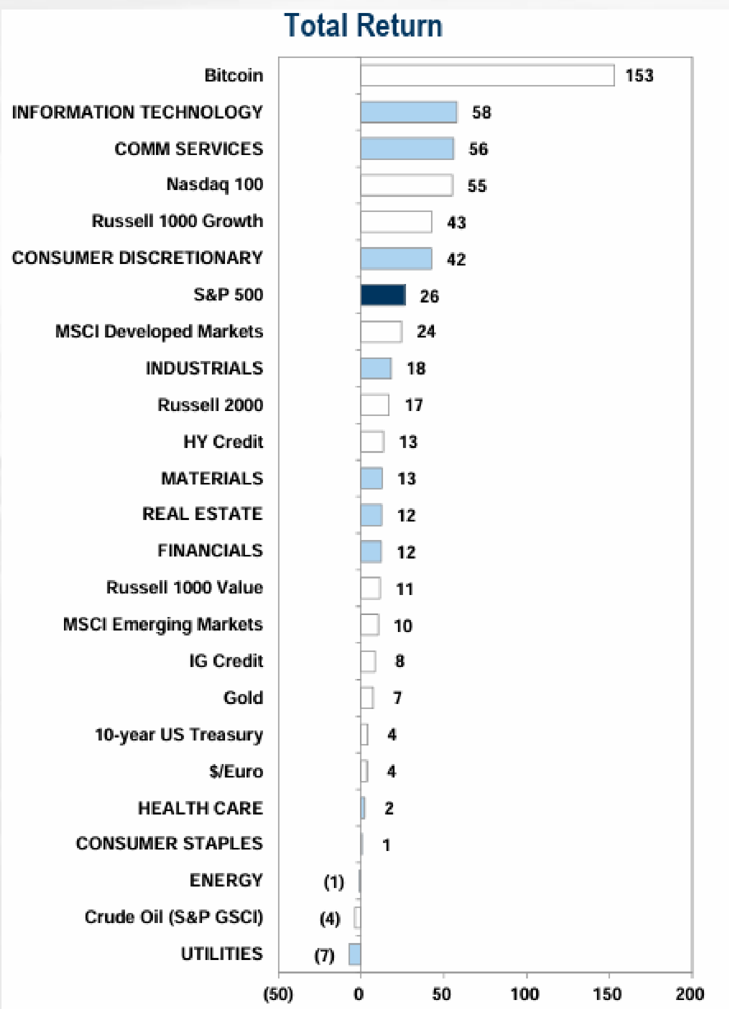
## Quarterly Market Review

## Table of Contents



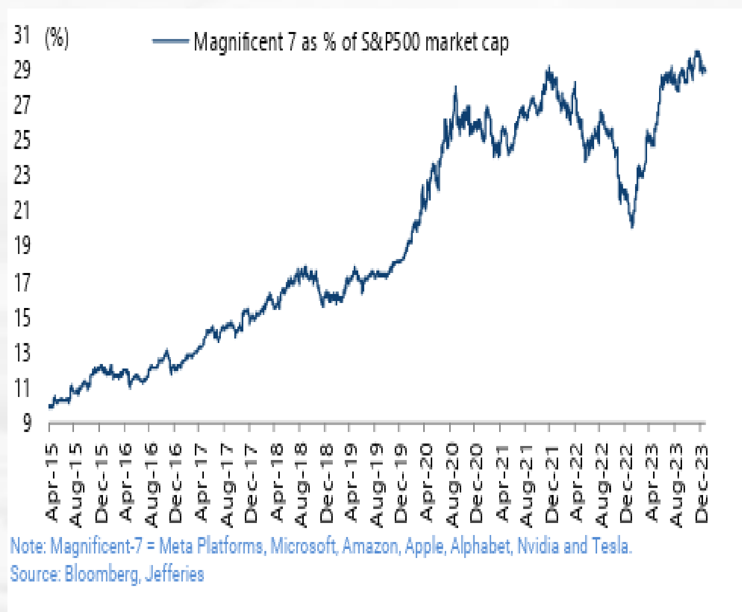
## Harpswell's Market Outlook

In 2023, the market rebounded from a remarkably volatile 2022 that gave us double digit negative returns in both the stock and bond market alike. The S&P 500 was up over 26% in 2023 and bonds were up just over 5%.




However, the story of the year was indisputably the magnificent 7; the seven stocks that accounted for almost all the return in the S&P 500. All seven of these market leaders are tech companies that focus on the consumer and high functioning computing. The seven stocks are Apple, Microsoft, Alphabet/Google, Amazon NVIDIA, Meta Platforms and Tesla. In addition to all seven stocks having phenomenal years with respect to stock market performance, they all have exceptionally large weighting in indices thus amplifying their impact on global benchmarks. In fact, the top five of the group have market caps that exceed a trillion dollars.

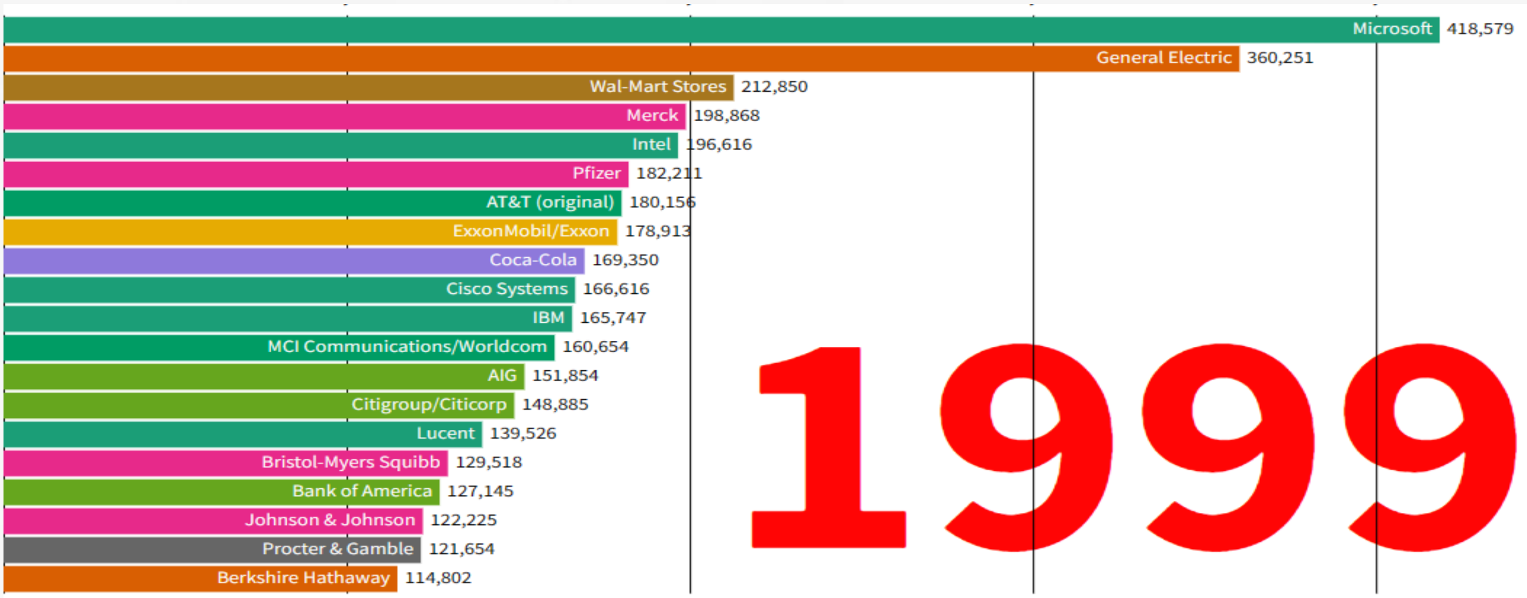
The "Magnificent Seven" currently comprise over 30% of the S&P 500 benchmark. This elevated concentration, along with a monolithic tech contribution to overall performance, eerily remind us of 1999.



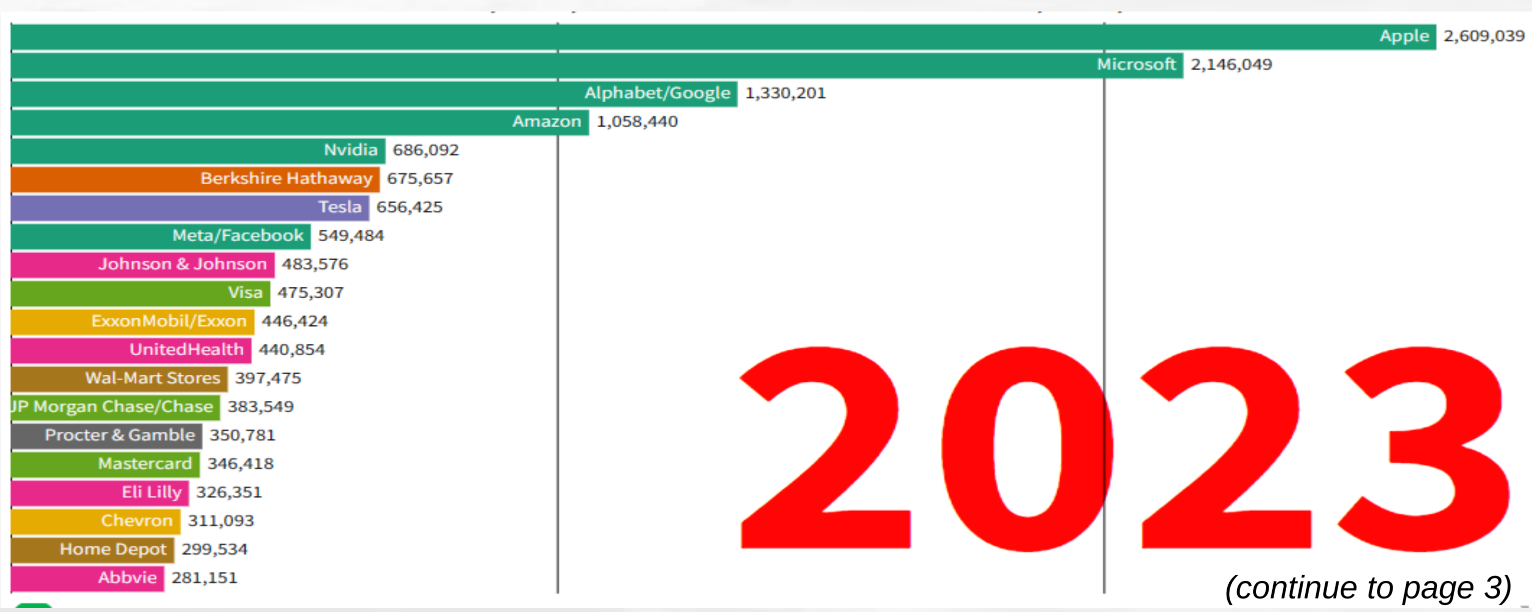

In 1999 the Nasdaq index was up over 100% with tech companies accounting for a very significant portion of the index's return. The index was up over 50% in 2023 with Tech companies again being the primary driver for performance.

*(continue to page 2)*

## Harpswell's Market Outlook *(continued from page 1)*



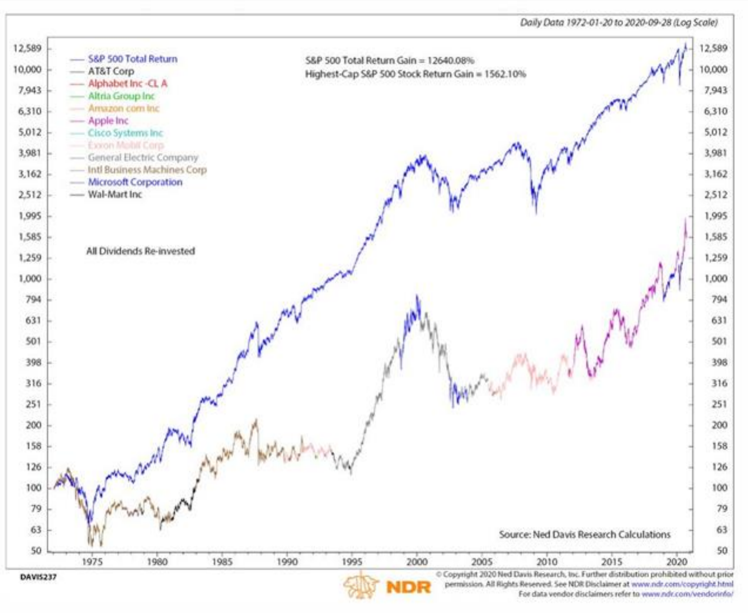

While in both years (1999 and 2023) the top holdings in the Nasdaq 100 were tech companies, in 2023, the representative portion of tech dwarfs that in 1999. This high concentration of tech is concerning for a number of reasons. First, the tech stocks that ran up in 1999 took over twice as long to recover when the bubble popped. In 1999, it took 6.2 years for the top non-tech companies to regain their market cap and surpass their pre 2000 record stock prices. It took on average over 14 years for the tech companies' stock prices to regain their pre-2000 highs. Second, the "Magnificent Seven" share many similar risks that could easily compound losses once one of them sees volatility. The primary risk, in our eyes, is associated with the enormous market power and prospective anti-trust concerns. In fact, Apple was rumored to have a large pending case in the works and that is said to be the key driver for its abysmal stock performance out of the gate in 2024. They all enjoy economies of scale as services like Facebook and Microsoft do not have expenses that directly escalate with sales. With that said, each one of the Magnificent Seven could be vulnerable to competitors looking to pay for market share. The rewards are enormous and as more consumer dollars get allocated to services over goods, we expect the competitive landscape for such services to evolve.




*(continue to page 3)*

## Harpswell’s Market Outlook *(continued from page 2)*

Finally, as we have noted many times over the last decade, investing in the largest stocks over the last 50 years has generated a fraction of the returns of the entire benchmark ( 12,640% vs. 1,562%).




## Conclusion and Outlook

In 2023 both the stock market and bond market bounced back from a painful 2022 and generated very attractive returns (24.4% and 5.5%, respectively). The bond markets performance was on the heels of a rapidly escalating interest rate in 2022 and then a slight retrace in 2023. Higher yields and then rates coming in combined for the total return. The stock market’s returns were primarily driven by the multiple expansion in a small number of large cap tech stocks.

Harpswell judiciously bought short-term treasury bonds throughout 2022 and 2023 and preserved value by doing so. In the second half of 2023, the firm decided to take off its high-yield/short duration tactical position and extended duration by buying longer-dated bond index funds. With respect to stocks, Harpswell looked to reduce the market exposure of the top seven as a means to control the risk levels in portfolios and the firm also added value indices to help reduce growth exposure.

Looking ahead, the firm aims to maintain its high quality bond portfolio with a duration that approximates that of the Barclays Bond Aggregate Index. We feel it is important to maintain this posture in the bond allocations as this strategy tends to serve as the best counterbalance to volatile equity markets all while generating attractive returns.

With respect to equity allocations, the firm will maintain its diversification (which has been a catalyst for performance out of the gate in 2024). The firm also has allocated to small and mid cap managers and funds as a means to generate excess returns. *

## REIT Investing

A real estate investment trust (“REIT”) is a company that owns, operates or finances income-producing real estate. REITs provide an investment opportunity, like a mutual fund, to benefit from real estate investing by providing the opportunity to access dividend-based income and generate capital gains. REITs allow anyone to invest in portfolios of real estate assets the same way they invest in other industries – through the purchase of individual company stock or through a mutual fund or exchange traded fund (ETF).

Most REITs operate using a straightforward and understandable business model: they lease space and collect rent on their real estate holdings. The income generated is distributed to shareholders in the form of dividends. REITs must pay out at least 90% of their taxable income to shareholders and many pay out 100 %. In turn, shareholders are responsible for the income taxes on those dividends.

REITs historically have delivered steady dividend income and long-term capital appreciation. Their comparatively low correlation with other assets also makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.

*(continue to page 4)*

## REIT Investing *(continued from page 3)*

As an asset class, REITs are well diversified with thirteen sectors and a number of sub sectors. For example, investments are available in retail facilities such as malls, industrial complexes, hotels, apartments, data centers and even timberland. Some REITs combine various holdings in multiple sectors providing diversification with one investment.

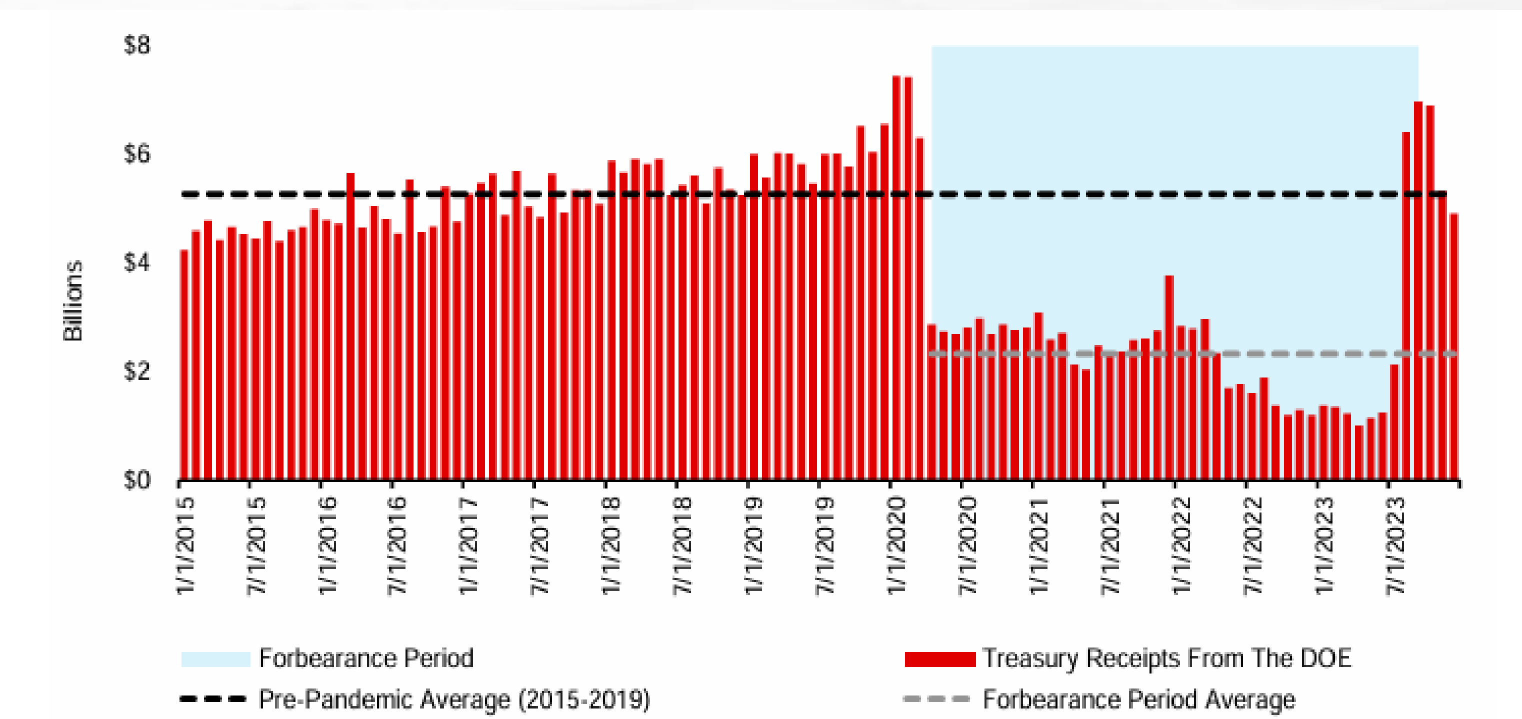
In the past year, REITs performed well given the rapid increase in interest rates throughout the year. The NAREIT All Equity Index returned 11.4% in 2023, short of the S&P 500 index return of 26% but ahead of the Aggregate Bond index gain of 5.5%. December was a standout month where the NARIET index gained 8.9% as interest rates began to fall late in the year and expectations of a Fed easing buoyed the asset class.

For 2024, the success or failure of REIT investments will be dependent on the direction of interest rates and the ability of the economy to manage a soft landing. Rate cuts, core economic growth and capital deployments are all necessary for REITs to provide attractive returns in the new year. *

## Student Loans…
## Gotta start paying again!!

The resumption of federal student loan repayments poses an additional challenge for our consumer-driven economy. Since the onset of the pandemic on March 27, 2020, the federal government had temporarily halted the collection of federal student loans (private loans were not affected) through the CARES Act, aiming to support the economy and consumers. This pause was extended multiple times but is set to end after August 30 as part of the agreement to eliminate the debt ceiling.

According to information from StudentAid.gov, borrowers will receive a billing statement at least 21 days before the payment is due. As approximately 27 million borrowers are expected to come out of forbearance, facing an average monthly payment of $400-$460, we anticipate that the resumption of federal student loan repayments will create a significant financial challenge, amounting to a potential $46.1 billion headwind for the remainder of 2024. The annualized impact is estimated to be in the range of $128.8 billion to $148.1 billion.




*Source: U.S. Treasury Department, U.S. Department of Education, and KeyBanc Capital Markets Inc.*

*(continue to page 4)*

## Student Loans *(continued from page 4)*

Our average monthly payment estimates are based on our calculations, as well as data from various third-party sources such as the Federal Reserve, Federal Student Aid, and the Education Data Initiative. However, the actual outcome is contingent on how borrowers choose to manage their repayments—whether they opt to pay down the principal, explore refinancing, or utilize extension options, which could potentially reduce the projected impact.

In the absence of higher income or incremental borrowing, a reduction in consumer spending by this magnitude could represent a 2.0% headwind to retail sales. Ultimately, we view this development as an elevated risk for consumer discretionary spending and its impact is likely to be limited to a few segments of the market where a concentrated portion of the market consists of younger Americans (e.g., moderate priced urban rentals, electronics, and experiences). *

## Spot Bitcoin ETF is Approved by the SEC

This In the second week of January, Bitcoin surged to a 21-month high, briefly surpassing $47,000, a level not seen since April of 2022. Concurrently the SEC made a landmark ruling in favor of the first-ever spot Bitcoin ETF (exchange traded fund) as a means to further accessibility to Bitcoin investment for both retail and institutional investors alike.

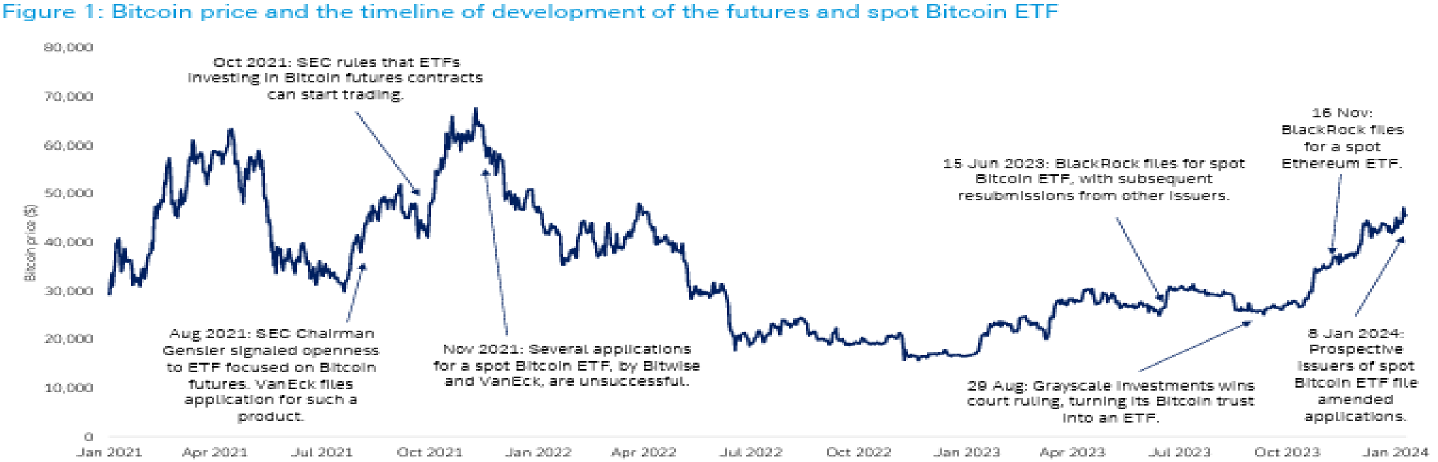
The ETF will offer standardized access to Bitcoin as an investment. The long-term impact of increased adoption on the crypto ecosystem and financial system remains to be seen. Although the ETF approval marks a new chapter for Bitcoin prices, volatility is expected.

Harpswell remains cautious on crypto currencies such as Bitcoin. While we don't doubt some "investors" have well-reasoned intentions when they allocate capital to this new "asset class", we ultimately recognize it as being the poster child for "The greater fool theory."(GFT) The GFT rests on the notion that the only intrinsic value in an object such as Bitcoin is the confidence that someone else will (for some reason) pay more for it in the future.

In fact, while the SEC did approve the application, it also urged caution and issued a warning against the " Fear Of Missing Out (FOMO)". Retail investors are advised to carefully consider whether digital assets are suitable for their portfolios, rather than investing solely based on the fear of missing out on the trend. This unprecedented warning is a week attempt at dodging responsibility when inevitable losses mount beyond what is currently foreseen. We essentially see this as being analogous to the legalization of gambling absent the safeguards that casinos are forced to employ (e.g., age, limit, credit, geographic, profit margins…).

***caveat emptor*** *

Figure 1: Bitcoin price and the timeline of development of the futures and spot Bitcoin ETF

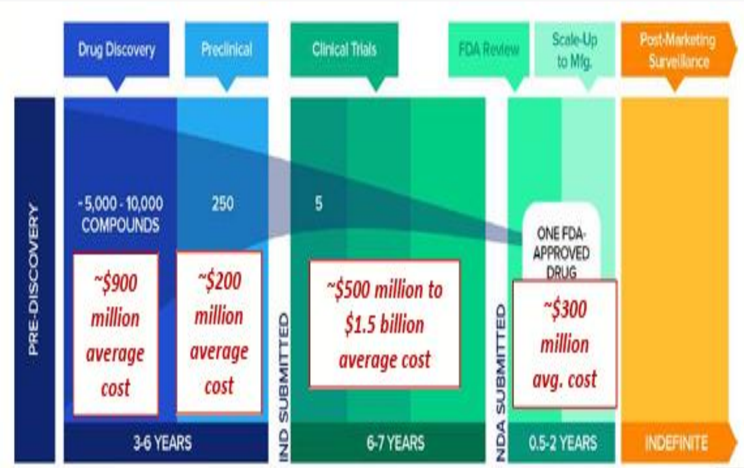



*Source : Deutsche Bank, Bloomberg Finance LP, SEC*

*(continue to page 6)*

## BioTech & Pharma – Investing in Research

On average, it requires a minimum of 10 years for a new medicine to traverse from its initial discovery to reaching the marketplace. Clinical trials alone typically span six to seven years on average.




The average cost associated with researching and developing each successful drug is estimated to range from less than $1 billion to over $2 billion. This figure takes into account the expenses incurred due to failures, considering the thousands, and sometimes millions, of compounds screened and assessed early in the R&D process. Only a select few of these compounds will ultimately receive approval.

The overall probability of clinical success, indicating the likelihood that a drug entering clinical testing will eventually be approved, is estimated to be less than 12%.

Currently, North America holds a commanding position in the drug discovery market and is anticipated to maintain its dominance in the foreseeable future. However, the Asia-Pacific region is projected to emerge as the most opportunistic market during the forecast period.

Several factors contribute to the growth of the drug discovery market in the Asia-Pacific region. Notably, top global players are making substantial investments in the region, drawn by the cost-effective availability of factors of production. Additionally, the presence of numerous top research companies and favorable government regulations collectively propel the expansion of the drug discovery market in the Asia-Pacific region.

## Clinical Trials

Clinical trials play a crucial and indispensable role in the drug development process. Every week, researchers nationwide collaborate with study participants to comprehend the impacts of newly developed medications. Upon gathering documented information, researchers can assess the overall effectiveness of the new medication or treatment. The data generated from successful studies eventually leads to the production of medications available to the public. In essence, these trials serve as testing grounds for future therapies accessible to the American public, contributing to advancements in drug management. *

**Table 1 | Clinical trials to watch in 2024**

| Treatment | Organization | Description | Phase | Lead indication |
|---|---|---|---|---|
| Trastuzumab deruxtecan | AstraZeneca | Efficacy and safety of ADC in HER2-positive patients with and without brain metastases | 3b/4 | Breast cancer |
| R21/Matrix-M | University of Oxford and Serum Institute of India | Vaccine efficacy in children 5–36 months of age in four countries | 3 | Malaria |
| Ipilimumab and nivolumab | The Netherlands Cancer Institute | Neoadjuvant immunotherapy plus lymph-node dissection | 3 | Melanoma |
| VERVE-101 | Verve Therapeutics | In vivo base editing of PCSK9 | 1b | Heterozygous familial hypercholesterolemia |
| VIR-1388 | Vir Biotechnology | Safety, reactogenicity and immunogenicity of a CMV-based vaccine in adults | 1 | HIV |
| STEM-PD | Skåne University Hospital, Sweden | Intraputamenal transplantation of human embryonic stem cell derived dopaminergic cells | 1 | Parkinson's disease |
| qXR | Nottingham University Hospitals NHS Trust | Class IIa CE-certified deep learning algorithm to analyze chest X ray and computed tomography | Randomized trial | Lung cancer |
| RISKINDEX | Maastricht University Medical Center | Implementation of machine learning algorithm in the emergency room | Randomized trial | Emergency room admissions |
| New Orleans Intervention Model | University of Glasgow | Effectiveness and cost-effectiveness of a service for children 0–5 years of age in foster care | Randomized trial | Child mental health |
| CT scan | Erasmus Medical Center | Annual versus biennial CT scan screening of 26,000 people | Randomized trial | Lung cancer |
| THP-TA | Human Development Research Foundation, Pakistan | Technology-assisted version of Thinking Healthy Program delivered by peers | Randomized trial | Perinatal depression |

**Abraham Lincoln** was largely self-educated. His entire school attendance amounted to no more than one year. During Lincoln's childhood, his father lost three farms in Kentucky as a result of boundary disputes due to defective titles.

Later in life, after working as a shopkeeper, postmaster, and land surveyor, Lincoln taught himself the law and passed the bar exam in 1836.

**Things May Come to Those Who Wait, but Only the Things Left by Those Who Hustle.**

**-Abraham Lincoln**

# December 2023 Flash Report

**Overview**: The Fed kept interest rates unchanged at the conclusion of its December policy meeting. The decision maintains the target range for the federal-funds rate at 5.25-5.50%. Although monetary policy may be tighter than expected in 2024, further rate increases appear to be on hold. Concurrent with the Fed's meeting, published reports on consumer and producer prices indicated that inflation over the last six months, as measured by the Fed's preferred inflation gauge, likely returned to the central bank's 2% target on an annualized basis. At year's end, the economy seems to have managed a soft landing given the aggressive rate increases over the past year and the civil and geo-political disruptions which occurred in 2023. Domestic GDP increased at a 4.9% annual rate in the 3rd quarter. Investors reacted positively to unfolding events and propelled the S&P 500 up 26.3% in the year. The Nasdaq gained a massive 45.1% as technology companies rebounded from a 33% loss in 2022.

**Equities: Domestic –** Equity markets, encouraged by inflation data and economic reports, rallied in 2023 along with falling interest rates.
The **S&P 500** rose 4.5% in December, finishing the year with a 26.3% gain. Technology led the way with a 50%+ return along with Consumer Discretionary which gained 39% in 2023. Technology is dominated by four companies: Microsoft, Apple, Meta and Google.
The **R2000** added an impressive 12.2% in the month as the Index rallied in reaction to falling interest rates. Value (12.5%) and Growth (12%) had similar gains in December. The R2000 ended 2023 with a 16.9% gain.

**International** – **EAFE** gained 5.3% in December as progress on inflation and resilient earnings in Europe supported the developed markets. On a local currency basis, **EAFE** only rose 2.9% in the month. The value of the Dollar fell in the latter part of the year as US interest rates moved lower, ultimately adding 2.1% to the return in 2023 for Dollar based investors.
**Emerging Mkts** earned 4.0% in December and 10.3% for 2023. China fell 2.4%, ending the year with an 11% loss. Ex-China, the Emerging Markets earned 20.6% YTD. In contrast, Korea, Taiwan, South America and India had strong returns for the year somewhat offsetting losses in China.

**Fixed Income:** US rates continued to fall in the month as inflation reports showed moderating price increases. Rates fell across the yield curve but the drop in interest rates was more pronounced with the longer maturities.

The **90 Day T-bill** rate fell by only 5bps to 5.4%**.** However, the **10 Year Treasury** rate was down 50bps to 3.9% and the **30 Year Treasury** rate moved lower by 50bps as well to 4.0%. Yields for maturities one year and longer are similar to the corresponding yields at the beginning of 2023 while the short-term yields remain higher at year's end.

Tax exempt yields moved lower across all maturities. The **Municipal 1 Year rate** was down 30bps to 2.6% while the **10 Year Municipal** rate was lower by 40bps to close at 2.3%. Tax Exempt yields traded at deep discounts to comparable Treasury yields providing cross over opportunities.

**International**: **German** yields moved lower in December, yielding 2.4% for the **2 Year Bund** and down 40bps to 2.0% for the **10 Year. UK** rates also declined where the **10 Year Gilt** moved down 60bps to yield 3.5% and the **2 Year Gilt** fell by 70bps to yield 3.9%. The **Japanese 10Yr Bond** yield fell by 10bps to 0.6% and the **2Yr Bond** remained unchanged at 0%.

**High Yield** bonds returned 3.7% in December while the Aggregate Bond Index gained 3.8%. YTD, the Aggregate Index managed to gain 5.5% in 2023 despite a challenging year of rate increases.

| | 1 Month | 3 Months | YTD | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|
| **Domestic Equities** | | | | | | |
| Dow Jones | 4.9% | 13.1% | 16.2% | 16.2% | 9.4% | 12.5% |
| S&P 500 | 4.5% | 11.7% | 26.3% | 26.3% | 10.0% | 15.7% |
| Russell LG Value | 5.5% | 9.5% | 11.5% | 11.5% | 8.9% | 10.9% |
| Russell LG Growth | 4.4% | 14.2% | 42.7% | 42.7% | 8.9% | 19.5% |
| Russell 2000 | 12.2% | 14.0% | 16.9% | 16.9% | 2.2% | 10.0% |
| NASDAQ | 5.9% | 14.1% | 45.1% | 45.1% | 6.1% | 18.8% |
| MLP Index | -2.2% | 5.0% | 26.6% | 26.6% | 32.4% | 12.0% |
| REIT Index | 8.9% | 18.0% | 11.4% | 11.4% | 5.7% | 7.6% |
| **International Equities** | | | | | | |
| EAFE | 5.3% | 10.5% | 18.9% | 18.9% | 4.5% | 8.7% |
| EAFE Small Companies | 7.3% | 11.2% | 13.7% | 13.7% | -0.3% | 7.0% |
| Emerging Markets | 4.0% | 7.9% | 10.3% | 10.3% | -4.7% | 4.1% |
| China | -2.4% | -4.2% | -11.0% | -11.0% | -18.3% | -2.7% |
| **Fixed Income** | | | | | | |
| US Agg | 3.8% | 6.8% | 5.5% | 5.5% | -3.3% | 1.1% |
| US High Yield | 3.7% | 7.2% | 13.5% | 13.5% | 2.0% | 5.4% |
| Municipal Bonds | 2.3% | 7.9% | 6.4% | 6.4% | -0.4% | 2.3% |
| **Currencies** | | | | | | |
| EURO | 1.4% | 4.5% | 3.1% | 3.1% | -3.3% | -0.7% |
| British Pound | 0.8% | 4.3% | 5.3% | 5.3% | -2.3% | 0.0% |
| Japanese Yen | 4.9% | 6.0% | -7.1% | -7.1% | -9.9% | -4.9% |
| **Commodities** | | | | | | |
| Bloomberg Commodity | -2.7% | -4.6% | -7.9% | -7.9% | 10.8% | 7.2% |
| S&P GSCI Crude Oil | -5.6% | -18.8% | -3.8% | -3.8% | 25.8% | 1.2% |
| Gold | 1.1% | 11.4% | 12.8% | 12.8% | 2.3% | 8.9% |

**Commodities: WTI Crude Oil** prices fell by $3.9/barrel to $71.7/barrel in December. The drop in oil prices was the result of demand concerns. World oil supply growth is exceeding expectations and a downturn in China is limiting consumption. Fears that geopolitical tensions would disrupt oil supplies did not materialize. **Gold** prices rose by $16/oz in the month, closing at $2072/oz. Gold rose in the month as falling interest rates lowered the cost of holding the precious metal despite the move to risk assets by investors at the end of 2023.

## DISCLOSURE

**General**

The information contained herein regarding Harpswell Capital Advisors is confidential and proprietary and intended only for use by the recipient. The information contained herein is not complete, and does not contain certain material information about alternative investments, including important disclosures and risk factors associated with an investment in these types of vehicles, and is subject to change without notice. This document is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy shares or limited partnership interests in any funds managed by Harpswell Capital Advisors. Neither the Securities and Exchange Commission nor any state securities administrator has approved or disapproved, passed on, or endorsed, the merits of these securities.

**Performance**

The performance information herein has been prepared by or on behalf of Harpswell Capital Advisors, and has not been independently audited or verified except for certain year-end data. Investment returns may vary from the stated objectives so that investors may have a gain or a loss when they redeem their investment. As with any investment vehicle, risk of losses are possible and past performance cannot assure any level of future results. Investors should always refer to fund prospectuses or consult an investment manager prior to investing in funds. Proposed model performance has limitations inherent in model results in that it does not represent actual trading and may not reflect the impact that material economic and market factors might have has on the adviser's decision-making if the adviser were actually managing accounts. The adviser's clients may have had investment results materially different from the results portrayed in the model. Actual results portrayed may related to a select group of adviser's clients, unless otherwise specified. Actual proportions to funds and asset classes will vary on a client by client basis to correspond with their Investment Policy Statement and may not match the proposed model allocations.

**Risks**

Harpswell invests in stocks, bonds, mutual funds and sometimes alternative investments. Each asset class, along with each individual investment, carries varied degrees of risk of loss. Harpswell analyses investments from a long-term fundamental perspective and aims to engineer portfolios that have an attractive risk and reward balance. Despite a strong bias for diversification, all Harpswell portfolios do carry risks of losses, particularly in times of escalated market volatility. Harpswell does focus on capital preservation yet extraordinary markets can potentially generate material losses.

Our investment decisions and recommendations are based upon our professional judgment. We do not guarantee the results of any of our investment decisions or recommendations, the future performance of your Assets or Accounts, any specific level of performance, the success of any Independent Manager, investment decision, strategy or recommendation made by an Independent Manager, or the overall success of the Account. Past performance is not indicative of future results. Investments in your Account may go up or down in value depending on market conditions.

Alternative investments are designed only for sophisticated investors who are able to bear the economic risk of losing all of their investment. Alternative investments: (1) often engage in leveraging and other speculative investment practices that may increase the risk of investment loss; (2) can be highly illiquid; (3) are not required to provide periodic pricing or valuation information to investors; (4) may involve complex tax structures and delays in distributing important tax information; (5) are not subject to the same regulatory requirements as mutual funds; and (6) often charge high fees.

**Current Information**

Opinions expressed are current opinions as of the date appearing in this material only. While the data contained herein has been prepared from information that Harpswell Capital Advisors believes to be reliable, Harpswell Capital Advisors does not warrant the accuracy or completeness of such information.

**Use of Indices**

Market index information shown herein, such as that of the S&P 500 Stock Index, is included to show relative market performance for the periods indicated and not as standards of comparison, since these are unmanaged, broadly based indices which differ in numerous respects from the portfolio composition of the Fund. Market index information was compiled from sources that Harpswell Capital Advisors believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data.

**Index Definitions**

The S&P 500 Stock Index is an unmanaged market capitalization index of 500 US equities generally considered to be representative of US stock market activity. The Morgan Stanley Capital International World Index is a market capitalization-weighted equity index of over 1,500 stocks traded in 22 world markets. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The Index is market value-weighted. The SB World Bond Index is a market capitalization weighted index of 18 Government bond markets composed of sovereign debt denominated in the domestic currency. The Lehman Aggregate Index is a benchmark index made up of the Lehman Brothers. The Hennessee Hedge Fund Indices® are calculated from performance data obtained from publicly available information, internally developed data and other third party sources believed to be reliable. MSCI EAFE is a stock market index that is commonly used as a benchmark for the performance of major international equity markets. The MSCI Emerging Market Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. The Russell 1000 seeks to track the investment results of an index composed of large- and mid-capitalization U.S. equities. The Russell 2000 seeks to track the investment results of an index composed of small-capitalization U.S. equities. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Barclays Capital Global Aggregate Bond Index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside the United States. The Barclays Capital US Gov/Credit bond Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.