the combination of the following factors helped full year results: (1) the market was convinced that inflation peaked, thus allowing the Federal Reserve to potentially "pivot"—implying at worst pausing the interest rate hikes and at best, potentially cutting rates in 2024, (2) the positive surprise in September around lower levels of debt issuance from the US Treasury, and (3) corporate cash flow outlook improved, thus giving investor confidence in spread products.

Indeed, the last few months of 2023 witnessed the 10-year US Treasury rising and breaching the 5% level, and then declining below 4% as the year ended. While this may not appear to be a significant move, in the fixed income market it was a massive change.

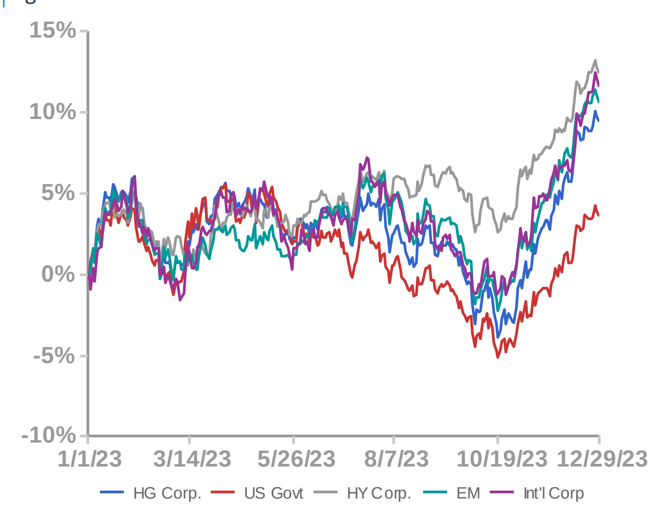
We focus on the following performance numbers for 4Q23 and 12M23, respectively: US High Grades (+10.3% and +9.4%), US Governments (+6.4% and +3.6%), US High Yield (+7.2% and +12.8%), Intl Developed (+11.5% and +12.1%), Emerging Markets (+10.2% and +10.6%).

Figure 20: 4Q23 Fixed Income Performance[v]



Source: FactSet

Figure 21: 12M23 Fixed Income Performance



Source: FactSet

Commodity Performance Review

Gold Shines In 2023 With Mixed Performance for Other Commodities

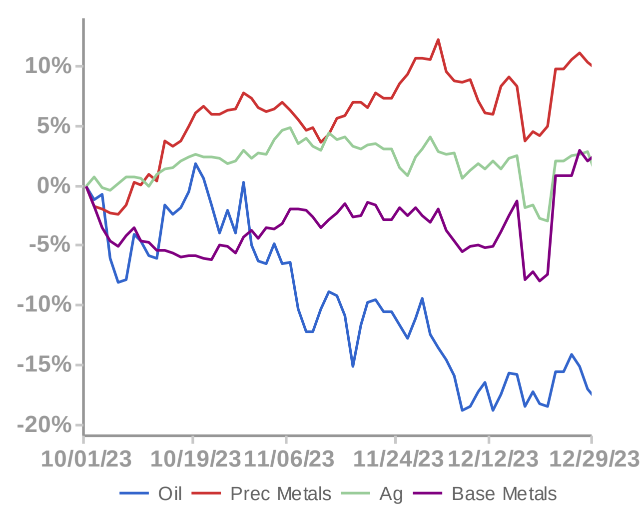
It isn't too surprising to see significant differences among commodity sectors, particularly in 2023 given shifting consensus expectations around recession vs. soft landing and pervasive geopolitical tensions. To the extent gold remains a hedge against both inflation and overall investor risk, it makes sense GLD (the popular gold ETF) jumped 12.7% last year.

Other commodity sectors gave mixed signals to the extent their prices reflect a direction for the broader economy. For example, silver is often viewed as a metal tied to industrial demand. The fact it was down 1.1% in 2023 argues commodity investors are wary of an economic slowdown. Indeed, energy (as represented by the DBO ETF) was off 4.4%. Despite the Hamas attack of Israel and Iran using its proxies to sow instability, oil nevertheless was weak on ongoing fears of oversupply.

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.

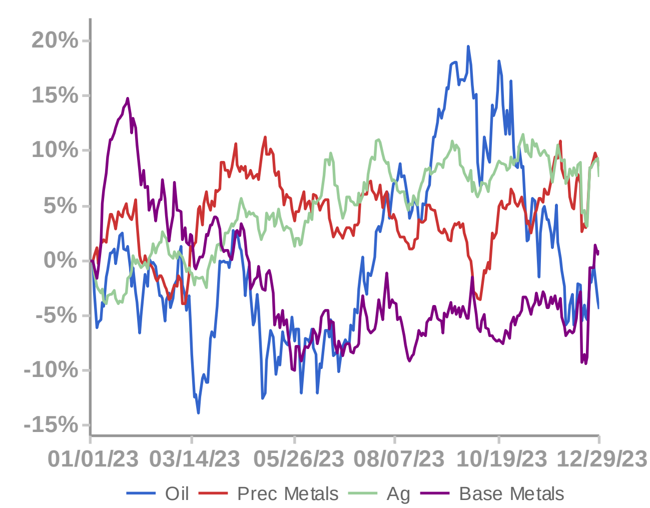
We typically invest in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We highlight the following returns during the 4Q23 and 12M23, respectively: Oil (-17.7% and -4.5%), Precious Metals (+9.9% and +7.7%), Agriculture (+2.5% and +9.3%), Base Metals (+2.5% and +0.1%).

Figure 22: 4Q23 Commodity Performance[vi]



Source: FactSet

Figure 23: 12M23 Commodity Performance



Source: FactSet

Digital Asset Performance Review

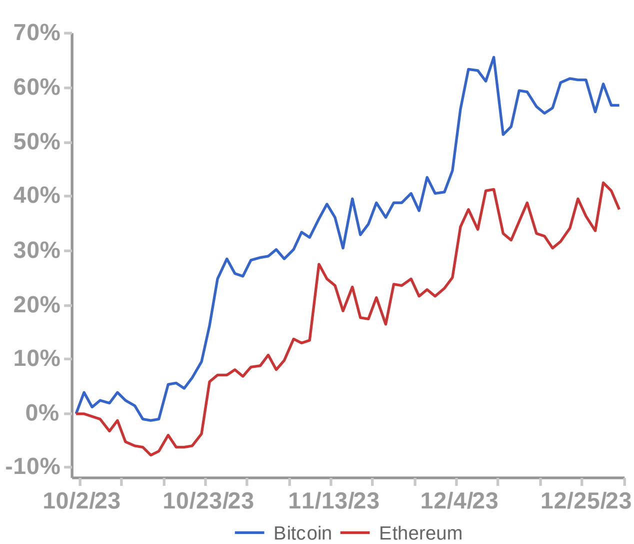
Prices Surge As 2023 Comes to A Close

While 2023 proved to be a very strong year for equities, so too did the year result in excellent performance for digital assets. Investors learned, unfortunately, how much leverage and malfeasance existed in the cryptocurrency landscape in 2023. Despite numerous bankruptcies and criminal convictions, including those at FTX, investors returned to the asset class.

To reiterate, we do not believe digital assets are a substitute for equities or bonds or other cash flow-driven securities. Indeed, 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. Yet it is worth recognizing that many assets do not generate cash flows but are 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.

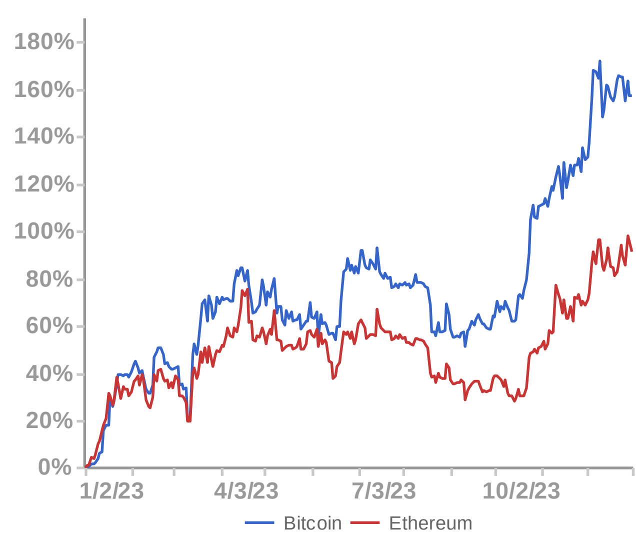
It is not surprising to see a new asset class experience materially higher volatility than a more established asset, especially if that asset that does not cash flow. As previously stated, we do not know the future for digital assets, but emphasize that having no exposure is taking a stance vis a vis portfolio management. 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 4Q23 and 12M23, respectively, results: Bitcoin (+56.8% and +157.5%) and Ethereum (+37.7% and +91.6%).

Figure 24: 4Q23 Digital Asset Performance [vii]



Source: FactSet

Figure 25: 12M23 Digital Asset Performance

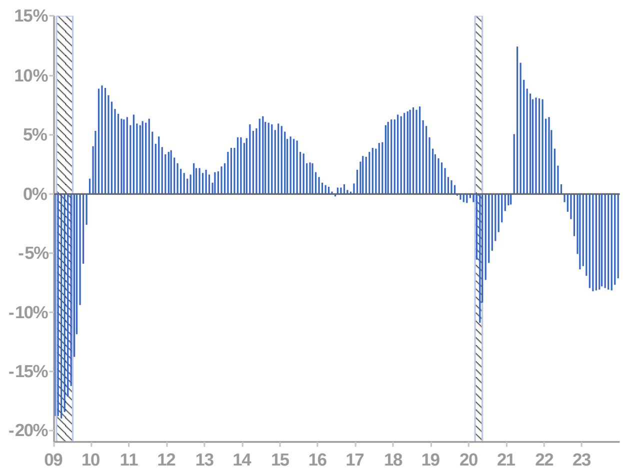


Source: FactSet

Chart Book

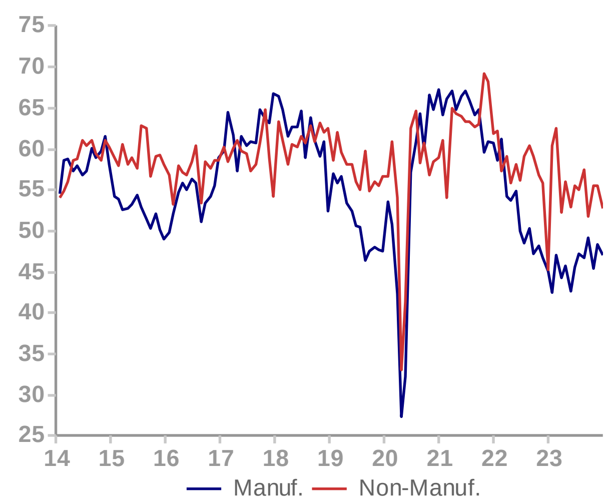
Leading Indicators

Figure 26: Index of Leading Economic Indicators



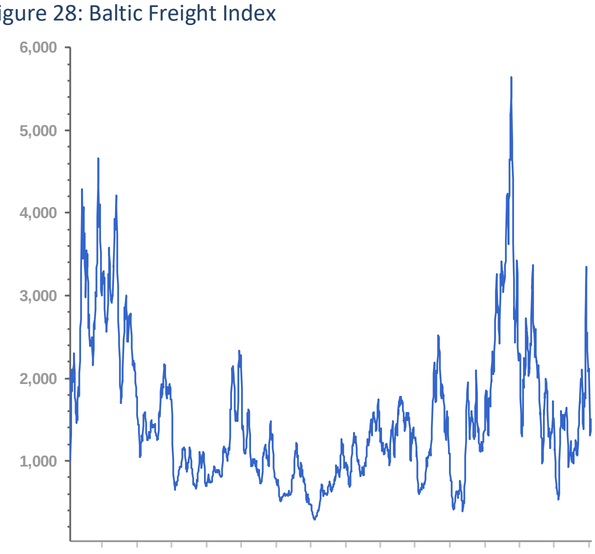
Source: FactSet

Figure 27: ISM New Orders



Source: St. Louis Federal Reserve, FRED Database

Figure 28: Baltic Freight Index



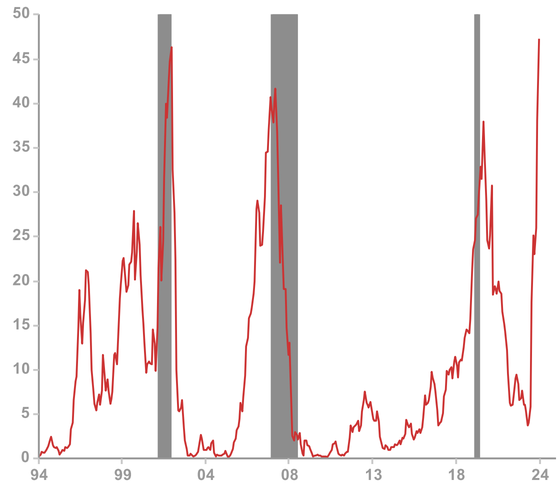
Source: FactSet

Figure 29: DJ Transports

Source: FactSet

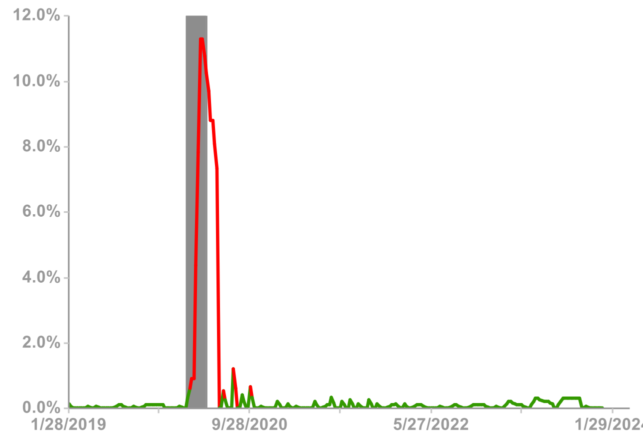
Real-time Recession Risk Indicators

Figure 30: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 31: Sahm Real-time Recession Predictor

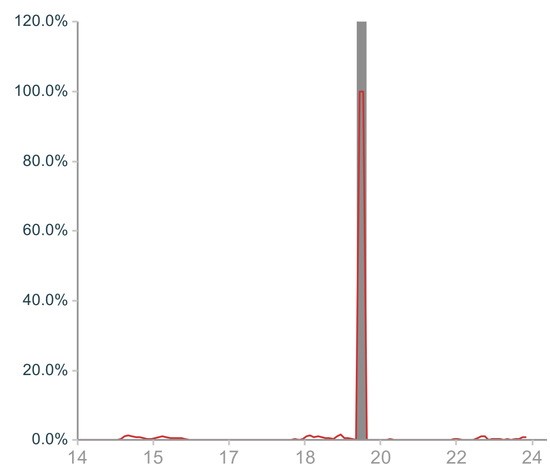


Source: St. Louis Federal Reserve, FRED Database

Figure 32: GDP Now (Atlanta Fed)

Source: FactSet; FRED Database

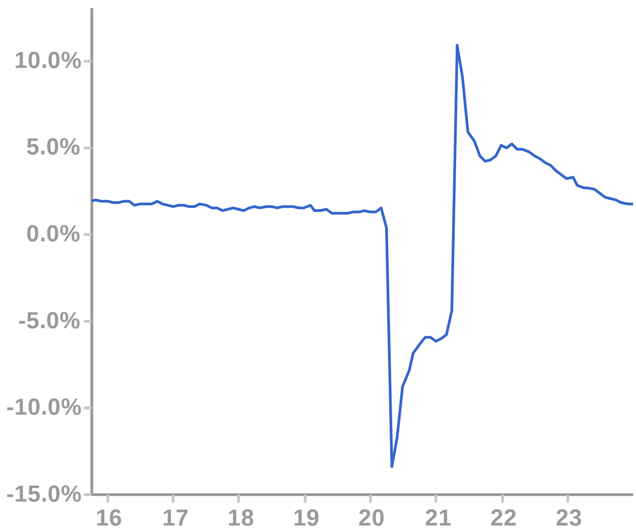
Figure 33: Smoothed US Recession Probabilities



Source: FactSet; FRED Database

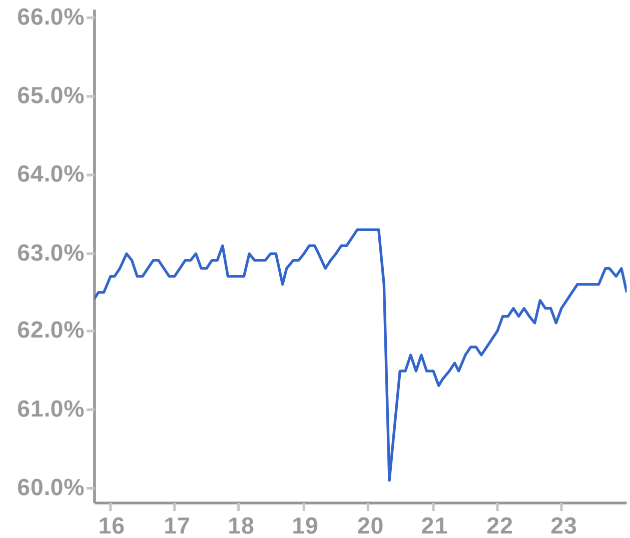
Labor Market Indicators

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



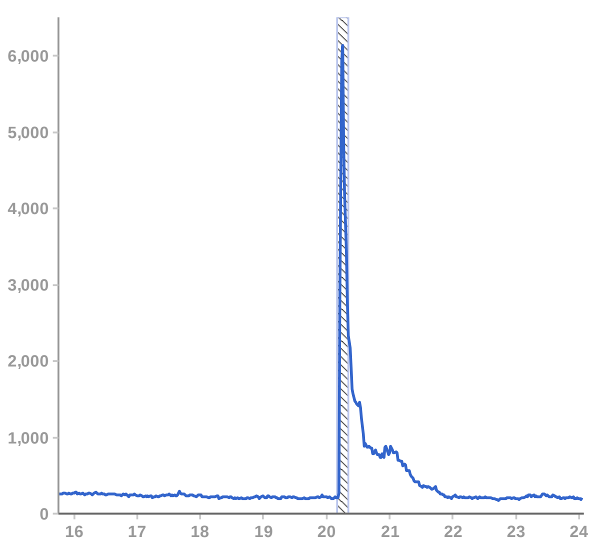
Source: FactSet

Figure 35: Labor Participation Rate (% of Workforce)



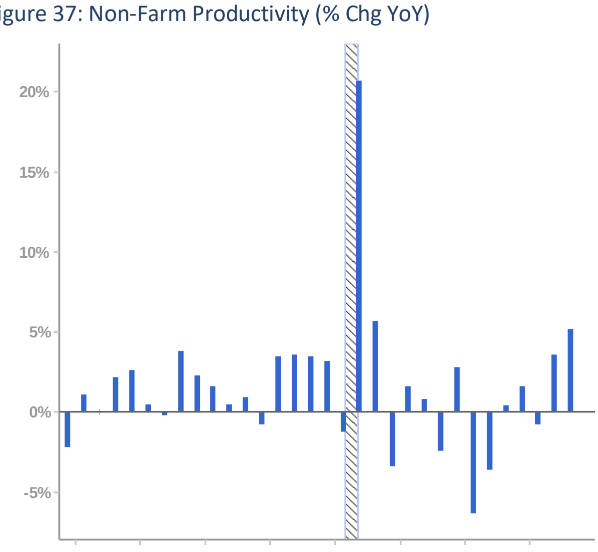
Source: FactSet

Figure 36: Initial Unemployment Claims



Source: FactSet

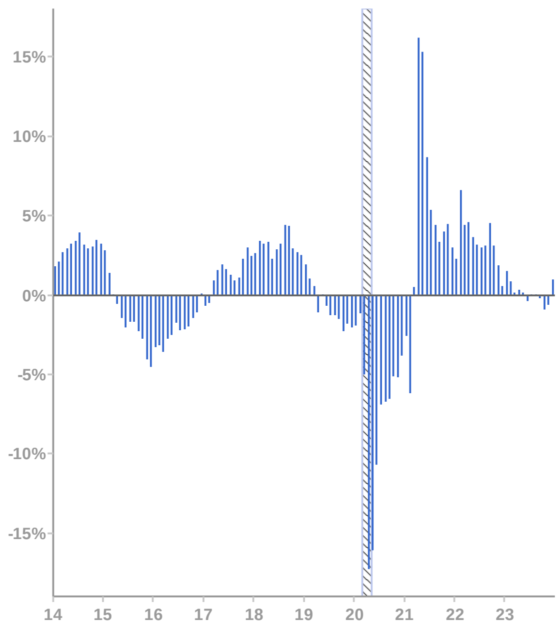
Figure 37: Non-Farm Productivity (% Chg YoY)



Source: FactSet

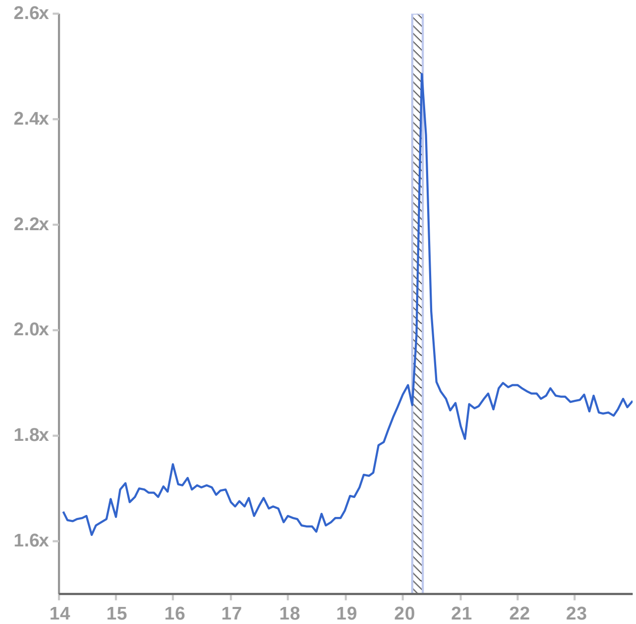
Production and Business Activity Indicators

Figure 38: Industrial Production (% Chg YoY)



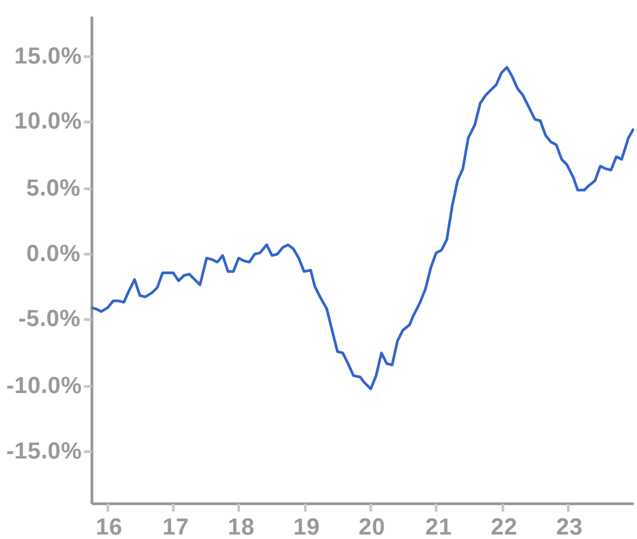
Source: FactSet

Figure 39: US Inventory to Shipment Ratio



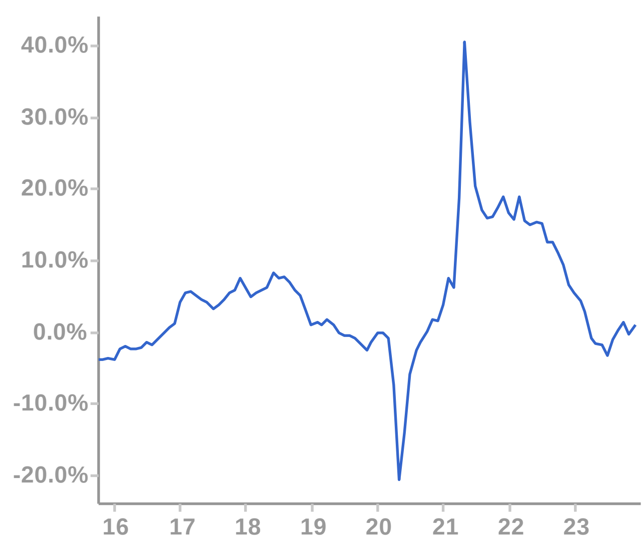
Source: FactSet

Figure 40: Unfilled Orders (% Chg. YoY)



Source: FactSet

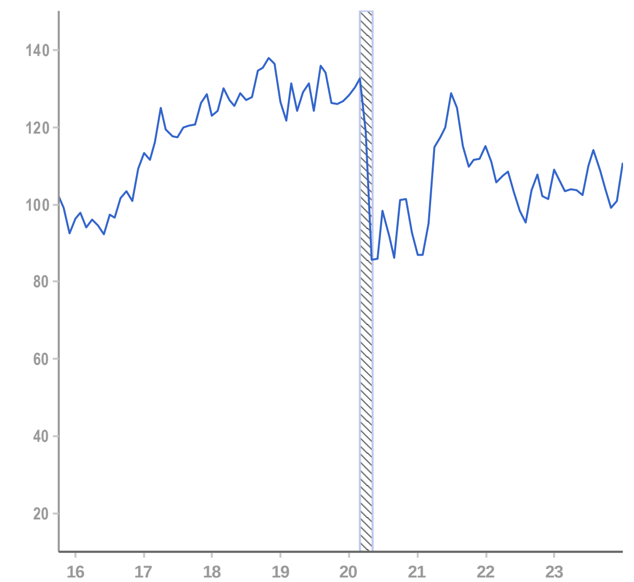
Figure 41: Business Sales (% Chg. YoY)



Source: FactSet

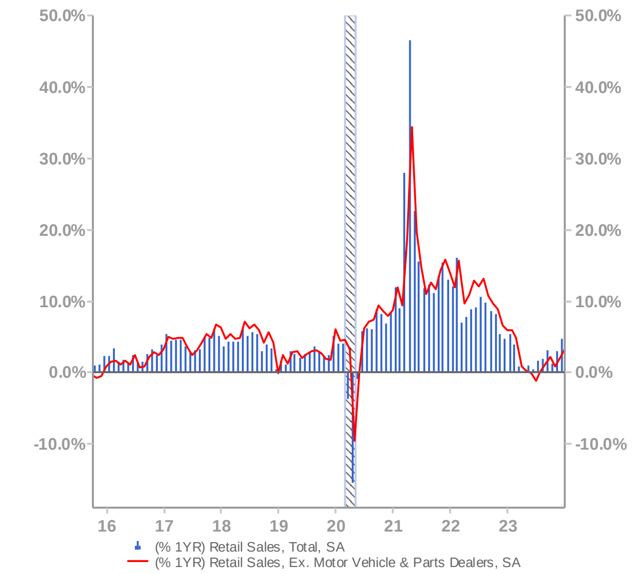
Consumer and Household Activity Indicators

Figure 42: University of Michigan Consumer Sentiment



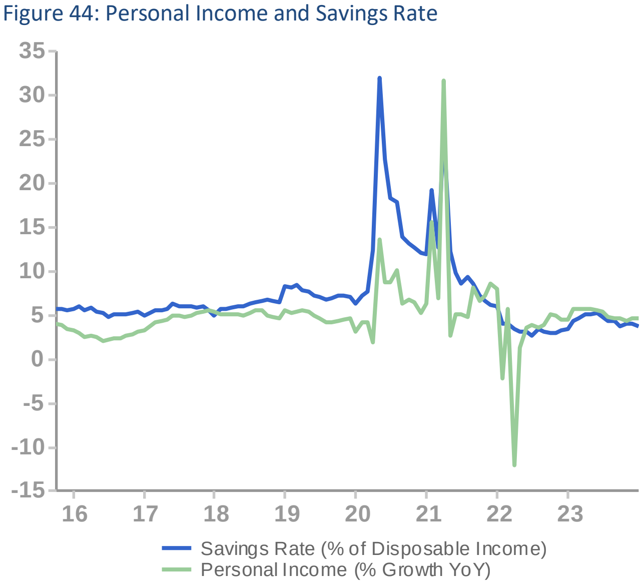
Source: FactSet

Figure 43: Retail Sales



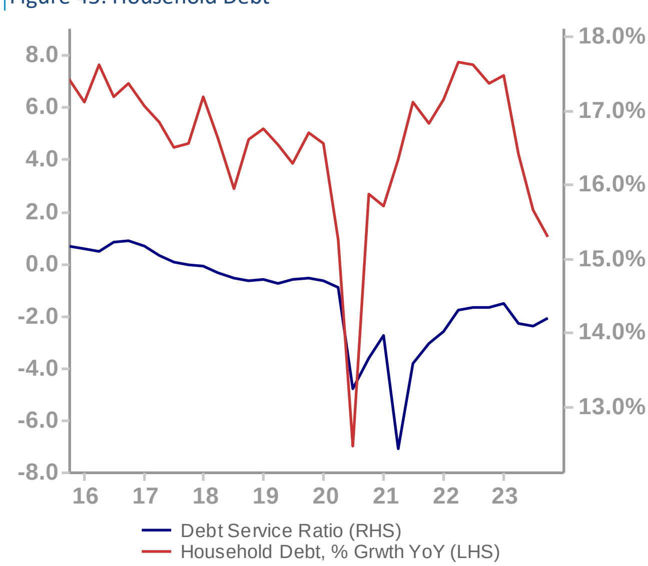
Source: FactSet

Figure 44: Personal Income and Savings Rate



Source: FactSet

Figure 45: Household Debt

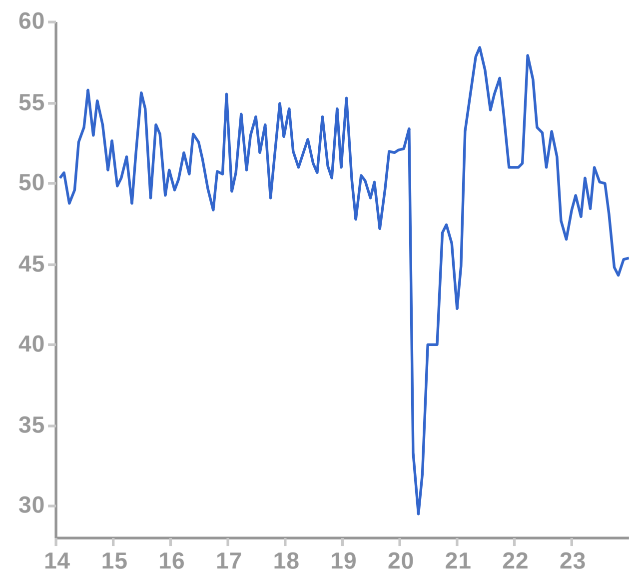


Source: FactSet

ROCKINGSTONE ADVISORS LLC

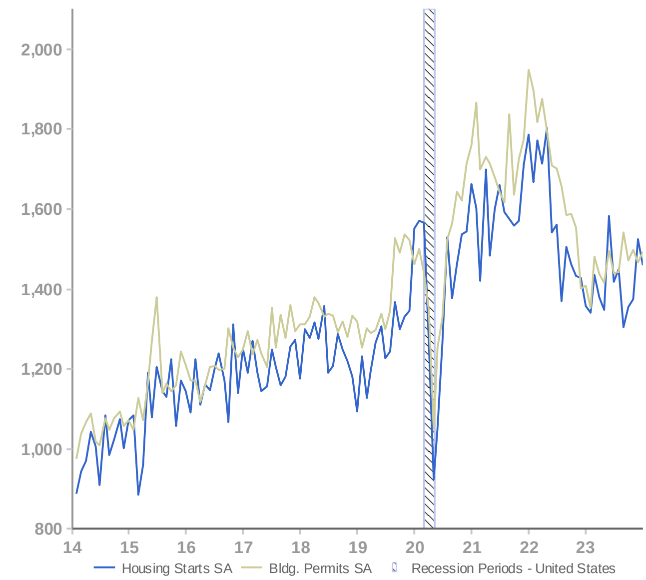
Housing and Construction Indicators

Figure 46: Architecture Billings Index



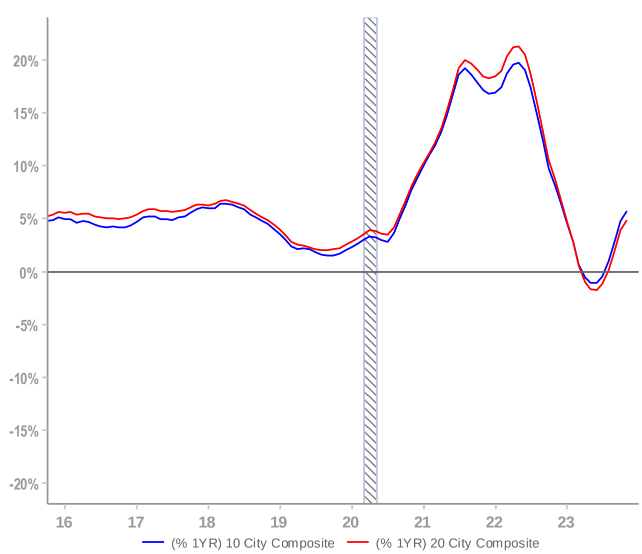
Source: FactSet

Figure 47: Housing Starts and Building Permits



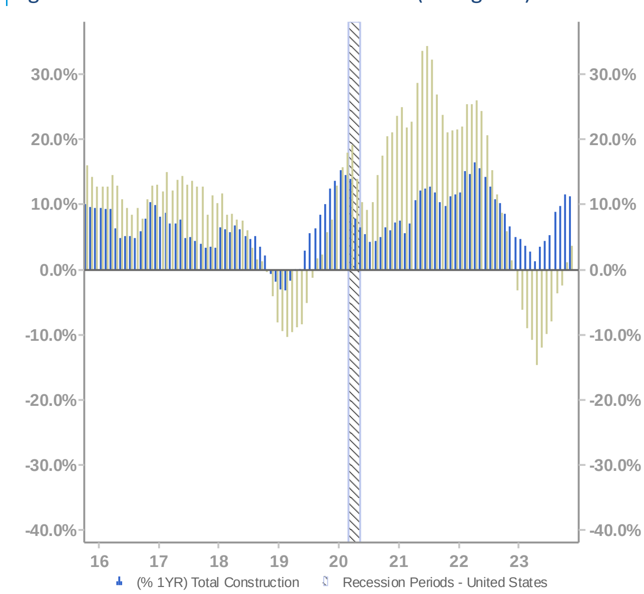
Source: FactSet

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



Source: FactSet

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



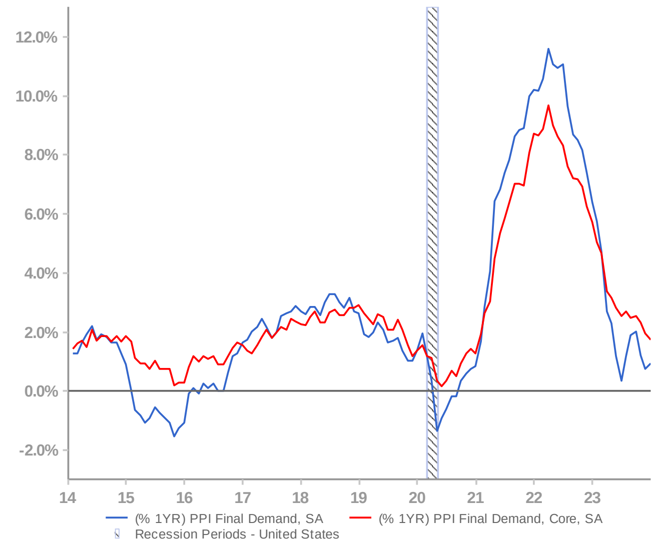
Source: FactSet

Price Indicators

Figure 50: Consumer Price Index

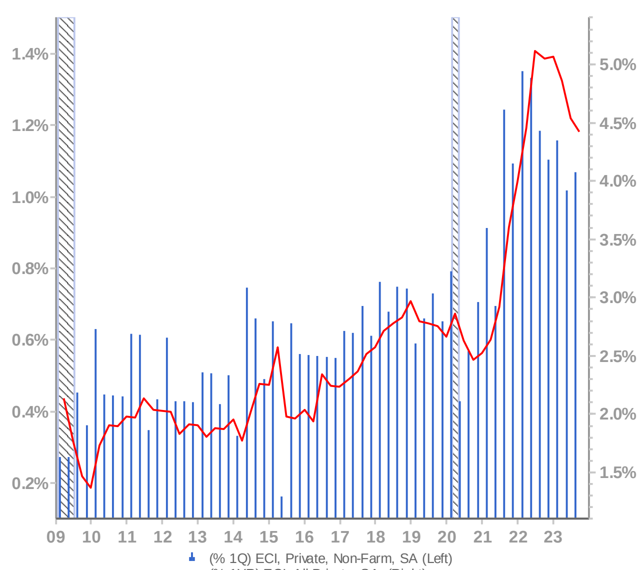
Source: FactSet

Figure 51: Producer Price Index



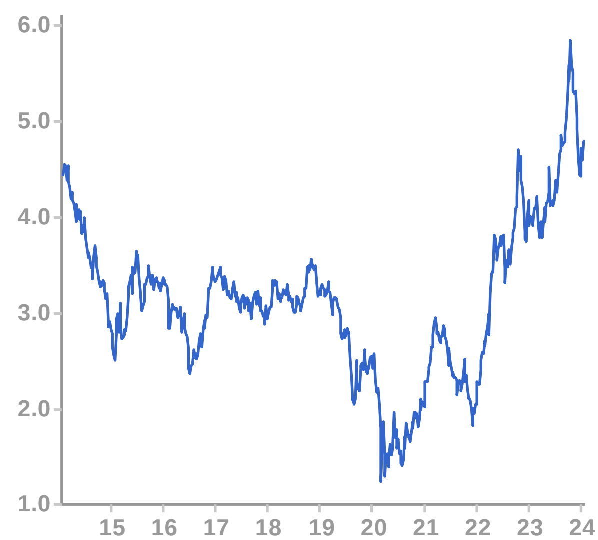
Source: FactSet

Figure 52: Employment Cost Index



Source: FactSet

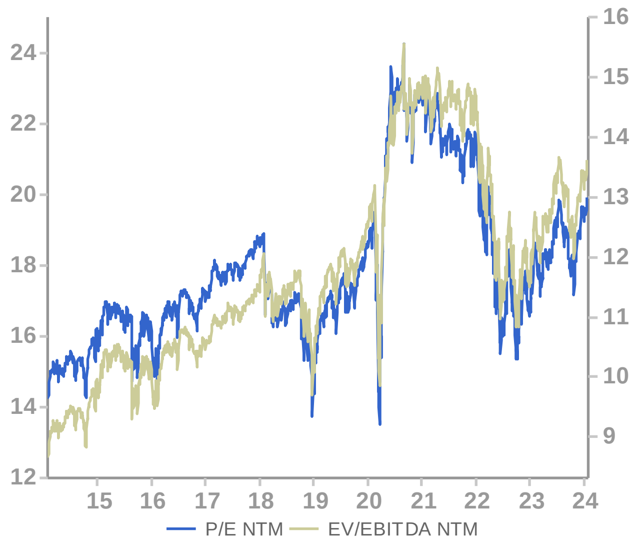
Figure 53: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

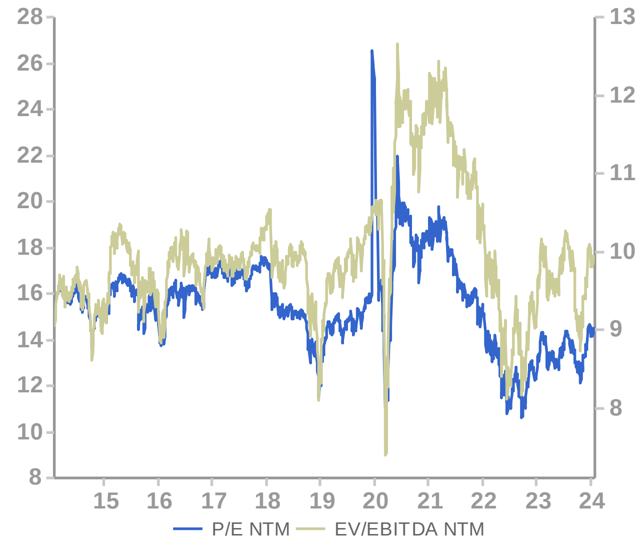
Valuation Indicators

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



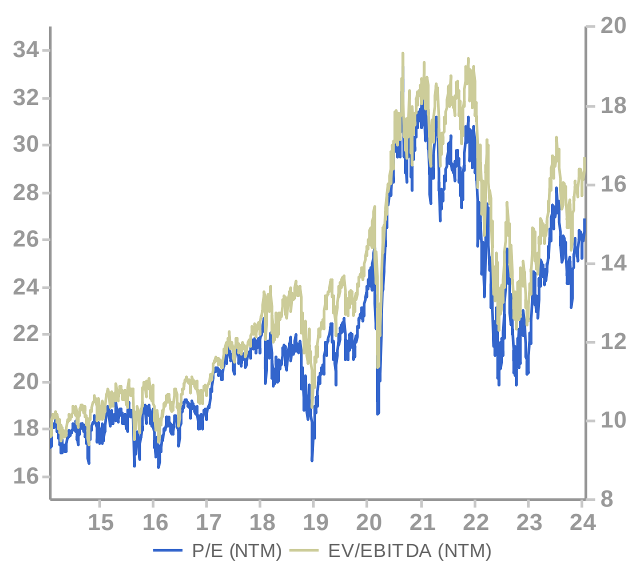
Source: FactSet

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



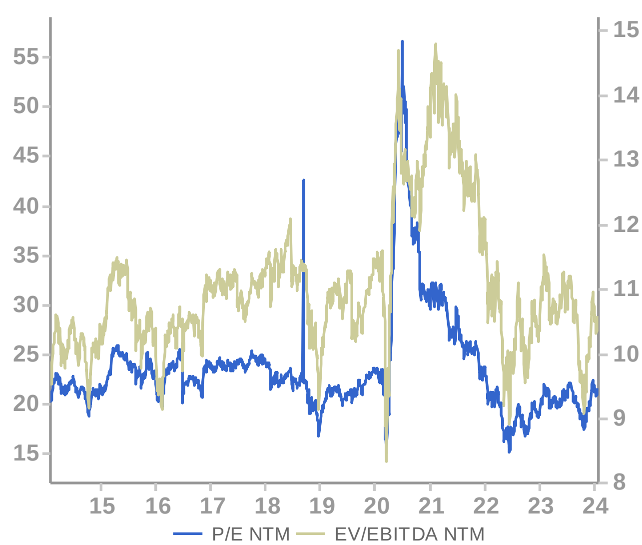
Source: FactSet

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



Source: St. Louis Federal Reserve, FRED Database

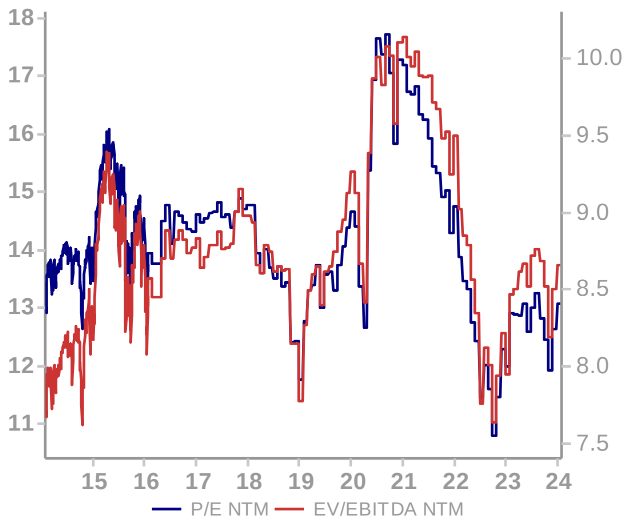
Figure 57: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

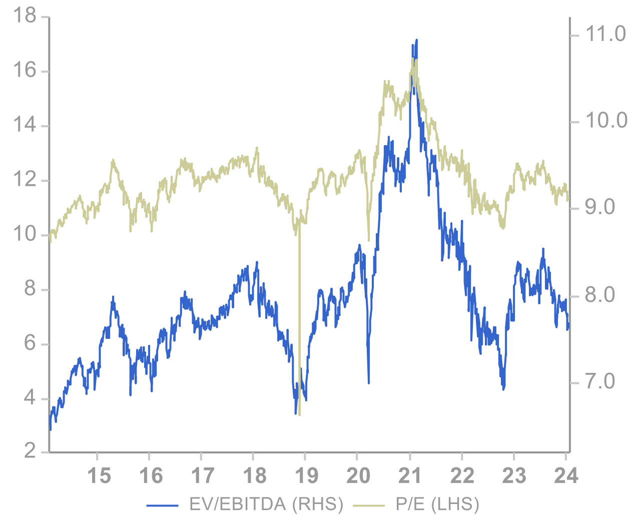
Valuation and Volatility Indicators

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



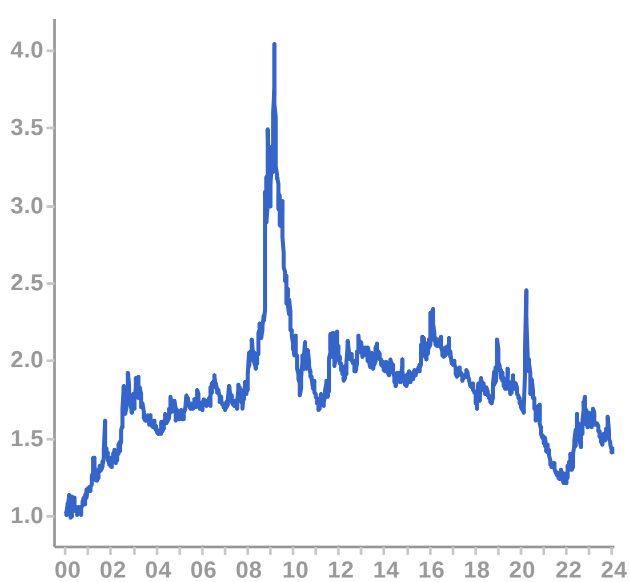
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

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



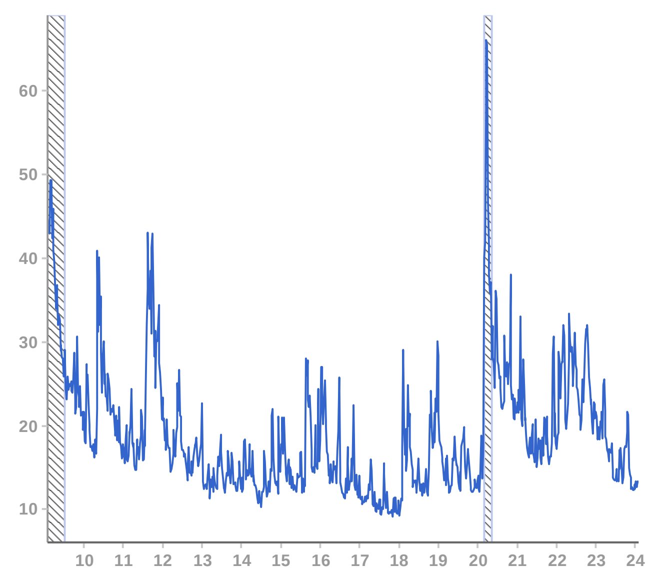
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 60: S&P 500 Dividend Yield



Source: FactSet

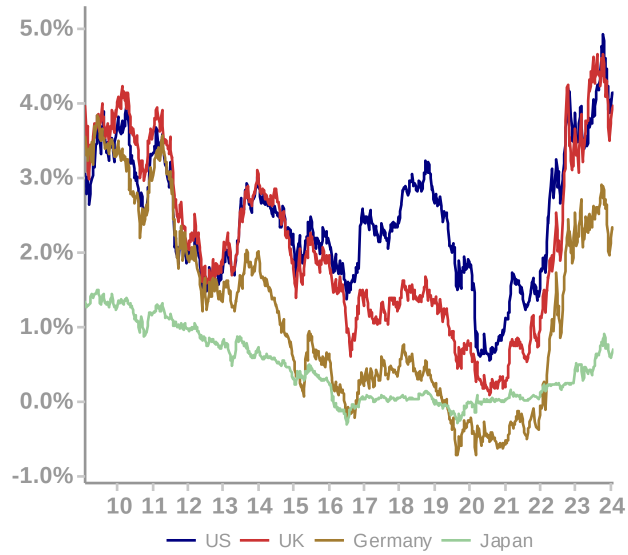
Figure 61: CBOE Volatility Index



Source: FactSet

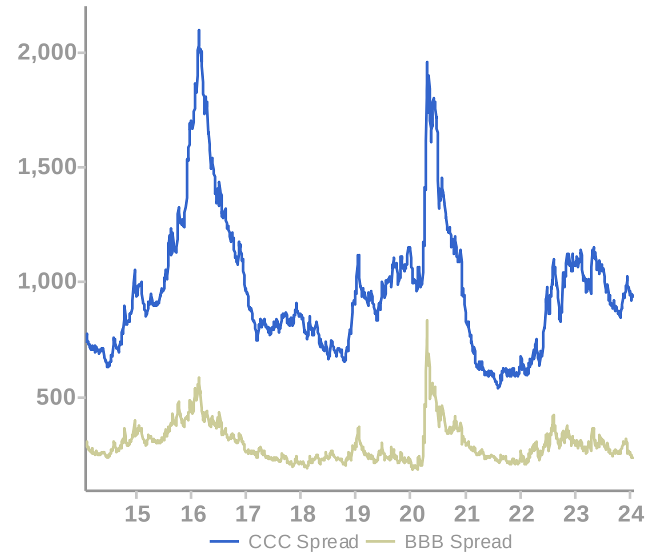
Bond Market Indicators

Figure 62: 10-Year Global Bond Yields



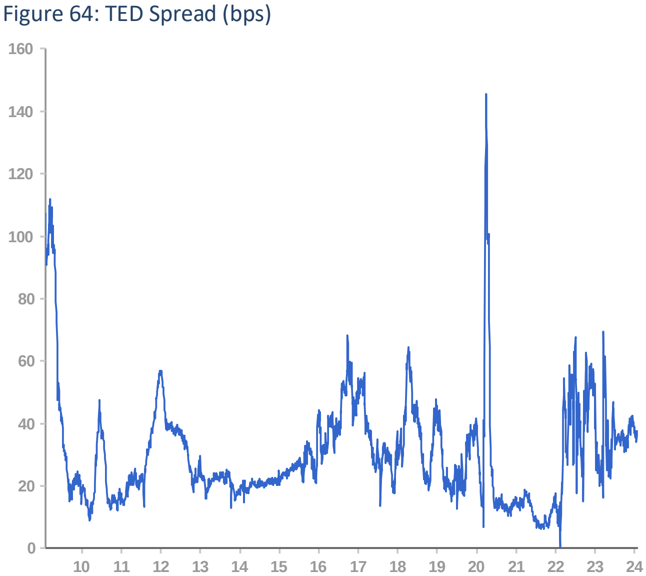
Source: FactSet

Figure 63: CCC and BBB Spreads (Option Adjusted)



Source: FactSet

Figure 64: TED Spread (bps)



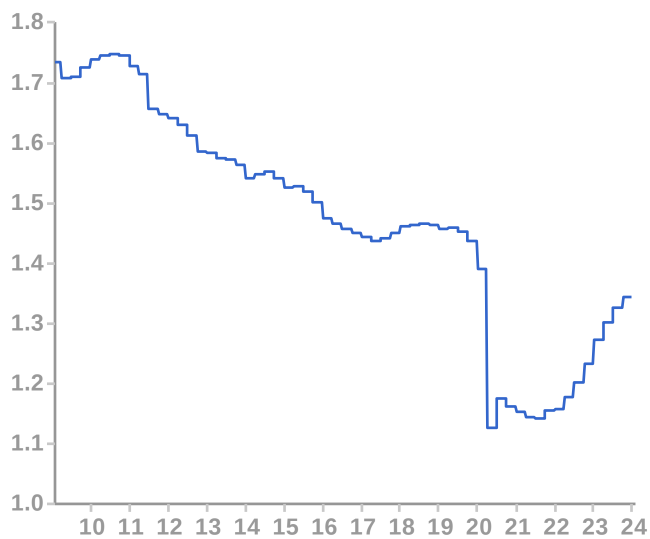
Source: FactSet

Figure 65: 10-Year Minus 2-Year Treasury

Source: FactSet

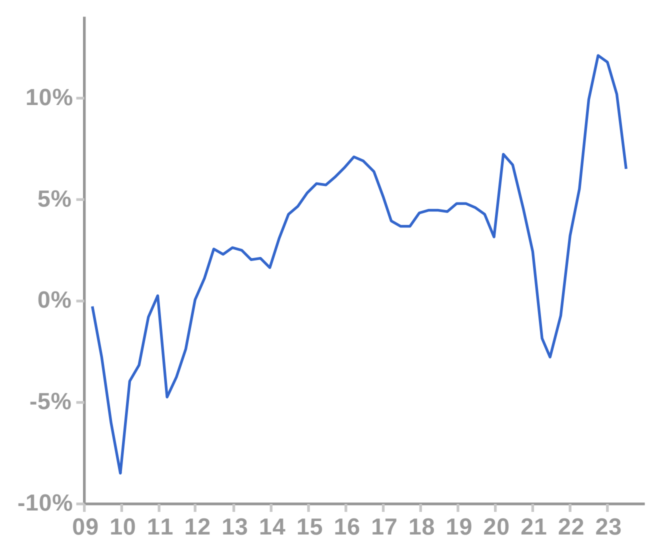
Liquidity and Other Indicators

Figure 66: Velocity of M2 Money Stock



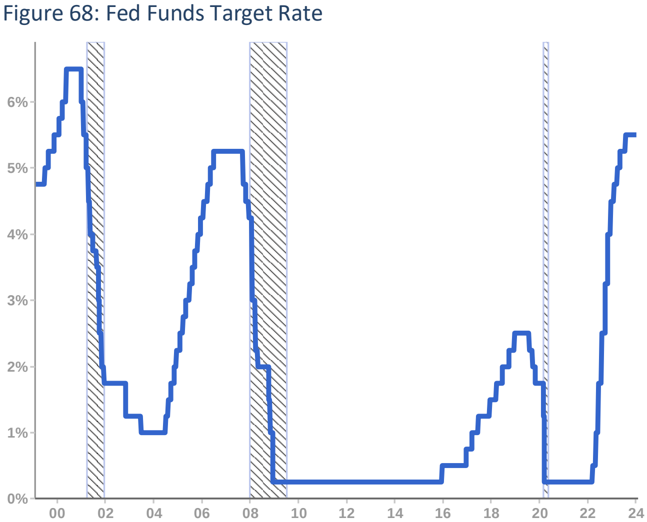
Source: FactSet

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



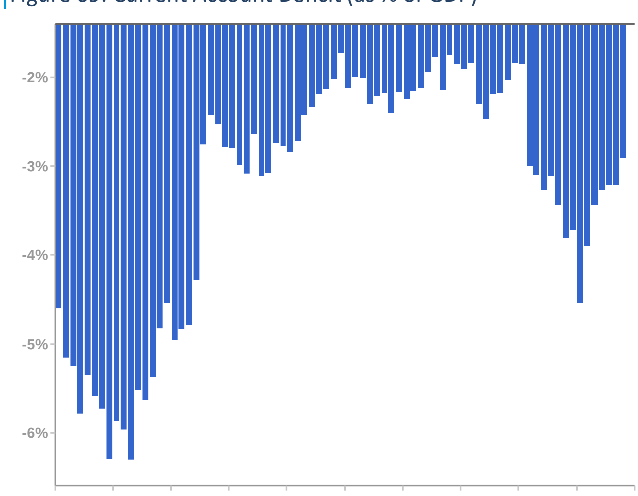
Source: FactSet

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 December 31, 2023; most other prices and yields are as of January 29, 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.

Our contact information:

Brandt Sakakeeny & Eric Katzman, CFA
Rockingstone Advisors LLC
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.