PERKINS
CAPITAL
MANAGEMENT, INC.

February 5, 2024

Dear PCM Clients and Friends:

What a difference a year makes.

At this time last year, the S&P 500 had just logged its worst annual performance since the financial crisis. The Fed was early in what would, by year end, become one of the most aggressive interest rate hiking campaigns in decades. Inflation was perceived as out-of-control, investor sentiment was at a negative extreme and concerns about an imminent recession were pervasive across Wall Street.

In November, looking toward 2024, we wrote that though improving, we still faced and would likely continue to face these same risks and challenges. This is still true.

More importantly, we also said we felt the U.S. or domestic portion of these challenges were "known" by the markets and had been priced into the market's valuation. We felt the "known" domestic challenges did not present any significant headwinds for stocks.

The last two months of the year – November and December - made 2023, in the end, a very nice solid recovery year. The first six months were the start of a great recovery from the 2021 and the October 2022 lows. The summer and fall months were a tougher period. The strength of this year's strong year-end rally was a very pleasant and welcomed surprise.

Throughout the year we have heard in the financial news about the "Elite Eight" and the "Magnificent Seven." These are the mega-cap tech stocks which "stole the show" in terms of their performance in 2023. At year end, according to *Ned Davis Research*, the Elite Eight were up 74% for the year; while the other 492 companies were up 11%. This lopsided performance has continued into January with five of the Magnificent Seven powering 99% of the S&P's year-to-date gain.

In 2023 only 30% of the companies in the S&P 500 outperformed the index - the lowest percentage since 1998. This meant 70% of companies in the index were up by less than the index (or even down for the year). A very disparate year.

What do we see now? We see opportunities in three areas. For conservative investors, there are attractively priced large-cap companies with increasing dividends. There are also growth companies to invest in which are still down dramatically from their 2021 highs, have built bases and appear to us ready to increase in price in 2024; particularly in healthcare, software, and semi-conductor companies. In terms of the small-cap versus large-cap debate; the fact is, small companies are now at an extreme multi-decade valuation low.

We think 2024 could turn out to be a turnaround year where, as we have seen in the past, the "first become last and the last become first."

730 East Lake Street
Wayzata, MN 55391-1769
Telephone (952) 473-8367
Facsimile (952) 476-7911
www.perkinscap.com

THE MARKET SCOREBOARD

Thanks to a surprise dovish pivot by the Federal Reserve, the markets staged an impressive reversal and enjoyed a powerful rally in the fourth quarter. All major U.S. stock indices posted strong quarterly gains.

Indexes	% Return YTD 2023	% Return Q4 2023	% Return Q3 2023	% Return Q2 2023	% Return Q1 2023
Dow Jones Industrial Average	13.70	12.48	-2.62	3.41	0.38
S&P 500 Total Return	26.29	11.69	-3.27	8.74	7.50
NYSE Composite	10.99	9.45	-3.01	3.26	1.26
Wilshire 5000	24.29	11.55	-3.60	8.10	6.92
NASDAQ Composite	43.42	13.56	-4.12	12.81	16.77

Stocks and bonds started the fourth quarter under significant pressure. The third quarter dramatic increase in Treasury Yields continued into early October, which weighed on stocks and bonds. Then, during mid-October, the market reacted to the October 7 Hamas attack of Israel. Oil prices spiked on fears a broader regional war would develop. Higher oil prices fueled a further increase in Treasury Yields as investors priced in a possible oil-driven bounceback in inflation. These factors, resulted in the S&P 500 falling to the lowest levels since mid-May while the 10-year Treasury Yield touched 5.00% for the first time since the mid-2000s. However, the markets sharply reversed when a Fed Governor made comments that implied rate hikes were over and rate cuts may be coming in 2024. The market reaction was immediately positive, causing stocks and bonds to rally hard into month end.

That positive momentum continued in November as the S&P 500 posted its best monthly return of 2023, rising more than 9%. At the December 13 FOMC meeting, Fed officials clearly signaled that rate hikes were over and forecast three rate cuts in 2024, one more than previously forecast. Additionally, Fed Chair Powell did little to push back against the markets' expectations for rate cuts. Put plainly, the Fed surprisingly pivoted to a more dovish policy stance and that fueled a continuation of the rally that started in late October.

The S&P 500 rose to the highest level since January 2022, logging a substantial gain of over 25% due to the large weighting of technology stocks in the index. The performance of the NASDAQ for the full year of 2023 was the opposite of 2022, where we saw the NASDAQ, most growth and healthcare stocks, and small caps, in general, decline substantially more than both the S&P 500 and Dow Jones Industrial Average.

While the positive end to 2023 is welcomed, compared to the start of 2023, during the fourth quarter both stocks and bonds have priced in significant expectations for 2024; especially in terms of interest rate declines during the new year.

STOCK MARKET OBSERVATIONS

In the Stock Market Observations section of our November 8, letter we noted that, as this past October ended, when the S&P 500 was at 4100, it was, in round numbers, about half-way between the late September/early October 2022 off-presidential election year bottom area of 3600 and this past year's July high of 4600. The market was more or less "in the middle."

In November, with the markets midway between their recent high and low and looking forward into 2024 as a Presidential election year we stated:

> *"We think the markets are, in our opinion, likely to continue in a broad trading range, bordered by the highs and lows of the past several years, until there is clarity on several of the current uncertainties."*

Though we did not recognize it at the time, coincident with the continued domestic and dramatic international uncertainty around us, the markets had just completed a sharp 50% correction from their mid-summer high and were about to immediately start a sharp four-week reversal straight up to the old summer highs and beyond into new highs.

We could not have been more wrong in the short-term direction of the market; the 30-day outlook. What we missed was the urgent change in the markets. In November, we were expecting the markets to go back to the old highs over time; but not beyond the highs much and certainly not to new highs in 6 weeks before year end.

As we look forward into 2024, we still think that in 2024 "the markets are likely to continue in a broad trading range." What we mean by this is that in 2024 we expect the markets to have a positive bias and to go up modestly within a broad trading range over time; with ups and downs along the way.

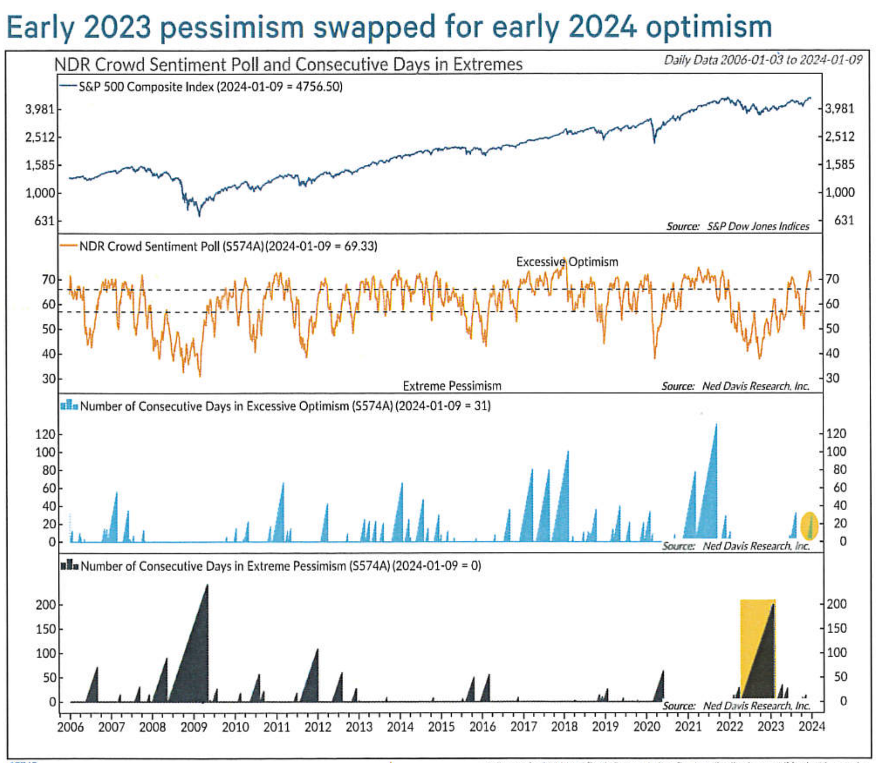
Looking into 2024, we are not negative – not at all; there is much investment opportunity around us, we just do not yet think today is an "everything looks good" type of market. We feel we continue to be in the type of investment environment which "coined" the Wall Street adage: "Climb a wall of worry."

At PCM, we review market and individual company research each day. One of the reports we look at most mornings is the Sevens Report. In the January 29 Sevens Report, the editor reviewed the five market assumptions which he felt had powered stocks to move higher in November and December and had continued to power the market in January. We agree with much of his assessment.

Looking forward into 2024 he asked the question, "Where are we at now?" in each of five areas. The first "market" assumption was that the Fed would cut interest rates six times in 2024, by a total of 1.5% and end the year at 4.0%. At this time, it is the market's expectation that the Fed will cut rates six times. Recently, Fed Chairman Powell, in a press conference Q&A, strongly hinted that the Fed was ready to cut rates. He stated that incoming economic data had been in line with what the Fed wants to see to start the rate cut process; further, the risk of inflation was "coming into better balance." Powell sounded as if a March rate cut was off the table. The markets are now expecting a rate cut in May, with five more to follow. If the market's rate cut assumptions are not met, we should expect increased volatility in both stocks and bonds.

A second "market" assumption is that there will not be a recession in 2024. The economy is still growing. So far economic data is saying "so far so good." The Fed has been able to raise rates since March 2022 without pushing the economy into a recession. Consumer spending, despite higher prices, continues to be extremely strong. One example: Good luck trying to get seated at a decent restaurant on a Friday or Saturday night without a reservation.

A year ago, sentiment, as measured by Ned Davis Research's Crowd Sentiment Poll and displayed in their chart (to the left), was in its second-longest streak of consecutive days in extreme pessimism on record. Today, consumer confidence, or "Sentiment," as measured by the University of Michigan Consumer Sentiment Index, has surged 29% since last November, which is the biggest two-month increase since 1991. The 2023 economy has proved unexpectedly strong and that strength continues into 2024; the economy will again likely dodge a recession this year.

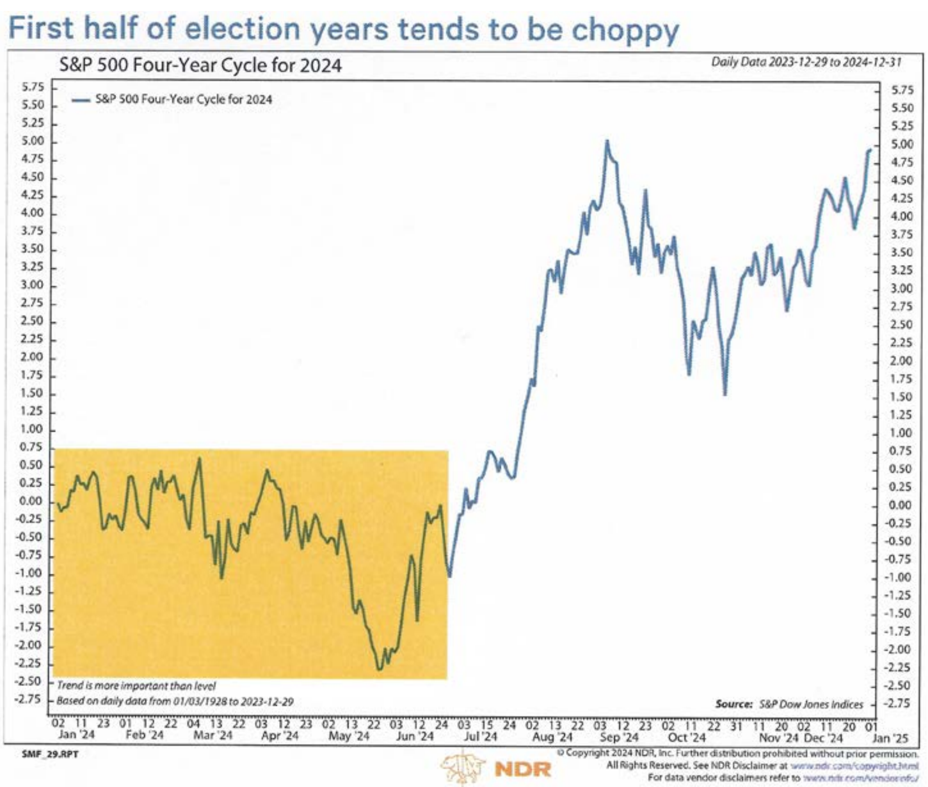


The third assumption is that corporations will continue to report solid earnings growth. With about one half of S&P 500 companies having reported their earnings, the trend, at this time, is mixed. The trend appears to be generally positive with projections for 2024 earnings estimates drifting lower; but not by enough to cause broad concern. The tone of the earnings calls we have listened to are optimistic, with most companies meeting their guidance or analyst's expectations. There seem to be fewer "beats and raises." The companies who miss, of course, get punished by the markets; even if they did not miss by that much.

The fourth assumption is a "biggie" - no dramatic geopolitical or international turmoil. Lots of worry here. This is the current upfront most significant "Known Unknown." Currently, the rising geopolitical risks do not appear to be spooking the markets. How do we know? Oil prices have not changed much.

The last and fifth Sevens Report assumption is that in 2024 there will be no political chaos. No chaos. Huh? Unlikely. We are nine months away from the Presidential elections and the partisan and divisive rhetoric is just starting to heat up.

We have often included in our letters a copy of the Ned Davis Four-Year Presidential Chart. As we have discussed, the Presidential Cycle predicts a trading range market which will last from midyear in the year prior to the election until midyear or later in the election year; when the uncertainty of the election outcome is removed. In our November 8 letter, we printed the Ned Davis Dow Industrial Four-Year Presidential Cycle starting with the third year of the current Presidential cycle, 2023, into the election year, and through the second year of the next President's cycle, 2026. The current portion of the Four-Year Presidential Cycle, which is based on data since January 1900, suggests a trading range market starting in the middle of last year, 2023, until sometime before the elections this year; then, as in the past, a "honeymoon" period for a year until mid-2025 with stronger markets for the new President.



The Ned Davis S&P 500 Four-Year Cycle for 2024 labeled, "First half of election years tends to be choppy," suggests for 2024 a choppy market until midyear, a summer rally, some fall pre-election uncertainty, and then an up market into year end after the election uncertainty is removed.

We are early in 2024 and we feel there will be much news ahead this year for the markets to digest. The Fed will likely hold interest rates "higher for longer." This, and the uncertainty of the Presidential Elections, will continue to drive the markets and the economy's activity in 2024. For our 2024 Stock Market Observation, we feel a trading range market is the correct balanced reflection of this.

As we close our quarterly letter, we have always mentioned that we are available and interested in meeting with you by phone, Zoom, FaceTime, or in person to answer your questions, to have a review of your investments, or for you to update us on your personal investment objectives.

We should talk or meet if there has been a change in your financial circumstances, objectives, or how you want your money managed. If, as the passage of time has gone by, your investment objectives have changed since we started working together, please give us a call to update us. Or, call and ask to schedule a time to talk or meet in person at our office or electronically.

Sincerely,

Richard C. Perkins, C.F.A.
President
Portfolio Manager

Daniel S. Perkins, C.F.A.
Chief Operating Officer
Portfolio Manager

RCP:DSP/jah

A FEW GOOD LAUGHS

The only way for a couple to pull off a Sunday afternoon “quickie” with their 8-year-old son in the apartment was to send him out on the balcony with a popsicle and tell him to report on all the neighborhood activities.

Billy began his commentary as his parents put their plan into operation. “There’s a car being towed from the parking lot,” he shouted. “An ambulance just drove by! Looks like the Andersons have company,” he called out. “Matt’s riding a new bike! Looks like the Sanders are moving! Jason is on his skateboard!”

After a few moments he shouted. “The Coopers are having sex!” Startled, his mother and dad shot up in bed. His dad cautiously called out, “How do you know the Coopers are having sex?”

Billy replied, “Jimmy Cooper is standing on his balcony eating a popsicle.”

Ole lived across the river from Clarence who he didn’t like at all. They were yelling across the river at each other all the time. Ole would yell to Clarence. “If I had a vay ta cross dis river, I’d come over dere an beat ya up, by golly!”

This went on for years. Finally, the state built a bridge across the river right by their houses. Ole’s wife, Lena, said to him, “Now is your chance, Ole, vhy don’t ya go over dere an beat up dat Clarence like ya said ya vould?”

Ole says, “Ok, by yimmy, I tink I vill do yust dat.” Ole started for the bridge, but he saw a sign on the bridge and stopped to read it. He then turned around and went back home.

Lena asked, “Vhy did ya come back?” Ole said, “Lena, I tink I vill change my mind ‘bout beatin’ up dat Clarence, ya know, dey put dis sign on da bridge dat says ‘Clarence is 13’ 6.” Ya know, he don’t look near dat big vhen I yell at him from across da river.”

Bob, a 70-year-old wealthy widower, shows up at the country club with a beautiful, breathtaking, sexy 25-year-old blonde who knocks everyone’s socks off with her charm. She hangs on Bob’s arm and listens intently to his every word.

His buddies at the club are all envious. They corner him and ask, “Bob, how’d you get the trophy girlfriend?” Bob replies, “Girlfriend? She’s my wife!”

They are knocked over, but continue to ask. “So, how’d you persuade her to marry you?” Bob says, “I lied about my age.” His friends are fascinated, “What do you mean?” Did you tell her you were only 50? Bob smiles and says, “No, I told her I was 90.”

This is something to think about when negative people are doing their best to rain on your parade. So, remember this story the next time someone who knows nothing and cares less tries to make your life miserable.

A woman was at her hairdressers getting her hair styled for a trip to Rome with her husband. She mentioned the trip to the hairdresser, who responded: “Rome? Why would anyone want to go there? It's crowded and dirty. You’re crazy to go to Rome. So, how are you getting there?”

“We're taking BA,” was the reply. “We got a great rate!” “BA?” exclaimed the hairdresser. “That’s a terrible airline. Their planes are old, their flight attendants are unprofessional, and they’re always late. So, where are you staying in Rome?”

“We’ll be at this exclusive little place over on Rome’s Tiber River called Teste.” “Don't go any further. I know that place, everybody thinks it’s going to be something special and exclusive, but it’s really a dump.”

“We’re going to go to see the Vatican and maybe get to see the Pope.” “That’s rich,” laughed the hairdresser. “You and a million other people trying to see him. He will look the size of an ant. Boy, good luck on this lousy trip of yours. You're going to need it.”

A month later, the woman again came in for a haircut. The hairdresser asked her about her trip to Rome.

“It was wonderful,” explained the woman, “not only were we on time in one of BA’s brand-new planes, but it was overbooked, and they bumped us up to first class. The food and wine were wonderful, and I had a handsome 28-year-old flight attendant who waited on me hand and foot. And, the hotel was great! They had just finished a $5 million remodeling job, and now it’s a jewel, the finest hotel in the city. They, too, were overbooked, so they apologized and gave us their owner’s suite at no extra charge!”

“Well,” muttered the hairdresser, “that’s all well and good, but I bet you didn't get to see the Pope.” “Actually, we were quite lucky, because as we toured the Vatican, a Swiss Guard tapped me on the shoulder, and explained that the Pope likes to meet some of the visitors, and if I’d be so kind as to step into his private room and wait, the Pope would personally greet me. Sure enough, five minutes later, the Pope walked through the door and shook my hand! I knelt and he spoke a few words to me.”

“Oh, really! What'd he say?” said the hairdresser.

“He said: ‘Who the heck did your hair?’”

At Yale University, there were four sophomores taking chemistry and all of them had an 'A' so far. These four friends were so confident that the weekend before finals, they decided to visit some friends and have a big party. They had a great time but, after all the hearty partying, they slept all day Sunday and didn't make it back to Old Eli until early Monday morning.

Rather than taking the final then, they decided that after the final they would explain to their professor why they missed it. They said that they visited friends but, on the way back they had a flat tire. As a result, they missed the final. The professor agreed they could make up the final the next day. The guys were excited and relieved. They studied that night for the exam.

The next day the Professor placed them in separate rooms and gave them a test booklet. They quickly answered the first problem worth 5 points. Cool, they thought! Each one in separate rooms thought this was going to be easy, and then they turned the page. On the second page was written... For 95 points: Which tire? _________

George Phillips, an elderly man, from Meridian, Mississippi, was going up to bed, when his wife told him that he'd left the light on in the garden shed, which she could see from the bedroom window. George opened the back door to go turn off the light, but saw that there were people in the shed stealing things.

He phoned the police, who asked, “Is someone in your house?” He said “No, but some people are breaking into my garden shed and stealing from me.”

Then the police dispatcher said “All patrols are busy. You should lock your doors and an officer will be along when one is available.” George said, “Okay.” He hung up the phone and counted to 30. Then he phoned the police again.

“Hello, I just called you a few seconds ago because there were people stealing things from my shed. Well, you don't have to worry about them now because I just shot and killed them both, the dogs are eating them right now,” and he hung up the phone.

Within five minutes, six police cars, a SWAT team, a helicopter, two fire trucks, a paramedic, and an ambulance showed up at the residence, and caught the burglars red-handed.

One of the policemen said to George, “I thought you said that you'd shot them!” George said, “I thought you said there was nobody available!”

Don't mess with old people.

My mother taught me TO APPRECIATE A JOB WELL DONE: "If you're going to kill each other, do it outside. I just finished cleaning."

My mother taught me RELIGION: "You better pray that it will come out of the carpet."

My mother taught me about TIME TRAVEL: "If you don't straighten up, I'm going to knock you into the middle of next week!"

My mother taught me LOGIC: "Because I said so, that's why."

My mother taught me FORESIGHT: "Always wear clean underwear, in case you're in an accident."

My mother taught me IRONY: "Keep crying, and I'll give you something to cry about."

My mother taught me about WEATHER: "This room of yours looks as if a tornado went through it."

My mother taught me about HYPOCRISY: "If I told you once, I've told you a million times. Don't exaggerate!"

My mother taught me the CIRCLE OF LIFE: "I brought you into this world, and I can take you out."

My mother taught me about ENVY: "There are millions of less fortunate children in this world who don't have wonderful parents like you do."

My mother taught me about ANTICIPATION: "Just wait until we get home."

My mother taught me about RECEIVING: "You are going to get it when you get home!"

My mother taught me MEDICAL SCIENCE: "If you don't stop crossing your eyes, they are going to get stuck that way."

My mother taught me HUMOR: "When the lawn mower cuts off your toes, don't come running to me."

My mother taught me GENETICS: "You're just like your father."

My mother taught me about my ROOTS: "Shut the door behind you. Were you born in a barn?"

My mother taught me WISDOM: "When you get to be my age, you'll understand."

My mother taught me about JUSTICE: "When you have kids, I hope they turn out just like you."