EDGEMOOR
INVESTMENT ADVISORS

Edgemoor's Quarterly Report

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2023 – A Year for Investors to Celebrate!

Investors found much to celebrate as 2023 came to a roaring close. The market's positive momentum accelerated in the fourth quarter, sending all major stock indices at or near record highs in December.

Bolstered by the combination of a solid economy, better-than-expected corporate earnings, and the anticipated end to the Federal Reserve's long rate-tightening cycle, stocks rallied strongly in the 4th quarter to finish out the year on a high note. It was a significant reversal of the pessimism many investors felt at the start of the year.

Stocks and Bonds Advance

The S&P 500 index posted an 11.7% total return for the fourth quarter - its best quarterly performance since late 2020 - and an impressive 26.3% total return for the year.

Even more impressively, the S&P 500 came within striking distance of its all-time high of 4,797 in January 2022 when the index hit 4,793 on December 28th, only to retreat slightly on December 29th, the last trading day of the year.

The fourth quarter also saw a welcome broadening of the market rally, with nearly 90% of the stocks in the S&P 500 index trading above their 50-day moving averages. This marked an important change in what had been a market characterized by very narrow leadership for most of 2023, with only a handful of mega-cap stocks gaining ground, while the rest of the market languished.

In addition, the bond market reversed course in Q4, erasing a modestly negative return during the first nine months of the year, to post a positive 5.5% total return for 2023, avoiding what could have been a third straight year of losses for bonds.

The Fed Projects a Pivot

Driving the late-year rally of both stocks and bonds was investor optimism that, in addition to ending rate hikes, the Fed may start to cut interest rates sooner than expected. After maintaining a stance for months that investors should not expect rate cuts anytime soon, the Fed released new economic projections in mid-December that suggested the possibility of three rate cuts in 2024. This news sent the yield on the bellwether 10-year Treasury note down to 3.8% by year-end from a peak near 5% in mid-October. Bonds prices rise as yields fall, which propelled the year-end rally in the bond market.

Inflation Has Peaked

The primary rationale for the Fed's pivot on rates has been the decline of inflation from its peak in June 2022.

The Consumer Price Index (CPI), the broadest measure of inflation, which had been declining steadily through the year, ticked up 3.4% year-over-year in December, from 3.1% in November 2023. The rise was due to increases in shelter and vehicle costs, both of which are expected to decline in coming months.

Overall, inflation has cooled considerably from its peak of 9.1% in June of 2022. And if it continues its downward trend, it will support the narrative that the Fed should be able to "give back" some of its interest rate hikes sometime in 2024.

U.S. Economy Remains Resilient

Overall, the U.S. economy has remained remarkably resilient, particularly in the face of calls by many at the start of the year for an inevitable recession. Instead, the U.S. economy has been characterized by continued low unemployment, strong GDP growth, and solid corporate earnings.

The unemployment rate in the U.S. stayed steady at 3.7% in December, as employers added a better-than-expected 216,000 jobs. With workers still in high demand, median hourly wages have risen 4% over the last twelve months. However, some cracks are emerging in this otherwise strong labor market, with initial jobless claims climbing slightly in December.

On the economic growth front, U.S. GDP grew at an annualized rate of 4.9% in the third quarter, its fastest rate in nearly two years. Much of the growth was driven by U.S. consumers, who collectively increased spending by 3.1% in the third quarter. Fourth quarter consumer spending is also expected to rise, thanks to robust holiday sales.

Corporate earnings have also remained solid, with third-quarter S&P 500 earnings growing 4.9%, significantly ahead of expectations and reversing three consecutive quarters of earnings declines. Earnings for the fourth quarter of 2023 are expected to climb 2.4% and close to 12% in 2024. Overall, these factors point to an economy that is making the "soft landing" that the Fed was aiming for, but that many were skeptical could be achieved.

Our Outlook

Our outlook for the economy and markets in 2024 is cautiously optimistic. If the economy continues to grow at a solid pace and corporate earnings continue to rise, then the stock market should rise further in 2024.

Other positive surprises could include resolutions of geo-political conflicts, or inflation and interest rates easing faster than expected, all of which would be additional tailwinds for stocks. And finally, the continued adoption of artificial intelligence across numerous industries and applications most certainly will drive long-term growth and productivity in the U.S. economy.

As far as valuation, the broad S&P 500 index is fairly valued at 19.3 times forward 12-month earnings, roughly in line with its 5-year average of 18.8 times.

But just as in all markets, when you dig down below the surface, you can find pockets of opportunity as an investor. We practice this every day with our disciplined, fundamental approach to security selection. We have and will continue to find opportunities for our clients, particularly in sectors which have lagged the overall market and

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are thus attractively priced. We expect value-oriented stocks, dividend-paying stocks, and other income-oriented securities, like utilities and REITs, to benefit from a broadening market rally and potentially lower interest rates in the future. In the meantime, we still find short-term Treasury bills and money market funds attractive places to park cash at risk-free yields above 5%.

Risks to Our Outlook

Despite all the positive news, there are numerous risks to our "soft landing" outlook. The expanding crisis in the Middle East, the ongoing war in Ukraine, and serious economic issues in China are all of concern. Closer to home, the continuing gridlock on Capitol Hill and the 2024 election cycle will most certainly dominate the headlines. But overall, we view these risks to be near-term distractions which should not impact the long-term trajectory of the markets.

Portfolio Approach

Even though markets can be volatile year-to-year, we continue to emphasize to our clients the importance of sticking with a long-term investment plan focused on your specific goals and objectives.

Overall, we maintain a positive long-term outlook for the U.S. economy and markets, and we believe our patient, disciplined approach to active security selection offers our clients strong long-term return potential in a cost effective and tax efficient manner.

Analysis of Selected Securities

What follows are analyses of three securities we are currently buying for client accounts:

Alphabet, Inc. (GOOGL)

Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (12/31/2023)	$ 139.69	Forward P/E	22.4
Market Cap ($T)	$ 1.7	Price/Book	6.3
Dividend Yield	0.0%	Price/Sales	6.0
Return on Equity	25.5%		

Alphabet, Inc. is a global technology company best known for its dominant internet search engine, Google, which controls more than 91% of the global search market. Alphabet's array of services and applications also includes Gmail, YouTube, Google Maps, Google Earth, and Google Play. Additionally, the company owns the Android mobile operating system, which powered roughly 70% of smartphones globally as of December 2023. Together, these core assets provide a cohesive, end-to-end experience for consumers and, most importantly, drive advertisers to Alphabet's platforms.

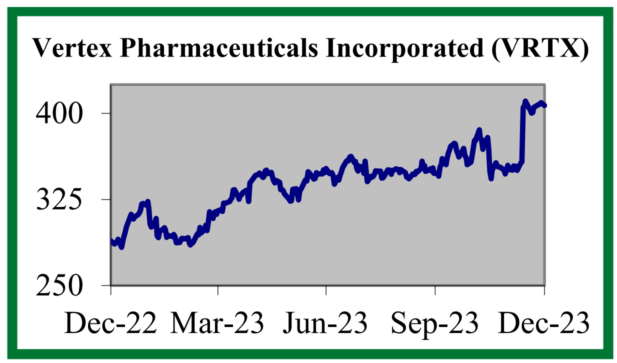
Alphabet shares had a terrific 2023 with a total return of 58.3%. Alphabet and its other Magnificent Seven counterparts (Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) were big drivers of the S&P 500 Index's 26.3% total return, accounting for a third of the index's weighting.

Alphabet has benefited from several strong secular trends over the past decade, including advertisers' shift to digital/online platforms, the growth of the cloud, and declining cable subscribers. Most of the company's revenue is derived from advertising, where it enjoys a dominant online presence. While digital ad spending accounts for approximately 75% of total revenue, there is still room for continued growth in this sector. Google Cloud is a more nascent business for Alphabet, but it ranks third behind Amazon Web Services and Microsoft Azure in the rapidly growing enterprise cloud market. And now, the introduction of artificial intelligence (AI) has provided yet another secular tailwind to fuel Alphabet's continued growth. AI is a multi-trillion-dollar market opportunity, and one in which Alphabet is expected to be one of several key players.

We continue to view the company favorably due to its dominant market position in online search and advertising and its fortress balance sheet. Alphabet has compounded its revenue growth at an annualized rate of 19% since 2011, and it is projected to deliver annual earnings growth of 17% over the next five years. Additionally, the company held $120 billion of cash and marketable securities compared to only $14 billion of long-term debt as of September 30, 2023.

Priced at approximately 22 times forward earnings, Alphabet stock trades at a slight premium to the S&P 500 Index's average of 19.3 times. We believe Alphabet shares warrant a premium valuation due to its higher-than-average growth prospects, strong returns on equity and invested capital, and numerous competitive advantages.

Vertex Pharmaceuticals, Inc. (VRTX)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (12/31/2023)	$ 406.89	Forward P/E	25.0
Market Cap ($B)	$ 105.5	Price/Book	6.4
Dividend Yield	0.0%	Price/Sales	11.1
Return on Equity	23.7%		

Vertex Pharmaceuticals is a biotechnology company with the dominant market position in the treatment of cystic fibrosis (CF), a rare genetic disease for which the company's therapies are the standard of care. Sales of Vertex's four therapies for cystic fibrosis, headlined by Trikafta, generate substantial cash flows that are reinvested into the research and development of the company's promising drug pipeline. Trikafta's patents in the United States and Europe run through 2037 and therefore face limited competition due to the rarity of the disease and the complexity of developing a new, more effective therapy.

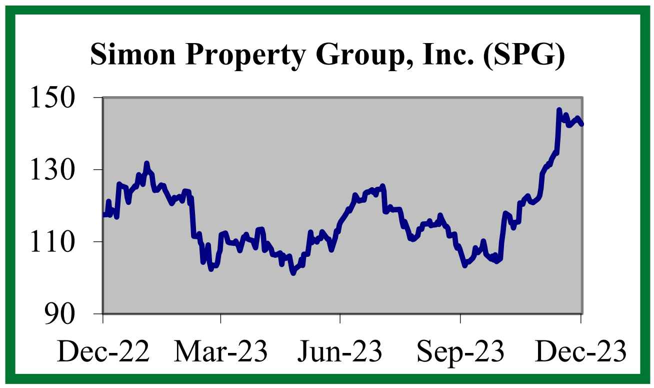
The company has vigorously improved its CF franchise by expanding the eligible patient population as well as receiving additional regulatory approval and reimbursement in countries outside of the United States. The company's treatments have increased the average patient's life expectancy from the mid-30s to the mid- to late-70s. These developments have allowed Vertex to increase its revenues to nearly $10 billion in 2023, an increase of 10% over the previous year.

Meanwhile, the company has several promising new medicines in the pipeline that represent multi-billion revenue opportunities. The first is Casgevy, a novel gene-editing treatment that Vertex created in conjunction with CRSPR Therapeutics that delivers a one-time cure for two blood diseases, sickle cell disease and beta thalassemia. In addition, Vertex recently announced positive news regarding a treatment for acute pain, which has the potential to provide effective pain relief without the side effects or addictive properties of opioids. Other exciting pipeline opportunities include drugs for certain types of kidney disease, myotonic dystrophy, and Type-1 diabetes.

Vertex is financially strong. The company has no long-term debt and nearly $13 billion of net cash on its balance sheet, which equates to 12% of its market capitalization. Over the past five years, Vertex has grown earnings from $1 per share to over $14 per share in 2023. The stock is currently trading at 25 times 2024 earnings (22 times, net of cash) compared to a five-year average of 27 times.

Due to decades of research on cystic fibrosis, Vertex has built up a unique skill set around small-molecule drug design and is therefore one of the very few companies in the world that is capable of producing transformative drugs in multiple therapeutic areas, without having to rely on large acquisitions. We think there are multiple avenues for continued success with Vertex, and the stock represents a compelling long-term value for investors.

Simon Property Group, Inc. (SPG)



Source for chart and financials: WSJ and MarketWatch. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (12/31/2023)	$ 142.64	Forward P/E	17.5
Market Cap ($B)	$ 45.6	Price/Book	11.5
Dividend Yield	5.3%	Price/Sales	8.3
Return on Equity	74.9%		

Simon Property Group is the second-largest real estate investment trust (REIT) in the United States. Simon owns, develops, leases, and manages high quality regional malls and premium outlets in high-density, high-income markets, both domestically and internationally. With its portfolio of 195 domestic properties and 35 overseas properties, representing approximately 165 million square feet of gross leasable area, Simon is one of the world's largest shopping center owners.

Simon's scale, geographic diversification, and high-quality portfolio make its properties attractive to tenants. The average base minimum rent for its tenants is just above $56 per square foot, more than double the national shopping center average asking rent of $24, and Simon's properties have consistently enjoyed average occupancy levels near or above 95%. The company has demonstrated strong pricing power as seen in re-leasing spreads, minimum rent, and occupancy rates that have continued to rise despite pressures on retailers.

As malls and retailers face challenges from online competition, changing consumer habits, and anchor store bankruptcies, operators like Simon have been redeveloping department store spaces to add more experiential tenants like restaurants, theaters, entertainment venues, and fitness centers, as well as mixed-use tenants like hotels, offices, and residences. Over the first three quarters of fiscal 2023, Simon invested $1.3 billion into redevelopment projects with another $384 million planned for project completion. We expect these investments to result in higher mall traffic and better earnings growth for Simon as it replaces anchor stores that pay lower average rent with non-anchor tenants who pay higher average rent.

We buy Simon Properties for our income portfolios. Shares currently yield 5.3%, and the dividend has grown at a compounded annual growth rate of 7.5% over the past three years. In addition, Simon's dividend is supported by one of the best balance sheets in the REIT industry, with A credit ratings from both S&P and Moody's.

We consider the stock attractively priced at a forward price to funds-from-operations (FFO) ratio, the most commonly used valuation metric for REITS, of 11.5 times, near the bottom of its five-year range.

Source for text and charts: FactSet, Morningstar, S&P/CFRA, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, Bank of America, JP Morgan Markets, MarketWatch, WSJ and Argus reports.

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The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

The Barclays U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least $100 million and have at least one year until maturity.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,308 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

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