Quarterly Newsletter 2024.Q1

April 22, 2024

Welcome to Blue River Capital Management. As our first quarter of operations has come to an end, we want to sincerely thank each of you for entrusting us with your accounts. We are humbled by your confidence in us, and we strive every day to live up to the standards that you deserve from your advisors. We founded BRCM with the goal of providing our clients simplicity, thoughtfulness, and transparency in their financial lives; we are making every effort to reach those goals.

As our business continues to grow and scale, we think it is important for you to know that we pride ourselves on being available and easy to reach. If you ever have any questions or concerns about your account, want to provide us with an update on your life, or just want to chat about all things financial/economic, please do not hesitate to contact us. Whether we are educating clients about the benefits of asset class diversification, having a friendly debate about the merits of dividend investing, or discussing the most recent economic news, one of our favorite parts of being advisors is our client interactions. We have found that consistent and open communication benefits everyone, so we hope you never feel you are wasting our time, regardless of the topic.

We trust you have all had the chance to check out our website (brcm.co) as well as logged into your client portal. For those of you who are on social media, we also have pages on LinkedIn, Facebook, and Instagram. We encourage you to follow us on those sites, as we plan on publishing content there regularly. We also welcome all feedback on our various sites.

Market Update

The S&P500 continued its strong momentum from 2023, returning 10.56% in the first quarter[1]. The domestic index is now up over 35% since the beginning of last year. International markets also experienced solid returns for the quarter, though not quite to the extent of US stocks, with the MSCI ACWI Ex-US index returning 4.69% for the quarter. Hopes for interest rate cuts in the near future subsided, as domestic economic growth remained strong and higher inflation prints continued. The 10-year treasury rate increased from 3.95% at the start of the year to 4.20% by quarter-end. Higher interest rates resulted in the Bloomberg US Agg Bond index losing 0.78% for the quarter.

We generally avoid making predictions on where the stock market will go, but we do view valuations as somewhat stretched at the moment, particularly in the so-called "Magnificent 7" stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla). Tesla, in particular, has experienced a difficult year, with its stock down nearly 30% in the first quarter but that has been the exception. This group of stocks now make up nearly 30% of the S&P500 (and 40% of the Nasdaq) and have driven much of the index's returns on the year (through the first quarter, Nvidia

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[1] All index return, security return, index weighting, and company financial data sourced from YCharts

alone accounted for approximately one-quarter of the entire index gains[2]). As of January, the "Magnificent 7" traded at about 29x earnings, compared to the S&P500 average of 17x. This ratio of 1.7x the S&P500 average is above the 10-year average of 1.4x[3], though some would argue the increased valuation gap is justified by higher future earnings growth from the "Magnificent 7". While we do not doubt the tailwinds for growth for the group, we hesitate to fully endorse the market's implied growth rate for these firms, in aggregate.

Outside the market behemoths, we do not view the equity markets as overvalued. In fact, we view certain international markets, domestic small caps, and domestic value stocks as relatively attractive and have added a couple of securities in the quarter to client accounts within those markets. We will always remind our clients that we do not own the indexes directly, and we spend a large amount of our time scouring the markets, both domestic and international, for opportunities.

For more conservative investors or those with significant liquidity needs, we are thankful that the Federal Reserve has delayed interest rate cuts until at least later this year. In particular, we find interest rates on cash and short-term treasuries highly attractive. Investors can now use a variety of cash-like investment vehicles (money market funds, high-yield savings accounts, CDs, etc.) to generate 5% or more in return for essentially no risk. We have taken advantage of this in our fixed income allocations by keeping our credit quality high and our maturities short.

We do not stray far from the consensus view on the timing and magnitude of interest rate cuts. We think the Federal Reserve will keep rates where they are for the time being with perhaps a cut or two late this year. Keep in mind that the Federal Reserve only controls short-term interest rates; the market sets longer-term rates, and there is even more uncertainty where those will drift. That being said, we view the overall level of interest rates across all maturities as far more attractive than it was during the 2010s and believe fixed income can play a more traditional role in investment portfolios than it did during that period.

As we look forward to the rest of the year and beyond, we always keep in mind that risk management is paramount. We have reviewed all our client accounts and feel comfortable with their asset allocations and associated risk levels. Please do not hesitate to reach out to us if you have any significant life updates, as it may impact how we manage your account. It is a privilege to manage your assets, and we hope this is only the beginning of a wonderful partnership.

Thank you,

Jack Dukeminier

Jack Dukeminier, CPA, CFA

Philip Bagdade

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[2] Eswaran, Soumya, "Nvidia (NVDA) Accounted for 24% of S&P 500 Index's Returns", Insider Monkey, April 10, 2024

[3] Aliaga, Stephanie, "Can the Magnificent 7 retain its magnificence?", JP Morgan Asset Management, January 26, 2024

Disclaimers:

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Index Definitions:

S&P 500 – A representative sample of 500 leading companies in leading industries of the US economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

MSCI ACWI Ex-US – A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI). It is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI ACWI Ex-US includes both developed and emerging markets.

Bloomberg US Agg Bond – A broad-based fixed-income index that includes government Treasury securities, corporate bonds, mortgage-backed securities, asset-backed securities, and Municipal securities to simulate the universe of bonds in the market.