



STAYING FOCUSED DURING MARKET EXTREMES

Since the beginning of 2023, the equity market returns have primarily been driven by a narrow group of technology stocks known as the “Magnificent Seven.” These stocks are large technology companies that are viewed by investors as being at the leading edge of the development of artificial intelligence (AI). These companies—Apple, Amazon, Alphabet (Google), Meta, Microsoft, Nvidia, and Tesla—accounted for 63% of the S&P 500 Index returns in 2023 and 61% of the 2024 year-to-date Index returns as of June 30th.¹ Also, returns over the past 18 months have the Magnificent Seven valued, on average, 72% higher than the average Price to Earnings (P/E) ratio of all of the other stocks in the Index.

One result of this narrow market advance is that the ten largest companies now comprise 37% of the S&P 500 Index,¹ an all-time high for this measure. Throughout this 18-month period of extreme market narrowness, Compass has stayed true to our disciplined approach of owning high-quality companies purchased at reasonable valuations and did not “chase” performance by purchasing any of these stocks at inflated valuations. In fact, we have been trimming our previously held positions in this group back to their target weighting of 4% of a portfolio during this advance to reduce client risk. In our opinion, these valuations are clearly not sustainable and certainly not where Compass would put a new stock into the portfolio. The two stocks we do own in this group (Microsoft and Alphabet) were purchased many years ago at much lower valuations.

When these periods of extreme, narrow outperformance occur, the reversal often comes suddenly and without warning. On July 11, the inflation report issued by the Bureau of Labor Statistics showed inflation was slowing at a pace that was faster than expected.

This report was interpreted by investors as a sign that the economy was slowing, and that the Federal Reserve would cut interest rates at their September 18th meeting. That day, the NASDAQ Index (a technology heavy index) declined 3% while the Russell 2000 Index of small companies rose 2%. This 5% gap was the largest one-day difference between these two groups since the 1970s.² In the weeks since July 11, the value of Magnificent Seven stocks has declined substantially, while the remainder of the S&P 500 Index has outperformed them by large margins. The August 2nd employment report showed signs of a slowdown in the labor markets, with job growth coming in below expectations. This part of the report sparked a wave of selling in the stock market as investors suddenly feared that the Fed was behind on cutting interest rates.

At Compass, we find these times of market volatility to be times of opportunity, not panic. The U.S. economy is currently on solid ground, and our portfolio companies are continuing to grow revenues and profits. This pullback in the prices of many stocks over the past few weeks has given us the chance to make some purchases at valuations we have not seen in a couple of years. We remain focused on looking for market-leading growth companies trading at attractive valuations. The Compass team has decades of experience navigating turbulent markets with a calm, steady hand on the wheel.

We would love to talk to you about how we can help guide you through the type of volatile markets we are seeing currently.

¹ JP Morgan Guide to the Markets 2Q 2024 Edition, July 2024

² Bloomberg



FIRM

INVESTMENT COMMITTEE

- Leigh Niebuhr
- Mark Halverson
- Jay Jackley, CIMA
- Mark Vitelli, CFA
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- Christopher Nuth, CFA

AUM

\$2.0 billion

INCEPTION

1988

COMPASS PHILOSOPHY

As an independently-owned firm, Compass provides customized investment services to individuals, foundations/endowments, trusts, and retirement plans. Our objective is to preserve and enhance the real purchasing power of our clients’ wealth over time.

Our clients value working directly with a seasoned and experienced team of portfolio managers to help them navigate their investments relating to:

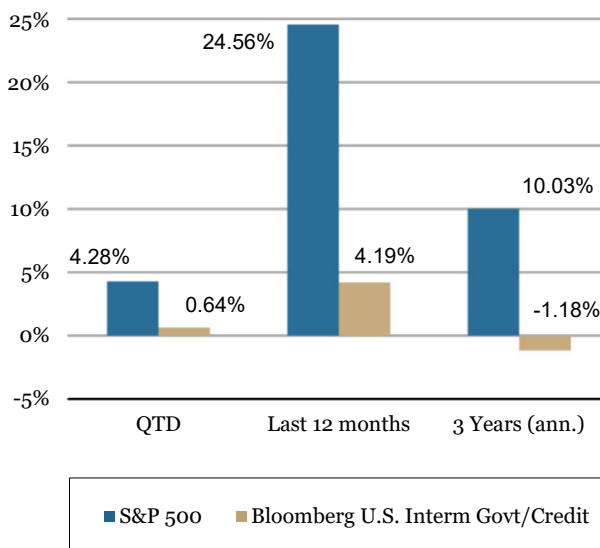
- Building a quality portfolio
- Divorce
- Retirement
- Inheritance
- Sale of a business
- Trust distribution

Our experienced team is always available to provide financial advice and review your financial assets.

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MARKET INDICES

Total Return as of 06/30/2024



For more information regarding our company or results, please contact us at investors@compasscap.com.