SHELTON CAPITAL MANAGEMENT

Shelton Emerging Markets Fund

QUARTERLY
Commentary
As of March 31, 2024

Market Commentary

Whence the Pivot?

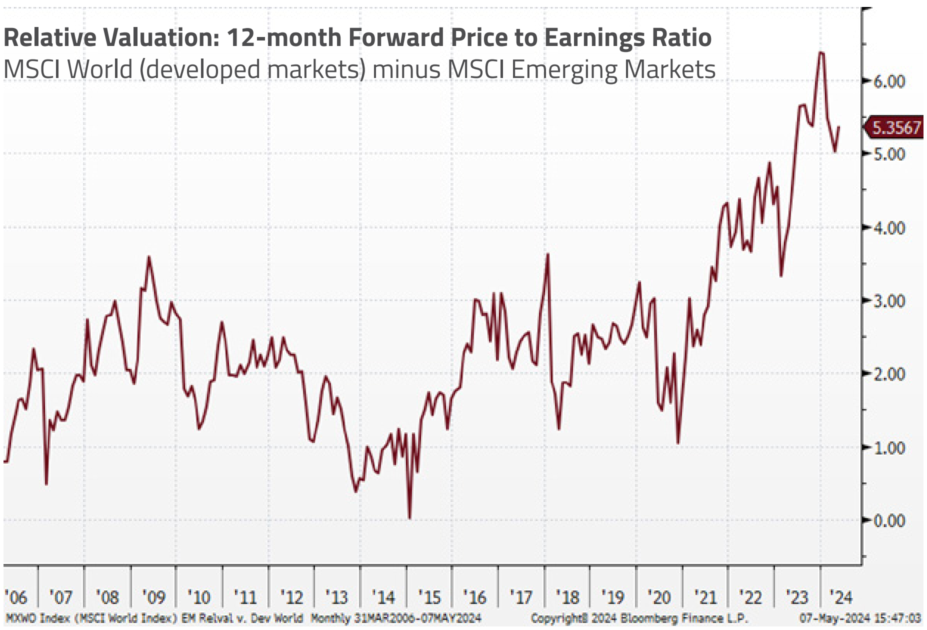
First Quarter 2024 Macroeconomic Commentary

The first quarter was a solid quarter for markets around the world. The MSCI World index of developed markets was up 8.9% in USD, led by Japan and the US at 10.4% each (note Japan was actually up 18% in local currency).

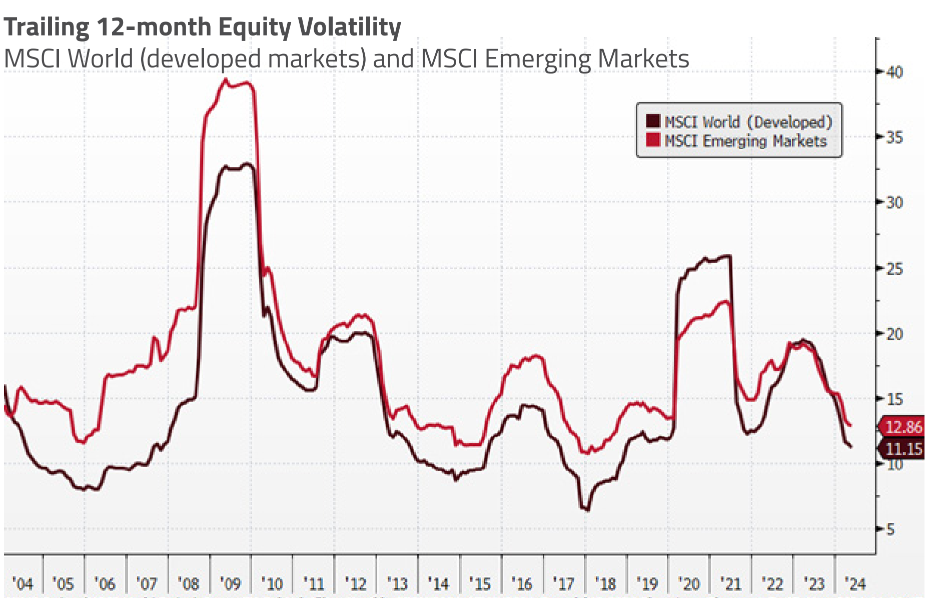
Emerging markets lagged developed market, only returned 2.2%, dragged down by the continued decline of the Chinese stock market.

US investors are focused on the actions of the Federal Reserve, watching every employment and price data point for clues on what the governors might do next. They have not been alone. International investors are keen to see what the Fed does, especially in emerging markets.

Emerging markets are primed for investors looking for value. While the US valuations reach record levels, valuations at emerging markets continue to languish at historically low levels compared to the rest of the world.



Even though Emerging Markets present similar, and at times lower risk levels.



Portfolio Managers

Derek Izuel, CFA

Derek Izuel, CFA is Chief Investment Officer and a Portfolio Manager of the International Strategies. He has over 24 years of portfolio management experience at Invesco, HighMark Capital and Vitruvian Capital. Derek earned his MBA from the Ross School of Business at the University of Michigan and a B.S. in Computer Science from the University of California at Berkley.

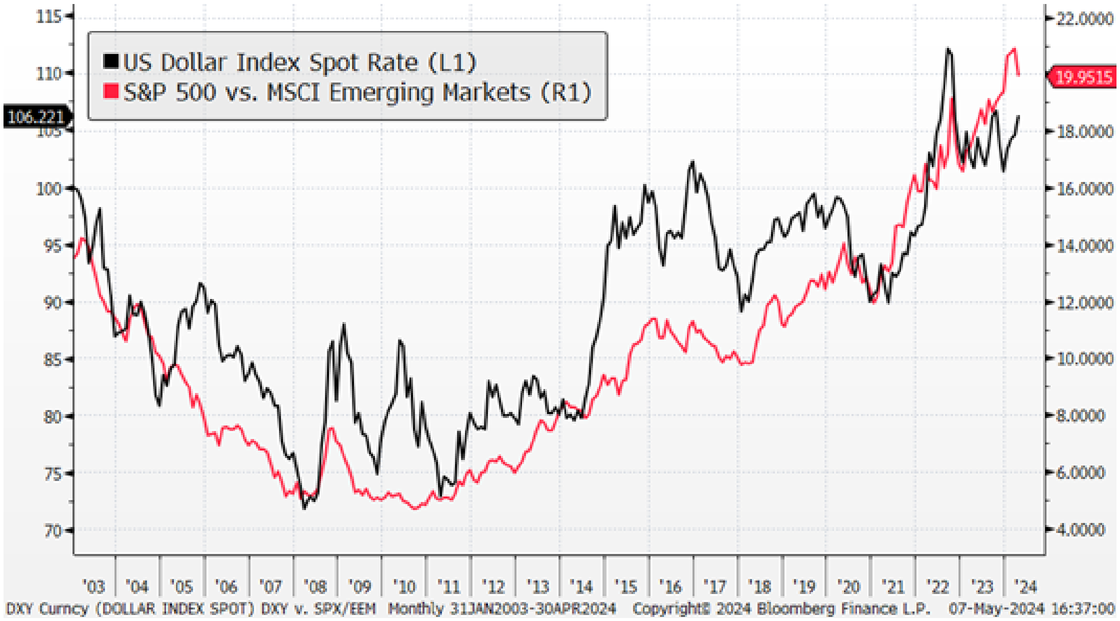
Justin Sheetz, CFA

Justin Sheetz, CFA is a Portfolio Manager of the International Strategies. His experience includes 12 years as an Investment Strategist at Blackrock/BGI's Scientific Active Equity Group, 3 years as VP and Equity Analyst at HighMark Capital and 3 years as partner at Vitruvian Capital.

Tony Jacoby, CFA

Tony Jacoby, CFA is an Equity Analyst of the Emerging Markets Fund. He has a B.A. in Economics from the University of Colorado Boulder and is currently pursuing an M.S. in Applied Mathematics with an Applied Probability concentration at the University of Colorado.

With all this in place the primary force keeping emerging markets from performing well is the US dollar. The strong dollar increases leverage levels (much of which is denominated in US), and international investors want confidence that currency changes will not serve as a headwind to the total returns on their investments.



Differences in interest rates drive changes in currency values, so the decline in expectations for cuts in the Federal Funds Discount Rate disappointed investors waiting for a decline in the dollar. Markets expected six rate cuts in 2024 at the first of the year only to see stubborn inflation and robust employment numbers bring those expectations down to five, four, three, and now some concerns we may not see any rate cuts at all.

Momentum

Momentum has been another characteristic of the current market. Stocks that have led the market in 2023 continued to lead in 2024. Beyond the Magnificent Seven, pharmaceutical stocks developing semaglutides for weight control (Novo Nordisk (NOVO DC), Eli Lilly (LLY US)), AI stocks (a whole host of firms beyond just MSFT and NVDA such as Super Microcomputer (SMCI US)) have extended their performance.

Momentum is a way to describe parts of the equity market - it is not a true market force like style or size. But it reflects a trend, often belies a greater market force that is driving the market, and begs the question once that force is identified, when will it end? Because once momentum breaks, the market reversal can be quite dramatic.

Over the past 25 years, economic growth has been the primary driver of the momentum cycle. Since the end of near-zero interest rates and elevated inflation, inflation and interest rates have been the primary trend setters. The first signs that these trends might be turning happened last October, but the expected 'pivot' has done nothing but disappoint.

Until the full effect of such a pivot occurs, expect the current trends to continue. And while some cracks in the armor have shown themselves in some of the momentum stocks (notably TSLA and AAPL), in an election year expect the US government to do everything in their power to keep the party going at least through election season.

Emerging Markets Fund - Performance Commentary

The Shelton Capital Emerging Markets Fund returned 2.11%, underperforming the MSCI Emerging Markets index return of 2.37% by 0.26%. The primary source of underperformance in the quarter was our exposure to China, a market many of our competitor funds have chose to completely ignore. While we have been outspoken about the challenges that China faces in the medium to long term, given the fact that while the equity markets in the developed world have doubled since the time of the pandemic, China's equity market has fallen by a quarter. At these levels, the challenges are priced in and the potential for a reversal is too good to at least be hedged against.

Two Korea based names were our top performers as they were beneficiaries of the Korean Government's "Corporate Value-Up" push to increase shareholder returns of Korean firms.

Although shares of Samsung Construction were up 22% during the quarter, several diverging news items buffeted the share price. In late January, the company announced final quarter of 2023 earnings that were below consensus estimates on costs related to fire at a power plant in the UAE as well as increases in domestic sites. The company also responded to activist investors demands to increase shareholder value by announcing an accelerated schedule for cancellation of some treasury shares and a plan to issue dividends. Shares lost some of their luster after a shareholder vote approved the modest management plan but not a more aggressive share buyback and increased dividends. Shares of Samsung C&T were attractive for many reasons including our forecast of positive upside compared to its current price and positive earnings quality. Industry analysts have somewhat moderated their view during the quarter.

Kia Corp continued to excite investors during Q1 2024 with a local return of 15%. While Kia missed Q4 2023 earnings vs consensus on higher year-end incentive costs, expectations continued to be high for a return of capital and execution on share buyback commitments. We liked Kia for much of the trailing year as industry analysts believed the shares had significant upside potential. Kia has also demonstrated positive earnings quality characteristics as evidenced by strong financial statements. During the first quarter of Q1 2024 analysts' views have moderated somewhat.

Shares of HDFC Bank dropped nearly 17% during the quarter after the Indian bank announced lower liquidity coverage ratio and net interest margins and the potential for slower growth in deposits in the coming year. We continue to forecast strong positive upside to HDFC shares though industry analysts' views have trended lower during the quarter potentially moderating our views.

Shares of FirstRand lost 13% in local terms during Q1 2024. While the South African financial services firm faced pressure from regulators which had hurt shares during the quarter, the company enjoyed a brief bump during the quarter after announcing interim 6-mo results that were in line with estimates. While citing strong results the company also acknowledged slowing deposit growth due to a potentially weakening South Africa economy. During the quarter, the company also cleared several regulatory hurdles including a dismissed suit alleging that FirstRand and other banks had colluded to fix the rand exchange rate starting in 2015 and an administrative fine for an investment division of FirstRand, Ashburton, for failing to comply with certain regulatory provisions but was not singled-out for money-laundering or other fraud. FirstRand shares continue to look undervalued given our view of the upside in the shares as well as a positive outlook on their financial strength.

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