EquityCompass

4Q 2024 Commentary

Quality Dividend Fund

Portfolio managers, Tom Mulroy and Mike Scherer, provide their current insight on the equity market and the management of the Quality Dividend Fund.

The U.S. equity markets performed well in 2024, with the S&P 500 logging a second consecutive year of 20%+ returns—representing the first time this has occurred since 1998. The S&P 500's strength and resilience are reflected in the 57 trading days in which it set all-time highs during the year.

However, similar to 2023, the S&P 500's performance in 2024 may be somewhat deceiving. For the second year in a row, large cap technology stocks were the main drivers of the overall performance, as the Bloomberg Magnificent 7 Index appreciated a very strong 67% in 2024.

The top ten holdings in the S&P 500 now represent 38% of the index weighting and contributed to a disproportionate amount of its 2024 stellar performance. Perhaps even more striking, the three largest holdings in the S&P 500 account for 21% of the index weighting. As a result, market concentration hit a record high in 2024. Not since the dot-com bubble of 2000 has concentration within the technology sector been this high. Concentration in just a few names, and the performance of those stocks, may not be a true representation of the underlying market performance or that of the average stock—considering that only 28% of stocks within the S&P 500 outperformed the index return.

In other words, high technology concentration levels have driven a wide performance disparity between market cap-weighted indices and equal-weighted indices. In 2024, the performance gap between cap-weighted and equal-weighted indices was the widest since 1998.

To further illustrate, in 2024 the total return for the cap-weighted S&P 500 Index was 25.02%, while the S&P 500 Equal Weight Index returned 13.01%. Similarly, the S&P 1500 Index finished the year at 23.95%, while its equal-weight counterpart returned only 9.76%. Historically, periods of extreme performance disparities have typically corrected themselves. However, we cannot predict the timing of any potential reversion to the mean.

Wall Street forecasters are broadly optimistic about 2025—expecting consumers to remain resilient and drive continued economic growth, inflation to remain on a downward trajectory toward the Federal Reserve target of 2% while slowly cutting interest rates, and the labor market to remain healthy. This optimism also anticipates further U.S. equity market gains, with some strategists predicting an increase for the S&P 500 between 5% and 15% during the year. However, much of this is dependent on the growth in corporate earnings—with a disproportionate amount of that growth coming from large cap technology companies (Magnificent 7).

Keep in mind, Wall Street strategists are rarely bearish, and perhaps rightly so, as over the past five decades the S&P 500 has only experienced 13 losing years.

TICKERS

CLASS A: QDVAX
CLASS C: QDVCX
CLASS I: QDVIX

MANAGEMENT TEAM

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Performance data quoted represents past performance; past performance does not guarantee future results.

In 2025, S&P 500 earnings growth estimates are expected to be approximately 10%, largely attributable to the Magnificent 7 companies, with the remaining 493 constituents estimated at approximately 4%. As the Magnificent 7 drove the performance disparity in the market, the same was true for the disparity in earnings growth expectations. This optimism, compelled by strong investor sentiment, is certainly reflected in the market's valuation of 24x 2025 consensus earnings estimates. For the first time in 22 years, the yield on the 10-year U.S. Treasury bond (4.6%) is higher than the earnings yield of the S&P 500 (4.0%).

At EquityCompass, we don't make market predictions. While the market has a tendency to increase approximately 75% of the time, the other 25% can test our resolve. Corrections are an inherent part of market cycles. There are numerous signs that could give the markets pause—record high valuations, abnormally low credit spreads, slowing consumer spending, stubborn inflation, rising unemployment, geopolitical risks, etc.—or perhaps something no one is expecting. As such, our current fund allocation reflects a more defensive posture and our anticipation of slowing economic growth. However, corrections are healthy and the disruption they create has the potential to provide investors with opportunities to buy quality companies at a discount.

In managing the Quality Dividend Fund, safety and preservation of capital are priorities. The portfolio seeks to provide consistent income and income growth with long-term capital appreciation. We attempt to accomplish this by creating a diversified portfolio of quality companies with strong balance sheets, good free cash flow generation, and prudent capital allocation in the form of dividend payments to shareholders. ■

For the Fund's standardized performance, please click here.

IMPORTANT DISCLOSURES

*Total assets combine both Assets Under Management and Assets Under Advisement as of December 31, 2024. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Current performance of the fund may be lower or higher than the performance quoted. For performance current to the most recent month-end, please call (888) 201-5799.

Mutual fund investing involves risk, including possible loss of principal. Although the Fund will invest primarily in income-producing equities, the Fund cannot guarantee any particular level of distributions. Companies that have paid regular dividends to shareholders may decrease or eliminate dividend payments in the future. A fund pursuing a dividend-oriented investment strategy may at times underperform other funds that invest more broadly or that have different investment styles.

Real estate investing is subject to special risks, including tenant default, declining occupancy rates, adverse changes in environmental and zoning regulations, and falling property values and rents due to deteriorating local or national economic conditions. REIT securities listed on a securities exchange may be subject to abrupt or erratic price movements because of interest rate changes and other factors. Non-listed REIT securities may lack sufficient liquidity to enable the Fund to sell them at an advantageous time or to minimize a loss. Distributions from REITs may include a return of capital. A REIT that does not qualify as a REIT under the Internal Revenue Code ("IRC") will pay taxes on its earnings, which will reduce the dividends paid by the REIT to the Fund. Some REITs are highly leveraged, which may increase the risk of loss. Index performance is not illustrative of fund performance. Please call (888) 201-5799 for fund performance.

The **S&P 500® Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The **S&P 500® Equal Weight Index** is based on the S&P 500. All index constituents are members of the S&P 500 and follow the eligibility criteria for that index. The S&P EWI is maintained in accordance with the index methodology of the S&P 500, which measures 500 leading companies in leading U.S. industries. The S&P EWI measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EWI will differ.

The **S&P 1500**, or S&P Composite 1500 Index combines three leading indices, the S&P 500®, the S&P MidCap 400®, and the S&P SmallCap 600®, to cover approximately 90% of U.S. market capitalization. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks.

The **S&P Composite 1500® Equal Weight Index** (EWI) is the equal-weight version of the S&P Composite 1500. The index has the same constituents as the capitalization-weighted S&P Composite 1500, but each company in the S&P Composite 1500 EWI is allocated a fixed weight.

The **Bloomberg Magnificent 7 Index** is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by the Bloomberg Industry Classification System (BICS). The indices are calculated in Price, Total and Net Return variants.

The **Magnificent Seven stocks** are a group of the most influential companies in the U.S. stock market. This term has been popularized to describe a set of dominant companies, particularly in the technology sector. These companies are at the forefront of technological changes across the economy as they consistently develop new products and services that drive consumer demand and business growth.

Free cash flow represents the cash that a company generates after accounting for cash outflows to support its operations and maintain its capital assets. The available cash can be repaid to creditors or used to fund dividends and interest to investors. Management and investors use free cash flow as a measure of a company's financial health.

A **basis point** is a standard measure for interest rates and other percentages in finance. One basis point equals 1/100th of 1%, or 0.01% (and .0001 in decimal form). Basis points (bps) are used to show the change in the value or rate of a financial instrument, such as 1% change equals a change of 100 basis points and 0.01% change equals one basis point.

The volatility of the indices identified in this report may be materially different from the volatility of the Fund presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

This material must be preceded or accompanied by a prospectus by clicking here.

Any projections, targets, or estimates in this report are forward looking statements and are based on EquityCompass research, analysis, and assumptions made by the Adviser.

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