

## Soft Landing Hopes Spur More Risk Taking

Despite Early 3Q24 Concerns, Asset Prices Jumped as Central Banks Cut Rates  
 Investors pushed aside concerns over recession, debt levels, geopolitical uncertainty, the upcoming US election and valuation as flow of funds chased a change in Fed policy and the dramatic 50 bps cut in the discount rate. We continue to see upside potential in non-US large cap names with particular focus on corporate earnings growth into 2025.

### Rockingstone Performance

We had a poor July as new energy investments (PWR, EQT, URNM) ran headfirst into a weak jobs number, and CRWD botched a software rollout. We used the tax loss to offset some NVDA gains but missed part of the rebound. We recovered some of the underperformance in Aug and Sept, with most accounts YTD equal to or close to benchmark returns.

### Stock Selection Framework: Review & Outlook

In this Newsletter we focus on some key long-term investment themes that provide a framework for our stock selection. We update those themes and provide a deeper dive into individual securities. For 2025-2030, identified themes incl: (1) Consumers Prioritizing Experiences, (2) Web 3.0, (3) Geopolitical Tensions, (4) Energy Demand, (5) AI / Manuf. Efficiency, (6) Wealth Transfer, (7) IT Security, (8) Healthcare & Demographics.

### Implications for Portfolios

We remain wary over large cap tech-oriented S&P 500 future returns but see value in select non-US markets along with US small and mid-caps. Our view is that energy demand will be robust in coming years and thus increased exposure to the sector. We are equal weight tech but overweight industrials and under-weight Consumer Discretionary. Fixed income for “balanced” accounts is at or slightly below benchmark weightings.

### S&P500 Forecast & Other Key Indicators

We forecast: EPS (2024/2025: \$235/\$265), S&P500 (2024 year end = 5565), GDP (2024: +3%), Gold (\$2850), Oil (\$75), 10-yr US Bond Yield (4.4%), Inflation (2.8%), 5-yr expected CAGR (US Large Cap -1%, US Mid Cap +5%, US Small Cap +7%, Developed +2%, EM +6%).

### ABOUT US

Rockingstone Advisors LLC is a boutique asset management firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

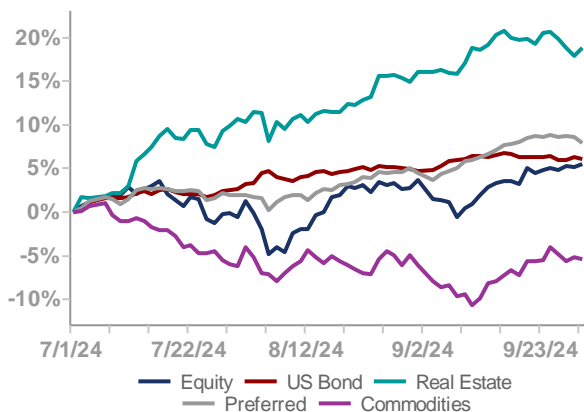
As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

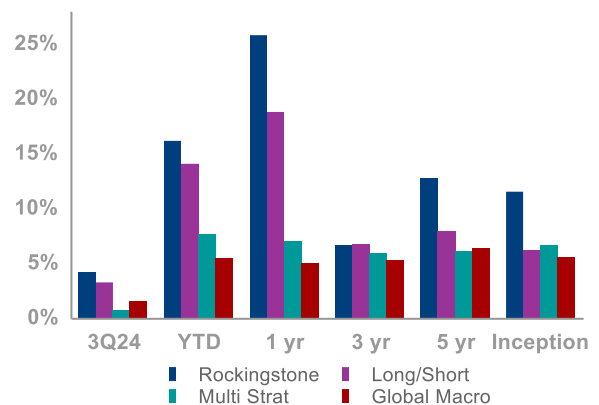
[www.rockingstoneadvisors.com](http://www.rockingstoneadvisors.com)

Figure 1: 3Q24 Asset Class Performance<sup>i</sup>



Source: FactSet

Figure 2: Rockingstone: 3Q24 & Historical Annualized Returns<sup>ii</sup>



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices, Inception = 5/30/2009

## Table of Contents

<b>Leveraging Long-Term Themes</b> .....	<b>3</b>
Our general philosophy in constructing and managing portfolios is to use passive instruments (ETFs generally) to gain broad-based exposure to a set of sectors and securities, and then complement those holdings with individual securities that we believe offer the prospect of a sustained, multi-year increase in value. For a stock to have a multi-year run, it must have (i) a massive tailwind due to some kind of secular change, (ii) be a leader in its industry, and (iii) not be priced for perfection. ....	3
<b>Forecast: 2024 &amp; 2025</b> .....	<b>10</b>
Rockingstone Advisors: Latest Forecasts .....	10
<b>Five Year Asset Value Forecast</b> .....	<b>11</b>
US Large Caps Look Overvalued .....	11
<b>Equity Performance Review</b> .....	<b>13</b>
Even a Mid-Quarter Swoon Could Not Stop the S&P 500's Leap Ahead .....	13
<b>Fixed Income Performance Review</b> .....	<b>14</b>
Broad Based Price Gains as Yields Decline .....	14
<b>Commodity Performance Review</b> .....	<b>15</b>
Oil Lags While Other Commodities Rally .....	15
<b>Digital Asset Performance Review</b> .....	<b>16</b>
Bifurcation between Bitcoin and Ethereum in Latest Quarter .....	16
<b>Chart Book</b> .....	<b>17</b>
Leading Indicators.....	17
Real-time Recession Risk Indicators .....	18
Labor Market Indicators .....	19
Production and Business Activity Indicators.....	20
Consumer and Household Activity Indicators.....	21
Housing and Construction Indicators.....	22
Price Indicators .....	23
Valuation Indicators.....	24
Valuation and Volatility Indicators.....	25
Bond Market Indicators .....	26
Liquidity and Other Indicators .....	27
<b>Appendix</b> .....	<b>28</b>
Important Regulatory Disclosures and End Notes .....	28

# Leveraging Long-Term Themes

Our general philosophy in constructing and managing portfolios is to use passive instruments (ETFs generally) to gain broad-based exposure to a set of sectors and securities, and then complement those holdings with individual securities that we believe offer the prospect of a sustained, multi-year increase in value. For a stock to have a multi-year run, it must have (i) a massive tailwind due to some kind of secular change, (ii) be a leader in its industry, and (iii) not be priced for perfection.

## Revisiting Rockingstone's 2020 Investment Themes

In the summer of 2020, we identified and derived a list of the eight most important—in our view—long-term themes, and the individual stocks that might be beneficiaries of those themes. During the last 4+ years, we have added or subtracted a few names from the list due to changes in their fundamentals, but our core holdings have remained relatively consistent. Importantly and in conjunction with our view that portfolio performance takes 3-5 years to evaluate vs. a designated benchmark, a review of such themes and whether they still have investment potential makes sense every half decade.

Figure 3: Investment Themes Identified in Summer 2020

Theme	Stock(s)
Shift from on premise computer to cloud computing	APPN, MSFT, AMZN, MKTX, FB
Shift from physical commerce to e-commerce	SHOP, AMZN, TTD
Growth in mobile/digital payments	PYPL, V, MA, FLT
Linear TV to on demand TV	DIS, NFLX, AKAM
De-linking of global supply chains	CLS, TSEM
Growing GDP and domestic consumption in Asia	EL, MKC, TDG, BA, WYNN, YUM
AI/Virtual Reality	NVDA, FB
Renewables, energy infrastructure, clean water	HUBB, TSLA

Source: Rockingstone Advisors

Revisiting those themes today, a few thoughts arise. First, it is a difficult exercise. We will no doubt get some themes wrong and miss other more important secular changes. On the ones we correctly identify, some great emerging industries are simply too competitive and too fragmented for there to be one or two clear winners, and their stocks suffer as a result. Other industries / themes have a clear winner, but valuation may seem to discount even the most optimistic, multi-year growth scenario, leading to lackluster stock performance.

Reviewing the themes we got wrong, and the ones we got right, our most disappointing bet was for growing GDP and consumption in Asia, particularly China, where we expected the economy to shift from an export-oriented economy to one dominated by growing domestic consumption for everything from beauty products to air travel and restaurants. We did not anticipate the crackdown on foreign and domestic businesses under the Xi Jinping regime, which has curtailed economic growth and risk taking. As a result, we have underperformed in several names, including Estee Lauder (EL) and Boeing (BA), though BA's losses were not necessarily a function of the theme not materializing. We have subsequently sold out of EL but are holding on to BA. We incurred additional underperformance in names such as Wynn

Resorts (WYNN), Yum Brands (YUM) and Starbucks (SBUX), all three of which have exposure to Chinese consumers and have underperformed their respective benchmarks.

On the opposite end of the spectrum, the one theme we got right was the potential growth in Artificial Intelligence (AI) and Virtual Reality. We benefited from investing in Nvidia (NVDA) believing the company had a clear lead in the industry and whose stock, while slightly expensive on most traditional measures, was not priced for the rapid growth yet to come. We purchased the shares in 2020 and again in 2022, making it one of the larger positions in most client portfolios. As companies race to build AI capabilities, they rely on NVDA chips.

We met with reasonable success across several other themes. De-linking global supply chains, more flexible production or “on-shoring” has been an important theme, and we identified Celestica (CLS) as a potential beneficiary. It has been a very good stock as the Canadian-based contract manufacturer’s fundamentals have done well as companies search for capacity closer to the US and away from riskier production locations as well as possible raised tariffs. Another example includes when the proposed merger between Intel and Tower Semiconductor (TSEM) fell apart, we acquired the shares of TSEM on the idea its contract chip making capacity would be sought after by companies.

Two other themes that have played out as we generally expected were Renewables / Energy Infrastructure and Mobile Payments. Both themes have witnessed solid growth, though we did not have sufficient stock exposure to the first theme (ultimately owning only HUBB, believing TSLA was too expensive). We did recently add Quanta Services (PWR) on the theme energy infrastructure is set to be overhauled due to greater US power demand. On mobile payments, we have owned both Visa (V) and Mastercard (MA), as well as PayPal (PYPL) and FleetCor (FLT). We ended up liquidating positions in PYPL and FLT due to concerns over sustainable growth rates and profitability, but maintained our exposure to V and MA, which have been solid performers.

Cloud computing has been an important theme, and no doubt we were not the first to identify the shift. However, it has been a little more difficult to invest in from a stock standpoint as there are simply too many names vs. portfolio management constraints. Nevertheless Microsoft, Apple and Amazon have been and continue to be core holdings. We liquidated Appian (APPN) on concerns the company was over-investing and would not show profitability within a reasonable time frame. In general, we believe this theme is simply too large to play in a meaningful way in our equal-weight portfolio approach.

The same is true in another theme we identified, the shift from physical commerce to e-commerce. Here again, just about every publicly traded merchant has an e-commerce presence, and while we tried to play this with Shopify with reasonable success, the volatility of the stock surprised us and we exited the name. Some themes are simply too fragmented with too many participants, and like cloud computing, e-commerce is probably one of them.

A somewhat-related problem has plagued the final theme identified: the shift from linear TV to streaming, or on-demand TV. The problem with capitalizing on this theme is that the race for content from so many industry participants (Apple, Amazon, Paramount, Netflix, Warner Bros) has led to poor returns and lackluster performance among many of the media stocks. While Netflix has been a clear winner, we had limited exposure given our concern for long-term free cash flow generation. Outside of Netflix, most of the pure-play media companies have witnessed material value destruction over the last several years.

### What Investment Themes Were Missed?

We missed (at least) two very important themes: the revolution in GLP-1 drugs (NOVO, LLY and others) and cybersecurity (CRWD, PANW and others).

In keeping with the idea that AI is at its infancy but growing in effectiveness every day, we queried ChatGPT with: “What have been the most important secular themes to invest in over the past five years?”

Its answer:

“Over the past five years, several secular (long-term) investment themes have emerged as key drivers of growth, largely shaped by technological advances, sustainability trends, demographic shifts, and geopolitical changes. Here are some of the most important secular themes that have been particularly compelling for investors:

#### 1. Digital Transformation

- **Cloud Computing:** As more businesses moved their operations online, cloud computing platforms like Amazon Web Services (AWS), Microsoft Azure, and Google Cloud benefited from surging demand. This trend accelerated during the COVID-19 pandemic, and it continues to be a major growth area.
- **Artificial Intelligence (AI) & Machine Learning (ML):** AI has gained widespread adoption across industries from healthcare to finance, automation, and retail. Companies leveraging AI and automation (e.g., NVIDIA, Alphabet) have seen tremendous growth.
- **Cybersecurity:** As digital transformation increased, so did the need for robust cybersecurity solutions, leading to substantial investment in companies providing security solutions (e.g., Palo Alto Networks, CrowdStrike).
- **E-commerce:** Online shopping became even more entrenched during the pandemic, benefiting platforms like Amazon, Shopify, and Alibaba, and continues to shape retail dynamics.

#### 2. Green Energy & Sustainability

- **Renewable Energy:** Investments in solar, wind, and hydroelectric energy surged as governments and corporations committed to reducing carbon emissions. Companies like NextEra Energy, Enphase Energy, and Tesla (in electric vehicles) became major beneficiaries of this shift toward green energy.
- **Electric Vehicles (EVs):** EVs became a dominant theme, with Tesla leading the charge. Traditional automakers like Ford and GM also pivoted toward electric vehicles. Battery technology companies and charging infrastructure players (e.g., ChargePoint, Albemarle) gained from this trend.
- **Energy Storage & Batteries:** The need for efficient energy storage systems (both for renewable energy and EVs) led to significant investments in battery technology, with lithium-ion battery producers and innovators receiving attention.

### 3. Healthcare Innovation

- **Biotechnology & Genomics:** Advances in gene editing, personalized medicine, and biotechnology saw companies like CRISPR Therapeutics, Illumina, and Moderna make significant progress, especially in vaccine development and cancer therapies.
- **Telemedicine & Digital Health:** The pandemic accelerated the adoption of telemedicine services, with companies like Teladoc Health and other health-tech firms leading this trend. Digital healthcare solutions, including AI-driven diagnostics, became a focal point for long-term growth.
- **Aging Population:** As populations in many countries continued to age, healthcare services, pharmaceuticals, and eldercare solutions emerged as lucrative investment areas.

### 4. Fintech & Digital Payments

- **Cryptocurrency & Blockchain:** Bitcoin, Ethereum, and other cryptocurrencies gained mainstream attention, especially with the rise of decentralized finance (DeFi) and non-fungible tokens (NFTs). Companies like Coinbase and platforms like Ethereum became key investment themes.
- **Digital Payments:** The rise of cashless transactions and the growth of digital payment platforms like PayPal, Square (Block), and Visa/Mastercard saw increasing investment interest, especially as consumer behavior shifted toward mobile and digital payments.

### 5. 5G and Connectivity

- **5G Rollout:** The global rollout of 5G networks enabled faster internet speeds and connectivity, unlocking growth for companies involved in telecommunications infrastructure (e.g., Ericsson, Nokia) and those enabling 5G-enabled devices like smartphones (e.g., Apple, Qualcomm).
- **Internet of Things (IoT):** Connected devices, smart homes, and smart cities continued to grow as IoT technology advanced, creating opportunities for companies in this space, including those providing sensors, software, and cloud-based platforms.

### 6. Automation & Robotics

- **Industrial Automation:** Automation in manufacturing, logistics, and even healthcare saw significant growth. Robotics companies like ABB, Rockwell Automation, and automation software providers benefitted from this trend as businesses sought to increase efficiency and reduce labor costs.
- **Autonomous Vehicles:** While autonomous driving is still emerging, heavy investments were made in companies like Waymo (Alphabet), Tesla, and other companies developing self-driving technologies.

## 7. Remote Work & Digital Collaboration

- The pandemic made remote work the norm, creating a long-term shift in how businesses operate. This increased demand for remote work tools like Zoom, Slack (acquired by Salesforce), Microsoft Teams, and other collaboration software platforms.
- **Enterprise Software:** Companies like Salesforce, Atlassian, and ServiceNow thrived as businesses moved to cloud-based solutions for productivity, customer relationship management (CRM), and collaboration.

## 8. Emerging Markets & Globalization

- While emerging markets faced challenges from the pandemic and geopolitical tensions, the long-term secular growth story of countries like China, India, and Southeast Asia continues to be a focus for investors, particularly in technology, consumer goods, and infrastructure.

## 9. Real Estate Tech & PropTech

- **Real Estate Technology:** PropTech, which includes technologies aimed at improving and innovating real estate processes, grew as investors sought out disruptive platforms like Zillow, Opendoor, and Redfin, as well as those focusing on commercial real estate solutions.

## 10. Climate Tech & Water Management

- As climate change became more pressing, investments in technologies that address environmental challenges, such as water management, sustainable agriculture, and carbon capture, grew in importance. Companies involved in smart irrigation, water purification, and agtech were key players in this theme.

These secular themes represent major drivers of market trends over the past five years, each rooted in structural shifts expected to continue influencing investment strategies into the future.”

### Investment Themes: 2025-2030

We believe that most of the longer-term investment themes identified in 2020 remain relevant nearly five years later. We decided to take a fresh look at some of the most important themes we see today.

Figure 4: Additional Investment Themes, 2025-2030

Theme	Stock(s)
Prioritization of experiences over goods	BKNG, LYV, BA
Emergence of Web 3.0, blockchain technology	Bitcoin, Ethereum
Heightened geopolitical tensions, migration, climate	LMT
Growing demand for base load power generation	PWR, URNM, EQT
AI impact on manufacturing & service productivity	LIN, BRK/B
Computer and IT security	CRWD
Demographics, wealth transfer & asset mgmt	MS, JPM
Healthcare, beauty, aesthetic medicine	ISRG, UNH, NTRA, SOFWF, LLY

Source: Rockingstone Advisors

Over the next five years, we expect a few new themes to emerge, together with the prior themes in Figure 3.

First, we see an overall shift in prioritization among consumers, and especially among younger consumers, to emphasize experiences over physical goods. The trend started years ago but we believe will continue over the next half decade. This ongoing shift should manifest itself in heightened demand for travel (airfare, hotels, travel agencies), dining outside of the home, and concert attendance (arenas, concert tickets, third-party ticket resellers). We have been playing this theme via Booking (BKNG), LiveNation (LYV) and Boeing (BA). Presently we do not, nor have we traditionally, owned the airlines as they seem rarely to make money over the long-term due to capacity issues, competition and fuel prices, but we have owned hotels— Marriott (MAR), Hilton (HLT) and Intercontinental (IHG)—for the first few years out of Covid. Today, we only hold IHG in a few global equity accounts.

A second important theme is the emergence of Web 3.0, which is generally defined as providing the next generation of computing connectivity across a decentralized network that is driven in part by blockchain technology—the technology that underpins Bitcoin. The obvious way to play this theme is through digital assets and specific tokens. As clients and investors that follow Rockingstone know, we have encouraged clients to allocate 1-2% of net worth to digital assets. For the moment, we believe a modest exposure to digital assets is sufficient to capture growth in Web 3.0. That said, in our view it is too early for there to be clear individual stock winners.

Another theme revolves around heightened geopolitical tensions, which may be fueled by several forces, including (i) a multipolar world in which the US, China, Russia and Europe compete for global hegemony, (ii) massive migration from the developing world to the developed world to escape authoritarian regimes (Venezuela, Russia, China), flee from climate change, or simply for enhanced economic opportunities that are clearly apparent in a world more connected through social media, and (iii) the growing power of non-state actors in global conflicts. We are playing this through defense companies (Lockheed Martin (LMT)), but actively seeking other smaller opportunities in niche defense players.

The growth in AI, as well as growing demand for baseload energy, in our view, creates an opportunity in power generation, as hardware intensive applications, EVs and other products require a baseload of primarily electric power that is relatively clean and constant. Prior to the growth in AI, most experts predicted long term average annual energy demand of 2-3%. The latest forecast is for energy demand to jump to above 4%. We believe nuclear energy and natural gas are two logical sources of such power and have invested in Uranium

(URNM) and Equiterra (EQT). Additionally, we purchased Quantum (PWR), which owns transmission lines; we also own CNQ, a large Canadian energy company.

For much of 2024 investors have been euphoric about the potential of AI. Fortunately, most of our clients have owned NVDA (the leading semiconductor company that provides the most in demand chips for AI computing), which has been a key beneficiary of market sentiment that AI will see significant sustained demand over the next several years. Looking forward the question for investors is how AI will be used by management teams to improve operations and profitability, including manufacturers and industrial players. Akin to the mid 2000s (post the dot-com bubble), companies that were able effectively to use the Internet to improve efficiency witnessed multi-year performance gains. We see the next half decade as playing out in a similar way, as manufacturing companies that use AI to help with factory automation and efficiency will boost margins and ultimately their share prices. Current positions that may benefit, including Linde (LIN) and Berkshire Hathaway (BRKB).

We noted previously about missing the secular growth in computer and network security. Yet the frequency of data breaches coupled with the risk of an adversarial state or non-state actor gaining control of critical infrastructure continue to highlight the important roles of cybersecurity firms. After Palo Networks missed their quarter in February 2024, we decided to take advantage of the accompanying sell-off of CrowdStrike (CRWD) to purchase the shares. CRWD reported a strong first quarter and the shares rallied. Despite a major bug related to a Microsoft update that was released by CRWD in July, we continue to believe the firm will be a long-term winner in this cybersecurity.

Demographic experts have noted for some time the “Baby Boom” generation (1946-1964) is well into the end of regular work and increasingly embracing retirement. There are significant societal impacts from such demographic cycles, including retiree migration from the Northeast to the South, as well as declines in labor force participation rates to issues revolving around social security solvency. It is estimated that Baby Boomers have accumulated \$75-80 trillion in net worth. With those assets to be transferred to the next generation, we see opportunity in wealth management, banking and payment providers including MS, JPM, V and MA.

The final theme revolves around what is now called “wellness,” but covers everything from healthcare to beauty. Unlike traditional healthcare it is not necessarily or uniquely specific to the treatment of disease, although that remains a focus, but rather a combination of wellness and beauty services oftentimes called “cosmeceuticals” or “aesthetic medicine.” Part of the growing demand for aesthetic medicine is a function of aging demographics that we mentioned previously, but part is also growing disposable wealth, especially in emerging Asian markets, like Korea, as well as more traditional markets like Japan and the US. Through the help of our clients, we were made aware of an interesting medical device company that has a leading product to tighten skin. The company has a razor/razor-blade revenue model, and we think should be profitable by 2025. While a microcap stock, we are currently acquiring shares.

# Forecast: 2024 & 2025

## Rockingstone Advisors: Latest Forecasts

The US Federal Reserve appears to successfully have orchestrated a “soft landing,” for now. That said, macroeconomic data have been mixed, depending on whether the data reflect global industrial manufacturing (weak and getting weaker) vs. domestic services (strong and remaining strong), or which segment of the consumer: the high end (solid) vs. low end (weak). As we publish this latest newsletter, 3Q24 earnings are generally ahead of Street expectations and GDP (via the Atlanta Fed’s GDPNow) appears to be accelerating. Given that backdrop, we note the following:

Figure 5: Key Metric Forecast

Metric	Year End December	
	Band	Point
US Real GDP (2024)	+2.8% to +3.3%	3.0%
S&P 500 2024 EPS (RSA/Street)	NA	\$235 / \$235
S&P 500 2025 EPS (RSA/Street)	NA	\$265 / \$274
S&P 500 2024 Index	5400 - 5900	5565
10-Yr US Treasury Yield	4.2% - 4.7%	4.4%
Oil (WTI-2024 End)	\$65 - \$80	\$75
Gold (2024 End)	\$2,500 - \$3,000	\$2,850
Inflation (PCE - NTM)	+2.5% to +3.0%	2.8%

Source: Rockingstone Advisors, The Economist, Standard and Poor’s, NYSE Arca, St. Louis Federal Reserve

### A few observations and comments:

1. **S&P 500 2024 & 2025 EPS.** “Operating” EPS in 2023 were \$213. Although consensus estimates for 2024 have come down to our \$235 forecast, we don’t see a reason to change our outlook. The \$235 implies 10% EPS growth in 2024 vs. 2023, which is an improvement on 1H24 growth and second half comps are easier. Looking out to 2025, we remain below consensus at \$265 in S&P 500 EPS, which implies about 13% year over year growth. As noted earlier, the outcome of elections and corporate tax rates could materially impact next year’s S&P 500 earnings. But until we gain more clarity on the political landscape, it appears that respectable GDP growth, a decent consumer backdrop (excluding low to lower middle income levels), companies’ ability to successfully navigate through recent past inflation all support a reasonably optimistic earnings outlook.
2. **S&P 500 2024 Year-end Index.** By any measure (at least through mid-October), the S&P 500’s gain in 2024 has been excellent. The aforementioned “soft landing” has materialized and EPS growth have been strong. With hindsight we have been too cautious in terms of our S&P 500 targets of late. Yet the S&P 500 has essentially become a large cap, tech index dominated by a handful of companies. We continue to see limited S&P 500 returns from the current level (see the next section). Using our \$265 2025E EPS estimate and a 21.0x P/E multiple helps support our S&P 500 target of 5565 (up from 5400 but about 5% below current levels). We see downside risk should corporate earnings moderate due to tax policy, consumers pull back or high government debt levels finally influence P/E multiples.

# Five Year Asset Value Forecast<sup>iii</sup>

## US Large Caps Look Overvalued

Our main assumptions regarding capital markets continue to be that asset values mean-revert (with respect to margins and P/E multiples) over time. We analyze equities using four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields, and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Within our 5-year outlook for total returns, we expect the “give” of sales growth, valuation (sometimes) and dividends to be partly offset by the “take” of mean-reverting margins. We assume sales growth to be relatively close to long-term average performance. Profit margins have come down vs. the recent past but are still modestly above historical levels and thus remain mostly dilutive to expected returns.

Figure 6: Five-Year Total Equity Return Calculations (Incremental Contribution)

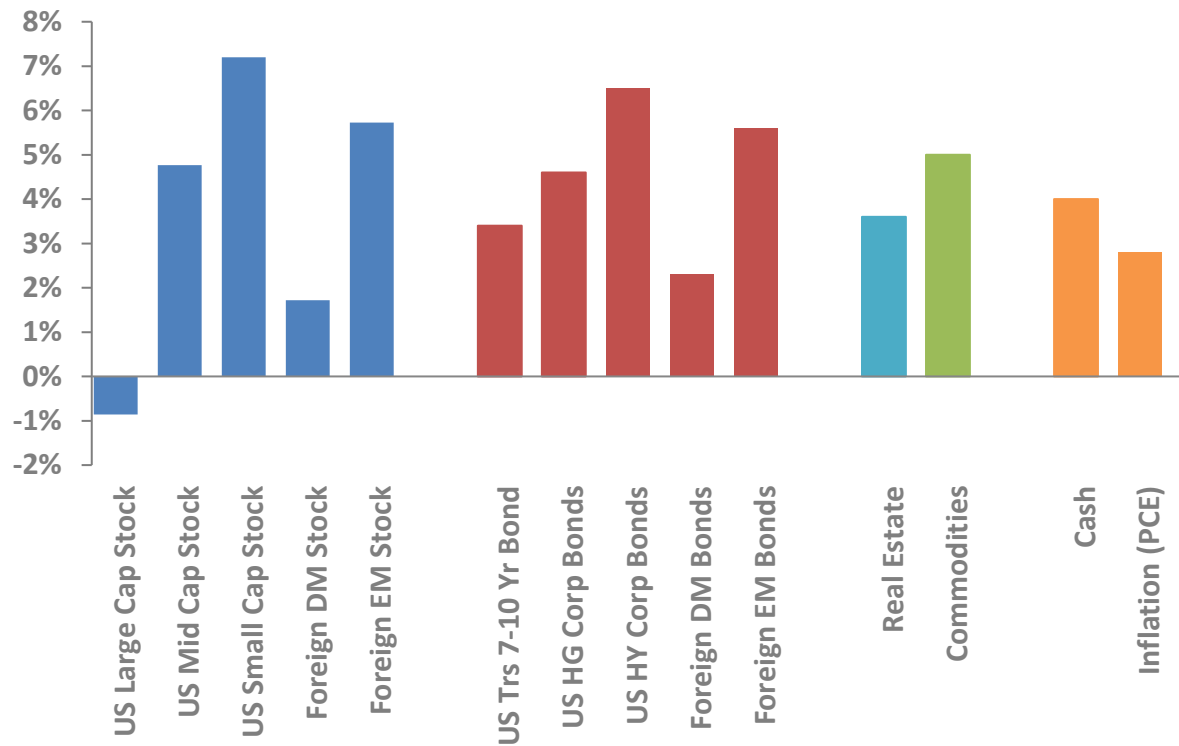
<b>Asset</b>	<b>Index</b>	<b>LT Exp. Return</b>		<b>Sales</b>		<b>Profit Margin</b>		<b>Div. Yield</b>		<b>Valuation</b>
US Large Cap Stock	S&P500	-0.9%	=	5.4%	-	1.1%	+	1.3%	-	6.4%
US S&P Equal Weight	RSP	7.1%	=	4.0%	+	1.3%	+	1.8%	-	0.0%
US Mid Cap Stock	S&P400	4.8%	=	4.7%	-	1.5%	+	1.5%	-	0.0%
US Small Cap Stock	S&P600	7.2%	=	5.5%	+	1.1%	+	1.9%	-	1.3%
Foreign DM Stock	MSCI-EAFE	1.7%	=	1.5%	-	3.0%	+	3.2%	-	0.0%
Foreign EM Stock	MSCI-EM	5.7%	=	4.4%	-	0.0%	+	2.8%	-	1.5%

Source: Rockingstone Advisors

Once again, we have analyzed and added the “US S&P Equal Weight” index to our analysis given how skewed the large cap, tech-oriented S&P 500 has become to such seven companies. The RSP ETF essentially acts as more of a mid-cap index by forcing all components to be equally weighted by market cap. It is interesting to note how all the other indices analyzed show reasonable return expectations vs. a negative outlook for the S&P.

In fixed income (see the next page for various assumptions), we expect the “give” of coupons will be exceeded by the “take” of mean-reverting inflation and real rates.

Figure 7: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

# Equity Performance Review

## Even a Mid-Quarter Swoon Could Not Stop the S&P 500’s Leap Ahead

In early August, markets across the globe fell precipitously on several concerns, including Japanese interest rate policy, concerns over China’s economic weakness and fears over a US slowdown driven by rapidly weakening job data. But as has been the case since the end of 2022, markets rebounded strongly, with most equity indices performing well by the end of 3Q24.

Looking at the US, the broadly followed S&P 500 gained 5.6%. However, as investors became more comfortable with a soft landing, combined with a changed Fed policy, the equal weight S&P (RSP) jumped 10.4% and IWM +10.2%. For the first time in an extended period, Value (VTV) significantly outperformed Growth (VUG) by 780 bps.

In terms of non-US markets, performance lagged US large caps until the last few weeks of the quarter. We see two factors explaining the catch up in non-US indices: (i) the Fed policy change in lowering rates (50 bps), and (ii) the Chinese government and central bank pushing through a stimulus package. For example, Emerging Markets (VWO...of which 50% is China equities) ended the quarter +9.4%, but the same ETF was only up 2.1% at August-end.

We note the following performance numbers for 3Q24 and 12M24, respectively: US Large Cap (+5.6% and +36.1%), US Mid Cap (+7.9% and +28.6%), US Small Cap (+10.3% and +26.4%), Intl Developed (+6.4% and +24.2%), Emerging Markets (+9.4% and +25.6%).

Figure 8: 3Q24 Equity Performance <sup>iv</sup>



Source: FactSet

Figure 9: 12M24 Equity Performance



Source: FactSet

# Fixed Income Performance Review

## Broad Based Price Gains as Yields Decline

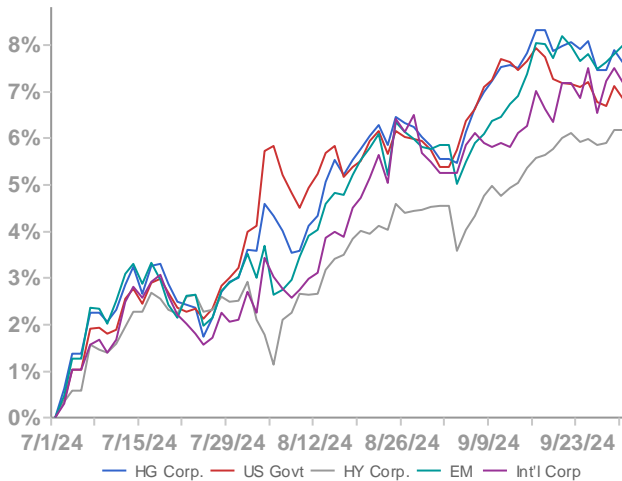
Fixed income markets rallied as global investors recognized significant moderation in inflation pressure combined with central banks transitioning away from hawkish policy and discount rates. The rally in fixed income was broad-based, with government securities as well as spread products (i.e. bonds with greater risk levels) increasing in price. Indeed, every major fixed income ETF that we track rallied during 3Q24.

Looking more closely, we note that US Corporates (LQD) rallied 7.2% likely due to ebbing concern among investors about recession risk. Similarly Emerging Market bonds (VWOB and EMB) both jumped 7.4% and 7.5%, respectively, in the quarter on China's stimulus package as well as lower global rates.

It is interesting to note that since the US Federal Reserve lowered interest rates 50 bpts in mid-September, the US 10-year has seen its yield jump from 3.6% to over 4.0%. One reason could be that with the upcoming US election, investors are fearful that regardless of which party comes out on top, the risk of their respective policies is for even greater deficits and debt.

We note the following performance numbers for 3Q24 and 12M24, respectively: US High Grades (+7.6% and +15.8%), US Governments (+6.8% and +10.8%), US High Yield (+6.2% and +15.7%), Intl Developed (+7.2% and +15.9%), Emerging Markets (+8.0% and +19.2%).

Figure 10: 3Q24 Fixed Income Performance<sup>v</sup>



Source: FactSet

Figure 11: 12M24 Fixed Income Performance



Source: FactSet

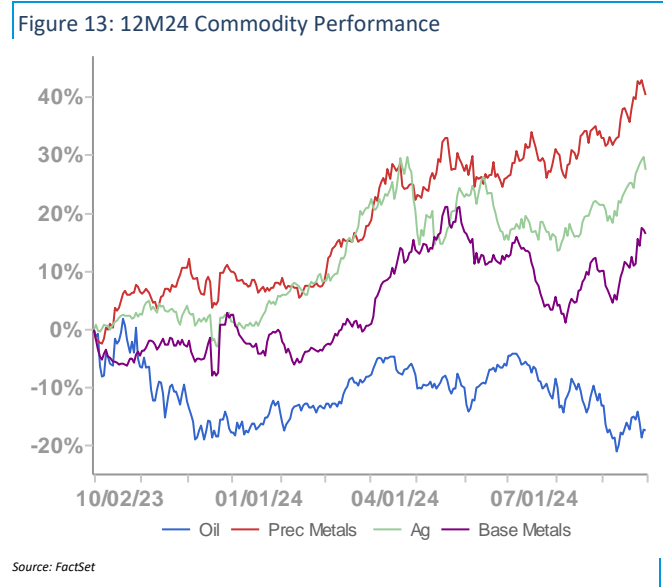
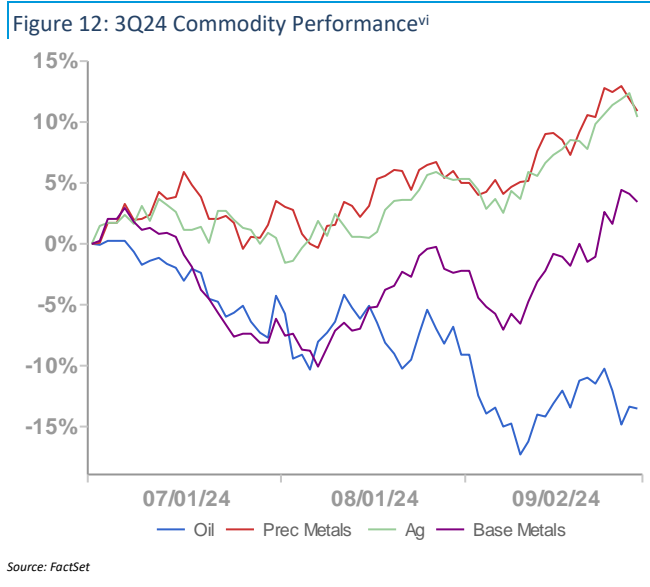
# Commodity Performance Review

## Oil Lags While Other Commodities Rally

We note investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because unlike stocks and bonds, commodities do not generate a stream of cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting their price. Lastly, because commodities are most often priced in \$US and traded globally, they are considered a store of value, especially if the dollar declines.

In the latest quarter, both Precious Metals (gold, platinum) and Agriculture rallied. At the same time Base Metals (copper, silver) increased modestly. Oil was the major laggard, dropping close to 14% during the 3Q24. Gold has performed well (GLD +27% YTD), as both an inflation hedge and defensive investment in a volatile geopolitical period. We believe Oil has lagged as OPEC+ alignment has been questionable of late, particularly given the view by investors that global growth is more likely vs. recession.

We typically invest in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We highlight the following returns during the 3Q24 and 12M24, respectively: Oil (-13.5% and -17.3%), Precious Metals (+10.5% and +40.4%), Agriculture (+10.5% and +27.5%), Base Metals (+3.4% and +16.5%).



# Digital Asset Performance Review

## Bifurcation between Bitcoin and Ethereum in Latest Quarter

We do not believe digital assets are a substitute for equities or bonds or other cash flow-driven securities. To reiterate: there is no cash flow associated with the asset class, and as value investors, we generally prefer to acquire a stream of free cash flow. Yet it is worthwhile emphasizing that many assets do not generate cash flows and are still widely recognized as being stores of value, including art or precious metals or coins or rare books. All of these “non-cash flow generating” assets trade with intermittent price discovery, albeit through Dutch or private auctions.

In the latest quarter, Bitcoin retained its value and was basically flat. Meanwhile Ethereum dropped close to 25%. This is a significant change as historically there has been a high correlation between the two major digital assets. From a technical standpoint, Bitcoin is trading around 200 DMA and 50 DMA levels, which may be one reason it has performed better vs. Ethereum. Again, from a technical approach, Ethereum moved below its major DMAs due possibly to the Deneb-Cancun upgrade (making mining and transactions more cost efficient).

We continue to encourage clients to maintain a modest 1-2% of their net worth in digital assets for the long term. We note the following performance regarding 3Q24 and 12M24, respectively, results: Bitcoin (+0.1% and +135.2%) and Ethereum (-24.5% and +55.5%).

Figure 14: 3Q24 Digital Asset Performance <sup>vii</sup>



Source: FactSet

Figure 15: 12M24 Digital Asset Performance

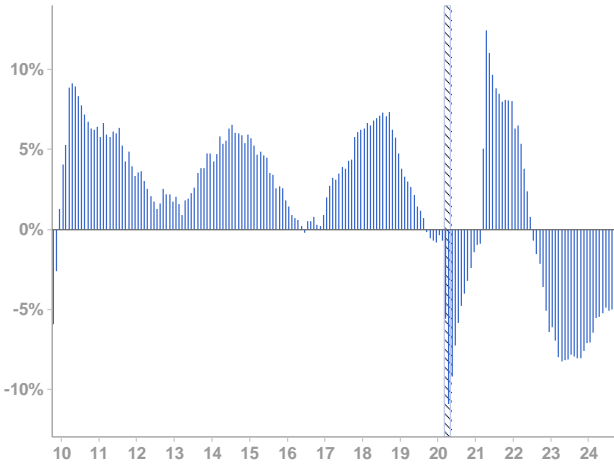


Source: FactSet

# Chart Book

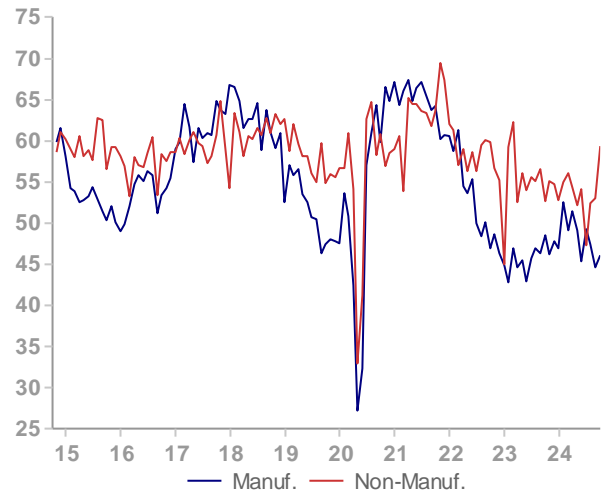
## Leading Indicators

Figure CB-1: Index of Leading Economic Indicators



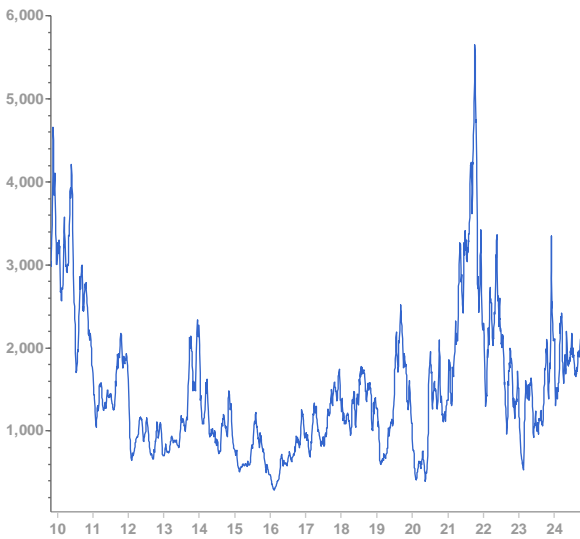
Source: FactSet

Figure CB-2: ISM New Orders



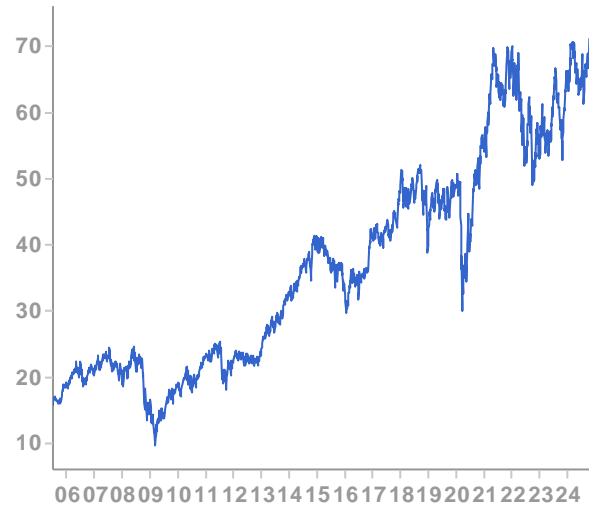
Source: St. Louis Federal Reserve, FRED Database

Figure CB-3: Baltic Freight Index



Source: FactSet

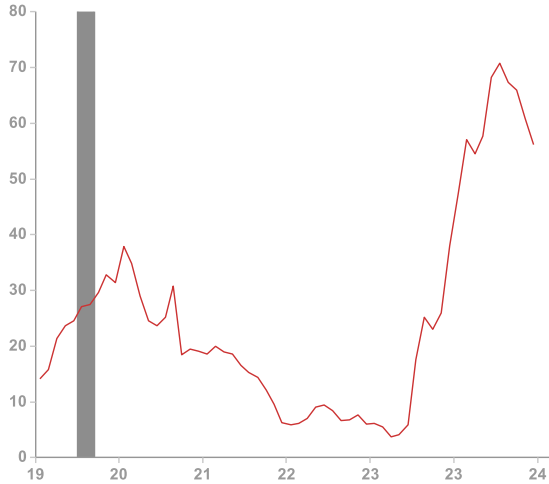
Figure CB-4: DJ Transports



Source: FactSet

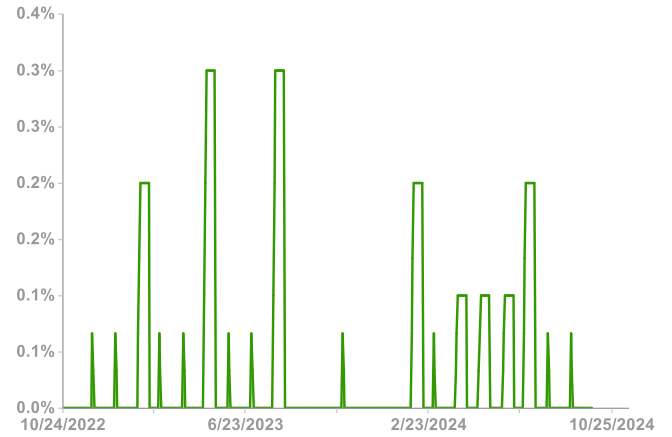
## Real-time Recession Risk Indicators

Figure CB-5: Treasury Spread Recession Predictor



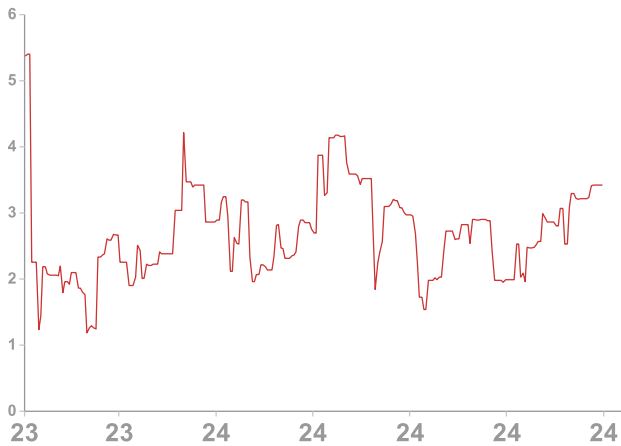
Source: FactSet, FRED Database

Figure CB-6: Sahm Real-time Recession Predictor



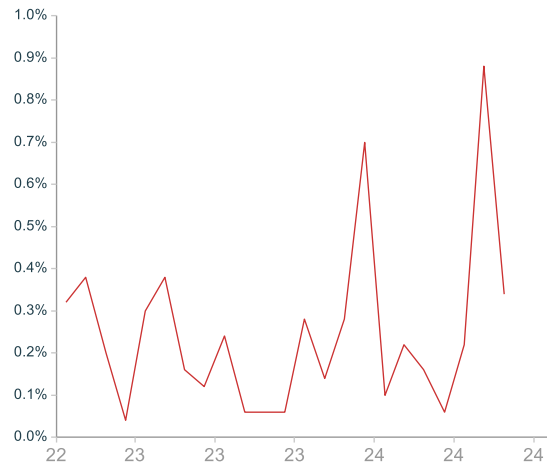
Source: St. Louis Federal Reserve, FRED Database

Figure CB-7: GDP Now (Atlanta Fed)



Source: FactSet, FRED Database

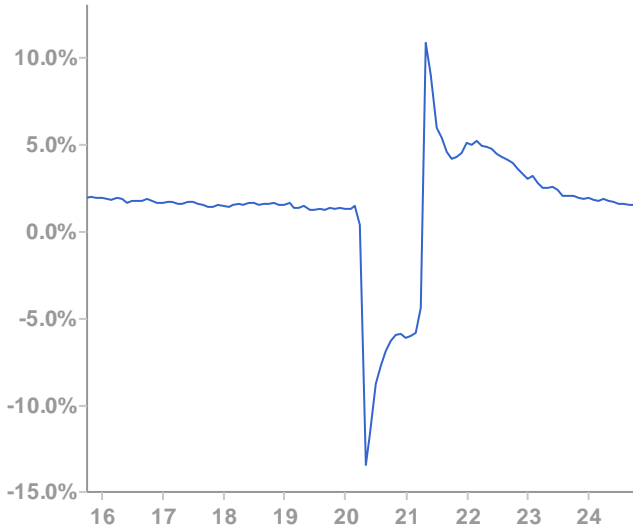
Figure CB-8: Smoothed US Recession Probabilities



Source: FactSet, FRED Database

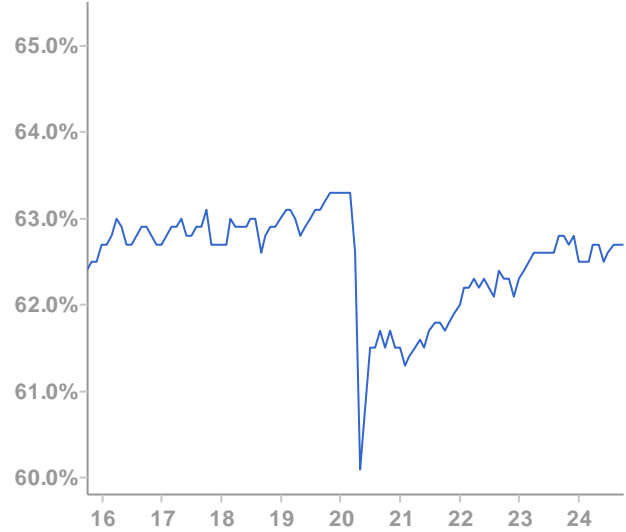
Labor Market Indicators

Figure CB-9: Payroll Growth (Establishment Survey, % Chg YoY)



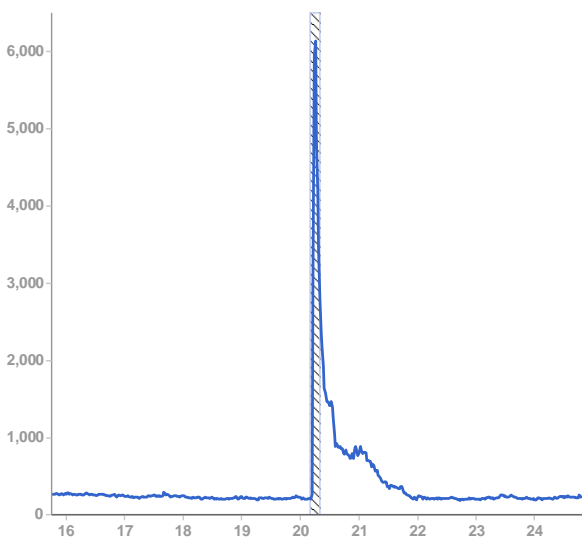
Source: FactSet

Figure CB-10: Labor Participation Rate (% of Workforce)



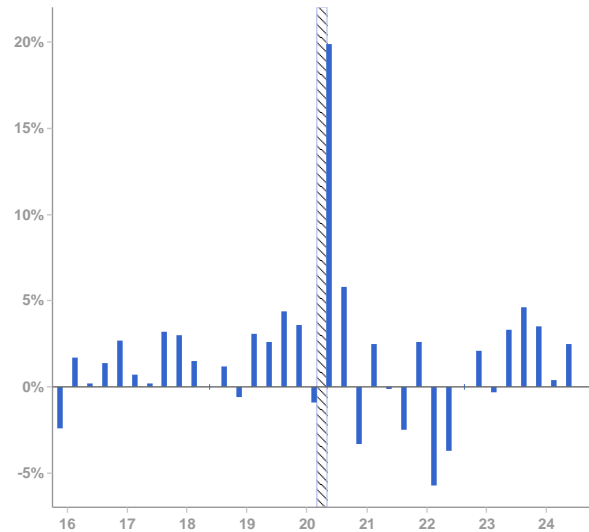
Source: FactSet

Figure CB-11: Initial Unemployment Claims



Source: FactSet

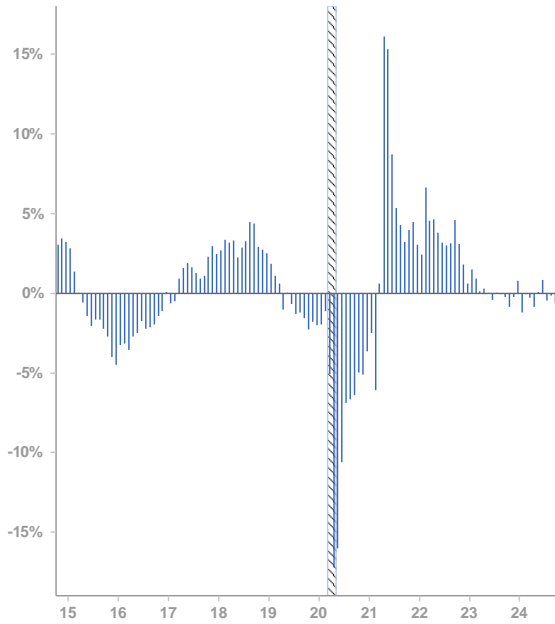
Figure CB-12: Non-Farm Productivity (% Chg YoY)



Source: FactSet

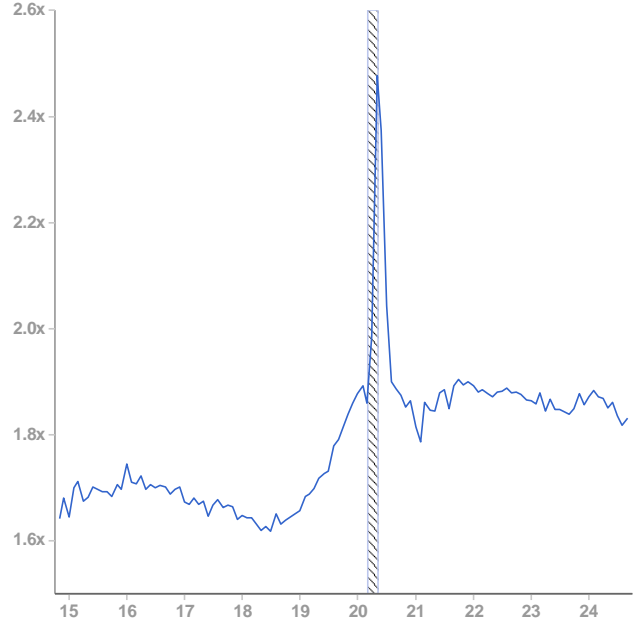
Production and Business Activity Indicators

Figure CB-13: Industrial Production (% Chg YoY)



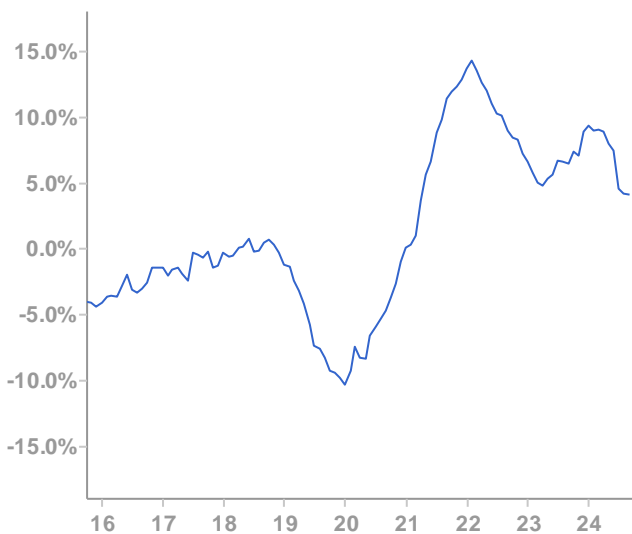
Source: FactSet

Figure CB-14: US Inventory to Shipment Ratio



Source: FactSet

Figure CB-15: Unfilled Orders (% Chg. YoY)



Source: FactSet

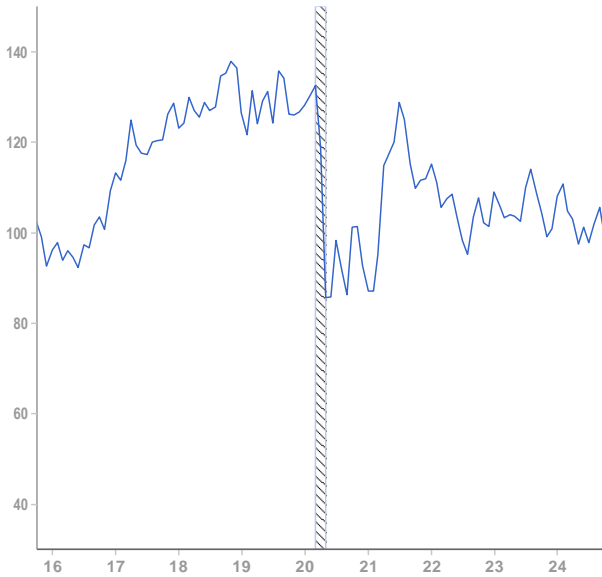
Figure CB-16: Business Sales (% Chg. YoY)



Source: FactSet

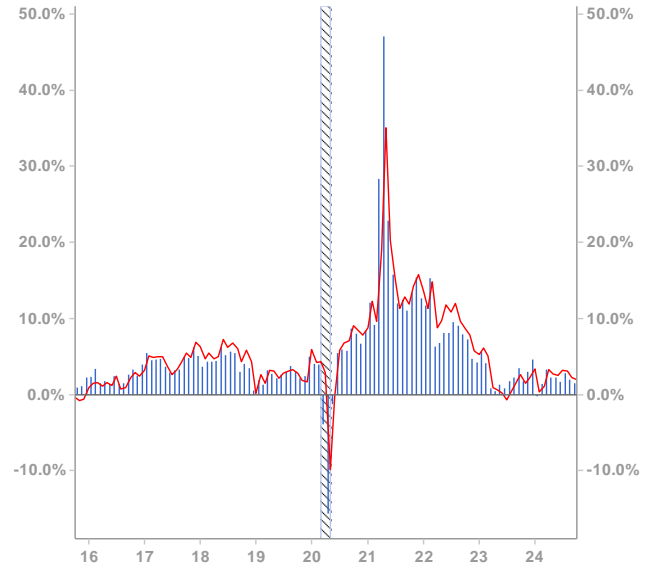
Consumer and Household Activity Indicators

Figure CB-17: University of Michigan Consumer Sentiment



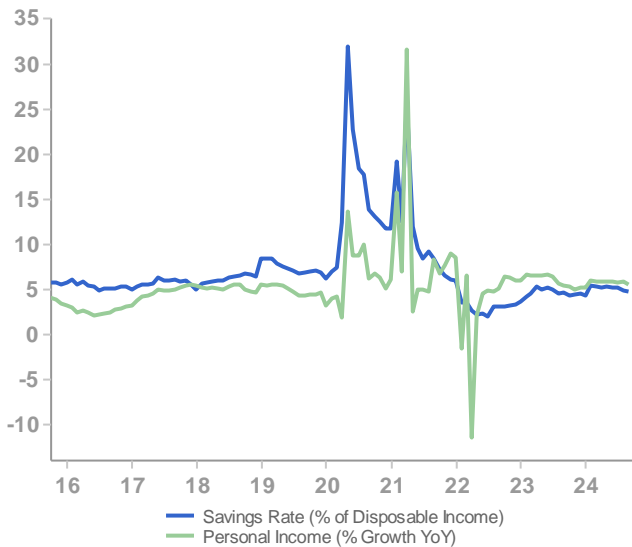
Source: FactSet

Figure CB-18: Retail Sales



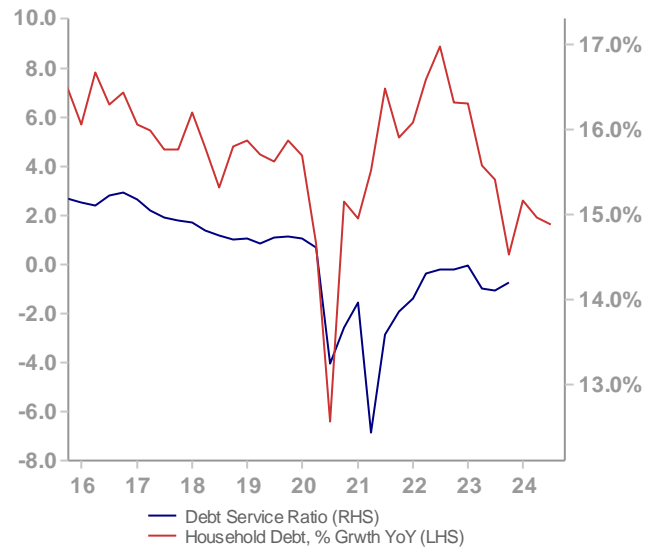
Source: FactSet

Figure CB-19: Personal Income and Savings Rate



Source: FactSet

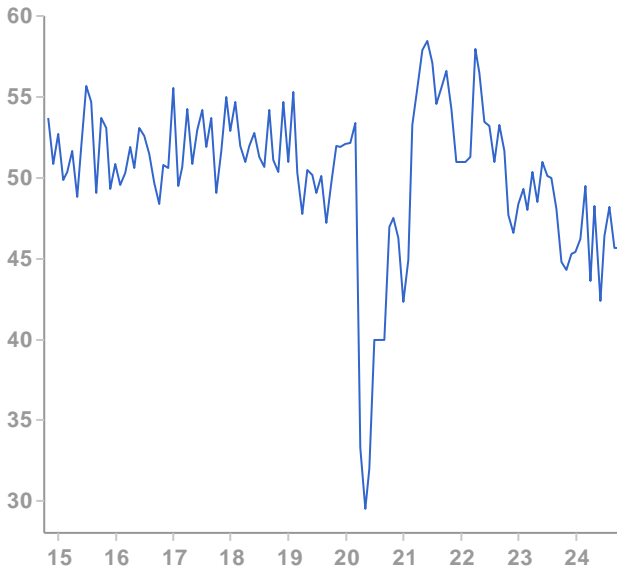
Figure CB-20: Household Debt



Source: FactSet

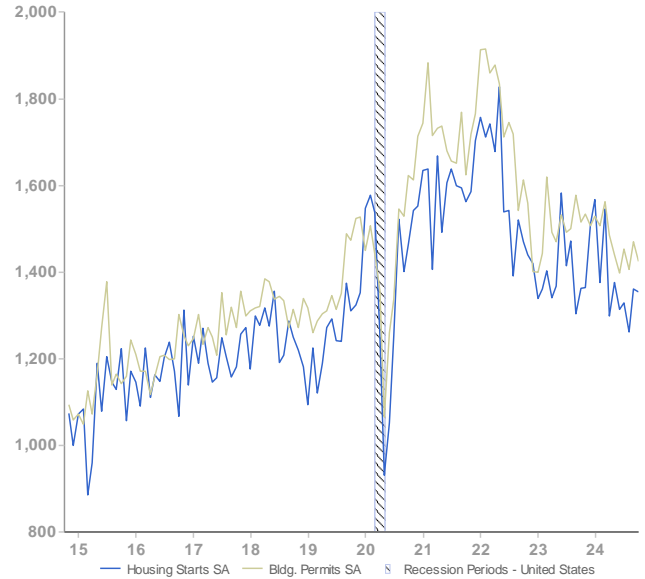
Housing and Construction Indicators

Figure CB-21: Architecture Billings Index



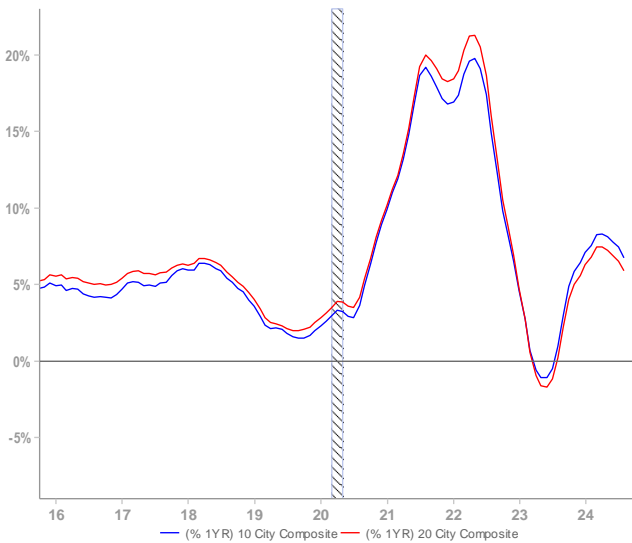
Source: FactSet

Figure CB-22: Housing Starts and Building Permits



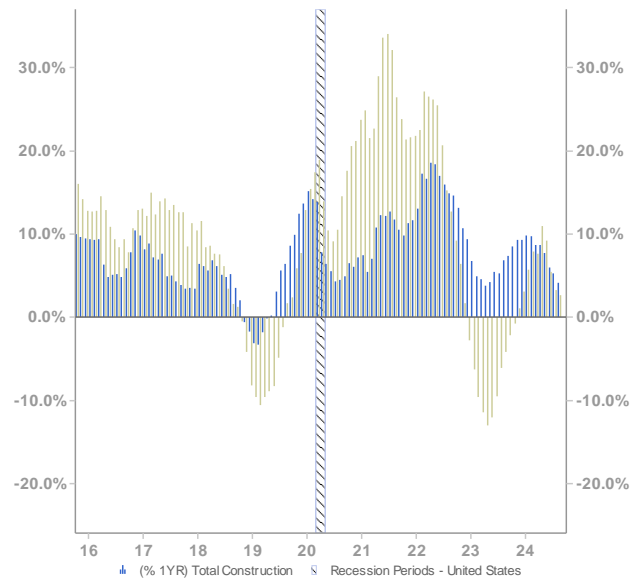
Source: FactSet

Figure CB-23: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

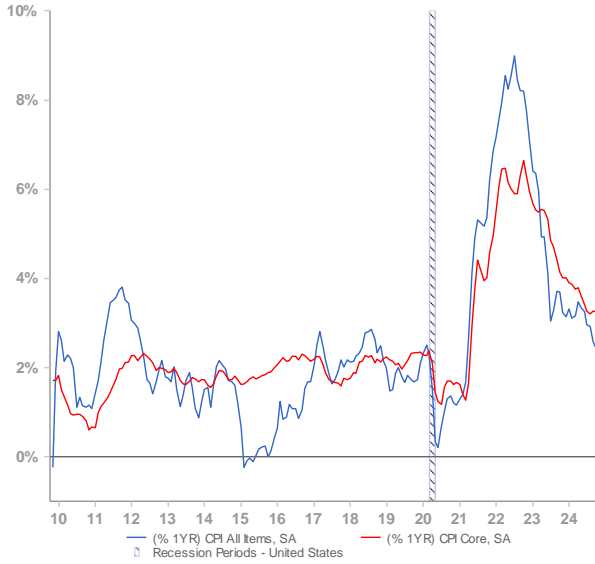
Figure CB-24: Private and Total Construction (% Chg YoY)



Source: FactSet

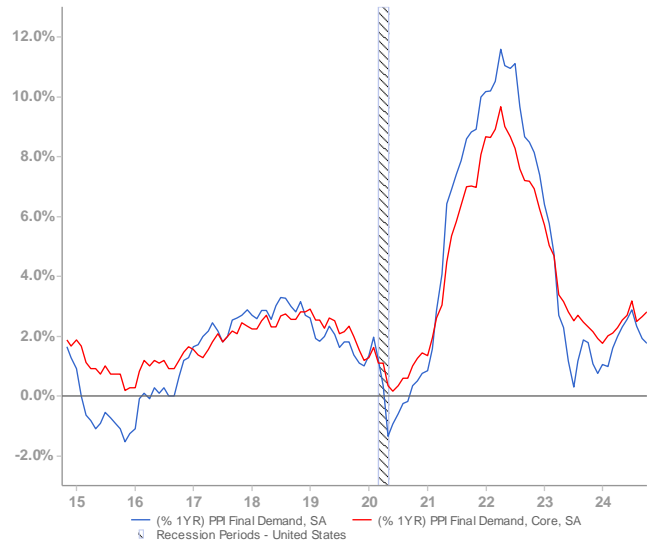
Price Indicators

Figure CB-25: Consumer Price Index



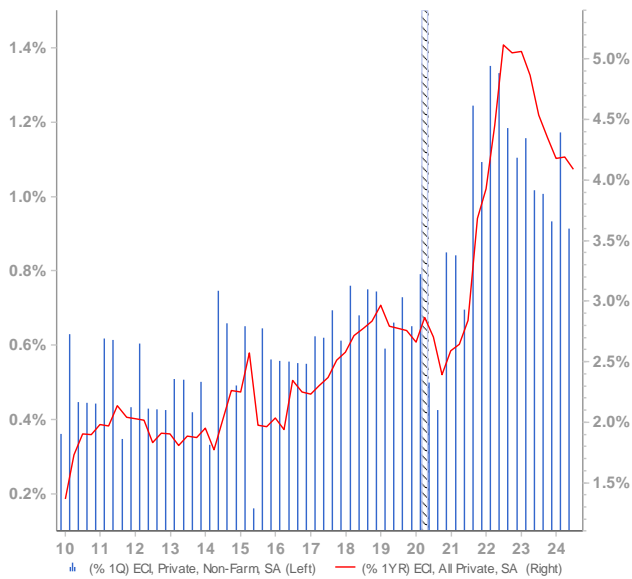
Source: FactSet

Figure CB-26: Producer Price Index



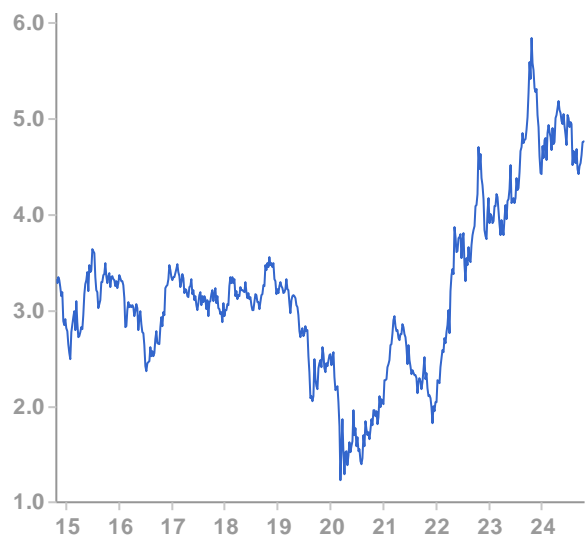
Source: FactSet

Figure CB-27: Employment Cost Index



Source: FactSet

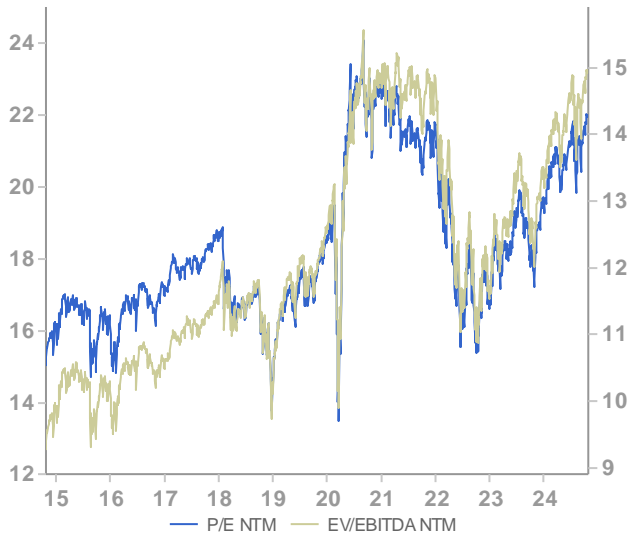
Figure CB-28: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

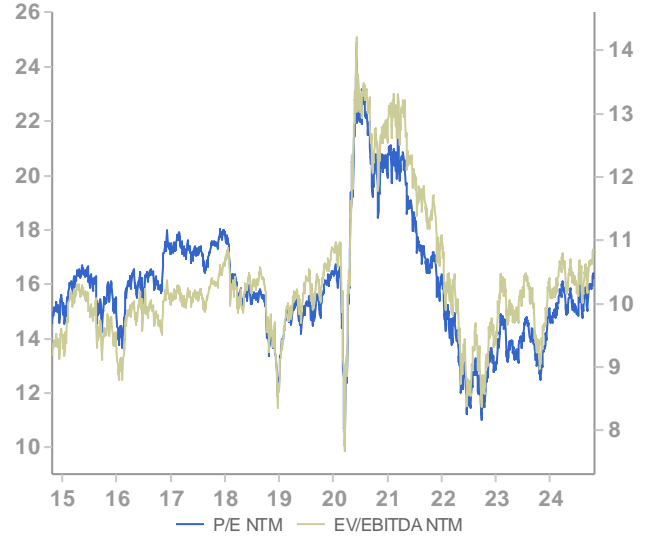
## Valuation Indicators

Figure CB-29: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



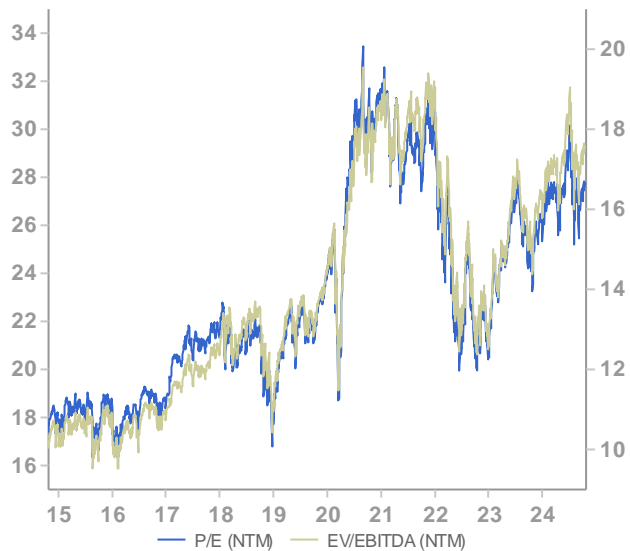
Source: FactSet

Figure CB-30: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



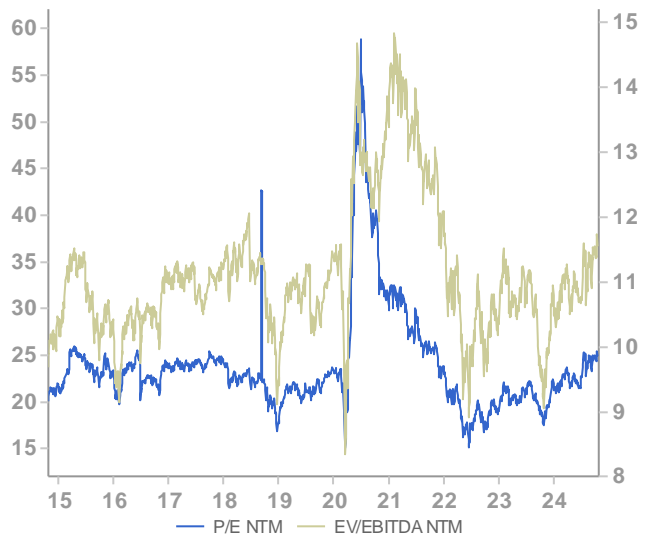
Source: FactSet

Figure CB-31: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

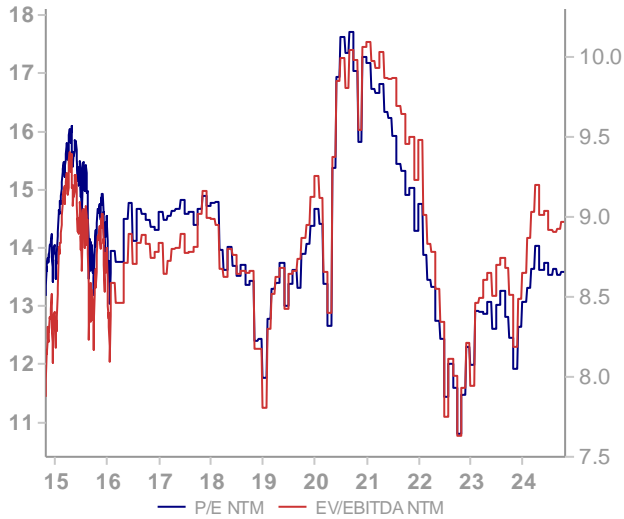
Figure CB-32: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

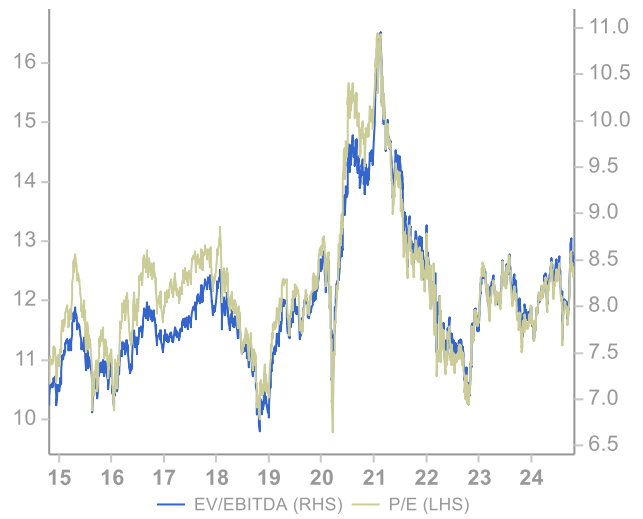
Valuation and Volatility Indicators

Figure CB-33: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



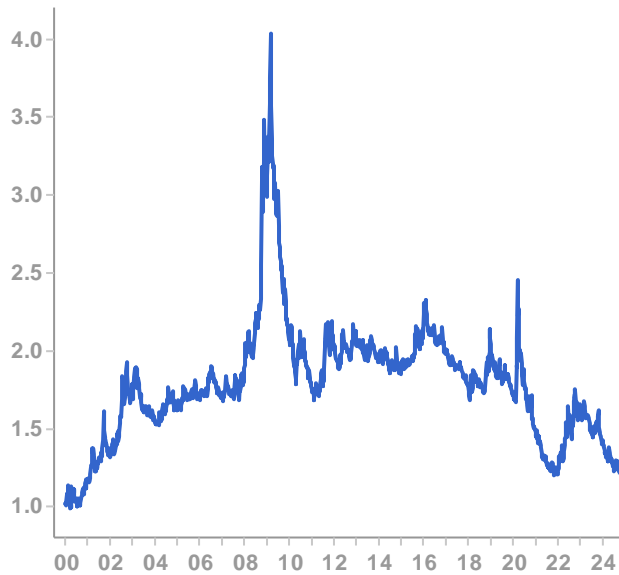
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure CB-34: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



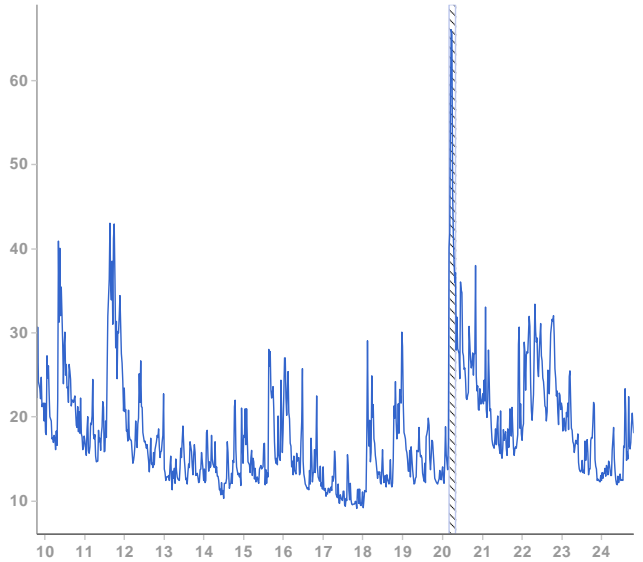
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure CB-35: S&P 500 Dividend Yield



Source: FactSet

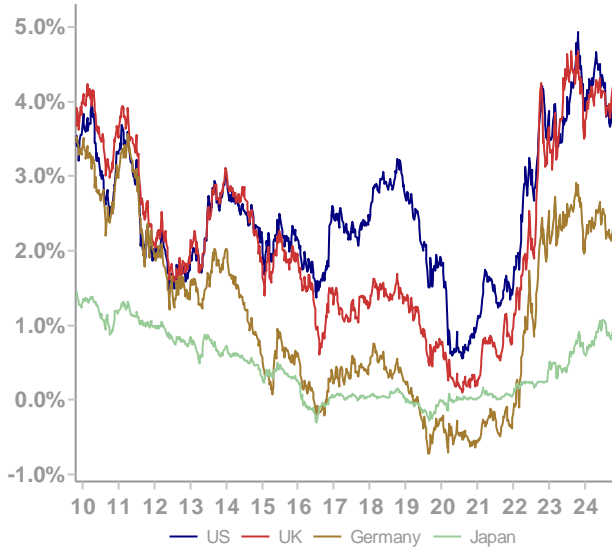
Figure CB-36: CBOE Volatility Index



Source: FactSet

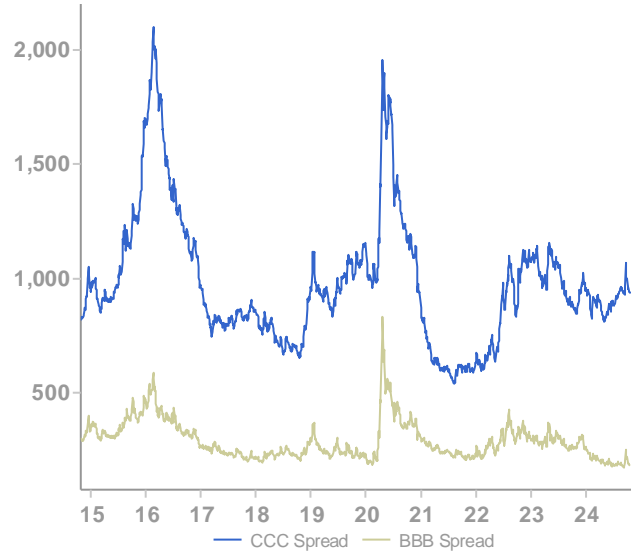
## Bond Market Indicators

Figure CB-37: 10-Year Global Bond Yields



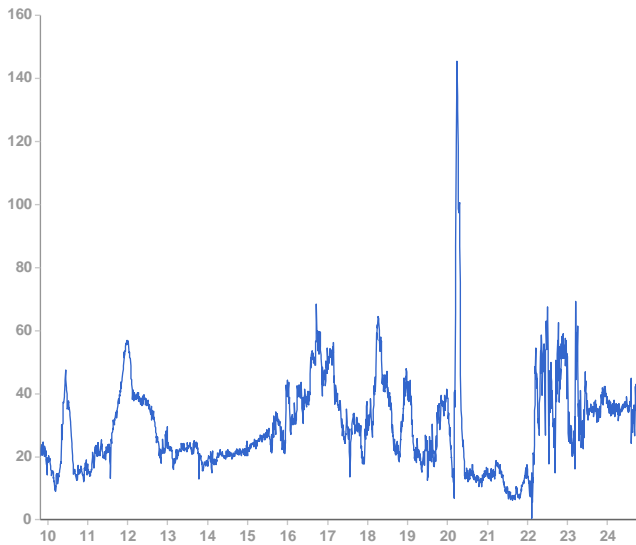
Source: FactSet

Figure CB-38: CCC and BBB Spreads (Option Adjusted)



Source: FactSet

Figure CB-39: TED Spread (bps)



Source: FactSet

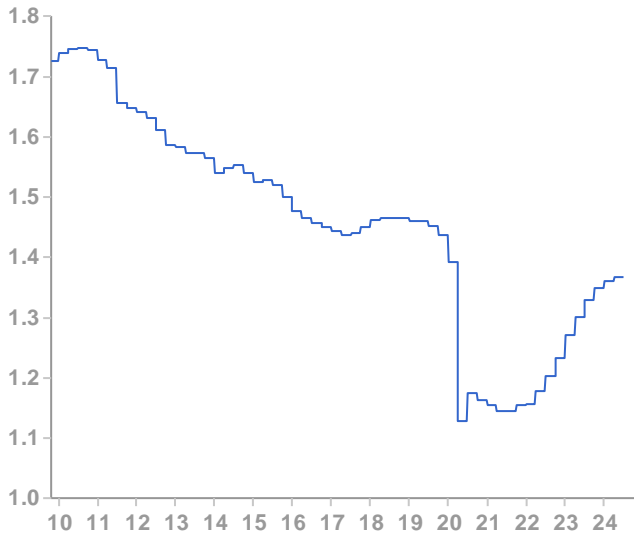
Figure CB-40: 10-Year Minus 2-Year Treasury



Source: FactSet

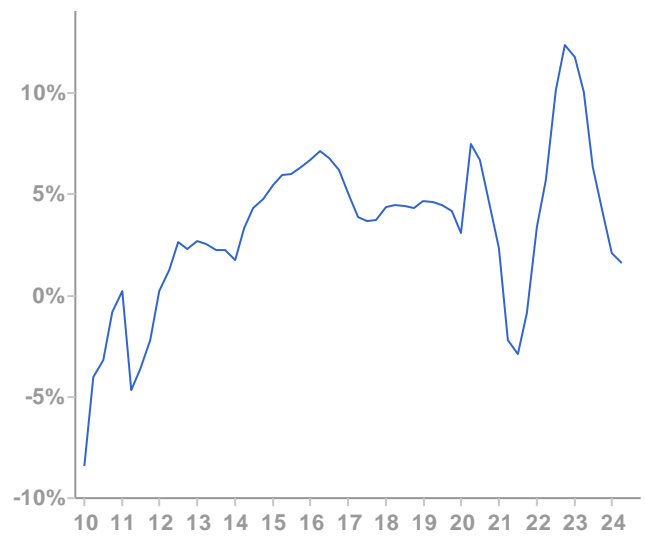
Liquidity and Other Indicators

Figure CB-41: Velocity of M2 Money Stock



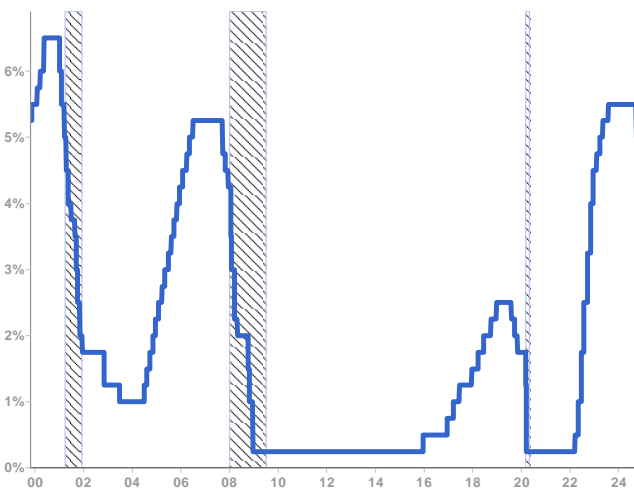
Source: FactSet

Figure CB-42: Loan Growth (Non-Financial, Private Sector)



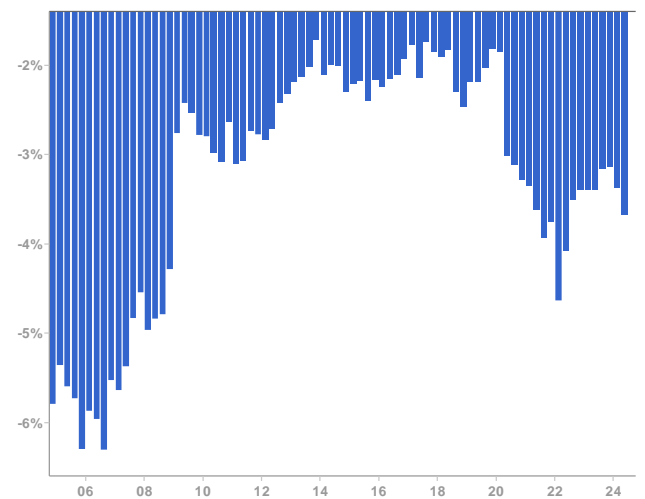
Source: FactSet

Figure CB-43: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure CB-44: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

# Appendix

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## Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of September 30, 2024; most other prices and yields are as of October 23, 2024.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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[eric@rockingstoneadvisors.com](mailto:eric@rockingstoneadvisors.com)

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<sup>i</sup> Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

<sup>ii</sup> Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

<sup>iii</sup> Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

<sup>iv</sup> Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO’s valuation and total return was inflated as of the end of that first quarter.

<sup>v</sup> Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

<sup>vi</sup> Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

<sup>vii</sup> Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.