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Strong economic data at the beginning of 2023 reignited inflation fears, but the narrative shifted significantly in the back half of the quarter as stress in the banking system led to the failure of Silicon Valley Bank and Signature Bank and the Sale of Credit Suisse to UBS group in mid-March. The bank failures, in an ironic twist indicative of how the market often makes no sense to the casual onlooker, led to expectations the hiking cycle could soon come to an end, which buoyed equities to finish the quarter on a strong note. Growth stocks once again outperformed Value, as technology made the strongest gains for the quarter while energy and healthcare lagged on the heels of sharply lower oil prices.

Our Kirwan Capital Strategy portfolios gained 8.59% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 7.46%. The quarter's result leaves our average compound annual return after fees since Jan 1, 2013 at 11.84%, which would have turned a $10,000 investment into $31,472 in 10 ¼ years. Among our holdings, Apple, Amazon, and Microsoft were our biggest winners, all notching gains of over 20%. Our returns were dragged down by Hanesbrands, which was off over 17%, and by Casey's and Kellogg which were each down by mid-single digits. Our activity during the quarter included a reduction of our Alphabet stake in early February, as I believe Artificial Intelligence poses a potential risk to Google's dominance in online search, and the stock was trading at an intermediate-term high. Then, late in the quarter, we mostly exited the lending industry by selling Wells Fargo, Discover, and JP Morgan Chase.

Currently, borrowing costs are at their highest level since 2007, and we now have a tight-fisted banking system focused keenly on risk (vs. expanding loan portfolios). While market participants seem to be betting that the recent bank stresses will cause the Fed to reverse their monetary tightening actions, the Fed itself is insisting its funding rates will likely continue to rise. With the Fed maintaining this stance, I think it's likely that banking industry problems are not over, which is why I sold. Also, with the hawkish stance extending from the Fed to bank lending programs themselves, I see no catalyst to propel the economy to growth in the intermediate future.

Thanks again, and have a safe and enjoyable summer.

Sincerely,

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.