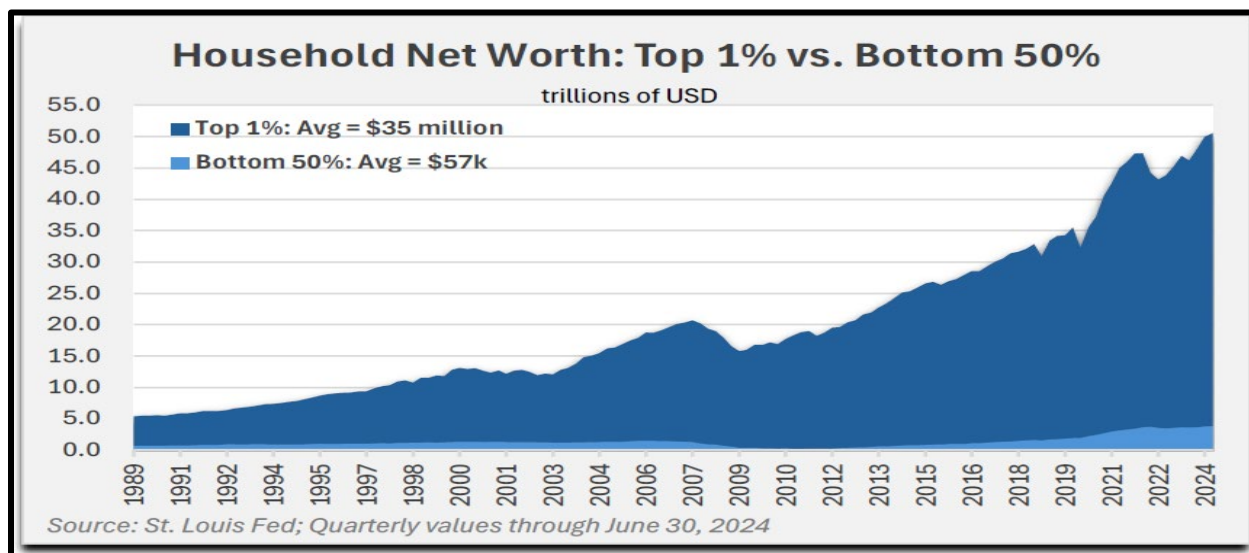




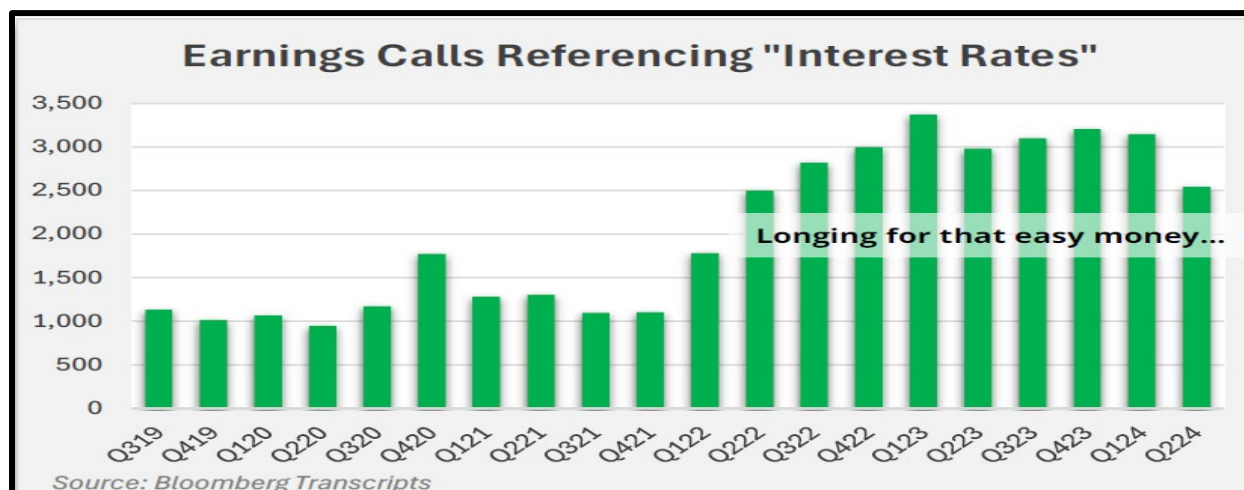
Source: Hedgeye

Beggar Thy Neighbor

“Beggar-thy-neighbor is an economic policy through which one country attempts to remedy its economic problems by means that tend to worsen the economic problems of other countries.” The escalating trade war between China and the U.S. is rooted in accusations of these tactics. There is a domestic analog: Beggar-thy-neighbor enabler is an economic policy through which one country class attempts to remedy satisfy its economic problems avarice by means that tend to worsen the economic problems of other countries classes. This is orchestrated by institutions including the Federal Reserve and Congress, who are lobbied incessantly by moneyed interests. Washington proclaims it can create a permanent economic expansion by manipulating interest rates and spending borrowed money, but that plan is not working for everyone. The ruling elite receive the spoils while the working class toils.



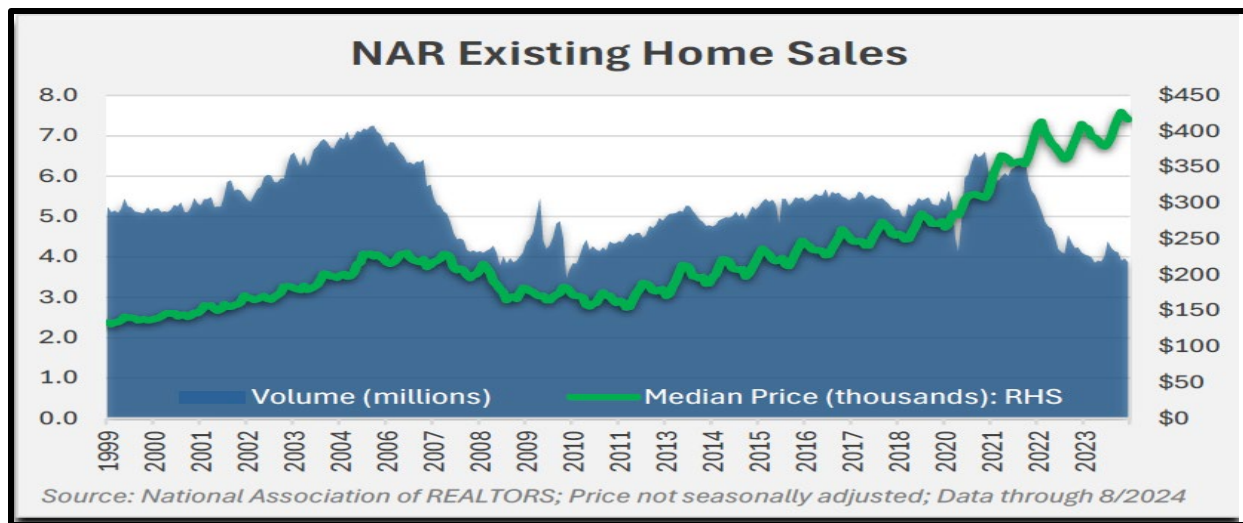
In August, billionaire Elon Musk said it was foolish that the U.S. central bank hadn't cut interest rates yet. Wall Street raised the ante in the week before the September Fed meeting, with one bank strategist after another recommending an upsized half-point rate cut. Per a single Bloomberg September 13th piece: "The case for the Fed cutting more aggressively next week is strong", "Markets would welcome the move", "Officials will do the 'right thing' and cut a half-point." Former Fed member Bill Dudley echoed that sentiment, arguing the Fed should "go big now." The Wall Street Journal's Greg Ip wrote that it would be riskier for the Fed to only cut by 25 basis points, although he acknowledged if they followed through with his prescribed 50 basis points "stocks could turn frothy." The P/E on the S&P 500 was already 24 times earnings. In a September 16th letter to Chairman Powell, Senators Elizabeth Warren, John Hickenlooper, and Sheldon Whitehouse commanded the Fed to implement an immediate 75 basis points reduction.



On September 18, 2024, the Federal Reserve lowered short-term interest rates by 50 basis points. Considering the mainstream characterizations of today's U.S. economy, this was remarkable in a historical context. In September 2007 when the Fed slashed rates by 0.5%, they acknowledged that a housing correction was underway, with the subprime contagion spreading. Coinciding with the January 2001 half-point cut when the tech bubble began imploding, the Fed cited eroding consumer and business confidence, falling margins, and an appreciable weakening of retail sales and business spending. In contrast, to kick off the easing cycle in 2024, Chairman Powell asserted that the U.S. economy is strong and near maximum employment. Stocks and home prices are at record highs.

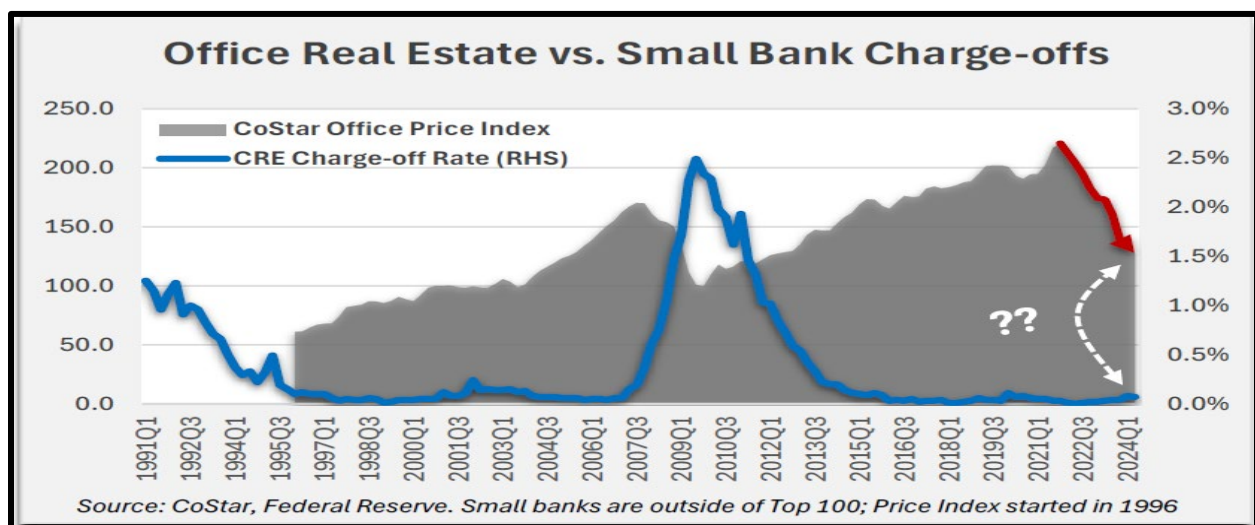
This dovish Fed cut rates under the guise of the greater good, as inflation has receded from the aftermath of the pandemic stimulus. This will supposedly support employment by making viable all the projects that just don't work when the cost of capital is a couple percentage points higher. Lower rates will also facilitate borrowing and improve housing affordability.

No industries are counting on lower rates more than real estate and banking. Real estate investors might be the most overconfident on the planet, with countless multimillionaires minted over the last four decades of the secular decline in interest rates. President Obama's controversial "You didn't build that" 2012 campaign speech would have been better directed at asset owners than business owners. U.S. housing prices stormed back after the credit crisis to new records, and then the Fed raised rates in 2022. To the surprise of most, home values barely flinched. However, housing activity cratered.



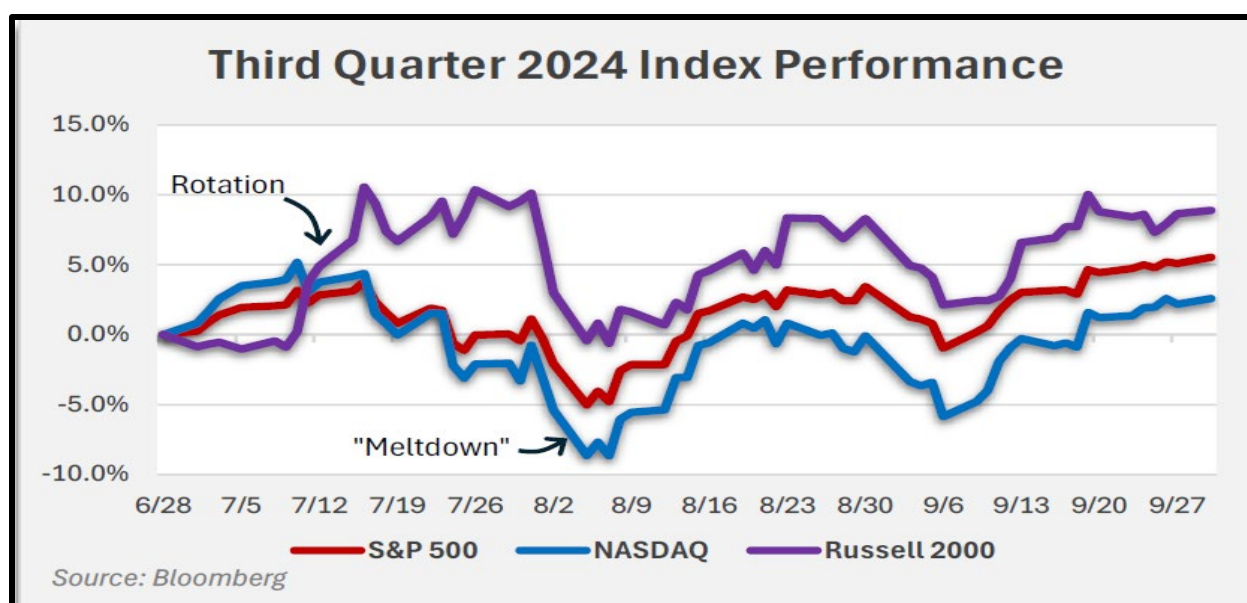
It's no mystery why many have developed an unshakable conviction in residential real estate, given its long-term appreciation. It also has the advantage of being a tangible asset the central bank can't print. Even ignoring burgeoning mortgage payments, owning a home is increasingly expensive. Rate cuts may only defer a needed correction in prices. During his post-meeting press conference, Chairman Powell said the "real issue" with housing was a lack of supply, "And this not something the Fed can really fix." While time will tell, we're not confident there will be a tranquil outcome for the housing market. The wealth effect that drives consumer spending would disintegrate with any pullback in home prices.

The current backdrop for the commercial real estate market (CRE) is already menacing. In a July 29th article about the unfolding CRE downturn, The Wall Street Journal wrote, "...many lenders have been reluctant to take over properties in hopes of a recovery and to avoid the expense and losses of foreclosure actions." Survive until '25. Property valuations for the office sector have completely tanked (-40% per CoStar) and multifamily is suffering as well. The FDIC Chairman remarked on September 5th, "The industry's noncurrent rate for non-owner occupied CRE loans in the second quarter was at its highest level since third quarter 2013," but this was driven by large lenders. The CRE loan charge off rates registered by small banks cling to the lows. Money center banks are probably being more truthful about balance sheet risk, but their exposure to CRE loans is substantially less as a proportion of their portfolios. Given that valuations for a sizeable chunk of the CRE market are down significantly, we believe small banks may not be properly recognizing expected loan losses on distressed assets.



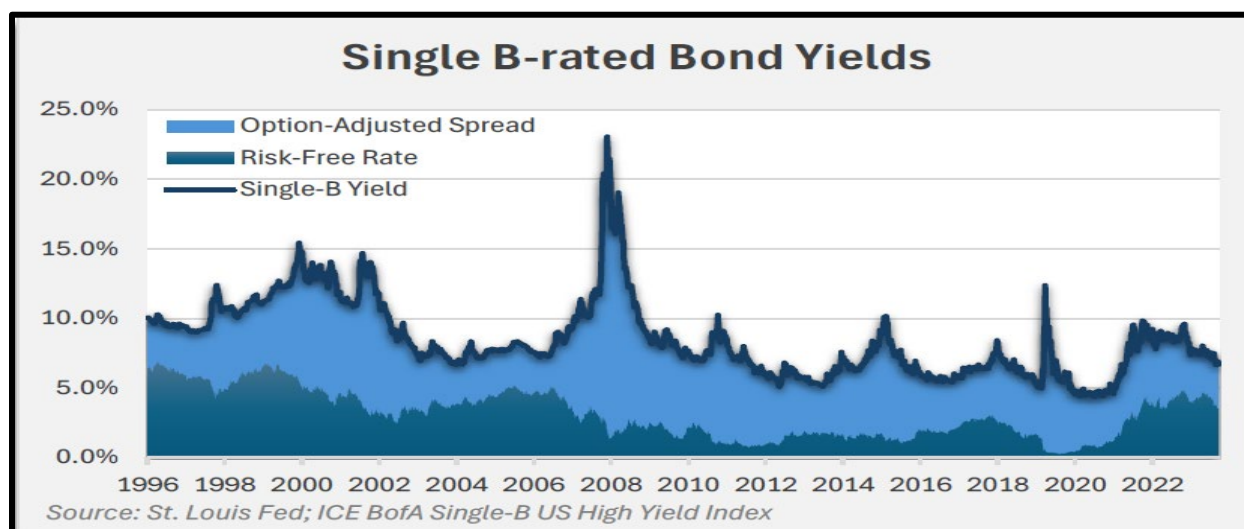
Furniture retailers targeting consumers with weaker credit profiles have been flattened. During the quarter, Conn's/Badcock (a recent merger of "weak-quals") and Big Lots declared bankruptcy. Conn's, an 87-year-old retailer offering furnishings and financing, will liquidate after closing its 553 stores. Management cited "drastic shifts in consumer behavior brought on by macro-economic trends, including changes to consumer spend as a result of multiple rounds of government stimulus associated with the COVID-19 pandemic, market-wide interest rate pressures, inflation..." Online merchant Wayfair said the contraction in the home furnishings space is now as severe as the financial crisis. Pressure is also building on middle- and higher-end home furnishings companies, who believe rate cuts will revive their bottom lines. Haverty's CEO commented this summer, "We certainly are pleased to see the Fed's recent indications or signals that the rates are going to be coming down this year...And so we know it's coming. We just don't know exactly when." La-Z-Boy added, "We are optimistic that expected Fed rate cuts later this calendar year will begin to spur an acceleration in housing turnover and subsequently in furniture demand." There are many more examples of industries begging for lower rates to improve demand. After more than a decade of tailwinds, easy money became part of their business model. Behind closed doors, we imagine no institution has petitioned harder for rate relief than the U.S. Treasury Department.

In July, the market experienced an unprecedented rotation into small caps. The apparent catalyst was a July 11th core inflation print that was 0.1% below expectations, solidifying investors' confidence in pending rate cuts. The Russell 2000 gained 12% over five days. The 10% relative outperformance over S&P 500 stocks was the largest ever in a span of that length, even exceeding 1987's Black Monday. Inflows into small cap funds reached near-record levels. Two months later, on September 11th, core inflation registered 0.1% above expectations. Despite the opposite direction of the surprise, the small cap market still increased 5% over the next five trading days.



The supercharged NASDAQ finally took a backseat to the action and fell 13% from early July to early August. On August 5th, Japan's Nikkei 225 dropped 12%, which was its steepest one-day decline in 37 years. All major U.S. stock indexes were down more than 3% on that day. The financial media labeled it a market meltdown. The catalysts cited were a weak July U.S. jobs report and an interest rate hike in Japan, which sent the yen surging. Predictably, the Bank of Japan responded by announcing it would not raise rates further while the market was unstable. Seventeen years without a rate hike, and when they nudge them up by a mere 25 basis points, the world is on fire. The central bank's dovish pledge quickly soothed investors' growing angst.

While rate cuts will help firms with floating rate debt, many companies have low fixed-rate liabilities that have not reset since rates increased. According to Goldman Sachs, fixed-rate debt accounts for over 60% of total small cap debt, excluding financial companies. As of the latest quarter, the median interest rate paid on debt by Russell 2000 non-financials was 7.0%. The current overall yield for single B-rated borrowers of 6.7% is similar to the average level that prevailed in the decade before the pandemic, and the associated credit spreads have almost never been tighter. Many small cap borrowers never experienced a significant increase in financing charges after short-term rates rose, so the upside from lower rates will be limited for them.



Quarterly Performance

The return for the Hahn Capital Management Mid-Cap Value Composite was **10.67% gross of fees and 10.42% net of fees in the third quarter of 2024**. For the quarter, we outperformed our primary benchmark, the Russell Mid-Cap Value Index, by 0.59 percentage points gross of fees and outperformed by 0.34 percentage points net of fees.

For the quarter, sector allocations to Energy, Materials, Real Estate, Consumer Staples, Information Technology, Financials, Industrials and Healthcare contributed, while those to Utilities, Consumer Discretionary, and Communication Services detracted.

The most significant relative performers during the quarter were CBRE Group (CBRE), Virtu Financial (VIRT), Fidelity National Financial (FNF), Keysight Technologies (KEYS), and EMCOR Group (EME), while the most significant underperformers were Euronet Worldwide (EFT), Occidental Petroleum (OXY), Air Lease Corp (AL), Alexandria Real Estate (ARE) and Ross Stores (ROST).

Hahn Capital Quarterly Performance Attribution – 3Q 2024

LINKED PERFORMANCE BY SECTORS											
BENCHMARK: Russell Midcap Value Index											
PORTFOLIO: Representative Account											
GICS Sector	PORT Weight	BENCH Weight	DIFF Weight	PORT Return	BENCH Return	DIFF Return	SECTOR SELECT	STOCK SELECT	ACTIVE CONTR	PASSIVE CONTR	TOTAL CONTR
Financials	20.70%	16.68%	4.01%	15.14%	12.58%	2.56%	0.10%	0.46%	0.56%	0.01%	0.57%
Information Technology	6.20%	8.75%	-2.55%	8.78%	4.67%	4.11%	0.14%	0.27%	0.41%	0.00%	0.41%
Real Estate	14.53%	10.11%	4.42%	19.74%	16.02%	3.72%	0.26%	0.51%	0.77%	0.00%	0.77%
Industrials	22.69%	16.83%	5.86%	14.35%	11.42%	2.93%	0.09%	0.68%	0.77%	0.01%	0.78%
Health Care	12.69%	9.25%	3.44%	9.51%	9.80%	-0.30%	0.01%	-0.04%	-0.03%	0.00%	-0.03%
Consumer Discretionary	5.85%	9.37%	-3.53%	1.03%	11.12%	-10.09%	-0.04%	-0.59%	-0.63%	0.00%	-0.63%
Materials	0.00%	7.24%	-7.24%	0.00%	6.60%	-6.60%	0.25%	0.00%	0.25%	0.00%	0.25%
Communication Services	5.78%	3.25%	2.53%	4.55%	9.05%	-4.50%	-0.01%	-0.30%	-0.31%	0.00%	-0.31%
Energy	3.27%	5.62%	-2.35%	-17.88%	-2.56%	-15.32%	0.32%	-0.62%	-0.30%	0.00%	-0.30%
Consumer Staples	2.01%	6.04%	-4.03%	14.46%	5.26%	9.20%	0.21%	0.28%	0.49%	0.00%	0.49%
Utilities	0.00%	6.85%	-6.85%	0.00%	17.99%	-17.99%	-0.50%	0.00%	-0.50%	0.00%	-0.50%
Cash	6.29%	0.00%	6.29%	1.39%	0.00%	1.39%	-0.59%	0.00%	-0.59%	0.00%	-0.59%
Total Portfolio - Net of Fees				10.96%	10.06%	0.90%	0.24%	0.66%	0.90%	0.00%	0.90%

Relative Performance by Stock – Quarter Ended September 30, 2024

Quarter Ended 09/30/2024 - Representative Portfolio vs Russell Midcap Value Index							
Top Four Holdings		Bottom Four Holdings		Top Four Sectors		Bottom Four Sectors	
Total Attribution		Total Attribution		Total Attribution		Total Attribution	
1 CBRE GROUP INC - A	0.90%	1 EURONET WORLDWIDE INC	-0.74%	1 Industrials	0.78%	1 Consumer Discretionary	-0.63%
2 VIRTU FINANCIAL INC-CLASS A	0.81%	2 OCCIDENTAL PETROLEUM COR	-0.62%	2 Real Estate	0.77%	2 Cash	-0.59%
3 KEYSIGHT TECHNOLOGIES IN	0.42%	3 AIR LEASE CORP	-0.51%	3 Financials	0.57%	3 Utilities	-0.50%
4 FIDELITY NATIONAL FINANCIAL	0.41%	4 ALEXANDRIA REAL ESTATE EQU	-0.48%	4 Consumer Staples	0.49%	4 Communication Services	-0.31%

HCM MID-CAP VALUE COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 09/30/2024	3Q 2024	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	10.67%	27.68%	3.47%	8.71%	8.82%	8.56%	13.21%
HCM Net of Fees	10.42%	26.48%	2.45%	7.64%	7.76%	7.49%	12.11%
Russell Mid Cap Value Index	10.08%	29.01%	7.39%	10.33%	8.82%	8.93%	11.19%
Russell Mid Cap Index	9.21%	29.33%	5.75%	11.30%	10.48%	10.19%	11.35%

[Link to: HCM Performance Disclosures](#)

PORTFOLIO ACTIVITY

New Positions

There were no new positions added in the 3rd quarter.

Positions Increased

SEI Investments (SEIC) – We added to SEI this quarter as we have seen the company’s organic growth rate accelerate over the past several quarters, surpassing our expectations and management messaging additional strong growth on the way. The company’s investment solutions are world class, and it is becoming increasingly successful at selling them. At the time of our add, the company was selling at a modest 15 times it’s 2024 earnings expectations and less than 12 times what is expected to earn in 2025.

Brown Forman Corp. (BF/B) – We added to our position in Brown Forman during the quarter at what we believe will be very attractive long-term prices. Brown Forman’s spirits business is one of the highest qualities in the world, its financial and operational management are superb, and we believe that the underlying spirits market will resume growth in 2025.

Positions Reduced

WabTec (WAB) – We reduced our position in Wabtec during the quarter as the stock had appreciated over 50% so far in 2024 and the position exceeded our 5% risk limit.

Emcor Group, Inc. (EME) – We reduced our position in Emcor during the quarter as the stock had appreciated over 100% so far in 2024 and the position exceeded our 5% risk limit.

Positions Sold

PVH Corp. (PVH) – We sold our position in PVH during the quarter as pressures were starting to mount on luxury goods spending. PVH has made good progress on a margin expansion program it started 18 months ago but was facing a potentially extended period of tepid consumer spending.

Outlook

Economic & Market Outlook

The U.S. economy and corporate profits should continue to grow through the rest of 2024. Economically, U.S. consumer and business activity continued to show signs of healthy moderation in Q3, with inflation ebbing lower and labor/spending/savings trends slowing but remaining on firm footing throughout the quarter. Importantly, corporate profits grew at a healthy clip in the first half and are expected to continue to grow in the second half. Notably, labor conditions should remain healthy, implying rapid changes in consumer spending are unlikely to occur outside of an unforeseen event shock.

After lowering its policy rate by a “jumbo-sized” 50 basis points in September, the Federal Reserve is expected to cut its policy rate by at least another 50 basis points before year-end. The recent rate cut was the Fed’s first since 2020 and likely ends an aggressive rate-hiking cycle designed to tamp down elevated inflation. Based on Fed projections, policymakers are likely to continue cutting rates through year-end and into next year, which could be supportive for growth and labor moving forward.

While areas outside of Big Tech have valuations that are less stretched, we believe a lot of the good news about the economy, interest rates and profits are priced into expectations. Moving forward, fundamentals may need to catch up with expectations, which could leave some room for disappointment in Q4 if conditions don't align with the outlook.

Several asset categories, including stocks, are currently priced for divided government following the Nov. 5 U.S. elections. While the odds are low, one-party control in Washington post-election could increase market volatility, as well as uncertainty around the results of the presidential race and down-ballot contests. A close election where winners are not immediately known, or legal battles that keep the future makeup of Washington in question for a period, also have the potential to increase market volatility post-election. Importantly, investors should be aware that these types of scenarios are likely to have only a temporary impact on markets. Once results are final, the market will likely shift its focus back to the fundamental factors that move stock prices longer-term (e.g., economic growth, corporate profits and the level of interest rates).

As we head into the November elections, we have been struck as we are sure many of you have, by the strident and accusatory language of both campaigns. It is in this harsh light that we would like to express our gratitude for the many great relationships we have developed with you our clients over the years. There are more important things in life than politics, human relationships come to mind first. We thank you for your support.



John Schaeffer
President and CIO



Michael Whitfield
Dir. of Research and Co-Portfolio Manager