Dear xxxx;

The fourth quarter of 2023 was a tale of two markets. On October 27th the S&P 500 had dropped 10% since its recent high and entered a correction. By December 28th, the S&P 500 reached its 2023 peak only 16 points or 0.24% away from its all-time high set on January 3rd, 2022. It was a softer forward-looking statement from Jerome Powell, that jumpstarted the Santa Claus rally one month earlier than expected. 2023 was a good year for most but a fantastic year for the largest US technology firms. US equities (Q: +11.67%; YTD: +26.85%) dominated, followed by international equities (Q: +10.11%; YTD: +12.55%), and then US fixed income (Q: 5.88%; YTD: +5.53%). After a tremendous 2022, commodities (Q: -10.84%; YTD: -4.27%) lagged in 2023. This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the fourth quarter as well as our predictions for how these events will guide economic performance and returns in 2024 and beyond.

War In Israel

On October 7th, Hamas attacked Israel, brutally murdering at least 1200 civilians while also committing violent atrocities and kidnapping 236 individuals. Not including a brief cease-fire to trade prisoners for 78 of the kidnapped, the two sides have been at war since. As a Jewish American I am deeply saddened not only by the terroristic attack, but also the global uptick in antisemitism.

From an economic standpoint, typically wars in the Middle East trigger a spike in the price of oil. However, WTI is down 13.84% since the market close on October 6th. This drop in oil prices contributed to lower inflation readings across the board. Israeli equities, as measured by the iShares MSCI Israel ETF, declined by almost 20% immediately following the attack; however, they are now trading 7.42% above their closing price on October 6th.

Economic Impact of Russia-Ukraine War

February 24th, 2022, marked the beginning of Russia's invasion of Ukraine. Unfortunately, that war is still going on nearly two years later. This invasion caused both food and energy prices to skyrocket and has been seen as one of the main drivers of the European inflation crisis. Prior to the invasion, European countries were the main recipients of Russian oil. This supply was cut off when Russia began to feel the pinch of economic sanctions levied on them by the developed world. According to the United Kingdom parliament researchers, the average price to heat a home in the UK has almost tripled since the start of 2022.

Even with increased food and energy prices, the European Union continues to support Ukraine as Europe would pay a much higher price if Putin were to prevail. Like the US market, though not as extreme in either direction, the European stock market measured by the Stoxx 600 decreased by 12.9% in 2022 and increased by 12.74% in 2023. As long as the stock market remains resilient, we believe the European support for Ukraine will remain strong.

The US economy is further removed from the war in Ukraine as neither country had previously been a sizable trading partner. For that reason, among many others, the US has, and we believe will likely continue to support Ukraine in 2024 and beyond. In our Q1 2022 newsletter we predicted that the war would ultimately end with Putin claiming that he "won" without actually "winning" anything. On December 23rd, the New York Times reported that Putin is willing to end the war if it could still "declare victory." However, after almost two years of fighting, we no longer believe the armistice will come that easily.

The Magnificent Seven

Apple, Amazon, Google, Meta, Microsoft, Nvidia, and Tesla are the largest technology firms in the world, collectively known as the "Magnificent Seven." These seven technology companies delivered 76% of the 26.85% 2023 gain in the S&P 500. The remaining 493 companies delivered an aggregate gain of 6.44%. Technology firms are historically more volatile than other companies. While these companies gained an average of 111% in 2023, in 2022 they lost an average of 41%. GA Pincus Funds underperformed the market in 2023 for the same reason we outperformed in 2022, diversification. We continue to believe that long-term stable growth and market outperformance requires diversification. Last year GA Pincus Funds generated more than $500,000 of short-term realized losses for our clients. This year, even in an up market, GA Pincus Funds was able to generate a total of $164,698 in short-term realized losses for our clients.

Federal Funds Rate Projections

During each meeting of the Federal Reserve, a dot plot is released which shows the expected interest rate at the end of the current year, at the end of the following two years, and over the longer run. Each dot represents the anonymous opinion of one of the nineteen Federal Open Market Committee (FOMC) members. Each dot plot release is carefully dissected by financial professionals and any adjustments in the dot plot from one meeting to the next will typically cause moves in the stock market. Historically speaking these dot plots are a terrible predictor of future rate policy. For example, in June 2021, the dot plot expected the 2023 federal funds rate to be 0.5-0.75%. Instead, the rate to end 2023 was 5.25-5.50%.

During Chairman Powell's December 13th speech following the FOMC meeting, he announced that due to cooling inflation, stable GDP growth, and employment and wage increases, the US has achieved a soft landing, and the Fed expects it will cut rates three times in 2024. This announcement sent stocks soaring for two straight days. During this period the Dow Jones hit an all-time high and small cap stocks rallied by almost 7%.

At GA Pincus Funds, we vehemently disagree with the future projections disseminated by the FOMC. Chairman Powell used his most recent speech as an opportunity to pat himself on the back for a job well done. We believe this statement was timely given the fact that 2024 is an election year. We also believe Chairman Powell overlooked the fact that oil, a considerable factor in the rate of inflation, was trading in the high 60's during the latest FOMC meeting. The price of oil is largely controlled by the OPEC cartel as they account for almost 80% of the world's oil reserves. These countries need higher oil prices to balance their budgets. If the price of oil increases to $86, the price that Saudi Arabia would need to balance their budget equates to an increase of 25%. A 25% increase in oil prices would affect more than just gas prices. It would also increase operational costs of any company that does not manufacture its own energy.

Even though US citizens under 40 years of age do not have real-world experience with interest rates above 5%, it doesn't negate the fact that the average Federal Funds rate since 1973 is 5.42%. The Fed should not rush to lower interest rates until they achieve 2% inflation. We expect higher interest rates for longer. This does not mean there will be a recession or poor market performance in 2024, but we do foresee some negative market shocks in 2024 each time Chairman Powell backtracks on his December 2023 comments.

Updates on Inflation, Employment, and GDP

Chairman Powell was correct that inflation has softened significantly in 2023 without the US entering a recession. While inflation is down substantially, we believe it would be remis for the Fed to not wait until achieving the 2.0% inflation goal before they consider lowering rates.

	US Core Inflation Rate	US Inflation Rate	US Core PCE Rate	US PCE Rate
December 2022	5.7%	6.5%	4.9%	5.4%
November 2023	4.0%	3.1%	3.2%	2.6%

*www.tradingeconomics.com

While interest rates remain higher than in recent years, the US remained resilient. The US GDP was 4.9% in the 3rd quarter, up from 2.7% in the third quarter of 2022. The unemployment rate has increased by 0.3% in 2023; however, at 3.7%, it is substantially below the long-term average US unemployment rate of 5.71%.

Conclusion

In our Q3, 2022 newsletter GA Pincus Funds explained that as the US had experienced two consecutive quarters of negative GDP, the US was currently in a recession. While The National Bureau of Economic Research did not agree, we continue to believe that the US had a recession in 2022 and is now in a new bull market. This is a strong bull market powered by a bright global economic outlook, potential efficiencies using artificial intelligence, and significant improvements in clean energy. We believe this bull market will survive higher interest rates for longer. We predict the first interest rate cut will come in the Fed meeting that follows the release of inflation data showing inflation has cooled to 2.00% or below. We believe 2024 will be a strong year in the global equities markets and fixed income and cash will continue to yield +/- 5%.

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

GA Pincus Funds
Gabriel Pincus, President
1574 Woodberry Court
Brentwood, TN 37027

www.gapincusfunds.com
m: 917-597-1450

e: gabriel@gapincusfunds.com