Dear xxxx;

Aside from a one-week drawdown brought on by lower-than-expected technology earnings and the implosion of the Yen carry trade, both equities and fixed income performed quite well during the third quarter. Continuing its bullish run in 2024, the S&P 500 closed at a new record high twelve times during the last 90 days before finishing at 5762.48. Meanwhile, anticipation of lower interest rates drove the US fixed income market to an impressive gain of 5.20%.

Looking more broadly, international equities (Q: +7.36%) finished in first place followed by US equities (Q: +5.81%), US fixed income (Q: +5.20%) and finally commodities (Q: -5.23%). This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the third quarter and our predictions for the final three months of the year.

YEN Carry Trade

The Bank of Japan implemented negative interest rates in 2016 to combat deflation and stimulate economic growth. This period of negative interest rates didn't end until March 2024 when rates were increased to 0.10%. The Yen carry trade is a strategy where investors borrow Yen and use it to purchase higher yielding assets in other countries. The difference between the two rates is the "carry." This is good arbitrage, but not perfect, because exchange rates aren't fixed. In July, the Yen's value began increasing which lowered the potential profit from the carry trade and on July 31st, the Bank of Japan increased interest rates to 0.25%. While this may sound minimal, it was enough that the riskiest investors faced a margin call. As the riskiest investors were forced to sell, prices got pushed lower triggering margin calls for more investors, further pushing equity prices down. The result was a 12.4% drop in the Japanese stock market. This substantial decline in the Nikkei caused the S&P 500 to drop by 441 points or approximately 8% over the next two days.

While the pullback in the global equity markets was severe, it only took the S&P 500 two weeks to recover and close at a new all-time high. The reason for the speed of the pullback and recovery is that the financial, economic, and even political markets are more connected now than ever in the past. This means the next true market pullback will likely be even more volatile than previous drawdowns, which is good news for GA Pincus Funds' clients. Our algorithm is designed to capitalize on extreme volatility. The pain will be brief but extreme; however, the ensuing gains will be robust and long lasting.

Commodities

Commodities were an interesting story during the quarter. The commodity benchmark we track is the S&P Goldman Sachs Commodity Index. This index is comprised of 54% energy, 15% grains, 12% industrial metals, 8% livestock, 7% precious metals, and 4% soft agricultural. In the third quarter, gold and silver were up 13% and 7% respectively while oil dropped by more than 16%. Because of the outsized weight of energy in the index, the S&P GSCI declined last quarter. When examining performance on a year-to-date basis, gold and silver are now up 27% and 30% respectively while oil is off by almost 5%.

Now for the good news. The only physical commodities owned by GA Pincus Funds are silver, gold, and in some aggressive portfolios, uranium. Thus, in the third quarter and throughout 2024, our client's portfolios have been buoyed by the strong performance of precious metals. Also, if you happen to be a numismatist or chrysophilist, your holdings have undergone significant moves to the upside in the last nine months.

US Equity Performance

For the first time in two years, the 493 smallest companies within the S&P 500 outperformed the largest seven companies. In fact, the ten largest companies declined during the quarter while the smaller 490 companies rose by more than 6%. These top 10 companies account for more than 33% of the nearly $50 trillion market cap of the S&P 500. The broadening of the rally to include smaller companies is excellent not only for the future, but also for your diversified portfolios.

At the beginning of the year, the S&P 500 closed above 4,800 for the first time. With the index +20.81% and currently sitting at 5,762.48, we have witnessed 43 new record high closes this year. Based on our current trajectory, it is entirely possible that we finish the year north of 6,000. Growth of this magnitude is especially mindboggling when you consider that after the S&P 500 first hit 1,500 on March 22, 2000, it took more than 13.5 years to increase by the same 20% we have already achieved in the first nine months of this year.

State of the US Economy

The state of any economy is measured by that country's GDP, the value of the final goods and services produced in that country. Economists measure GDP both in nominal terms and in terms of the GDP growth rate. A recession is measured as two consecutive quarters of negative GDP growth. Using this definition, there have been three US recessions in the last 20 years – the 2008 housing crisis, Covid, and a quick recession in the first half of 2022.

The media, both social and traditional, like to paint a picture of a terrible economy so that people will be drawn to these news sources. The media is not in the business of telling "the whole truth and nothing but the truth." Unlike what you may have heard, the US economy is doing very well. There is no indication that the US is worse off than it was 4 years ago, or 8 years ago. Below is a chart that proves this point:

	1/1/2017	1/1/2021	9/30/2024
Nominal GDP	19.6 T	23.6T	28.8T
Unemployment rate	4.40%	5.30%	4.20%
inflation rate	2.10%	4.70%	2.50%
Gallon of Gas	$2.42	$3.01	$3.21
S&P 500	2,276.98	3,824.68	5,762.48

Avg Mortgage Rate	3.99%	2.96%	6.90%
Interest Rate	0.50%	0.08%	4.83%
Difference Between Interest & Mortgage Rate	3.49%	2.88%	2.07%
Median Household Income	$74,810	$79,260	$83,431 (est)

*www.statista.com

The above table should make it clear that using essentially any metric, the US economy is better off today than it was in 2021 and in 2017. It is very important to understand that while mortgage rates are higher, so are interest rates. It is the shrinking of this spread that shows the strengthening position of the US consumer over the last eight years.

Ignore the media and focus on the facts. The US economy is strong and growing at a healthy pace.

Federal Reserve Rate Cut

On September 18th, Jerome Powell lowered interest rates by 0.5%. While a cut had been expected by almost all market participants, most believed a 0.25% cut was more likely. During his speech, Powell made it clear that given the downward trajectory of inflation and the increasing unemployment rate, it would be prudent to get ahead of the market rather than be reactionary. The Federal Reserve by nature is reactionary – they react by updating monetary policies based upon the changing economic landscape. This shift towards proactivity is both unusual and remarkable. Should the Fed be correct with this proactive move, they will have successfully brought inflation to target, maintained maximum employment, and achieved a soft landing for the US economy.

The immediate impact of this rate cut will be lower rates on credit cards, auto loans, mortgages, and lower interest earned on cash in the bank. During the meeting on September 18th, the Federal Reserve provided their Summary of Economic Projections, also known as the dot plot. In aggregate the Board of Governors indicated that they expect the Federal Funds rate to close out 2024 at 4.4%, drop by an additional 1% in 2025, and hit a terminal rate of 2.9% in 2026. While the dot plot is typically inaccurate, it does provide a view into the optimal long-term Federal Funds Rate. Based on the projected path of rate cuts, it makes the most sense to wait a bit longer before refinancing your debt. While it depends on each person's unique circumstances, in general, the rule of thumb is to refinance your debt each time a new offered rate is 1.00% or more below your existing rate.

Conclusion

The US economy and stock market are entering the fourth quarter from a position of stability and resolute diversified growth. All major indices are solidly in the green this year, there are no recession indicators on the horizon, and it seems the US has achieved a soft landing. We expect the presidential election will bring significant turbulence to the stock market. America, her people, and her economy are durable; they will be able to push through turbulence and emerge stronger on the other side.

APPENDIX

Diversification

As you know, GA Pincus Funds uses a proprietary algorithm embedded within custom software to deliver tax-adjusted returns that aim to out-perform your blended benchmark. We aim to use a broad set of asset classes so that each of your portfolios represents the global stock, bond, and commodity markets. Each year there will always be a best performing asset class and a worst performing asset class. Diversification ensures stability since your portfolios own a blend of the global market. Part of our investment strategy involves shifting portfolio weightings to minimize the exposure to the underperforming asset classes while maximizing exposure to the stronger asset classes. We will continue to monitor the changing ETF landscape to further diversify each of your portfolios when it is applicable.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures in your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns may be slightly lower than expected due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. I am always available to answer any questions you may have.

Best regards,

Gabriel

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