

<p>Second Quarter</p> <p>2024</p>	<h1>Quarter In Review</h1>
	<p>Jensen Private Client</p>

## Firm Update

Summer has arrived, and if you reside in the Pacific Northwest we hope you are enjoying the season. Half the year has passed quickly, and we believe the next half will rush by as well, so we have a reminder for your benefit.

In a joint effort to reduce our use of paper, Jensen is partnering with our custodians to encourage our clients to make the switch to electronic statement delivery. Pershing, the custodian for most of our private clients, has created an extra incentive to switch to electronic delivery by charging for paper statements, trade confirmations and tax documents. If you receive paper statements and would like electronic delivery instead, please let us know and we will assist you with the process.

## Second Quarter 2024 in Review

In a somewhat “rinse-and-repeat” quarter, the U.S. equity markets (as measured by the S&P 500 Index) continued their march higher, driven by outsized performance and market concentration within businesses perceived to benefit from Artificial Intelligence (“AI”). Be that as it may, this environment is not a “rising tide lifts all ships” type of market, and the extraordinary returns by a small number of companies highlighted the ever-widening gap between them and their non-AI peers. With higher interest rates continuing to be relevant, the uncertainty of the general election later this year, and the ongoing global conflicts, businesses are facing several headwinds that have been concealed behind the luster and exuberance of all things AI.

## Looking Ahead

As we look forward to the remainder of 2024 and into next year, we maintain a neutral outlook for market returns. Although returns from the market over the past 12 months have been very solid, we are mindful that those returns have been concentrated in just a few of the largest stocks based on market capitalization.

The economic challenges that have been building over the last two years continue to persist. While there are some signs of improvement, particularly with softening inflation from the generationally high levels reached in the middle of 2022, overall inflation remains well above long-term targets of the U.S. Federal Reserve. As a result, interest rates continue to remain much higher than those during the more accommodative stance taken by central banks around the world. Further, current domestic messaging from the Federal Reserve indicates that any tapering of interest rates may not occur until 2025. This will keep interest costs at higher levels, reducing the cash available for more productive uses for highly leveraged businesses. The full effect of higher interest rates has likely not fully impacted the economy, and this remains a substantial headwind for many companies.

Despite some challenging economic conditions, market returns have been robust, particularly for those companies associated with the AI theme and its accompanying investments and infrastructure buildout. In addition to, or perhaps because of these factors, we note that the corporate performance and recent market return patterns could



influence the outlook for the remainder of the year, and reverse or at least pause the “risk-on” character of the last few months. In our view, given the current and ongoing concentration in the markets and focus on a few momentum-driven, more speculative companies, we believe there are many opportunities for more consistent and resilient businesses of higher quality to garner greater favor from investors looking for lower volatility in the face of the issues discussed here.

While the economic uncertainty and the corresponding volatility of market returns has worried many commentators over the last year, the Jensen Investment Team believes paying attention to valuation instead of investing at any price reduces risk and helps identify prudent investment opportunities that have the potential to provide downside protection when markets lose momentum. Further, investing with conviction and a long-term focus requires sound research to underpin such conviction while also allowing for the powerful effect of compounding to enhance shareholder value and returns. These attributes may be currently out of favor with the rush to “everything AI,” but we do not believe they have gone out of style.

Stepping back, we remain confident that unpredictable markets create opportunities for long-term investors focused on high-quality companies. High-quality businesses benefit from durable competitive advantages, steady free cash flow generation and attractive long-term growth opportunities. In an environment characterized by high interest rates and an uncertain macroeconomic outlook, we believe these high-quality attributes can provide resiliency via pricing power and financial flexibility.

## Connect With Us

Thank you for your continued confidence in Jensen. We are tremendously grateful for your ongoing support and, as always, please do not hesitate to contact us with any questions you may have.

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**S&P 500 Index:** Is a market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation. The Index is unmanaged, and one cannot invest directly in the Index.

**S&P Earnings and Dividend Rankings:** (also known as “qualiy rankings”) S&P Earnings and Dividend Rankings score the financial quality of several thousand U.S. stocks from A+ through D with data going back to 1956. The company rankings are based on the most recent 10 years (40 quarters) of earnings and dividend data. The better the growth and stability of earnings and dividends, the higher the ranking.

**Free Cash Flow:** Is equal to the cash from operations of a company less capital expenditures.



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