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## 2024 Q1 COMMENTARY

**The first quarter of 2024 was strong for US equities as expectations for a soft landing built throughout the quarter.** Two rate cuts became the consensus view, and in general bullish sentiment ticked higher as measured by several investor surveys. Inflation data indicated moderating price inflation within the headline components, and by the quarter's end several equity indices established new all-time highs.

While we welcome these positive trends, we remain mindful of the downside risk to the economy. Our concerns about risk to corporate earnings from higher debt costs and slower growth continue to drive our company specific analysis. We do not believe we are out of the woods in regards to the risk of a meaningful market correction. Thus, we have been proactive in trimming several of our holdings where we see unfavorable risk-rewards, and looking to deploy capital into stocks with lower downside risk.

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In Q1, our Small Cap strategy outperformed the Russell 2000 Value while our All Cap composite lagged the Russell 3000 Value. In both strategies, equity selection was the main driver of positive attribution, with financials being the greatest contributor. Healthcare and real estate were the two sectors in both strategies with negative attribution, mainly due to equity selection.

Looking more closely at individual holdings, one of our biggest positive contributors for the quarter in both ACV and SCV was Coherent (COHR). The stock was up 39% in Q1 as the visibility of a bottoming in the company's various cyclical end markets improved. In addition, growth expectations ratcheted up in its data center and AI related end markets. Since we initiated our initial position in March of last year, COHR shares are up over 85%. While we have trimmed the position as our reward-to-risk ratio has become less attractive, we continue to hold a meaningful position.

Though financials in both strategies was a top contributor, the attribution was driven primarily by our insurance sub-sector holdings. Columbia Banking System (COLB) and Prosperity Bancshares (PB) combined were 30bp distractors in each strategy.

From a contrarian's perspective, we see value in banks that have strong balance sheets, healthy capital ratios, well-diversified loan books and stable core deposit funding, and are in attractive geographic regions. We continue to believe both companies are well-positioned within their markets to grow and generate favorable shareholder returns over the long term.

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While we welcome the tailwind of potential rate cuts, moderating inflation, and the possibility of a soft landing, we remain vigilant in our analytical work on downside risk. On a relative basis, we continue to see the opportunity for small cap stocks to outperform their large cap peers, though the timing is uncertain. We are well-positioned for when the long-term trend of small cap outperformance returns.

Thank you for your interest and/or investment in our value strategies.

**The HCM Team**

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