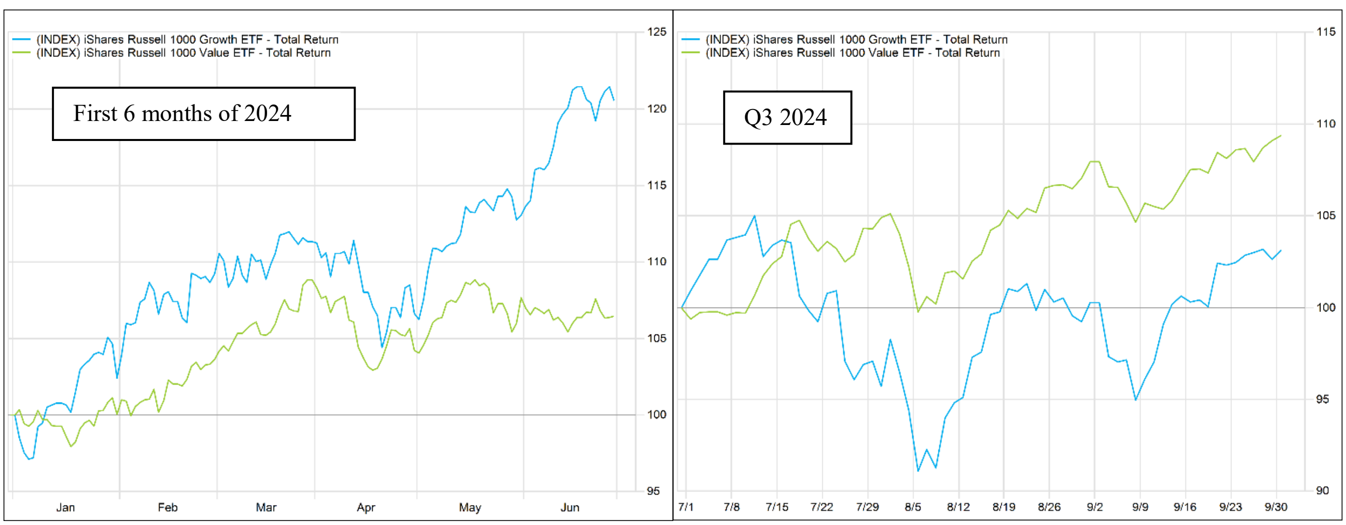
Market Rally Continues Amid Broadening Gains

Equity markets demonstrated remarkable strength during the third quarter of 2024 despite periods of significant volatility. The S&P 500 rose by 5.5% during the quarter, closing out a stellar first three quarters, with the index surging nearly 21%. This marks the best performance year-to-date since 1997.

The key drivers of this resilience have been the Fed's dovish pivot and a strong earnings season. Nearly 80% of S&P 500 companies exceeded analyst expectations, with the highest growth rate since Q4 2021. Encouragingly, we witnessed earnings growth broaden across various sectors, and for the first time in five quarters, S&P 500 earnings growth, excluding the "Magnificent 7" stocks, turned positive, effectively ending the earnings recession. This bolstered the case for a broadening rally, with over 60% of S&P 500 companies outperforming the index this quarter, a significant increase from just 25% in the first half of 2024. Looking ahead, strong earnings growth is expected to persist into the second half of 2024 and into 2025, further fueling market optimism and bolstering investor confidence.

Sector-wise, rate-sensitive and defensive sectors such as Utilities and Real Estate delivered solid performances. Reversing the trend of the Magnificent 7 driving performance over the first half of the year, Communication Services and Technology underperformed. Notably, Energy was the only sector to decline, primarily driven by more than 15% decline in WTI crude prices as concerns over rising OPEC+ production outweighed Middle East tensions. Unlike the first two quarters of 2024, this quarter saw a rotation out of growth stocks and into value stocks, which helped reduce the year-to-date performance gap between the two styles.

Performance of Growth vs. Value Index in 2024

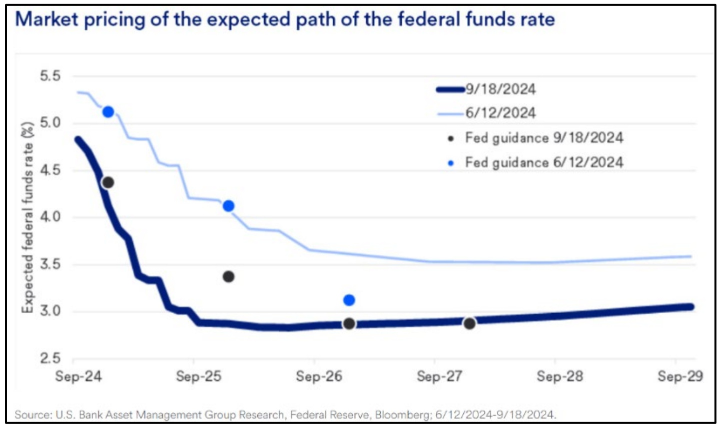


Source: FactSet

Fed Pivots to Dovish Stance

A key development in the third quarter was the Federal Reserve's shift to a more dovish monetary policy. After four years of tightening, the Fed cut rates by 50 basis points in September, aiming to engineer a soft economic landing and preserve labor market strength. As inflation cools toward the Fed's 2% goal and the labor market has already eased to an acceptable level, the Fed has moved from a restrictive focus on controlling price pressures to a balanced approach, which sparked optimism amongst investors. We believe the Fed will likely remain dovish due to the reduced risk of high inflation resurging and concerns about the labor market weakening beyond acceptable levels if the Fed lags behind.

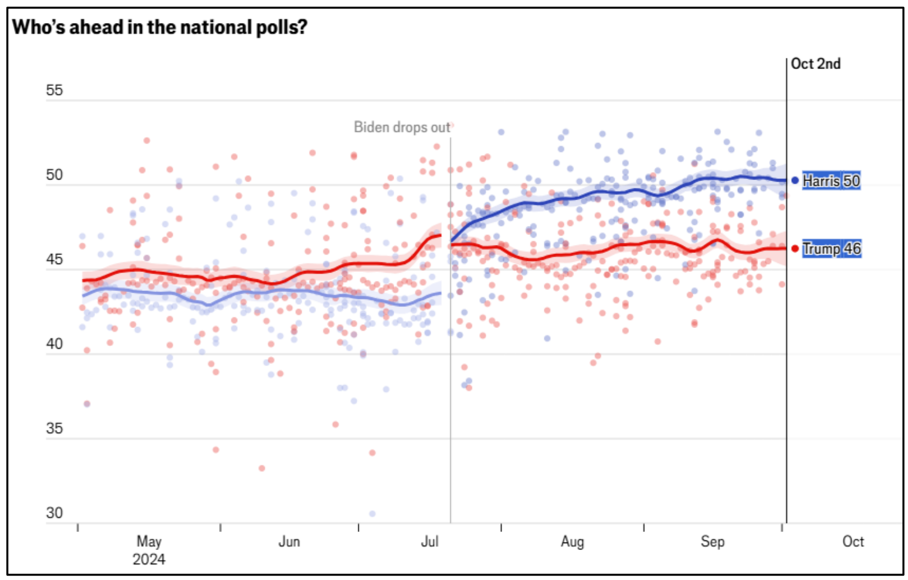
The policy shift has provided a tailwind for several industries. Beyond real estate and utilities, home improvement stocks like Home Depot and Lowe's are also positioned to benefit from the anticipated recovery in housing activity driven by declining mortgage rates. Additionally, the long-awaited "uninversion" of the yield curve (2Yr/10Yr spread), coupled with anticipated rate cuts, signals positive momentum for banking stocks as their interest margin expands and the valuation of long-duration loans improves.



Source: U.S. Bank Asset Management Group Research, Federal Reserve, Bloomberg; 6/12/2024-9/18/2024.

Election uncertainty and mixed potential sector implications

In July, Joe Biden dropped out of the presidential race, and on Monday, August 5th, Vice President Kamala Harris became the Democratic nominee. According to the Economist's compilation of national polls, Trump had a 47% edge in national polls compared to Biden's 44%. Since the Kamala Harris nomination, the polls evened at 50/50 and have since turned in favor of Harris, with 50% versus 46% for Trump. However, in recent cycles, polls haven't been an accurate predictor.



Source: The Economist

Historically, presidential elections have not dramatically impacted financial markets, but this election could be different for several reasons, including the volatility of rhetoric in the face of Middle East tensions and mixed macro data. In the chart below, we attempted to outline some apolitical, sector-level considerations for a Trump vs a Harris win.

Sector	Trump Win	Harris Win
Energy	Support for fossil fuels and deregulation could boost oil and gas companies.	Focus on clean energy and environmental policies might hurt traditional energy but benefit renewable energy companies.
Financials	Deregulation and corporate tax cuts would be favorable for banks and financial services.	Tougher regulations and consumer protections could create challenges for the sector.
Information Technology	Likely favorable due to deregulation, but trade wars with China may pose risks to supply chains.	Antitrust regulations and privacy laws could put pressure on big tech firms.
Healthcare	Policies might maintain status quo, but potential healthcare reforms could add uncertainty.	A focus on expanding access to healthcare and reducing drug prices may squeeze profit margins for pharma and insurance companies.
Consumer Discretionary	Tax cuts and a pro-business stance might drive consumer spending, benefiting retail, automobiles, and travel. China relationship may add uncertainty.	Policies focusing on wage increases and social safety nets could support consumer spending, but higher corporate taxes may impact profits.
Consumer Staples	Tax relief and lower regulations could be favorable. China relationship may add uncertainty.	Increased corporate taxes and labor costs could squeeze margins, but expanded social policies might stabilize demand.
Industrials	Pro-manufacturing policies and infrastructure projects could benefit industrial stocks.	Focus on green infrastructure might shift opportunities toward companies involved in sustainable technologies.
Materials	Infrastructure spending could benefit materials companies involved in construction and manufacturing.	A push for renewable energy and sustainable materials could boost those industries, but traditional materials sectors might face stricter environmental regulations.
Utilities	Deregulation of energy markets could help utilities.	Focus on renewable energy would likely favor utility companies investing in clean energy.
Real Estate	Lower taxes and interest rates could benefit real estate investments.	Higher corporate taxes and a potential rise in interest rates might pressure real estate but benefit housing affordability policies.
Communication Services	Deregulation might benefit media and telecom companies, though some trade policies may hurt international communication services.	Antitrust focus could challenge dominant companies in this sector, but a push for digital infrastructure might benefit telecom companies.

Increasing Global Geopolitical Tensions

We find ourselves in an increasingly intricate global environment. Geopolitical tensions have continued to escalate from the highest level in decades. Unlike conflicts that occurred decades prior, recent threats have reignited the Great Power Competition. This scenario requires significantly different technologies and capabilities than what has been needed with the war on terror and in-theater warfare decades prior. The defense exposures across our strategies have been selected because of the companies' significant roles in these strategic priorities.

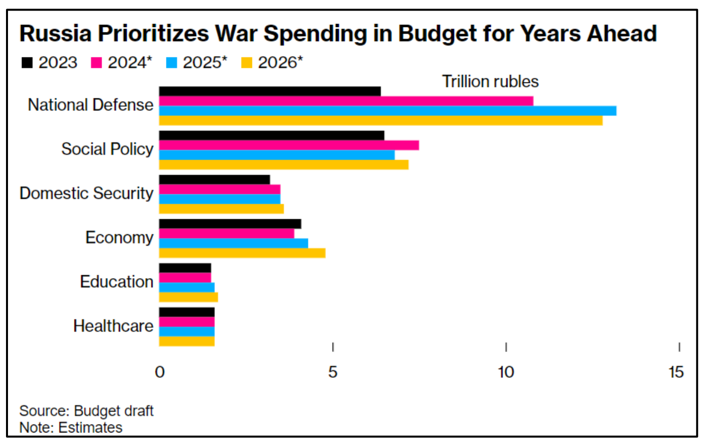
Israel

The Middle East remains a region of high volatility, with recent escalations between Israel and neighboring states raising concerns about prolonged conflicts. The ongoing tensions have underscored the need for advanced defense systems and technologies, particularly missile defense. Additionally, Iran's recent direct involvement has increased the potential for a near-peer conflict, which is a conflict in which both sides possess similar capabilities and capacity, which would heighten the importance of advanced communication technologies. RTX Corp has significant involvement as a prime contractor and/or major supplier for multiple air defense systems, such as Patriot missile system and LTAMDS (Lower Tier Air and Missile Defense Sensor), primary radar used in the THAAD (Terminal High Altitude Area Defense) missile system, and NASAMS (National Advanced Surface-to-Air Missile System). L3Harris has exposure to missile detection and defense through the contracts it has been awarded in each Tranche of the Space Development Agency's Tracking Layer, which will provide global indications, warning, tracking, and targeting of advanced missile threats, including hypersonic missile systems. LHX also has significant exposure to advanced communications with major contracts across all domains.

China

China's aggressive stance in the South China Sea and its expanding global influence through initiatives like the Belt and Road initiative, an ambitious infrastructure plan that connects China with the rest of the world, has caused significant geopolitical ripples. Chinese military posturing and the growing tension with Taiwan have led to increased defense spending among neighboring countries and allies. Recent developments such as the AUKUS (Australia, United Kingdom, and United States) partnership highlight the United States' commitment to sufficiently counter China's military capabilities, both within the region and globally. The AUKUS partnership is a trilateral security partnership in which the US and UK will assist Australia in their development and deployment of nuclear-powered attack submarines. The rising tension with China has implications across nearly all areas of defense spending but particularly in advanced technology like hypersonic missiles, hypersonic missile defense, nuclear submarines, and electronic warfare. As previously mentioned, RTX and LHX have significant exposures to missile defense. Additionally, BWX Technologies is the sole supplier of nuclear propulsion systems for the U.S. Navy's fleet of submarines, making it crucial to maintaining naval and strategic deterrence capabilities.

Russia



Russia's ongoing military engagements and its proposed record defense spending highlight the persistent instability in Eastern Europe. The conflict in Ukraine remains a critical flashpoint, influencing defense policies and expenditure across Europe and NATO allies. The US has placed multiple new orders for missile defense systems to support Ukraine and by NATO members to bolster national defenses in response to Russian saber-rattling. In addition to missile defense, this conflict has highlighted the importance of electronic warfare, advanced communications, and hypersonics. Our portfolios are well-positioned in their exposure to these factors via RTX's and LHX's significant exposures to missile defense, LHX's involvement in advanced communications, and BWXT's role in support naval and strategic deterrence capabilities.

Key Defense Exposures

Our focus is on companies with significant roles in key strategic priorities essential to national security, making them more insulated from potential budget cuts than broader defense spending. Priorities such as strategic deterrence and missile defense are vital for the U.S. to protect its interests in the modern era.

As global geopolitical tensions continue to rise, we remain focused on identifying and capitalizing on opportunities within the defense sector. The investments in L3Harris Technologies, Raytheon Technologies, and BWX Technologies are designed to provide exposure to essential defense capabilities that are increasingly in demand. We believe these positions will offer portfolio resilience and growth potential in the face of the evolving geopolitical landscape.

Why Brookmont Moving Forward

With a market being driven by uncertainty in geopolitical tensions, rate moves, and presidential election outcomes, investing in fundamentally sound companies at reasonable valuations is more important than ever. As always, the team at Brookmont carefully evaluates a company's cash flows from operations while considering investing and financing cash flows to understand the ability of a company to meet its capital allocation needs. We do not believe that any of our holdings are short-term investments, and we continuously evaluate them to assure that their fundamentals align with our prioritization of long-term growth and stability of free cash flows and dividends. This highlights the importance of Brookmont's process and its success in accomplishing its goal of participating in market upside while having relatively low downside capture.

Brookmont's philosophy of investing in companies with strong balance sheets, disciplined management, and well-covered dividends continues to represent an attractive allocation for strategic investors in the equity market. This, coupled with rate volatility, represents greater relative value compared to fixed-income alternatives. The team at Brookmont is happy to share additional thoughts on the markets and our portfolios.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities.

Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of this index may be materially different from the performance of the strategy.

The Brookmont Core Dividend Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Core Dividend Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Core Dividend Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

The Brookmont Quality Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Quality Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Index. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

The Brookmont Dividend Growth Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. The minimum investments and advisory fees required differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

Past performance is not indicative of future results.