Préfontaine Capital Inc.

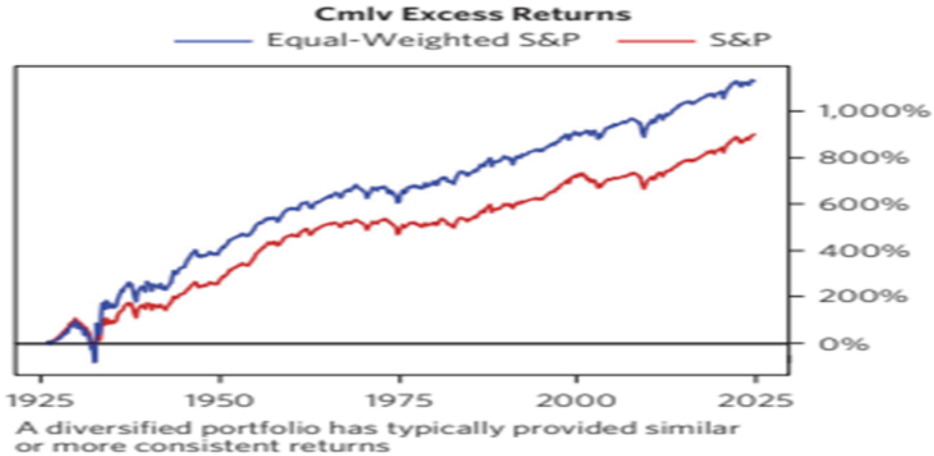
- FINANCIAL LETTER -
SECOND QUARTER 2024

Economic and Market Outlook

The economic environment seems to us to be in a fairly normal range, with unemployment, inflation and interest rates not excessive. People think that interest rates are high, but in reality, if we look back over the last 50 years, they are at more or less normal levels, and economic players can adjust to them. Rather, it's government indebtedness that's in an excessive zone. The anaemic growth seen over the last 15 years or so could continue, because the factors that caused it (notably massive money printing, massive increases in public debt, ill-considered bailouts of industries and companies, economic concentration/lack of competition in key industries, and imperfect training of the workforce) have not changed. The accelerated innovation we are currently experiencing could help counter this trend.

On the stock market, the "Magnificent Seven" bubble (Nvidia, Apple, Microsoft, Amazon, Tesla, Alphabet, Meta) continues to run its course, distorting S&P500 performance. This bubble is different from the tech bubble of 2000 in that these seven companies are highly profitable, unlike those of 2000. The exaggeration, in our opinion, lies in their prices, which discount very high growth over the next 10 years or more, something we strongly doubt. The other 493 stocks in the S&P500 have performed more normally in recent years. This year, 66% of the S&P500's return has come from these seven stocks. It's worth noting that this trend towards concentration in a few stocks has been recurring for a long time. The railroads, oil and financial conglomerates of the early 20th century, the plastics/chemical oligopolies of the '30s-'60s, the "nifty Fifties" of the '70s, the dot-coms of the early years of the present century. These concentrations have always eventually deflated, either through the creative destruction and innovation inherent in the capitalist system, or through the anti-monopolistic intervention of governments. *Bridgewater Associates*[1] recently published a review of stock market history, concluding that an equally-weighted portfolio would have produced better returns over the long term than a market-cap-weighted portfolio such as the S&P500. This confirms our decision to follow the equally-weighted version of the S&P500 as our model for the US stock market.

[1] *The Life Cycle of Market Champions, Bob Prince, Khia Kurtnbach, Thomas Maisonneuve, Bridgewater & Ass., June 18, 2024*



The most significant events of the second quarter are likely to be geo-political. The rise of populist movements could have an impact on inflation and growth for years to come. Higher public deficits and tariffs, as well as the foreign trade and immigration restrictions proposed by populists, would push up inflation and interest rates. On the other hand, in some countries that have experimented with populist demagogs, voters have returned to more centrist leaders (Great Britain, Poland, Brazil). While the factors that grab the markets' attention come and go, the really important things build slowly and are rather invisible to the naked eye. Growth and prosperity stem primarily from the confidence, stability, sense of justice and fairness, and enthusiasm for work that a country/region/political system has managed to develop over decades. Economic activity, which essentially consists of working and investing, i.e. taking a risk to develop a business, a service, infrastructures, institutions, eco-systems, etc., feeds on trust, stability, constancy and security. The most striking model of economic and social development in our view is Singapore, which went from being a poor, underdeveloped country in 1965 to the second[2] richest in the world on a GDP per capita basis at purchasing power parity, moreover without any natural resources, by creating an environment of confidence and dynamism. *The Carnegie Endowment* has produced a research report[3] on economic growth under right-wing or left-wing populists. On average, from 1900 to 2020, economic growth was 1% per year lower under populists. Political developments in the U.S., Europe and Asia are worth monitoring to see if any structural trends are emerging that will affect economic dynamism.

The following sections are reserved to clients of Préfontaine Capital.

[2] *The World's Richest Countries in 2024*, The Economist, July 4th, 2024
[3] *How Does Business Fare Under Populism?* Rachel Kleinfield, Carnegie Endowment, June 13, 2023