EDGEMOOR
INVESTMENT ADVISORS

Edgemoor's Quarterly Report

Suite 315
7250 Woodmont Avenue
Bethesda, MD 20814
(301) 543-8881
www.edgemoorinv.com
www.edgemoorblog.com

April 2024

Q1 off to the Strongest Start in Five Years

The stock market carried its strong momentum from late 2023 into the first quarter of 2024, driving most equity market indices to record highs.

Bolstered by the combination of a resilient U.S. economy, solid corporate earnings, and continued strong momentum in the tech sector, the stock market rally that started in late 2023 forged ahead in 2024. The rally also broadened its scope beyond the tech sector that primarily drove last year's gains, benefitting financial, energy, and industrial stocks, many of which had been left behind in last year's rally. This broadening strength is considered a positive indicator for a longer, more sustainable rally.

The strong first quarter gains also came despite several factors that could have caused stock prices to fall, including stubbornly high readings on inflation and diminished expectations for Federal Reserve interest rate cuts beginning in the first half of 2024. Somewhat surprisingly, the market once again shrugged off these potentially negative factors.

Stocks Climb, Bonds Fall in Q1

The S&P 500 Index posted a 10.6% total return for the first quarter, its best first quarter since 2019. The index peaked at 5,253 late in the quarter, a level which many analysts had predicted might not be reached until the end of 2024.

The equity markets were also characterized by low volatility during the first quarter, as measured by the CBOE Volatility Index, or "VIX." At quarter-end, the VIX stood at approximately 13, the low end of its 52-week range of 12-23 and well below an average market reading of 20.

The bond market reversed gains from the fourth quarter of 2023, posting a negative 0.8% total return in Q1 2024, as a slight increase in interest rates caused bond prices to fall.

The Fed Holds Steady

The Federal Reserve held its benchmark Fed Funds rate steady at 5.25% - 5.5% during the first quarter, continuing a pause in interest rate activity that began in mid-2023. In response, analysts revised expectations for six rate cuts this year to three and pushed out the expected start to June from March. As a result of this delay, benchmark Treasury yields began to tick higher in March, with the 10-year Treasury yield notching a high of 4.3% at the end of March from 3.9% at the end of December, which resulted in the negative total return for the Barclay's Aggregate Bond Index in the first quarter.

Inflation Still Stubbornly High

The Fed's cautious stance on cutting rates early in 2024 came after two consecutive elevated inflation reports in January and February. The Consumer Price Index, or CPI, rose 3.1% year-over-year in January and 3.2% in February, exceeding expectations.

Note: The March CPI reading came out after quarter-end and also surprised to the upside, posting a 3.5% year-over-year increase. Core CPI, which excludes volatile food and energy prices, also remained elevated at 3.8% in March, matching its 3.8% reading in February.

The highest year-over-year price increases during the first quarter were for shelter, energy, transportation, and food away from home.

Absent a meaningful reversal in the core inflation rate to a level closer to the Fed's target 2% rate, it seems likely that the Fed will remain cautious about cutting interest rates until at least the latter part of 2024.

U.S. Economy Remains Resilient

Overall, the U.S. economy has remained remarkably resilient, characterized by continued low unemployment, strong GDP growth, and solid corporate earnings.

The U.S. unemployment rate fell to 3.8% in March from 3.9% in February, remaining consistently in the sub-4% range as it has for the past 25 months. Employers added a better-than-expected 303,000 new jobs in March, beating consensus forecasts of 200,000 handily and bettering the 275,000 jobs created in February. Job gains occurred in healthcare, government, hospitality, and construction. Median hourly wage growth slowed slightly to 4.1% year-over-year but remained above the current inflation rate.

U.S. GDP grew at an annualized rate of 3.4% in the fourth quarter of 2023 and is currently projected to top 2.8% in the first quarter of 2024, according to the Atlanta Fed's GDPNow tracker. Much of the growth has been driven by U.S. consumers, who collectively increased spending by 0.8% in February following a 0.2% rise in January. The February reading was the largest gain since January 2023. Consumer spending accounts for more than two-thirds of U.S. GDP.

Corporate earnings have also exceeded expectations, with fourth quarter S&P 500 Index earnings growing 4% quarter-over-quarter and 7% year-over-year. Earnings are currently expected to accelerate 6.5% for the first quarter and increase 12.5% for the full year 2024, according to S&P Global.

U.S. productivity has also showed gains, increasing 3.2% in the fourth quarter, significantly higher than the 1.5% average productivity increase over the past decade. The gains have come about in part from investments in technologies and capital equipment that businesses have been more willing to make now that recession risks are fading.

Overall, these factors point to an economy that is making the "soft landing" that the Fed was hoping for, but which many were skeptical could be achieved.

Our Outlook

Our outlook for the economy and markets in 2024 remains cautiously optimistic.

We believe that if the economy continues to grow at a solid pace and corporate earnings continue to rise, then stocks should extend their gains this year. Other positive surprises could include resolutions of geo-political conflicts, or inflation easing faster than expected, both of which would provide additional tailwinds for stocks. Finally, the continued adoption of artificial intelligence across numerous industries and applications is expected to drive long-term growth and productivity in the U.S. economy.

Risks to Our Outlook

There are numerous risks to the "soft landing" outlook, including the risk that the ongoing wars in Ukraine and the Middle East will spread into broader conflicts, and that geopolitical tensions with China continue to worsen.

Closer to home, the robust March jobs report heightened the risk that the Federal Reserve could further postpone interest rate cuts, which could dampen economic growth and derail the stock market. In addition, continuing partisan gridlock on Capitol Hill and the 2024 election cycle also have the potential to disrupt markets.

But overall, we view these risks as near-term distractions which should not impact the long-term, positive trajectory of equity markets.

Portfolio Implications

As far as valuation, the broad S&P 500 index can be considered fully valued at 21.8 times forward 12-month earnings, above its 5-year average of 18.8 times. However, not all stocks or sectors are so fully valued, and we continue to look for and find pockets of opportunity, particularly in sectors which have lagged the overall market and are thus more attractively priced.

We expect value-oriented stocks, dividend-paying stocks, and other income-oriented securities to benefit from a broadening market rally and potentially lower interest rates in the future. In the meantime, we still find short-term Treasury bills and money market funds attractive places to park cash at risk-free annualized yields above 5%.

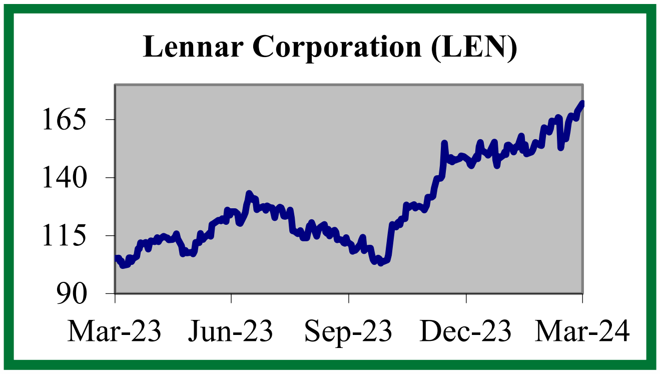
Portfolio Approach

Even though markets can be volatile quarter-to-quarter and year-to-year, we emphasize to our clients the importance of sticking with a long-term investment plan focused on your specific goals and objectives. Overall, we maintain a positive long-term outlook for the U.S. economy and markets, and we believe our patient, disciplined approach to active security selection offers our clients strong long-term return potential in a cost effective and tax efficient manner.

Analysis of Selected Securities

What follows are analyses of three securities we are currently buying for client accounts:

Lennar Corporation (LEN)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (03/31/2024)	$	171.98	Forward P/E	11.5
Market Cap ($B)	$	46.8	Price/Book	1.7
Dividend Yield		1.2%	Price/Sales	1.4
Return on Equity		15.9%		

Headquartered in Miami, Lennar Corporation is one of the two largest homebuilders in the United States as measured by the number and dollar value of homes delivered. Lennar builds a variety of homes at multiple price points, including entry-level homes, step-ups, multi-family, and retirement homes. Lennar has a national footprint, due in part to its 2018 acquisition of west-coast rival, CalAtlantic. Its west coast region represents 27% of total home deliveries, trailing only the east coast region at 31% of the 73,000 homes delivered by Lennar in 2023. Lennar also provides mortgage financing, title insurance, and closing services. Total revenues topped $34.2 billion in 2023.

Over the past several years, Lennar has shifted to a lighter land-acquisition strategy, which reduces the amount of capital tied up in land on its balance sheet. The company has successfully executed on this strategy by buying smaller land parcels and relying more on options to acquire land on a just-in-time basis. This has resulted in less cyclicality and meaningfully higher cash flow, returns on capital, and total shareholder returns.

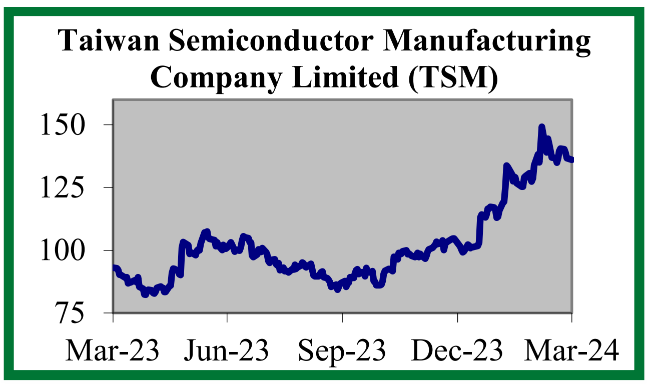
The housing industry is still dealing with a chronic supply shortage of available homes as a result of years of underproduction since the Great Financial Crisis of 2008-2009. Therefore, demand for housing is still outstripping supply, which has benefitted all homebuilders, including Lennar. This positive dynamic has been offset somewhat by significantly higher mortgage rates, which has tested homebuyer sentiment and kept a portion of potential homebuyers out of the market.

Lennar's size, scale and execution have allowed the company to manage through this interest rate cycle better than past cycles. The company pivoted and increased production of entry-level homes to meet demand from first-time home buyers, despite high mortgage rates. We believe that Lennar is well-positioned for when central banks ultimately begin to loosen interest rate policy, which will have a positive effect on housing affordability. In addition, we expect demand for new homes to remain robust as the large millennial age-cohort continues to form households.

Lennar's balance sheet has strengthened over the past several years, ending the most recent quarter with $5.2 billion of cash, $26.6 billion of shareholder's equity and $4.5 billion of debt, which has been reduced from over $7.5 billion in

2020. The company has increased its dividend at a 25% compounded annual growth rate over the past ten years, which is an incredible feat for a company in a capital-intensive, cyclical industry. We believe Lennar's stock is still attractively valued at 11.5 times forward earnings for a best-in-class homebuilder that will benefit from the continued growth in the U.S. housing market.

Taiwan Semiconductor Manufacturing Company Limited (TSM)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (03/31/2024)	$ 136.05	Forward P/E	22.3
Market Cap ($B)	$ 728	Price/Book	6.3
Dividend Yield	1.4%	Price/Sales	10.2
Return on Equity	28.6%		

Taiwan Semiconductor, founded in 1987, is the world's largest chip manufacturer (often referred to as a foundry or fab) with nearly 60% market share. The company's scale and high-end technologies allow it to generate healthy profit margins despite stiff competition. The competitive and capital-intensive nature of the foundry business has incentivized most chip designers and sellers to shift to a fabless model, where chip or wafer production is outsourced to foundries, such as Taiwan Semiconductor, while design and assembly of hardware are completed in-house. The company was a pioneer of this outsourced model and has benefitted tremendously from this structural shift in the industry.

The sources of Taiwan Semiconductor's economic moat are its size, reputation, technical barriers to entry, and high capital requirements. The company is a market leader in advanced-node innovation and production. Currently, only two fabs, Taiwan Semiconductor and its largest competitor, Samsung (17% market share), sell 5-nanonmeter chips, while Taiwan Semiconductor is the sole fab with 3-nanometer and 2-nanometer chip production capabilities. Smaller nodes result in better performance and faster compute capabilities for chips.

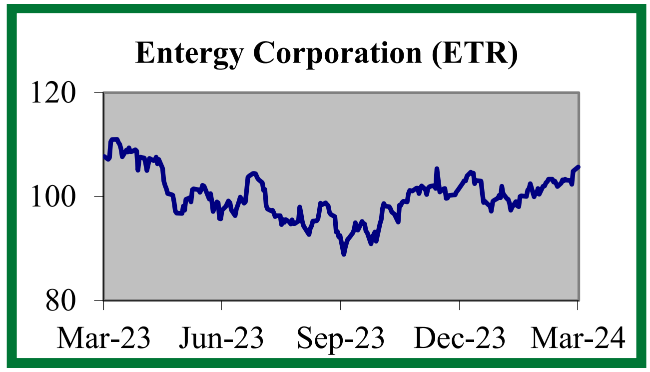
Taiwan Semiconductor is also benefitting from its technological superiority and a multi-year tailwind in AI technology, as no other chip foundry has the technological capability, capacity, and consistency to meet the needs of AI-chip developers, most notably NVIDIA. There are high expectations for AI-related technologies and applications, but it remains a nascent business that is still in the early innings of mass adoption. AI-chip supply and demand dynamics remain favorable for Taiwan Semiconductor as demand far exceeds supply; meanwhile, the company's foundries continue to ramp up advanced-node manufacturing.

Multiple secular forces, such as increased demand for advanced technologies, amplified investments in process enhancement and R&D, accumulation of talent, renewed emphasis on national security and onshoring, and cultivation of strong relationships with industry giants, should result in long-term growth for Taiwan Semiconductor.

Taiwan Semiconductor has a strong balance sheet and generates robust cash flow with a $23.7 billion net cash position and $12.1 billion in annual free cash flow. The company currently returns cash to shareholders via dividends, and given its sizeable free cash flow, it could increase its dividend and initiate share repurchases in the future.

Taiwan Semiconductor shares currently trade at 22x forward earnings, a modest discount to its 5-year average of 24x. Due to its economic moat, attractive valuation, long-term growth prospects, and status as an integral part of the global electronics market, Taiwan Semiconductor has become an excellent investment opportunity for investors to gain exposure to the fast-growing AI and chip markets.

Entergy Corporation (ETR)



Source for chart and financials: WSJ and MarketWatch. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (03/31/2024)	$105.68	Forward P/E	14.3
Market Cap ($B)	$ 22.4	Price/Book	1.5
Dividend Yield	4.3%	Price/CF	5.3
Return on Equity	17.5%		

Entergy is a holding company for five regulated utilities that produce and distribute electricity to approximately 3 million customers located in Arkansas, Louisiana, Mississippi, and Texas, positioning it as one of the largest power producers in the United States. At one time, Entergy was also the second-largest nuclear owner in the country but started divesting away from its legacy business in 2014, finally selling its last plant in 2022.

Entergy boasts an economic moat generated by its service territory monopolies and efficient scale advantages. State and federal regulators grant its utilities exclusive rights to charge rates appropriate for capped returns on and the return of invested capital necessary to build, operate, and maintain its networks. This arrangement allows Entergy to consistently earn normalized returns above its cost of capital and reduce regulatory risk by complying with the predetermined caps, all of which benefits shareholders.

Strong industrial demand, elevated renewable energy demand, and expansion of its service territories are expected to be long-lasting growth drivers for the company. The company controls large-scale renewable energy sources via its portfolio of solar, wind, and hydrogen as renewables represent a growing share (25% in 2023) of electricity generated in the United States.

Entergy has increased its annual dividend every year since 2014, resulting in a 3% annual growth rate and a current yield of 4.3%. We believe Entergy can continue to raise its dividend going forward as it enjoys consistent returns and passes higher costs onto customers.

Entergy trades at a forward price-to-earnings ratio and a price-to-cashflow ratio that are both meaningfully below their 5-year averages, making Entergy a compelling income investment that could also see potential price appreciation.

Source for text and charts: FactSet, Morningstar, S&P/CFRA, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, Bank of America, JP Morgan Markets, MarketWatch, WSJ and Argus reports.

Edgemoor Investment Advisors is an independent wealth management firm providing investment and financial planning advice to individuals, retirement plans, trusts, family foundations, and an equity mutual fund. We manage approximately $1.3 billion as of March 31, 2024, for our clients and focus on long-term capital appreciation, preservation of capital, and income generation through disciplined management of value-oriented equity and income portfolios. Please contact us if you would like more information.

Anne B. Baker
Office Administrator
(301) 543-8366
abaker@edgemoorinv.com

Philipp B. Bentley
Senior Investment Associate and Lead Trader
(301) 543-8369
pbentley@edgemoorinv.com

Timothy C. Coughlin, CFP®
Managing Director
(301) 543-8371
tcoughlin@edgemoorinv.com

Steven D. LaRosa, CFA, CFP®
Director and Senior Portfolio Manager
(301) 543-8361
slarosa@edgemoorinv.com

Paul P. Meehan, CFA
Managing Director
(301) 543-8373
pmeehan@edgemoorinv.com

Thomas P. Meehan
President
(301) 543-8881
tmeehan@edgemoorinv.com

Sara R. Parker
Vice President
(301) 543-8881
sparker@edgemoorinv.com

Christine J. Potts
Senior Vice President
(301) 543-8881
cpotts@edgemoorinv.com

Bryce Sistrunk-Lewis
Analyst and Trader
(301) 543-8374
bsistrunklewis@edgemoorinv.com

Gay S. Truscott, CFP®
Director
(301) 543-8375
gtruscott@edgemoorinv.com

7250 Woodmont Avenue, Suite 315
Bethesda, MD 20814
(301) 543-8881, (301) 543-8358 fax
www.edgemoorinv.com www.edgemoorblog.com

Past performance is not indicative of future results. The opinions expressed are those of Edgemoor Investment Advisors. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Forward looking statements cannot be guaranteed. Material presented has been derived from sources, including Bank of America, JP Morgan Asset Management, BlackRock, Fidelity Investments, Morningstar, S&P, Schwab, ValueLine, Argus, Credit Suisse, Black Diamond Performance Reporting, and Yahoo Finance, considered to be reliable, but the accuracy and completeness cannot be guaranteed. The information provided in this report should not be considered financial advice or a recommendation to buy or sell a particular security. There is no assurance that any securities discussed herein will be included in or excluded from an account's portfolio. The securities discussed may not represent an account's entire portfolio and, in the aggregate, may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. The current yields of the specific securities referenced herein may not be a reliable guide to future performance. Yields and gross returns to individual investors will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Edgemoor Investment Advisors, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. All recommendations for the last 12 months are available upon request.

The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

The Barclays U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least $100 million and have at least one year until maturity.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,308 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

Edgemoor Investment Advisors, Inc. is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Edgemoor Investment Advisors, Inc. including our investment strategies, fees, and objectives can be found in our ADV Part 2, which is available upon request.