SYCAMORE MID CAP VALUE EQUITY QUARTERLY COMMENTARY

SYCAMORE CAPITAL®

A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of March 31, 2024

EXECUTIVE SUMMARY

Sycamore Capital's Mid Cap Value investment team employs a disciplined, bottom-up, fundamental process to invest in what we believe are better businesses that trade at a discount to the team's estimate of intrinsic value and possess fundamental drivers that may narrow the valuation gap. By investing in businesses that exhibit these attributes, we seek to minimize downside risk without sacrificing the upside potential.

- The Sycamore Mid Cap Value Equity strategy outperformed the Russell Midcap® Value Index during the first quarter of 2024.
- For the quarter, sector allocation and stock selection were both positive, with sector weighting having a greater impact on relative outperformance. Sector weighting is a by-product of the bottom-up stock selection process and not a result of top-down tactical decisions.

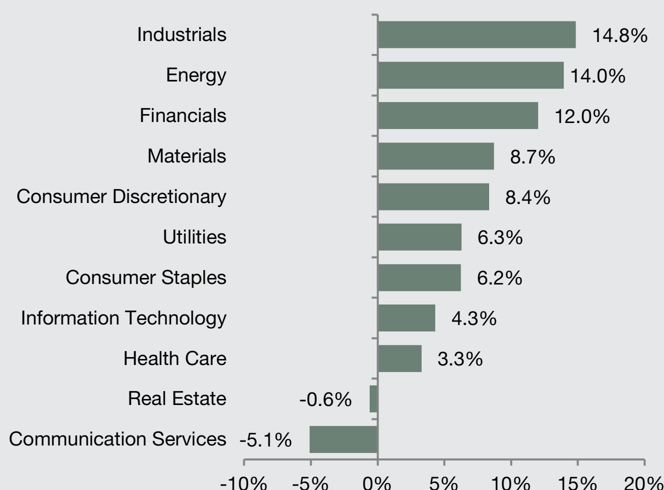
A SHIFT IN NARRATIVE FAILS TO DERAIL U.S. EQUITIES

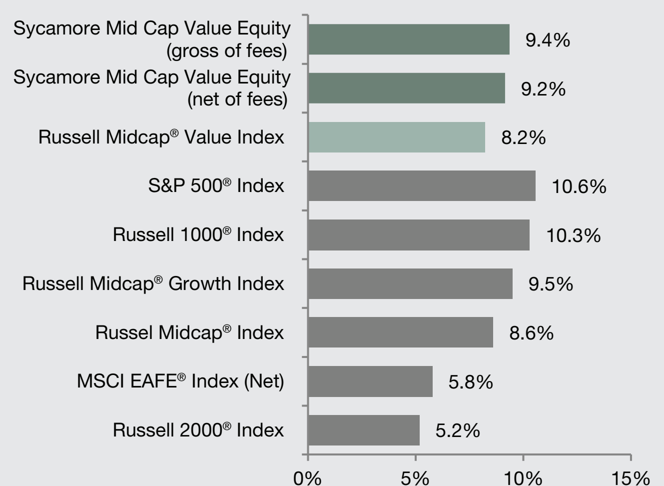
The impressive rally that ended a perplexing 2023 for investors continued into the first quarter of 2024. The S&P 500® Index advanced 10.56%, its best start to the year since 2019 and its second consecutive quarter of double-digit gains. The broad-market index has now advanced in five out of the last six quarters. March also marked the fifth consecutive monthly gain for the index. The tech-centric NASDAQ Composite® also continued its march higher, posting solid gains of 9.31% for the quarter. Market strength broadened beyond mega-cap tech and large-cap equities with positive returns down the market cap spectrum as well. The Russell Midcap® Index and the Russell 2000® Index returned 8.60% and 5.18%, respectively, for the first three months of the year.

The solid equity market gains were achieved despite a shift in the interest rate narrative, which has seen the median rate cut expectations slide from six (in December) to three for the year. The reset in easing expectations was chalked up to an economy that is still growing above "potential," a resilient labor market, and a consumer that is still willing to spend despite the highest interest rates in decades. During the quarter, 4Q23 GDP was revised higher to 3.4%—well above the 2% consensus. The labor market also surprised to the upside with the change in total nonfarm payroll numbers in January and February coming in at 229K and 275K, respectively—firmly above expectations. Another sign that the economy remains stable was the release of the Institute for Supply Management's (ISM) Manufacturing PMI (purchasing managers' index), which registered 50.3% for March (up from 47.8% in February). That marked the first time the index had risen above 50 (signals growth) in 17 months and portrays that the industrial segment of the economy is at a potential inflection point.

The underlying strength in the overall economy resulted in an upward inflation surprise with hotter-than-expected prints in January and February. In a late-quarter interview at the San Francisco Fed's Macroeconomic and Monetary Policy Conference, Chairman Powell downplayed the reacceleration of "supercore" inflation (core services prices excluding housing costs) so far this year. He remarked: "The February number was high, higher than expectations, but we have it currently well below 30 basis points core PCE, which is not terribly high. So, it's not like the January number." He further commented: "I take the two of them together, and I think they haven't really changed the overall story, which is that of inflation moving down gradually, on a sometimes bumpy road, toward two percent."

By effectively dismissing the "hot" core inflation prints as merely "noise" and sticking to the three-cut trajectory for the year, Mr. Powell messaged to the market that he (and other Fed officials) is confident that inflation is anchored and is progressing toward the desired 2% target. Market participants will have to eagerly wait for future data to determine whether to take the recent upward surprise in inflation at face value or interpret it as statistical noise. Regardless, if the Fed is "truly" data dependent, a key test moving forward is whether the bank is willing to reset the base case lower (which currently calls for three cuts) should the path toward the intended inflation target be delayed further—or, as Mr. Powell put it, he encounters more "bumps" in the road. With that said, upsetting the consensus in what is likely to be a contentious election cycle in the U.S. is a tall task. Hence, we suspect the base case likely prevails and the commencement of an easing cycle sometime this summer remains on the table. This presumably bodes well for risk assets.





Past performance does not guarantee future results. See the final page for standardized performance. Source: Zephyr & FactSet.

20240418-3516847

Performance Attribution Relative to the Russell Midcap® Value Index – 1Q 2024

Positive Contributors	Negative Contributors
Stock Selection in Information Technology	Stock Selection in Industrials; *partially offset by overweight*
Stock Selection in Consumer Staples	Stock Selection in Utilities
Stock Selection & Underweight in Real Estate	Stock Selection in Materials
No Exposure in Communication Services	Cash Position
Stock Selection in Consumer Discretionary	
Stock Selection in Health Care	
Stock Selection in Financials	

Source: FactSet.

PERFORMANCE BY SIZE AND STYLE

Large-cap equities outpaced both mid- and small-cap equities during the first quarter of 2024. Large-cap stocks, as measured by the S&P 500® Index and the Russell 1000® Index, posted returns of 10.56% and 10.30%, respectively. Mid-cap equities, as measured by the Russell Midcap® Index, returned 8.60% during the quarter, while small-cap equities, as measured by the Russell 2000® Index, returned 5.18%. Broken down by style, growth outpaced value within each of the three major size segments. Specifically, for mid-caps, the Russell Midcap® Growth Index returned 9.50%, outpacing its value counterpart, which returned 8.23%.

PORTFOLIO ATTRIBUTION – FIRST QUARTER

The Sycamore Mid Cap Value Equity strategy outperformed the Russell Midcap® Value Index (the “Index”) in the first quarter of 2024.

During the quarter, sector allocation and stock selection were both positive, with sector weighting having a greater impact on relative outperformance. Index returns were positive across nine of the 11 major economic sectors, with only five sectors outpacing the broader Russell Midcap® Value Index. Industrials was the top-performing sector, returning 14.85%. By contrast, Communication Services was the worst-performing sector for the quarter, posting a return of -5.09%.

Specifically, for the portfolio, a lack of exposure in Communication Services (the worst-performing sector) and an underweight in Real Estate contributed to relative performance for the quarter. Stock selection in Information Technology, Consumer Staples, Consumer Discretionary, Health Care, Real Estate and Financials also contributed to relative return. Conversely, stock selection in Industrials was the largest detractor for the period; however, an overweight in the top-performing sector partially offset the unfavorable impact of selection. Stock selection in Utilities and Materials also detracted from relative return for the quarter. Additionally, the portfolio’s cash position was a drag on performance.

TOP CONTRIBUTORS – FIRST QUARTER

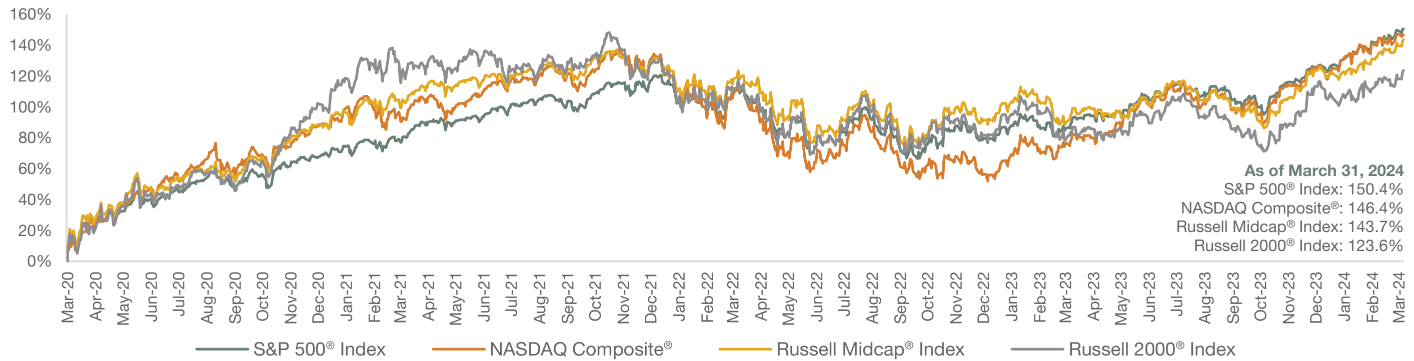
Dick’s Sporting Goods, Inc. (DKS), the largest sporting goods retailer in the U.S., was a top contributor for a second consecutive quarter. DKS reported 4Q23 earnings results that topped estimates. The beat was driven by better top-line growth and margin expansion. The retailer continues to gain market share through its House of Sport concept given its scale and the ability to deliver a premium shopping experience. Despite the relative move, we maintain a position in DKS. Insurer **Hartford Financial Services Group, Inc. (HIG)** was also a top contributor. Shares reacted favorably to a solid 4Q23 earnings report from the company. The company posted some of the best Commercial Lines and Group results in the company’s history. This was a differentiator among Commercial Line peers. Overall, business trends are on a positive trajectory and the insurer is well-positioned for further growth in 2024. HIG is over-indexed to small and mid-sized customers (a coveted segment of the insurance market), creating a niche for the company. Despite the share price performance, our thesis for HIG remains intact. Shares of **MKS Instruments, Inc. (MKSI)**, a global provider of instruments and process control solutions that measure, monitor and analyze advanced manufacturing processes to help improve performance in the semiconductor industry, reacted favorably to a better-than-expected 4Q23 earnings report. The company was able to overcome a soft demand environment and exceed margin expectations through disciplined cost management and production efficiency. Given the critical role that MKSI plays in advanced manufacturing processes, the company remains well-positioned for a cyclical recovery in semiconductor and PCB segment demand. Our thesis for MKSI currently remains unchanged. **Western Digital Corp. (WDC)**, a leading data storage solutions provider, was a top contributor for a third consecutive quarter. The company reported quarterly earnings that were slightly ahead of expectations. Signs that fundamentals are inflecting have helped propel shares higher. HDD and Flash revenue are expected to improve next year as demand for storage normalizes and the Flash segment sees higher content per unit. In February, media outlets reported that WDC and Kioxia have reopened discussions with SK Hynix regarding the possibility of a Flash spin/merger. The merger would consolidate the NAND Flash industry and is viewed as an incremental positive for WDC. We’ve de-risked our position in the company due to relative strength over the past several months. **Leidos Holdings, Inc. (LDOS)**, a provider of IT services to the government, health care and engineering end markets, rounded out the list of top contributors for the quarter. The company delivered 4Q23 results that were ahead of consensus expectations, driven by broad-based strength across all reporting segments but especially in Health. Shares were rewarded as execution under the new CEO is improving after a rough patch under the prior leadership. We continue to view the risk/reward as favorable for LDOS.

TOP DETRACTORS – FIRST QUARTER

Crown Holdings, Inc. (CCK), a leading supplier of canning and packaging material to various industries, was the top detractor for the quarter. Shares reacted negatively to a subpar earnings report and a guidance cut for FY2024. Management called out weakness primarily in its non-core business, with particular headwinds in Europe and Asia. As a result of several guidance reductions over the past several quarters, management has likely lost some credibility with investors, which is also weighing on shares. Furthermore, activist investor Carl Icahn divested ownership in the company, which also likely created some noise around the quarter. Overall, it was a disappointing quarter for CCK. As we do with all existing holdings, we are reevaluating our thesis for CCK. **Xcel Energy, Inc. (XEL)**, a regulated utility serving customers in eight states across the Midwest, was impacted by the outbreak of wildfires in West Texas. Shares immediately sold off as news of the wildfire emerged. We believe that the market overreacted to the news given the company’s insurance coverage and the fact that Texas is a “negligence” state, which means that a utility has to be found negligent in its operations before it is found liable. Nevertheless, investor sentiment on Utilities with possible wildfire exposure has soured in recent years. We continue to hold our position in XEL despite the first quarter sell-off. **Aptiv PLC (APTV)**, a pure-play auto supplier that designs and manufactures electric and electronic components as well as active safety technology solutions for the global automobile industry, reported results that were below expectations. Similar to peers, APTV shares have been negatively impacted by the widely disseminated news that EV adoption has not been as robust as anticipated. We believe that this is currently priced into the stock. Looking beyond these short-term headwinds, the company remains well-positioned to capitalize on the growth in EV/autonomous and advanced safety trends. Furthermore, an improvement in the supply chain and fewer disruptions stemming from the UAW strikes should also benefit the company. Our long-term thesis for APTV remains unchanged. **Equity LifeStyle Properties, Inc. (ELS)**, the largest operator of manufactured homes, RV grounds and

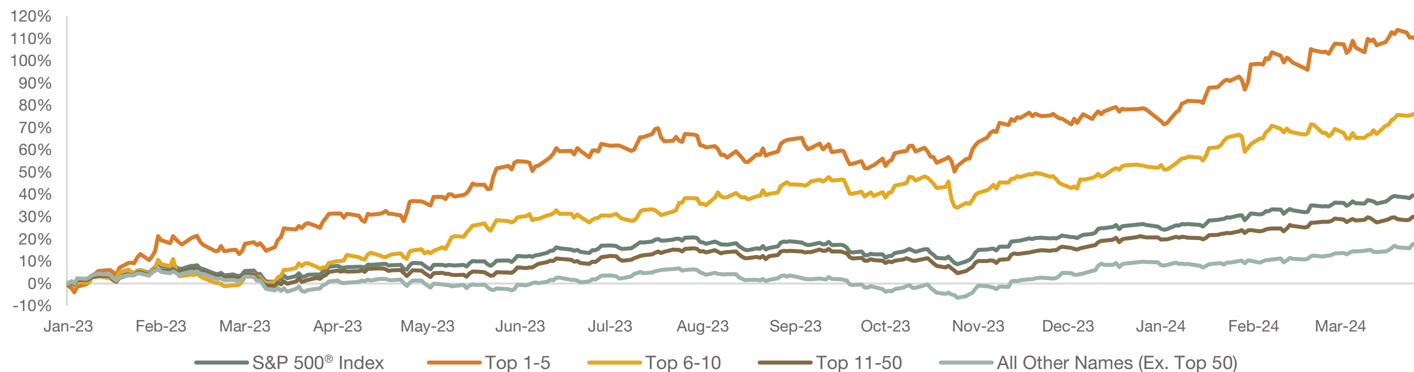
20240418-3516847

Illustration 1: U.S. Equities Mark 4 Years Since COVID-19 Bottom on Upswing



Source: Morningstar Direct. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Performance figures represent cumulative total return since the COVID-19 bottom on March 23, 2020.

Illustration 2: Gains for the S&P 500® Index Mainly Driven by Top 10 Largest Market Cap Stocks



Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Performance figures represent cumulative total return since December 31, 2022.

marinas in the U.S., was another top detractor. We believe shares were weak for non-fundamental reasons. ELS has a highly stable business model with consistent net operating income (NOI) growth over many years. The one area of weakness during the quarter was deceleration in growth in the transient RV segment. The growth of this segment during COVID was likely not sustainable and trends are normalizing, which was expected. Therefore, the weakness is surprising given that was well telegraphed by management. We also suspect that ELS's relative outperformance over peer Sun Communities (SUI) over the past couple of years resulted in some profit-taking and a rotation into that stock. Recent underperformance has made the risk/reward more favorable; therefore, we maintain a position in this high-quality company. **Skyworks Solutions, Inc. (SWKS)**, a leader in the semiconductor RF market, rounded out the list of top detractors. The company had an in-line fiscal year first quarter earnings report, which was interpreted as a positive given the ongoing bottoming of the semiconductor cycle. Signs are emerging that fundamentals are inflecting. SWKS and mobile chip peers reported declining inventories, suggesting that the inventory correction period for smartphones is mostly over. SWKS has used its technological prowess to diversify its revenue concentration from Apple to Samsung as well as non-mobile markets. The company's free cashflow generation profile as well as balance sheet strength should permit the company to continue its revenue diversification efforts, which we believe will be rewarded by investors. Our thesis for SWKS remains intact.

CONCLUDING REMARKS

Balancing Optimism With Caution

The market gains continued to defy expectations as U.S. equities posted solid gains to start the year. Aside from the sell-off in 2022 at the onset of the Fed's hiking cycle, the market has rallied meaningfully since the COVID-induced bottom with all major size segments gaining well over 100% cumulative return (Illustration 1). Naturally, there is a level of skepticism on whether the rally is sustainable. Understandably, some froth may need to be removed from the market; however, there are certain dynamics in the current backdrop that remain supportive of further gains. With that said, there are also some underlying risks that warrant monitoring.

Broadening Market Is a Welcome Sign

The market concentration that has unfolded over the past 15 months is widely understood by now. Mega-cap technology stocks—especially those tied to AI and language learning models (LLM)—continued their ascent during the first quarter (Illustration 2). However, there was a breakdown in the momentum within the Magnificent 7 ("MAG-7") group which saw a few of the key constituents (AAPL, GOOG, GOOGL, and TSLA) underperform the broader S&P 500® Index (Illustration 3). Undeniably, the mega-cap technology stocks remain key contributors to the S&P 500® Index's overall return; however, the momentum unwind is a welcome sign.

Further evidence of the market broadening is observed in Illustrations 4 and 5. While below the long-term average of roughly 48%, 40% of the constituents outperformed the broader index during the first quarter. That's a jump from approximately 30% for 2023—a figure last observed during the Tech Bubble in the late 1990s. Additionally, the percent of S&P 500® Index companies that are trading above their 200-day moving average hit roughly 83% at quarter end—another sign that market strength is broadening.

Opportunities Down the Market Cap Spectrum

Our readers may be aware that we've written about the valuation discrepancy that exists between mega-cap/large-cap stocks and those down the market cap spectrum on several occasions. As bottom-up fundamental investors focusing on mid- and small-cap equities, we are not tasked with asset allocation decisions (we'll defer to more qualified clients); however, we continue to believe that there remains an opportunity for investors with a long-term time horizon down market cap.

As observed in Illustrations 6 and 7, both mid-cap and small-cap equities trade at a relative discount to their mega-cap and large-cap brethren on several valuation metrics.

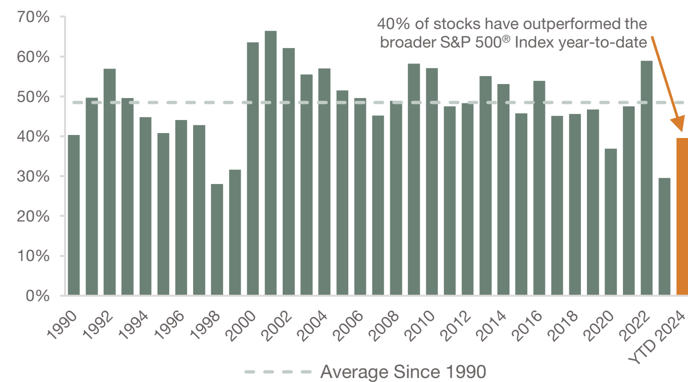
20240418-3516847

Illustration 3: A Momentum Unwind Within the Magnificent 7 ($ Billions)

	AAPL	AMZN	GOOG	GOOGL	META	NVDA	MSFT	TSLA	MAG-7	S&P 500® Index	Russell 2000® Index
Market Cap as of December 31, 2022	$1,943	$746	$470	$527	$271	$364	$1,788	$331	$6,438	$32,133	$2,266
Market Cap as of December 31, 2023	$2,815	$1,382	$702	$827	$786	$1,223	$2,795	$687	$11,216	$40,039	$2,508
Market Cap as of March 31, 2024	$2,489	$1,649	$751	$889	$1,068	$2,232	$3,126	$487	$12,692	$44,078	$2,641
% Change in 2023	*45%*	*85%*	*49%*	*57%*	*190%*	*236%*	*56%*	*108%*	*74%*	*25%*	*11%*
% Change Year-to-Date (2024)	*-12%*	*19%*	*7%*	*8%*	*36%*	*82%*	*12%*	*-29%*	*13%*	*10%*	*5%*
% of Total S&P 500® Index Market Cap	*5.6%*	*3.7%*	*1.7%*	*2.0%*	*2.4%*	*5.1%*	*7.1%*	*1.1%*	*28.8%*	*100.0%*	*6.0%*

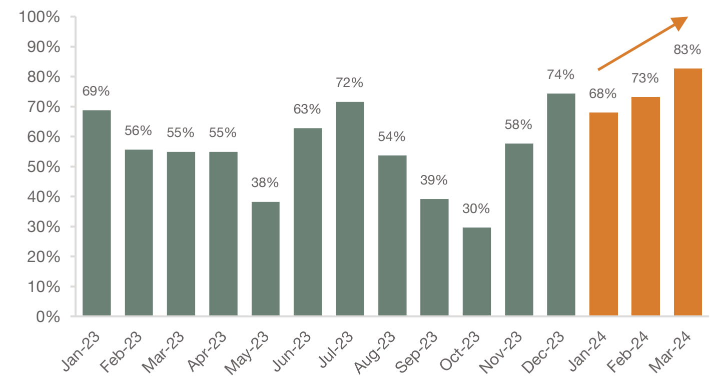
Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital.

Illustration 4: Percent of S&P 500® Index Constituents Outperforming the Broader Index



Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital.

Illustration 5: Percent of S&P 500® Index Constituents Trading Above 200-Day Moving Average



Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital.

Illustration 6: Russell Midcap® Index Valuations Since 1990

	Current Multiple	Long-Term Average Multiple	Diff. From Long-Term Average	Valuation Discount to Large-Cap	Valuation Discount to Mega-Cap
P/E - TTM	20.8x	18.3x	14%	0.8x	0.8x
P/E - NTM	18.3x	16.7x	10%	0.9x	0.8x
EV/EBITDA	13.3x	10.2x	31%	0.8x	0.8x
P/S	1.8x	1.3x	44%	0.6x	0.6x
P/B	3.1x	2.4x	28%	0.7x	0.6x

Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. The S&P 500® Index and the Russell Top 200® Index are used to represent large- and mega-cap valuations, respectively.

Illustration 7: Russell 2000® Index Valuations Since 1990

	Current Multiple	Long-Term Average Multiple	Diff. From Long-Term Average	Valuation Discount to Large-Cap	Valuation Discount to Mega-Cap
P/E - TTM	16.1x	17.2x	-6%	0.6x	0.6x
P/E - NTM	15.4x	15.7x	-2%	0.7x	0.7x
EV/EBITDA	10.2x	9.7x	6%	0.6x	0.6x
P/S	1.4x	1.1x	29%	0.5x	0.4x
P/B	2.1x	2.0x	6%	0.5x	0.4x

Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. The S&P 500® Index and the Russell Top 200® Index are used to represent large- and mega-cap valuations, respectively.

Illustration 8: Cumulative Sector Performance Breakdown by Major Size Segment Since January 1, 2023

	S&P 500® Index			Russell Midcap® Index			Russell 2000® Index		
	Average Weight	Total Return	% Contrib. to Overall Index Return	Average Weight	Total Return	% Contrib. to Overall Index Return	Average Weight	Total Return	% Contrib. to Overall Index Return
Communication Services	8.5	80.5	15%	3.6	20.0	3%	2.5	3.1	0%
Consumer Discretionary	10.4	50.4	13%	11.0	38.7	15%	11.0	34.8	16%
Consumer Staples	6.7	8.1	1%	3.8	6.8	1%	3.6	24.8	4%
Energy	4.4	12.2	1%	4.9	18.5	3%	7.0	25.0	6%
Financials	13.1	29.0	9%	14.7	27.7	15%	16.4	9.7	7%
Health Care	13.5	11.1	3%	10.8	8.2	3%	15.9	13.1	10%
Industrials	8.6	30.6	6%	18.5	47.4	30%	17.0	38.0	27%
Information Technology	27.3	81.3	50%	13.7	43.3	21%	13.0	44.6	24%
Materials	2.5	22.6	1%	5.9	19.1	4%	4.5	19.1	4%
Real Estate	2.5	12.0	1%	7.7	11.7	4%	6.2	12.4	4%
Utilities	2.6	-2.8	0%	5.5	4.2	1%	3.0	-10.3	-1%
Total	**100.0**	**39.6**	**100%**	**100.0**	**27.3**	**100%**	**100.0**	**23.0**	**100%**

Source: FactSet. As of March 31, 2024. Performance figures shown represent cumulative performance since January 1, 2023. Data compiled and analyzed by Sycamore Capital.

20240418-3516847

Should the market breadth continue to broaden, equities down the market cap spectrum could benefit. Furthermore, the potential easing of financial conditions should bode well for traditionally more interest sensitive, smaller companies. As shown in Illustration 8, about 50% of the S&P 500® Index's return since January 1, 2023, has been driven by Information Technology. The S&P 500® Index has a meaningful overweight to Information Technology relative to the mid-cap and small-cap benchmarks. By contrast, both the mid-cap and small-cap benchmarks are overweight traditionally more cyclical sectors. Therefore, there is a potential catch-up opportunity as capital rotates out of stocks with lofty multiples into areas with more compelling valuations.

Another potential tailwind for mid-cap and small-cap equities is fund flows. We suspect that some of the trillions of dollars resting in high-yielding money market funds may find their way into the equity market when the Fed cuts rates. Illustration 9 depicts the ballooning of deposits into higher-yielding money market instruments since the pandemic. Obviously, this is not a foregone conclusion; however, a 5%+ yield in a riskless instrument is a no-brainer for many investors (Illustration 10). The pendulum could swing when money market rates become less compelling. As observed in the table in Illustration 3, the total market capitalization of the small-cap Russell 2000® Index is approximately 6% of the S&P 500® Index's total market cap. Hence, it would not take much to move the needle down the market cap spectrum.

U.S. Economy Is Diverging From the Rest of the World

The divergence of the U.S. economy from other developed world economies could be another tailwind for U.S. equities. As observed in Illustration 11, the U.S. economy is projected to grow by approximately 2.2%, while other developed countries have slipped into a technical recession. Therefore, U.S. equities are in a position to attract capital as economic growth diverges from the rest of the world.

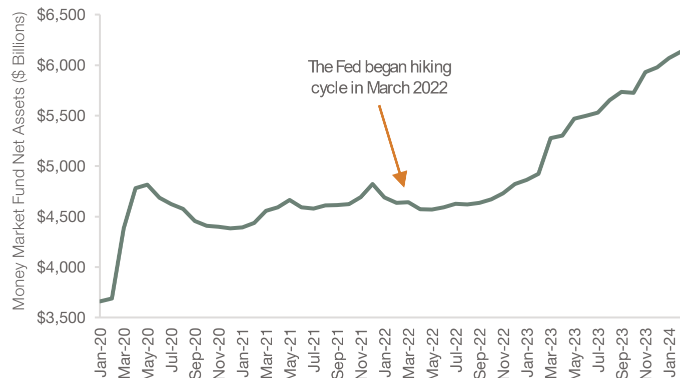
History Points to Possible Further Gains

Not considering the first quarter of this year, the S&P 500® Index has returned 10% or more (price return) during the first quarter on 14 other occasions since 1929 (Illustration 12). In those instances, returns for the remainder of the year were negative only twice. The S&P 500® Index ended the year down (when returning 10% or more during the first quarter) only once, in 1930. Therefore, the odds are favorable for further gains this year.

As highlighted above, conditions still exist that could extend the market rally. However, it behooves investors to acknowledge some of the risks that could ultimately impact the economy and financial markets. The resiliency of the U.S. economy (which has confounded skeptics) has been fueled by robust consumer spending. Something for investors to consider is whether the resilient consumer backdrop is sustainable given the interest rate backdrop.

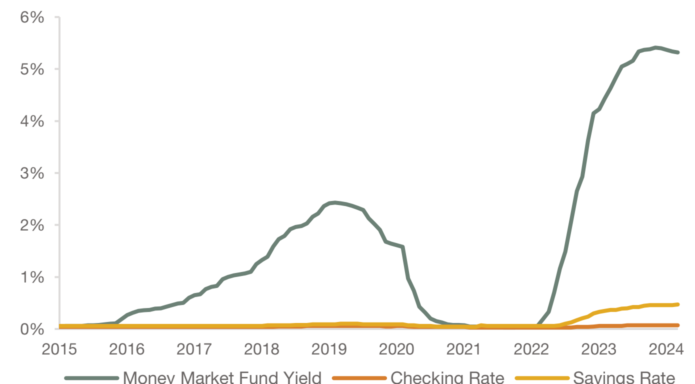
As observed in Illustration 13, saving rates swelled during the pandemic. However, they have been on a downward trajectory and the savings rate is now below the long-term average. Signs of cracks are emerging in the consumer backdrop, as evidenced by an uptick of household debt (Illustration 14) and delinquency rates (Illustration 15), especially for credit cards. Higher rates and stubborn inflation are beginning to bite. Consumers (especially low- to middle-income) are burning through their savings and relying more on credit for spending. An argument that we've heard on several occasions is that consumer spending habits have evolved since the pandemic, especially with a shift in employment arrangements. Historically, employees spent roughly two days at home (Saturday and Sunday). Now, many employees across the country are spending three to four days at home due to hybrid schedules. This has arguably resulted in a change in consumption habits. We are mindful

Illustration 9: Money Market Fund Deposits Ballooned During the Pandemic



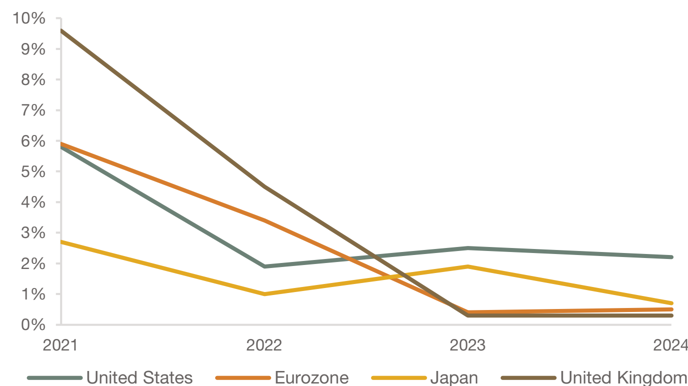
Source: Morningstar Direct. As of February 29, 2024. Data compiled and analyzed by Sycamore Capital.

Illustration 10: Deposit Rates vs. Money Market Fund Yields



Source: Bloomberg and Federal Reserve Economic Data (FRED). As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Money market yield data includes all U.S. money market funds with an S&P Global Rating of AAA or AA.

Illustration 11: Real GDP Growth Projections for 2024



Source: Bloomberg Economic Forecasts. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Real GDP growth figures for 2024 are estimates.

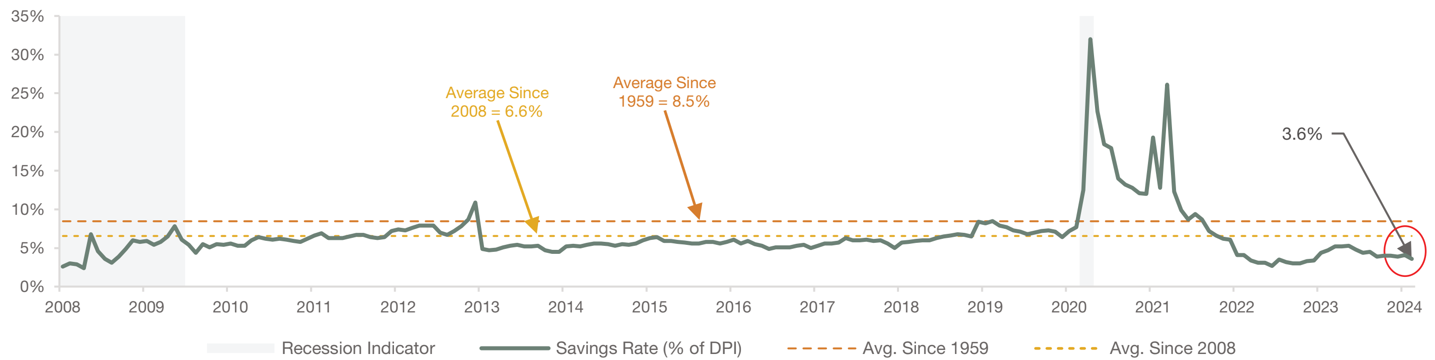
Illustration 12: S&P 500® Index Returns When First Quarter Performance Exceeds 10% (Price Return)

Year	First Quarter	Second Quarter to Year-End	Full Year
1930	17.2%	-39.0%	-28.5%
1936	11.1%	15.1%	27.9%
1943	18.5%	0.8%	19.4%
1961	12.0%	10.0%	23.1%
1967	12.3%	7.0%	20.1%
1975	21.6%	8.2%	31.5%
1976	13.9%	4.6%	19.1%
1986	13.1%	1.4%	14.6%
1987	20.5%	-15.3%	2.0%
1991	13.6%	11.2%	26.3%
1998	13.5%	11.6%	26.7%
2012	12.0%	1.3%	13.4%
2013	10.0%	17.8%	29.6%
2019	13.1%	14.0%	28.9%
2024	10.2%	???	???

Source: Morningstar Direct. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Index level: price return.

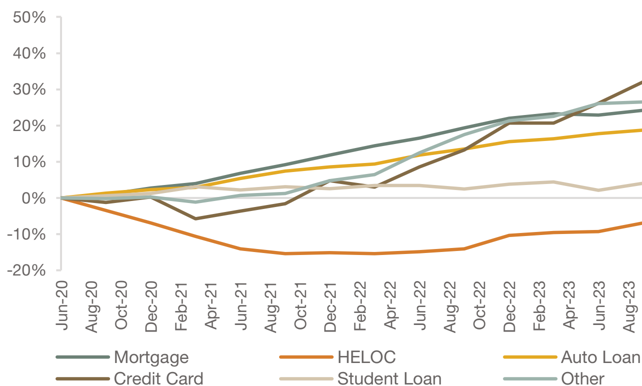
20240418-3516847

Illustration 13: Personal Savings Rate Is Below the Long-Term Average



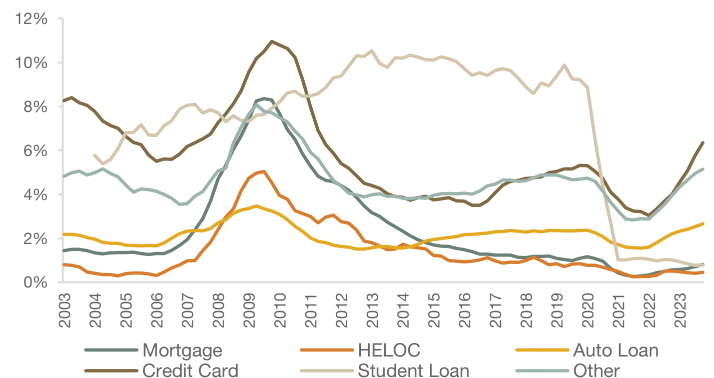
Source: Federal Reserve Economic Data (FRED) & NBER. As of February 29, 2024. Data compiled and analyzed by Sycamore Capital.

Illustration 14: Household Debt Load Continues to Grow



Source: Federal Reserve Bank of New York. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital.

Illustration 15: A Notable Increase in Delinquencies in Recent Years



Source: Federal Reserve Bank of New York. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital.

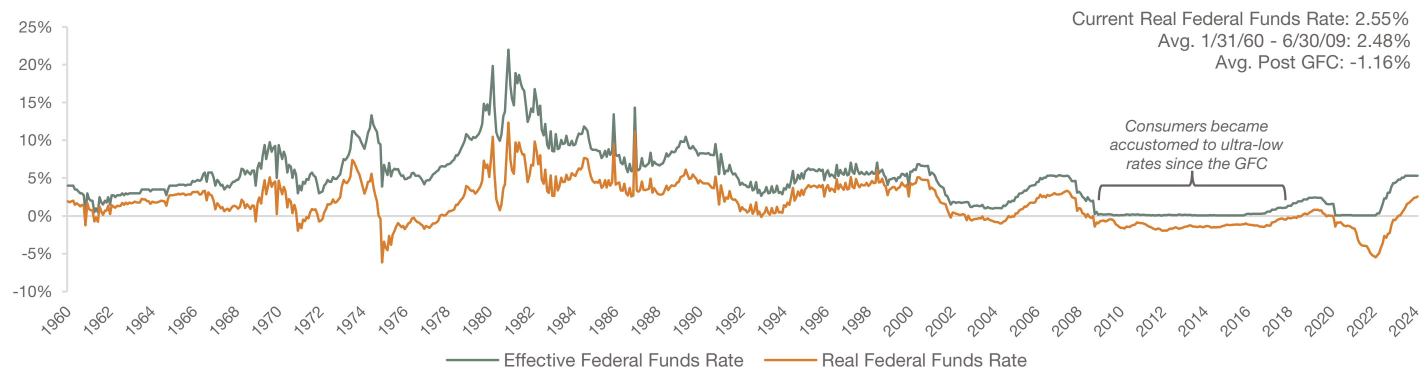
of this transformation; however, it is reasonable to be skeptical of the sustainability surrounding the "strong" consumer backdrop unless there is further progress on inflation and relief on the rate front.

A second risk that is worth pointing out involves the Fed. The predominant consensus now is that the Fed will deliver three cuts this year. What few (at least to our knowledge) are asking is whether the Fed "really" needs to cut, especially if progress on inflation stalls and the so-called "last mile" turns out to be less fleeting than anticipated. Inflation has already surprised to the upside this year. Understandably, the January print was interpreted as a statistical aberration. The February print demonstrated better progress.

Nevertheless, the Fed generally cuts rates when economic activity is softening. Currently, that is not the case; the economy is growing above potential, and the labor market remains resilient. One of the prevailing issues with rate expectations is that consumers became accustomed to ultra-low rates during the post Great Financial Crisis (GFC) period. However, as Illustration 16 shows, the real federal funds rate (nominal rates adjusted for inflation) averaged roughly 2.5% over the long term prior to the GFC. Currently, the real rate is approximately at that level. Therefore, the question is whether the economy can tolerate higher rates that are more in line with historical ranges. So far, the economy has demonstrated that it may in fact be able to handle higher rates.

It behooves investors to ponder the possibility that three rate cuts in 2024 is not a done deal if inflation surprises to the upside again. It would also be prudent to anticipate a rate environment that looks different than it did during the post-GFC era. That being said, by keeping rates higher, the Fed also opens up the door for the possibility of a policy error by remaining in restrictive territory for too long. While the current economic backdrop may support a high-for-longer stance, we suspect that the

Illustration 16: Effective vs. Real Federal Funds Rate Through Time



Source: Federal Reserve Economic Data (FRED). As of February 29, 2024. Data compiled and analyzed by Sycamore Capital.

20240418-3516847

Fed wants to avoid a policy error at all costs especially in an election year. Therefore, it is likely that the Fed delivers the rate cuts that the market so badly wants even if the economic backdrop this year does not necessitate them.

Equity Market Returns Under Different Administrations

Delving into a political discourse today is a slippery slope given the polarization of the country. But we decided to take the plunge anyway to assess what's in store for investors in an election year. Our findings revealed that equity market returns were mostly positive under both parties dating back to President Reagan. Illustration 17 shows the performance by market cap and style segment from election day to year-end for U.S. presidents since Ronald Reagan. Returns were generally positive, with the two exceptions being the elections of George W. Bush and Barack Obama. President Obama was elected at the onset of the GFC, so it is not surprising that returns across the board were negative from the day he got elected until the end of 2008.

Returns across the board were more pronounced for both Presidents Trump and Biden. The market rallied meaningfully after President Trump was elected (the "Trump rally") as the market anticipated tax cuts, less regulation and tariffs (which favored small-cap equities) under his leadership. President Biden was elected around the time the COVID-19 vaccine was announced in November 2020. Consequently, there was a euphoric response, which resulted in a sharp rally in risk assets.

Illustration 18 examines the returns over a president's entire term. Results highlight that equity market returns were favorable, with George W. Bush's second term as the only exception. During the time, the U.S. was fighting wars on multiple fronts and the economy slipped into recession as the GFC unfolded.

Equity Market Returns Under the Presumed 2024 Presidential Candidates

Equity market returns as measured by the S&P 500® Index under Presidents Trump and Biden (so far) were positive (Illustrations 19 and 20). Returns during their first year in office were both robust, with the market posting solid gains. Returns during their second year diverged, but eventually the market ended the second year of both of their terms in negative territory (Illustration 20). The Fed attempted to normalize rates during President Trump's second year, which resulted in a sell-off during the fourth quarter of 2018. Consequently, the Fed reversed course in early 2019. During President Biden's second year, the Fed embarked on its tightening campaign in March of 2022, which also resulted in an equity market sell-off. Returns during the third year in office were similar for both presidents, with the market up sharply. President Trump's fourth year in office was marked by the onset of the global pandemic. The market bottomed in March 2020 and rallied meaningfully into 2021. President Biden's fourth year is off to a good start, with history suggesting that the market could end the year on a positive note.

The takeaway for us is that the market generally marches higher (with occasional bumps along the way) over the long term irrespective of the political party that is in power.

Closing Thoughts

In summary, the market will likely continue to confound investors as it has frequently done. What it will do next is anybody's guess. From our perspective, it would be prudent to balance optimism with caution for the remainder of the year. We believe that the increase in market breadth is a positive trend and could portend the sustainability of the rally. We also believe that the valuation discount down the market cap

Illustration 17: Historical Performance From Election Day Through Year-End

President	Political Party	Election Day	Year-End	S&P 500® Index	Russell 1000® Index	Russell 1000® Growth Index	Russell 1000® Value Index	Russell Midcap® Index	Russell Midcap® Growth Index	Russell Midcap® Value Index	Russell 2000® Index	Russell 2000® Growth Index	Russell 2000® Value Index
Ronald Reagan	R	11/4/1980	12/31/1980	7.3%	5.4%	7.7%	5.6%	5.9%	n/a	n/a	3.0%	5.7%	1.3%
George H. W. Bush	R	11/8/1988	12/31/1988	1.9%	1.9%	0.9%	0.0%	0.0%	1.2%	-0.8%	2.2%	0.8%	0.1%
Bill Clinton	D	11/3/1992	12/31/1992	3.6%	4.6%	4.4%	4.9%	7.9%	8.4%	7.5%	10.8%	12.3%	10.6%
George W. Bush	R	11/7/2000	12/31/2000	-7.6%	-8.6%	-18.6%	1.5%	-3.6%	-21.0%	7.4%	-3.8%	-14.9%	8.0%
Barack Obama	D	11/4/2008	12/31/2008	-6.0%	-5.8%	-5.8%	-5.9%	-6.1%	-6.5%	-5.6%	-6.9%	-7.5%	-6.3%
Donald Trump	R	11/8/2016	12/31/2016	5.4%	5.6%	3.3%	8.0%	6.5%	4.4%	8.2%	14.1%	10.5%	17.6%
Joe Biden	D	11/3/2020	12/31/2020	13.8%	15.1%	14.7%	15.6%	17.1%	18.0%	16.6%	26.2%	26.8%	25.6%

Source: Morningstar Direct & the Federal Election Commission (FEC). As of March 31, 2024. Data compiled and analyzed by Sycamore Capital.

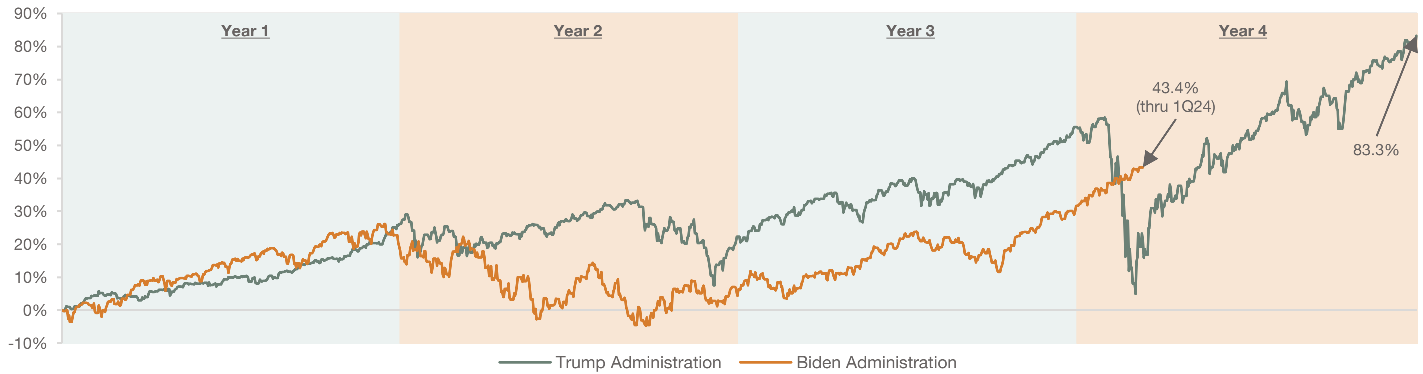
Illustration 18: Historical Performance Under Different Presidential Administrations

President	Political Party	First Day of Term	Last Day of Term	S&P 500® Index	Russell 1000® Index	Russell 1000® Growth Index	Russell 1000® Value Index	Russell Midcap® Index	Russell Midcap® Growth Index	Russell Midcap® Value Index	Russell 2000® Index	Russell 2000® Growth Index	Russell 2000® Value Index
Ronald Reagan	R	1/20/1981	1/20/1985	50.5%	51.9%	22.7%	71.7%	58.5%	n/a	n/a	62.3%	11.0%	109.3%
		1/21/1985	1/19/1989	98.3%	88.5%	79.6%	95.3%	87.4%	n/a	n/a	51.6%	46.2%	69.2%
George H. W. Bush	R	1/20/1989	1/19/1993	73.2%	76.6%	97.5%	68.1%	84.0%	99.4%	72.8%	60.9%	61.7%	60.9%
Bill Clinton	D	1/20/1993	1/19/1997	97.9%	94.0%	90.6%	96.7%	85.9%	78.8%	89.7%	73.7%	64.3%	88.3%
		1/20/1997	1/19/2001	83.1%	82.4%	89.9%	67.5%	70.4%	88.7%	54.6%	39.5%	28.3%	46.4%
George W. Bush	R	1/20/2001	1/19/2005	-5.8%	-4.4%	-27.8%	21.7%	33.1%	-9.5%	62.1%	33.4%	-1.4%	72.9%
		1/20/2005	1/19/2009	-22.2%	-21.5%	-21.0%	-22.6%	-20.1%	-21.9%	-19.7%	-20.6%	-21.7%	-20.1%
Barack Obama	D	1/20/2009	1/20/2013	90.8%	94.4%	102.1%	86.2%	121.0%	124.5%	116.3%	102.4%	114.5%	90.7%
		1/21/2013	1/19/2017	65.8%	65.3%	68.5%	61.8%	63.4%	59.0%	67.1%	59.3%	57.5%	60.5%
Donald Trump	R	1/20/2017	1/19/2021	81.4%	84.7%	136.3%	39.9%	68.7%	120.9%	37.3%	68.7%	109.0%	32.9%
Joe Biden*	D	1/20/2021	*3/31/2024*	45.4%	40.5%	43.8%	36.1%	24.3%	10.4%	32.2%	3.1%	-11.5%	19.2%

*Source: Morningstar Direct & the Federal Election Commission (FEC). As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Performance figures shown represent cumulative total return for the respective term of each president (inauguration day to the last full day in office). *Returns for current sitting president, Joe Biden, are through the first quarter of 2024.*

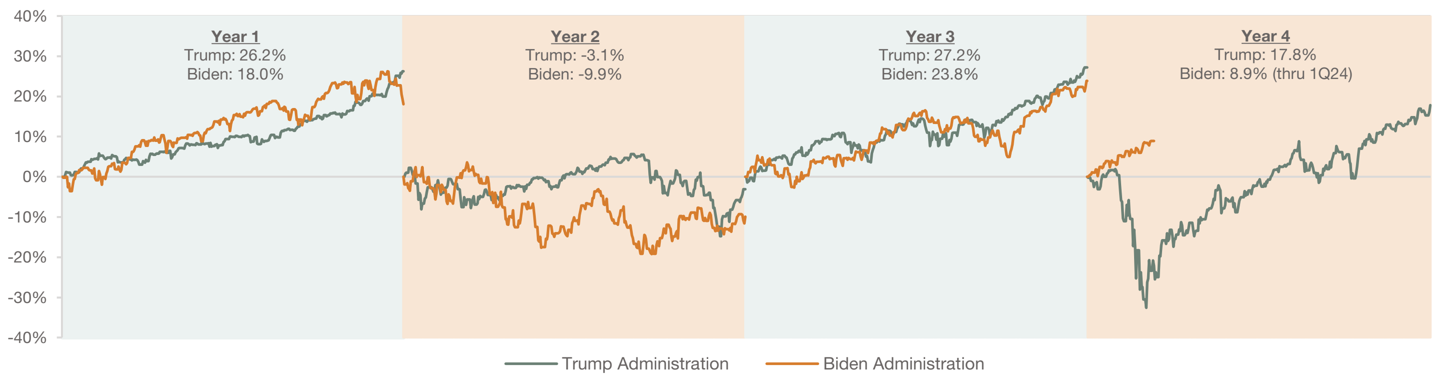
20240418-3516847

Illustration 19: Cumulative Performance of the S&P 500® Index Under Trump vs. Biden Administration



Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Performance figures shown represent cumulative total return from Inauguration Day through the last full day of presidency for President Trump and President Biden, respectively.

Illustration 20: S&P 500® Index Performance Breakdown by Year Under Trump vs. Biden Administration



Source: FactSet. As of March 31, 2024. Data compiled and analyzed by Sycamore Capital. Performance shown represents the 1-year total return from January 20 of each year of presidency for President Trump and President Biden, respectively.

spectrum is compelling, especially for investors with a long-term time horizon. Furthermore, we want to remind our readers that while it may be the topic *du jour*, momentum in the market often decays unexpectedly and violently as observed in the first quarter. That's why we believe that valuation discipline is critical in a market environment where momentum and "trend following" is pervasive. Finally, we are entering into what is likely going to be a politically charged season for the country. Investors should brace for more political and interest rate volatility the remainder of the year. Regardless of who will be in office one year from today, investors with a long-term time horizon should find comfort in knowing that the equity market generally ascends with occasional bumps in the road.

With that said, we will end on a befitting quote from Jeremy Siegel, given the season:

> *"Bull markets and bear markets come and go, and it's more to do with business cycles than presidents."*

On behalf of the Sycamore Capital team, we thank our clients for their long-term partnership and support.
We are grateful for the trust you have placed in our Team to manage your assets.

20240418-3516847

Top Contributors (%)	
Dick's Sporting Goods, Inc.	0.5
Hartford Financial Services Group, Inc.	0.5
MKS Instruments, Inc.	0.5
Western Digital Corp.	0.4
Leidos Holdings, Inc.	0.4

Top Detractors (%)	
Crown Holdings, Inc.	-0.3
Xcel Energy, Inc.	-0.2
Aptiv PLC	-0.2
Equity LifeStyle Properties, Inc.	-0.1
Skyworks Solutions, Inc.	-0.1

Source: FactSet. The percent displayed is the contribution to return.

				ANNUALIZED RETURNS				
Investment Performance (%)	**QTR**	**YTD**	**1-YR**	**3-YR**	**5-YR**	**7-YR**	**10-YR**	**Since Inception***
Sycamore Mid Cap Value Equity (gross of fees)	9.36	9.36	19.06	10.62	14.32	12.17	12.31	13.27
Sycamore Mid Cap Value Equity (net of fees)	9.15	9.15	18.17	9.80	13.47	11.33	11.47	12.62
Russell Midcap® Value Index	8.23	8.23	20.40	6.80	9.94	8.41	8.57	—

Source: Zephyr. Returns greater than one year are annualized and reflect the reinvestment of dividends and other earnings.
**Since inception start date: 09/01/1983.*

Past performance does not guarantee of future results.

Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model feel). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equity to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

The Sycamore Mid Cap Value Equity Composite includes all accounts, except wrap fee paying accounts, that are primarily invested in middle-cap companies that meet the team's investment criteria. Mid Cap securities are defined as those that fall within the market capitalization range of the broad universe. Product generally has a minimum equity commitment of 90% and the composite inception date is September 1983. The composite creation date is 3Q04.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The benchmark of this composite is the Russell Midcap® Value Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap companies with lower price/book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000® Value Index. The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report. This information should not be relied upon as research or investment advice regarding any security in particular.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

Victory Capital Management Inc. (VCM) is a diversified global investment advisor registered under the Investment Advisers Act of 1940 and comprised of multiple investment franchises: Integrity Asset Management, Munder Capital Management, NewBridge Asset Management, RS Investments, Sophus Capital, Sycamore Capital, Trivalent Investments, Victory Income Investors (formerly USAA Investments, a Victory Capital Investment Franchise); the VictoryShares & Solutions Platform, THB Asset Management and New Energy Capital Partners. Munder Capital Management and Integrity Asset Management became part of the Victory Capital GIPS firm effective November 1, 2014; RS Investments and Sophus Capital effective January 1, 2017; Victory Income Investors, effective July 1, 2019; THB Asset Management, effective March 1, 2021, and New Energy Capital effective November 1, 2021. Effective September 1, 2023, INCORE Capital Management is no longer part of the firm definition.

Request a GIPS®-compliant report from your Institutional Relationship Manager or visit *www.vcm.com*.

Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

Sycamore Capital is a Victory Capital Franchise. Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

V17.101 // 1Q 2024 SYC Mid Cap Val COM