JAG CAPITAL MANAGEMENT LLC

Quarterly Comments

The Return of Guarded Optimism

Market Overview

Last quarter began with markets still in the throes of the regional bank crisis following the March failures of Silicon Valley Bank and Signature Bank, which was followed on May 1st by the failure of First Republic Bank. Although investors feared a broader contagion in the regional banking industry, the Federal Deposit Insurance Company (FDIC)'s decision to protect the balances of all depositors of the failed banks had a calming effect. Federal Reserve policy also lent a hand in taming investors' anxiety. Although the Fed hiked rates by another 0.25% at its May meeting, it tweaked the language in its statement to imply that it could be nearing the end of its epic rate hike campaign. (Caveat: Recent Federal Reserve Open Market Committee (FOMC) minutes, released with some delay, suggested the Fed is somewhat determined to raise rates.)

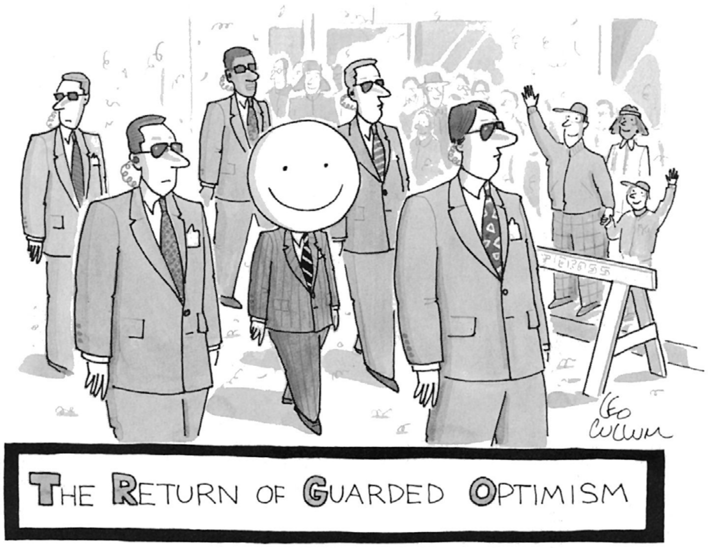
Interest rates remain elevated compared to most of the past 15 years, although the prospect that rates may be near their peak levels is a potentially positive consideration for equities and fixed income assets in the year ahead. The Fed continues to worry that labor strength will reinforce inflation pressures, but actual inflation data is mixed, with several months now of declining consumer and producer price inflation. The inverted yield curve still frustrates Fed economists, banks, creditors, and borrowers; the path to normalization may be longer than anyone would like.

Corporate earnings data continued to be resilient during the last quarter's reporting period. Around 78% of S&P 500 companies reported better-than-expected first quarter earnings. Overall, solid results for Corporate America, additional moderation in inflation data, and slow-but-steady economic growth has given the market reason to hope that the US economy can avoid a recession in 2023 or 2024. Investors were also relieved when President Biden and House Speaker McCarthy agreed to an 18-month extension to the debt ceiling, thereby avoiding the risk of a US debt default.

From an investment style standpoint, growth-oriented stocks handily outperformed most other market categories in the second quarter, continuing a sharp reversal from a deep correction last year. Many companies, including those in last year's hard-hit technology sector, have embraced more efficient cost structures. This is basic "blocking and tackling" that well-managed leading companies do exceptionally well, and they happen to be the types of companies we look for in our investment process.

The capital markets in 2023 have been far more rewarding for investors than in 2022, even with some volatility along the way. Bonds are behaving much better this year than last, although they exhibited their own volatility as the rate markets attempted to price in Fed policy, inflation data, and macroeconomic statistics. The S&P 500 ended the second quarter at a 14-month high, joining most of the major equity indices with solid year-to-date gains. We have learned from extensive experience that extremes in equity prices and/or investor sentiment tend to eventually revert to longer-term "normal" trends. However, the markets always tend to offer surprises, and the specific timing of such reversions is inherently unpredictable.

In our **Q2 2022 Commentary,** we noted that we were seeing attractive longer-term investment opportunities developing, even



Source: Cartoonstock.com

Firm Highlights

Welcome

We are excited to welcome **Charles O'Rourke, CFA®** to the JAG team as our new Fixed Income Analyst!

Charles will conduct fixed income research and support our fixed income marketing and client service efforts. Charles previously worked at Moneta Group Advisors and Wells Fargo in various fixed income trading and research roles.

Charles is a graduate of Missouri State University with a BS in Economics. He is a CFA® charterholder and is a member of the CFA Society.

Please join us in welcoming Charles to the JAG team!

in the midst of the worst bear market since 2008-2009. We also shared data from Bespoke Research that identified the first half of 2022 as being one of the worst bear markets since the end of World War II. As noted in the table below, in each of the nine previous post-war instances of a -15% quarterly decline, the S&P 500 generated positive returns over the subsequent six and 12 month periods. As so happened in this case, the past served as prologue. The S&P 500 delivered a 19.6% total return over the 12 months ending 6/30/23, and the current trajectory for stocks meets the classical definition of a bull market.

S&P 500 Post-War Quarterly 15% Drop & Subsequent Returns				
Date	**3 mos**	**Next 3m**	**Next 6m**	**Next 12m**
Sep-1946	-18.0%	3.7%	3.9%	6.4%
Jun-1962	-20.6%	3.7%	17.4%	31.2%
Jun-1970	-18.0%	16.9%	29.1%	41.9%
Sep-1974	-25.2%	9.4%	34.5%	38.1%
Dec-1987	-22.6%	5.9%	12.9%	16.8%
Sep-2002	-17.3%	8.4%	5.0%	24.4%
Dec-2008	-21.9%	-11.0%	3.2%	26.5%
Mar-2020	-19.6%	20.5%	31.3%	56.4%
Jun-2022	-16.1%	-4.9%	2.3%	19.6%
	Average	5.8%	15.5%	29.0%
	Median	5.9%	12.9%	26.5%
	Max	20.5%	34.5%	56.4%
	Min	-11.0%	2.3%	6.4%

Source: Morningstar, FactSet, JAG Capital Management

In our opinion, corporate profitability is contributing to the strong gains we are seeing in this new bull market, as investors are once again placing a premium on companies with strong fundamentals. Also, technology and adjacent companies are clearly benefiting from enthusiasm surrounding Artificial Intelligence (AI).

Some pundits are drawing comparisons between current investor attitudes towards AI and the Internet stock bubble of the late 1990s. Having lived and invested through both environments, we see more differences than similarities. At the index and sector levels, stock valuations are generally more reasonable today than they were in 1998-1999. Importantly and in contrast to the dawn of the Internet, much of the infrastructure is already in place to support the growth of AI applications. Back then, we could visualize the long-term potential of the World Wide Web, but it took over a decade for its transformative promise to come to fruition. In mid-2023, the software, broadband connectivity, computing power, and semiconductor chips ecosystems are already in place and ready to support AI applications. We think AI could have a bigger and quicker impact on the economy and investment markets than the Internet. This creates some compelling and enormous investment opportunities.

Market Outlook

As we begin the third quarter of 2023, the outlook for stocks and bonds is arguably the most positive it has been since late 2021. Inflation has hit a two-year low, economic growth and the labor market remain impressively resilient, the Fed has temporarily paused its historic rate hiking campaign, the debt ceiling extension is resolved, and we have yet to see significant additional contagion from the regional bank failures earlier this year. But there is no such thing as an "all clear" in the capital markets. We expect to see the typical ebbs and flows of enthusiasm, pessimism, and geopolitical challenges this year, but not the "worst and first" series of events that we navigated last year.

We are approaching the coming quarters with guarded optimism, as we see a range of potential risks to the upside and downside. The banking industry could be a source of volatility in the intermediate future. Although the regional banking crisis has subsided over the past several months, the industry's core problems remain. With money market funds yielding 4% or more, depositors have a natural incentive to withdraw low-yielding cash from their banks to seek higher returns (referred to as cash sorting). Meanwhile, many banks' loan books are heavily exposed to commercial real estate, which continues to suffer from weakness in the office and retail segments and are subject to refinancing risks. We maintain little to no exposure to regional bank shares/bonds within our managed client portfolios.

The economy's resilience in the face of higher interest rates, a terrible war in Europe, and geopolitical tensions with China has been genuinely impressive, but there are some concerning trends lurking under the surface. Technology and financial companies, with a bias towards the larger companies in these sectors, have laid off hundreds of thousands of relatively highly paid white-collar workers over the past year. This has created an ample supply of talent for smaller companies, benefiting their ability to innovate. As investors, we appreciate the fact that corporate leaders are focusing more closely on managing expenses. But continued labor austerity in corporations could eventually crimp consumers' spending power and weaken the broader economy. A restart of student loan payments could also crimp spending power for this group of consumers, although even here there is some ambiguity as the White House attempts to restructure repayments. The 2024 US presidential election is coming into view on the horizon, and most would agree that 2024 is shaping up to be particularly contentious.

We are bullish on the potential for AI to be additive to corporate revenue and earnings results even with all the changes, pivots, and proposed/enacted regulations. Although the immediate impacts are likely to be demonstrated most clearly by technology-oriented companies, we believe that almost all industries and sectors will be affected. This will create opportunities for active, nimble investors like JAG and we welcome this investment environment.

The supply chain issues uncovered by the COVID-19 pandemic chastened political and corporate leaders. Although it is likely that developed economies will continue to operate globally, we believe the push to "re-onshore" American manufacturing will persist for years into the future. Relatedly, the US is clearly committed to building out our electrical grid and infrastructure to support the growth of the electric vehicle industry and improving our domestic manufacturing capacity. Over the past several years and currently, JAG has been invested in a variety of companies that should benefit from this secular trend.

We remain focused on both opportunities and risks in the markets, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Warm Regards and Happy Summer,

Norm Conley
CEO, Chief Investment Officer &
Portfolio Manager

Mike Kimbarovsky
Managing Director &
Portfolio Manager

Disclosures

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A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm with offices in St. Louis and Chicago.

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