



**KERUSSO CAPITAL MANAGEMENT
US LARGE CAP VALUE
THIRD QUARTER 2024 REVIEW**

“May you live in interesting times.”

An old Chinese curse that has become an American saying seems to capture what is happening in the world today as we close in on the election of the 47th President of these United States of America with two candidates who could not be more different from a social, political, economic, ethnic, racial, and gender difference.

The polarity has made for daily interest text in the midst of global turmoil as a context.

From an economic standpoint, the market has gotten what it wanted in the Federal Reserve cutting interest rates.

Everything is great now, right? Wrong!!!

The market rallied and now is concerned about whether the Federal Reserve has done too much, too little, too early, too late.

And, now, labor issues have arisen with strikes at beleaguered holding, Boeing, as well as the longshoreman unions at the ports.

And, now, Israel appears to be in a broader war now that Iran has attacked.

And, now, Russia and Ukraine have moved to the back page while the ramifications are still center stage.

And, now, China has tried to stimulate their struggling economy.

And, now. And, now. And, now. And, now.

The list seems endless. The wall of worry has gotten higher.

And, now, we still have to invest clients' assets in a prudent fashion seeking to generate alpha versus our benchmark, the Russell 1000 Value.*

“May you live in interesting times.”



Third Quarter Review

For the quarter, 7 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. The result was underperformance, YES, underperformance as positive stock selection was overwhelmed by negative sector allocation.

Performance for the Russell 1000 Value was balanced with six sectors outperforming – Utilities, Real Estate, Consumer Discretionary, Industrials, Financials, and Consumer Staples.

The market, in the face of the prospects of declining interest rates, appeared to be playing a game of a good defense can beat a good offense as cyclicalities was shunned in favor of more stable, predictable companies.

Our portfolio was still overweight Energy, Consumer Discretionary, Financials, and Materials, still positioned for economic growth and not overtly defensive. The most significant underweights were Health Care, Real Estate, Utilities, Technology, and Industrials appearing to demonstrate that we were not positioned to have to play good defense in the quarter compared to the benchmark performance. Our portfolio was market weight Consumer Staples and Communication Services.

As a result of our sector allocation, we were overweight only one-third of the outperforming sectors for the third quarter while being underweight or market weight the other two-thirds.

The three sectors with the highest contribution for the quarter were Consumer Discretionary, Industrials, and Technology. In Consumer Discretionary, 3 out of 7 stocks outperformed with leadership among the building supply companies, Lowe's and Home Depot, coupled with Nike as expectations for lower rates incentivizing additional consumer spending at and on the home as well as on fashion generated positive returns. In Industrials, 7 out of 9 stocks outperformed with lower rates, similar to Consumer Discretionary, causing sentiment to improve regarding building and infrastructure investment. In Technology, 2 out of 3 stocks rose as our less speculative holdings, Apple and Oracle in particular, held up well as investors have begun to care more about fundamentals juxtaposed against valuation rather than being momentum-based regarding fundamentals alone.

The three sectors with the lowest level of contribution were Real Estate, Health Care, and Energy. In Real Estate, our portfolio had no exposure in the third quarter. With Real Estate being the second best performing sector, our portfolio had negative contribution. In Health Care, 3 out of 6 stocks underperformed as some of our holdings exhibited the typical defensive characteristics found in our pharmaceutical, biotechnology holdings. Half lagged as pipeline issues were magnified in the short-term. In Energy, 6 out of 7 stocks underperformed as the market gravitated towards the international integrated stocks and not the more so monoline constituents among our exploration and production holdings along with refining and marketing as oil prices drifted lower on demand concerns.



The stocks with the greatest positive contribution were United Rentals (+25.49%), Oracle (+21.02%), 3M (+34.48%), Blackstone (+24.41%), and Ameriprise (+10.39%). These stocks represent holdings from the Industrial, Technology, and Financial sectors. These stocks all benefited from the speculation and validation of the Federal Reserve lowering interest rates to increase the likelihood of a better fundamental backdrop for these companies. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.

The stocks with the greatest negative contribution were Devon Energy (-16.55%), Qualcomm (-14.18%), Phillips 66 (-6.08%), Boeing (-16.47%), and Merck (-7.67%). These stocks represent holdings from the Energy, Technology, Industrial and Health Care sectors. The Energy holdings were hampered by lower oil prices. Qualcomm is a semiconductor company and the group trended lower. Boeing, already facing quality control issues, had an additional impediment arise with a strike. Merck had concerns over efficacy related to certain drugs. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.**

During the quarter, Discover Financial, Dow Chemical, and International Paper were sold. Discover was sold due to a lack of interest in the company as a part of Capital One which is attempting to purchase the company. Dow and International Paper were both sold due to valuation.

New stocks purchased were Nike, William Sonoma, Dicks Sporting Goods, Sherwin Williams, CF Industries, and Steel Dynamics. The first three stocks were purchased to increase exposure in the Consumer Discretionary sector while the latter three were replacements in the materials sector.

Overall purchases and sells resulted an increase in the Consumer Discretionary sector offset by a decrease in the Financial, Materials, and Technology sectors. Any other changes occurred on the basis of capital appreciation and depreciation of individual securities.

All was related to our quest of seeking out *Value Creating Opportunities* for our clients.

Fourth Quarter Outlook

“May you live in interesting times.”

Without reiterating all that is still going on as identified at the beginning of this commentary, we are living in interesting times.

Some people make a living by reacting to everything that happens. I cannot and do not.



You see, the moments that seem incredibly important in the moment can seem more pedestrian as you move further away from the moment and recognize that life is actually a movement made up of moments.

As a result, your vision for the movement is much more important than trying to manage all of the moments in a chaotic fashion.

For us, at Kerusso, we continue to follow the same discipline of taking advantage of the extremes within the market – optimism and pessimism. And, by our track record, it works.

We will get a new president, either current Vice President Kamala Harris or former President Donald Trump.

I have never made a stock pick or portfolio selection based on the vote although their actual policies can have an impact on fundamentals.

But, long term, fundamentals, fundamentals, fundamentals outweigh politics.

So, we excitedly await the outcome of the election like the rest of the world; BUT, our portfolio will objectively be structured to take advantage of the inefficiencies in pricing that exist based on the valuations.

For us, at Kerusso, we believe that is the only way to prudently fulfill our mission for our clients, generating outperformance.

Randell A. Cain, Jr., CFA
Partner
Founder/CEO/CIO/Portfolio Manager
Kerusso Capital Management
October 3, 2024

*The Russell 1000 is composed of approximately 1,000 large and mid-cap US equities that exhibit value characteristics. It is an unmanaged index and includes dividends, and distributions but does not reflect advisory fees, brokerage commissions, withholding taxes or other expenses of investing. Investors cannot invest directly in an index.

**The specific investments shown are for informational purposes only and represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods.

This document is not a recommendation nor an offer to sell (or solicitation of an offer to buy) securities in the United States or in any other jurisdiction. Please note, the information provided in this document is for informational purposes only and investors should determine for themselves whether a particular service or product is suitable for their investment needs. There can be no assurance that the strategy or investment thesis described herein will meet its objectives generally or avoid losses. Past performance is no guarantee of future results. Any investment program managed by KCM involves a significant degree of risk.



All investments involve risk including possible loss of principal. Strategy subject to volatility of market. None of Kerusso's or any of affiliates or principals nor any other individual or entity assumes any obligation to update any forward-looking statements as a result of new information, subsequent events or any other circumstances. All statements made herein speak only as of the date that they were made.

Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," etc. or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or representation as to the future.

Kerusso Capital Management is an SEC registered investment adviser located in Winston Salem, NC. Registration of an investment adviser does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the SEC. Kerusso only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of Kerusso's current written disclosure brochure filed with the SEC which discusses among other things, Kerusso's business practices, services and fees, is available through the SEC's website at: www.adviserinfo.sec.gov.