OYAT ADVISORS – QUARTERLY COMMENTARY

3Q 2024

Investment landscape

The third quarter of 2024 was volatile but ultimately satisfactory for most asset owners. Investors got what they wanted in the form of interest rate cuts from multiple central banks, including the US Federal Reserve, which lifted equity and bond prices higher in the period. China added fuel to the fire by announcing substantial stimulus, and markets cheered and increased further. We profited in the period as well with the Oyat Investment Fund up a healthy double-digit percentage in USD for the period.

But from our desks in Switzerland, we also continue to notice some cracks in the market edifice through our long-term lens. Global equity markets returned nearly 6.5% in USD for the quarter, but in the firmer CHF, they were essentially flat (based on the MSCI World Index return). Markets might be moving up nominally in USD, but under the surface, all is not well. Inflation is still stripping consumers of their purchasing power and eroding the strength of the USD compared to more reliable currencies such as the Swiss franc or gold.

We can debate what the true inflation rate is currently, whether it will continue its downward path or spike once again, but the reality is that consumers in the U.S. (and other geographies) face prices that are over 20% higher than they were just 5 years ago, according to the Consumer Price Index (CPI) from the Bureau of Labor Statistics. The U.S. CPI is perhaps another symptom of the fiscal largess we see across the globe, with the U.S. staring down a deficit approaching $2

trillion for the current fiscal year, pushing on-balance sheet federal debt beyond the $35 trillion mark. The USD is suffering from the fiscal irresponsibility, as is the U.S. consumer the global economy so desperately needs. The edifice is cracking, and neither of the presidential candidates in the U.S. or their economic plans seem to have any intention of addressing the issue.

As such, it is perhaps no surprise that gold continues to hit all-time highs. Gold's strength is primarily a reflection of fiat currency weakness, and a growing recognition by central banks and investors alike of the unsustainable nature of our current fiscal and monetary system. Moreover, geopolitical events such as war in the Middle East and Ukraine have investors on edge. China's recent economic weakness and subsequent stimulus measures coupled with tariff threats and political jockeying all create uncertainty regarding global supply chains, inflation and global growth. In short, there is a long and growing list of concerns for investors to work through.

Despite this reality, we prefer to remind readers that there are effective ways to allocate capital in uncertain times. There are strategies founded on principles proven to work over the long-term and to perform relatively well through turbulent markets. Truly diversifying portfolios with real assets such as gold is an easy recommendation and has certainly worked well recently with the current backdrop of fiscal and geopolitical stress, but there are other more subtle avenues investors can follow with confidence. Equities can provide access to productive assets and generally deserve a healthy allocation even through uncertain times. But equity is a broad category with labels such as 'growth' or 'value', and even 'magnificent' thrown around and marketed depending on the current investing environment. Investors searching for real protection and appreciation (in that order) of capital through time and varying market conditions may do well to allocate to a type of equity that cuts across growth and value and that thrives particularly well in tough times – 'quality' equities. It is a broad term to be sure, but we can explain what it means to us and why we believe investing in quality companies will ultimately produce admirable returns with less risk and without the need for tricky timing decisions.

Quality companies offer sustainably high, long-term value creation by consistently earning a return on invested capital significantly above their capital costs. Quality companies occupy industry positions that are protected by characteristics such as strong brands or networks, sustainable innovation and product development or simply scale or cost advantages. Quality companies typically are well managed with an owner-type mentality and a long-term focus regarding investments that accentuates the long-term growth potential of the company. These companies often offer resilience through strong balance sheets, pricing power and predictable earnings trajectories. They are not defined by market capitalization, industry or geography. And ultimately, the best ones have proven track records of effectively producing cash flows and passing them onto shareholders through disciplined capital allocation.

It all sounds nice, but the proof is in the pudding as they say. Quality companies have a proven track record of outperforming the market and providing resilience in tough times[1]. They also do it with less risk, whether that is measured in volatility terms or from a fundamental perspective as we prefer to view risk.

In a world defined by unpredictable interest rates and unsustainable fiscal policies, we prefer to focus on enduring strategies that offer the potential for outsized returns through almost any

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[1] MSIM Why Invest in High Quality Equities – Equity Style Upside and Bond Style Downside Participation

market environment. These strategies include focusing on quality companies in a diversified yet concentrated portfolio of approximately 25 positions, but also on valuation discipline, investing alongside our clients and sticking to a clearly defined investment philosophy and a structured process. As we look back on a strong 3Q24 performance, we remain steadfast in our belief that owning scarce and productive assets with a focus on quality businesses trading at reasonable prices, complemented by liquid reserves in the form of physical gold, will drive admirable risk-adjusted performance over the years to come.

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