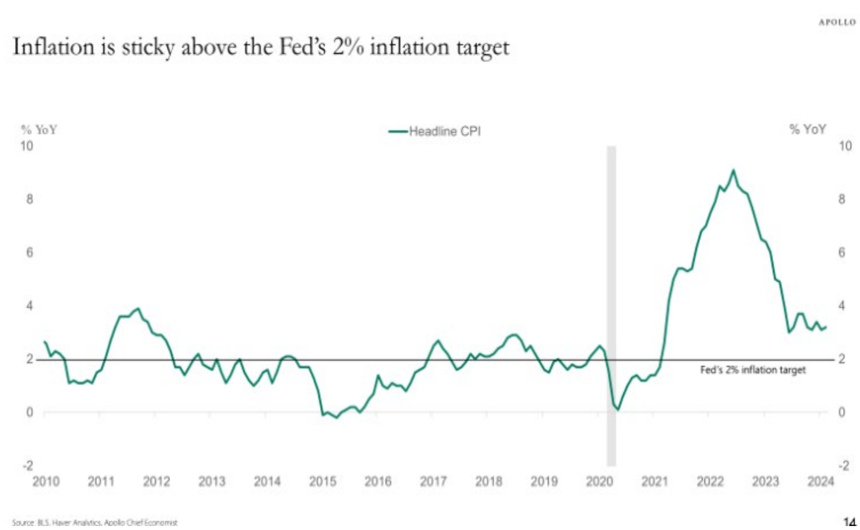
NEWSLETTER – APRIL 2024

A Good Start to the Year

There is an old Wall Street adage that says, "as January goes, so goes the year." The equity markets performed well in January and continued their ascent through March 2024. The strong market is betting that a recession isn't on the horizon and that the Federal Reserve ("Fed") will begin cutting rates this year.

Given the Fed's aggressive tightening over the last couple of years, a soft landing is currently happening, which is remarkable, even historic, given the dramatic increase in rates. However, unemployment remains low, and inflation, while down, has proven persistent, which could lead to fewer cuts this year than investors are predicting, as well as lower overall spending and lower Gross Domestic Product.



Source: Apollo Investment Management

We don't make short term market predictions at Shorepoint; and the recent ebullience of the equity markets is more likely to make us more cautious as opposed to declaring "all clear" for the year while trotting out a victory lap.

MARKET TRENDS 3.31.24

Asset Class	3 Mo	1 Yr
Global Stocks		
MSCI World	8.9%	25.2%
US Stocks		
S&P 500	10.5%	29.9%
Large Cap Value	8.9%	20.1%
Large Cap Growth	11.4%	38.8%
Mid Cap	10.0%	23.3%
Small Cap	5.1%	19.5%
International Stocks		
Developed Markets	5.8%	15.0%
Emerging Markets	2.2%	6.9%
Fixed Income		
Taxable Bonds	-0.7%	1.6%
Municipal Bonds	-0.4%	2.8%
Alternatives		
EM Bonds	1.7%	10.4%
Floating Rate	1.8%	7.1%
Preferred	4.5%	10.5%
Gold	7.3%	11.4%
Real Estate	-1.2%	8.9%

Source: Factset

Tim Vanech
tim@shorepointpartners.com

Luis M. Raposo, CFA
luis@shorepointpartners.com

Chris Stuart, CFA
chris@shorepointpartners.com

Rand Folta, CFA
rand@shorepointpartners.com

Kevin Raposo
kevin@shorepointpartners.com

Main 781 341 7250 | Fax 781 341 7246

220 Norwood Park South
Norwood, MA 02062

www.shorepointpartners.com

Shorepoint
Capital Partners

Identifying Opportunities

Shorepoint continues to see opportunities outside of large cap growth and technology stocks. Dividend paying companies (value stocks) have not rallied nearly as much as growth stocks have. And the small and mid-cap equity parts of the market look appealing as well.

"Magnificent" Valuation Gaps?
Value stocks are trading at their lowest levels relative to Growth.

Source: Berkshire AM, Bloomberg Relative Price to Book 3.26.2024

Additionally fixed income looks like a good place for long term investment, and bonds continue to offer the highest yields investors have seen in over a decade. If the Fed cuts rates later this year, bonds should do well.

Shorepoint has had a multi-year overweight allocation to money markets, currently yielding about 5%, as rates have steadily risen. In the months to come, we will be looking for opportunities to invest the cash longer term and strategically.

Navigating Risk (and Bubbles)

As we alluded to earlier, large cap growth stocks are not broadly cheap right now. We see the biggest speculation occurring in Artificial Intelligence ("AI") related companies. This phenomenon is reminiscent of past cycles as new, exciting technologies emerge.

Like the dawn of the internet, it appears that AI will be a game changer, affecting our lives in a variety of ways, although the magnitude of the impact still is unknown. Our view is that speculative money will be invested in names that may soar, but many companies won't live up to the initial hype generated by the AI mania.

AI will likely penetrate most companies and become a part of everyday life. However, we remain cautious about speculating on pure AI plays with questionable long term business models at extreme valuations. To generate healthy returns for our clients, we have invested in more established companies that we believe will be beneficiaries of the growth and implementation of AI. We don't see the impetus to go too far afield in pursuit of excess returns. As we often tell clients, we aim to hit singles and doubles, because, when you try to hit a home run, you often strike out. We aren't Reggie Jackson, and yes, we are showing our age thank you very much.

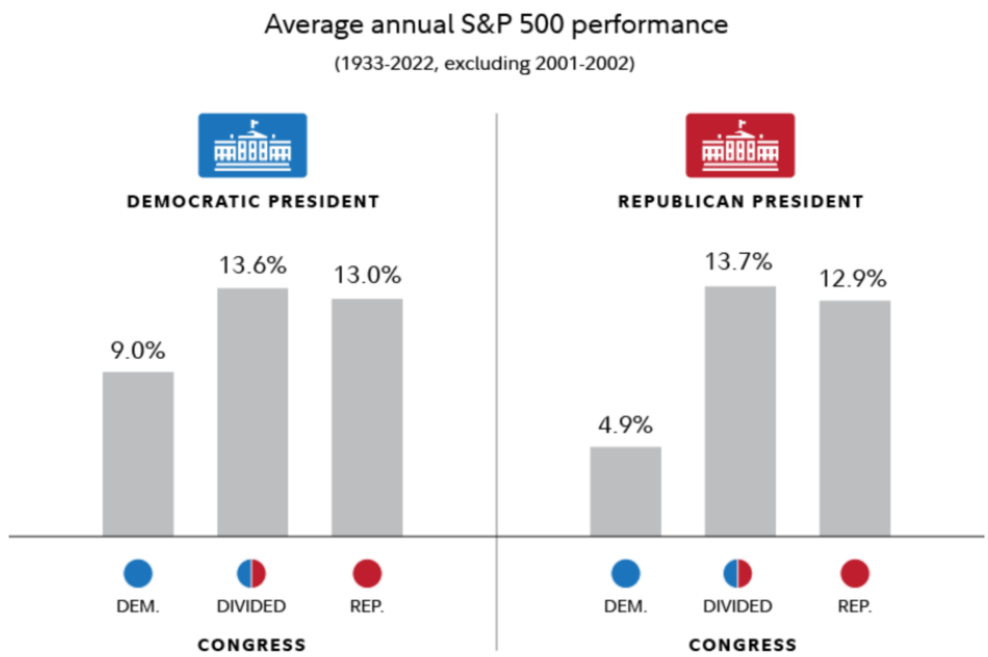
Keep Your Politics Out of Your Portfolio

It's a presidential election year and thus a political year. And the country seems more divided politically than ever before. Time and again, our clients ask us how the Presidential outcome will affect their portfolios. We have guesses, and they are directional at best.

For example, an oil company is likely to face more government regulation and cost under Biden than Trump. A solar company will likely find a Biden Presidency a boon while Trump could spell trouble. But we don't invest in conjectures like these.

What we have learned is that most attempts to invest based on political beliefs FAIL! Clients who went more conservative under Trump did less well. Clients who went more conservative under Biden did less well. There is little to no correlation between what party holds executive power and stock market performance.

The chart below from Fidelity Investments illustrates that, over the long term, markets are 'non-partisan,' showing that the S&P 500 has achieved positive average performance under either a Democratic or Republican administration. Of note that slightly higher returns have been achieved under a divided government.



Source: Fidelity Investment Management

Investing successfully in stocks is a long-term proposition, and the markets rise 60-70% of the time, granted with plenty of short-term volatility. We recommend clients get on the long side and own great companies with the appropriate balance in bonds and cash; it's our job to help you find that. Our politics can be hazardous to the health of our investment portfolios!

Looking Ahead

In last quarter's newsletter, we entertained the possibility of an ideal 'Goldilocks' scenario in which the Federal Reserve would embark on a path of accelerated easing while inflation remained tame and global growth picked up pace.

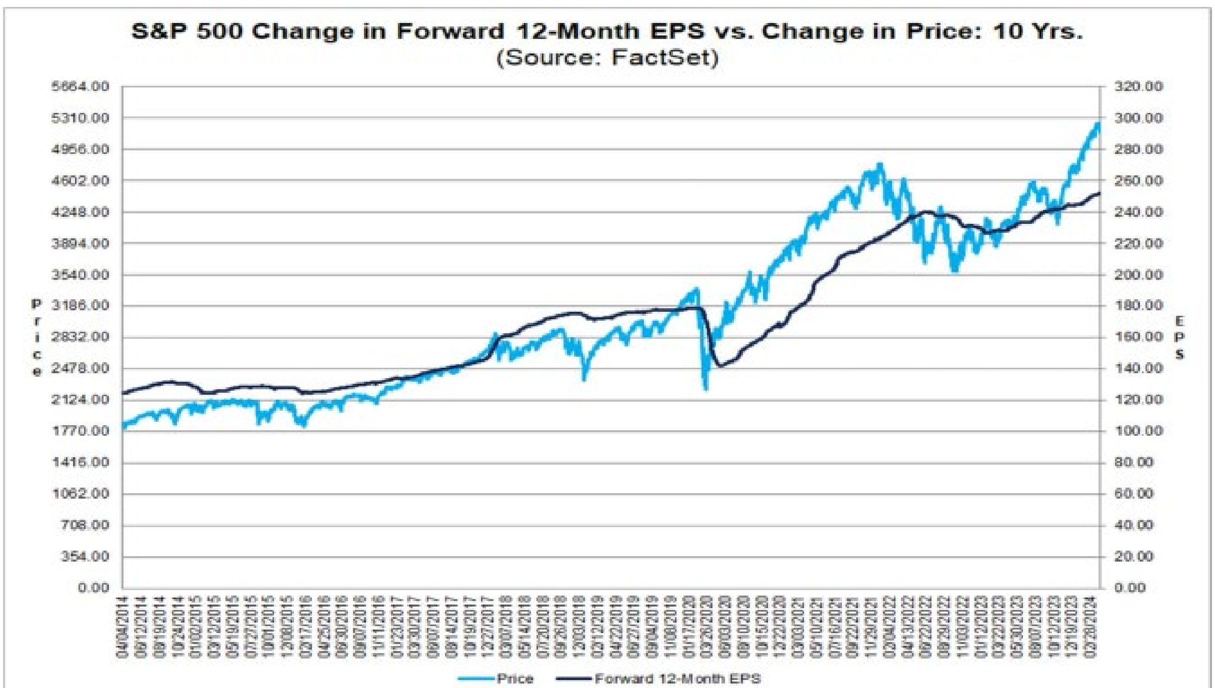
Contrary to those expectations, recent signs of inflation have tempered the market's anticipation of Federal Reserve rate cuts for 2024. Current data indicates only a 21% chance of an interest rate cut at the upcoming June Fed meeting, a stark decline from the 66% likelihood estimated in late March.

Given these developments, the markets may have to recalibrate the odds of fewer than three rate cuts this year. Despite this, if earnings growth persists—evidenced by a 3% increase in S&P 500 first quarter earnings growth - stocks could continue their upward trajectory, potentially disregarding less favorable monetary policy prospects.

Nonetheless, with the S&P 500's valuation now exceeding its long-term historical norms - 20.5x forward earnings compared to the 10-year average Price/Earnings ratio of 17.7x - there's a concern about the limited cushion available should earnings fall short of projections.

This point is underscored by the fact that, in the first quarter, 71% of companies that have reported earnings have issued negative EPS guidance, a figure substantially higher than the 10-year average of 63%.

As shown in the following chart, stock prices have been appreciating at a much faster rate than the expected rate of earnings growth over the next year.



Source: Factset

Amidst this optimism, stocks, particularly within the technology and growth sectors, appear to be priced for perfection, leaving little room for error or disappointment in earnings performance.

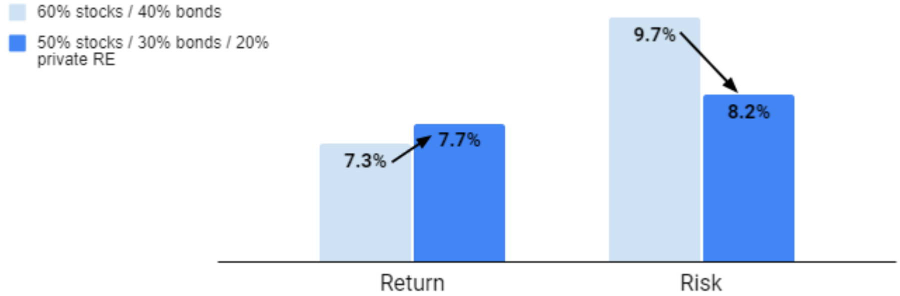
Thus, as we always do here at Shorepoint, we will remain true to our philosophy of investing in high quality companies, with strong consistent cash flows, healthy balance sheets and strong prospects for capital appreciation and dividend growth.

Alternatives – Shorepoint Income Fund II, LP

We are currently fundraising for Shorepoint Income Fund II, L.P with over $12 million committed so far and we anticipate the first close this June. The new fund is expected to have a similar investment allocation as compared to our first private fund (Shorepoint Income Fund 1 L.P.) with an allocation to private real estate, private debt, and equity investments.

While the classic 60/40 mix of stocks and bonds offers a foundational diversification strategy, incorporating a supplementary allocation to alternative assets can enhance portfolio diversification even further. This approach not only helps in reducing overall volatility but also contributes to overall returns and offers an additional income stream.

Hypothetical Example of Portfolio Efficiency Improved with Allocation to Private Real Estate[11]



Source: Cadre, Returns Based on Average Annualized Return of Stocks, Bonds, and Private RE weighted by indicated percentage of each scenario in a 20-year period between 2003 and 2023. Returns represented by S&P 500, Bloomberg US Agg and NPI Total Return.

The Shorepoint Income II Fund is only appropriate for some investors, given the limited liquidity and income/net worth requirements; however, it is an attractive alternative for some investors. are available to discuss in detail the Fund and if this is appropriate for your situation.