

Talbot Financial – Second Quarter 2024 Review

Please find attached your Talbot Financial second quarter 2024 portfolio review to supplement your monthly account statements available from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index (“Index”), Talbot Financial’s benchmark, and lists your investment portfolio holdings by industry sector.

Investment Review

The equity markets continued to rally with the Index increasing 4.3% for the second quarter and 15.3% through the first half of 2024. Like the prior quarter, the return was driven by strong performance in a few industry sectors, primarily the Technology and Communication Services Sectors. Technology Sector performance was driven by the semiconductor segment. The relative outperformance of these two sectors was attributable to the Artificial Intelligence (AI) announcements and implementation by companies within the sectors.

AI continues to grow as expected with substantial upfront investment in infrastructure, including semiconductor chips. Nvidia, a position in Talbot Financial client portfolios, is the lead supplier of this growth as they provide the Graphic Processing Units (GPUs) that foundational models are built on. As the infrastructure continues to grow, investment will shift to platforms and software to run on the infrastructure and use will broaden.

Amazon, one of the largest positions in Talbot Financial client portfolios, is a dominant player in the rollout of AI. This month marks Amazon’s 30th anniversary since its inception. As such, we thought it interesting to revisit where it came from and where it is now. Originally dubbed Cadabra, the company soon changed its name to Amazon and launched a website claiming to be the world’s largest bookstore. The company focused on selling three products: books, CDs, and DVDs. Seeing growth opportunities well beyond these items, the company continuously reinvested profits back into new areas of the business, often at the expense of short-term profits. 30-years later, the company has transformed into the world’s largest online retailer, the industry leader in cloud computing, and a formidable player in both digital media and consumer technology.

Some extraordinary Amazon statistics include:

- 300 million shoppers make at least one annual purchase from Amazon or its 1.9 million global selling partners.
- Amazon and its selling partners carry over 350 million different items.
- Amazon has an approximate 8% share of the U.S. retail market and an almost 38% share of the U.S. online market.
- Approximately 162 million, or 61%, of Americans have an Amazon Prime Membership.

Lastly, as the chart depicts below, from Amazon's Initial Public Offering in 1997 through 2023, sales grew from \$147.8 million to \$574.8 billion, while profits increased to \$30.4 billion.



Amazon represents the type of company we concentrate on from an investment perspective. One that identifies long-term secular growth opportunities, and then relentlessly focuses on growing into those opportunities.

Economic Outlook

We believe the Federal Reserve successfully engineered a soft landing of the U.S. economy. A soft landing is when economic growth slows but does not turn negative. Prior to the first interest rate increase in March 2022, the U.S. economy (as measured by Real Gross Domestic Product) grew at a 7% annualized rate. For the first quarter of 2024, the U.S. economy grew at 1.4%. Thus, growth has slowed but not gone negative.

The inflation outlook continues to improve. As measured by the Consumer Price Index, inflation declined from a peak figure of 9.1% in June 2022 to a recent rate of 3.3%. Further, the labor market remains resilient as the most recent unemployment rate was 4.1%. A continued strong labor market is important as the U.S. consumer is responsible for almost 70% of U.S. economic growth. These economic factors indicate we are likely near an inflection point in short-term interest rates, which is important because lower interest rates have historically been a catalyst for higher equity returns. The consensus by economists is an interest rate cut is likely by year-end.

We welcome the opportunity to review your portfolio in person, by phone or on a Zoom conference. Please feel free to contact us for a review, or to answer any questions you may have about your portfolio.

Sincerely,

Talbot Financial, LLC

www.talbotfinancial.com