EDGEMOOR
INVESTMENT ADVISORS

Edgemoor's Quarterly Report

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Markets Continued Their Upward March

Stock and bond markets continued their upward march in the second quarter ended on June 30, 2023, adding to gains posted in the first quarter and defying expectations by many for weaker market returns at the start of the year.

The S&P 500 Index posted an 8.7% total return in Q2, putting the broad stock market index up 16.9% for the year-to-date period. The Bloomberg Barclay's Aggregate Bond Index, which was slightly negative in the second quarter, is still up 2.1% so far this year.

The strong performance of stocks sent the S&P 500 Index into a technical bull market, defined as a 20% rise off its October 2022 low, and marked the end of the bear market that began in January 2022.

U.S Economy Steady but Slowing

Overall, the U.S. economy remains steady, with the labor market strong, inflation easing, consumer confidence rising, and economic growth still positive.

Employers added 209,000 jobs in June and the unemployment rate remained low at 3.6%. Inflation continued to ease in June, with the CPI up just 3% year-over-year, a significant slowdown from its high point of 9.1% in June of 2022. Consumer confidence jumped to a 17-month high in June, reflecting the slowdown in inflation and fewer worries about a recession. GDP growth is currently estimated to be 1.8% in the second quarter, down slightly from the revised 2% growth rate in the first quarter, but still positive.

That said, some signs of slowdown are emerging. Jobless claims started to tick up in May, though they made an unexpected drop in mid-June. While the services sector continues to expand modestly, the manufacturing sector has remained in contractionary territory for eight consecutive months. And overall inflation remains elevated. Prices for food, rent, and automobiles continue to run high, even as energy costs have moderated. Housing prices, which have also come down from their peaks last year, are still running high, especially for first-time buyers. Notwithstanding this, new home sales surged in May for the third straight month, signaling consumers' willingness to spend on housing, given that overall unemployment remains low and jobs relatively secure.

Crises Averted

Much of the positive sentiment during the second quarter also stemmed from several potential crises that were recently averted. Specifically, the debt-ceiling debate in Congress that consumed the markets, the media, and the public for much of May was ultimately resolved, allowing the U.S. to continue paying its bills and servicing its debt through 2025.

Similarly, the regional banking crisis that began in March with the failure of Silicon Valley Bank looks to have been contained by the quick response of the Federal Reserve and Treasury Department to restore liquidity and confidence in the banking system. It is now referred to by some as just a mini-banking crisis.

The Fed Takes a Pause

The U.S. Federal Reserve held interest rates steady at its June meeting, maintaining its Fed funds policy target of 5.0% - 5.25% and putting its aggressive rate hikes over the last fifteen months on what some termed a "Hawkish Hold." This means that despite the pause, the Fed expects stronger growth and persistent inflation in the months ahead, which will likely mean additional rate hikes before year-end. Chairman Powell emphasized that the Fed remains committed to slowing inflation to its 2% target rate, meaning interest rates could stay higher for longer.

Spotlight on Earnings and Liquidity

Looking ahead, the spotlight is now on corporate earnings and overall market liquidity as major factors in determining the course of the U.S. economy and markets in the second half of 2023.

On the earnings front, analysts expect earnings for the S&P 500 to decline 6.5% year-over-year in Q2 2023, which would be the largest earnings decline since Q2 2020 and the third straight quarterly decline for the index. The main drivers for the earnings decline have been higher costs for labor, raw materials, and transportation.

But analysts also project earnings growth to return in the second half of 2023 as cost inflation moderates, leading to full-year 2023 S&P 500 earnings of $221 per share, up about 1% from $219 per share in 2022. The Communication Services and Information Technology sectors are expected to be the largest contributors to earnings growth in the latter half of the year, as the adoption of artificial intelligence (AI) begins to transform numerous industries. A recovery of corporate earnings could help the U.S. economy avert a recession and continue its slow but steady growth trajectory.

Liquidity concerns are also weighing on markets and investors. The Fed has been steadily shrinking its balance sheet over the past 18 months, from a peak of $9 trillion in early 2022 to its current size of approximately $8.3 trillion. This has, in essence, pulled money out of the financial system, making capital less available and more expensive. Similarly, banks have responded to reduced liquidity from the Fed by cutting back on lending activities, citing the need to conserve capital and maintain adequate liquidity on their own balance sheets. So far, concerns about liquidity positions, deposit outflows, and funding costs have been limited to small and mid-size banks, meaning that continued strength among the largest U.S. banks could also help buoy the economy.

Geo-Political Uncertainties

Ongoing geo-political uncertainties, including U.S.-China relations, European inflation/ recession, and the ongoing war in Ukraine are also keeping investors on watch.

The much-anticipated economic boost from China's re-opening from Covid-era lockdowns has sputtered and U.S.-China relations have become increasingly tense. In Europe, inflation remains high and manufacturing has lagged, sending manufacturing powerhouse Germany into recession. And the ongoing war in Ukraine remains a financial and economic drain on global resources.

Despite these negatives, international markets have also posted positive returns, with the MSCI All-Country World Index ex-U.S. up 10% year-to-date.

Outlook

Given all these uncertainties, our outlook for the economy and markets is mixed.

We remain cautious on equities in the near term, though our longer-term outlook is positive. The 12-month forward price/earnings ratio (P/E) for the S&P 500 Index is 19 times, which is above both the 5-year and the 10-year averages. In addition, this year's equity market rally has been largely concentrated in just seven high-flying technology stocks, including many we own, namely Apple, Amazon, Microsoft, and Google. A narrow market like this tends not to have the longevity of a more broad-based rally, causing some concern for investors.

And although aggressive rate hikes may be behind us, we expect to remain in a higher-for-longer interest rate environment until inflation cools and the labor market softens. Analysts now give less than 30% odds to the Fed lowering rates in the fall.

Portfolio Implications and Actions

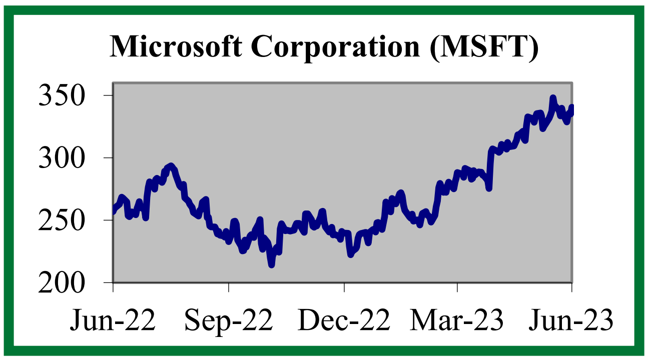
We continue to look for and find some pockets of opportunity in today's market (see our new investment write-up on Thermo-Fisher Scientific in the final section of this report). In addition, we continue to deploy uninvested cash in short-term Treasuries and money market funds at attractive, low risk, annualized yields at or above 5%.

We believe that our patient, disciplined approach to active security selection gives our clients better long-term return potential in a cost effective and tax efficient manner.

Analysis of Selected Securities

What follows are reviews of three securities we are currently buying for client accounts.

Microsoft Corporation (MSFT)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (06/30/2023)	$340.54	Forward P/E	30.4
Market Cap ($T)	$ 2.5	Price/Book	13.0
Dividend Yield	0.8%	Price/Sales	12.3
Return on Equity	38.6%	5-yr. EPS growth rate	12.1%

Microsoft is the world's largest independent software developer and the world's second largest company by market capitalization at $2.5 trillion. Since CEO Satya Nadella took the helm of Microsoft in 2014, he has transformed the company from a personal computer (PC)-based software business to a high-value commercial and cloud application business with a complete and integrated product set aimed at enterprise efficiency, cloud transformation, and business intelligence. Nadella's "cloud-first, mobile-first" strategy has accelerated the company's growth, profitability, and market share and led Microsoft to become a leader in high-growth areas like cloud services, internet applications, and artificial intelligence.

Microsoft operates in three primary business segments: Intelligent Cloud (41% of revenues), Productivity and Business Processes (32%), and Personal Computing (27%). Revenue and earnings have been driven primarily by growth in Azure cloud services and business productivity systems.

Microsoft is currently the second largest public cloud services provider behind market leader Amazon Web Services. Microsoft's Azure cloud platform has more than doubled its market share in just a few short years to 23% of the estimated $600 billion public cloud infrastructure market.

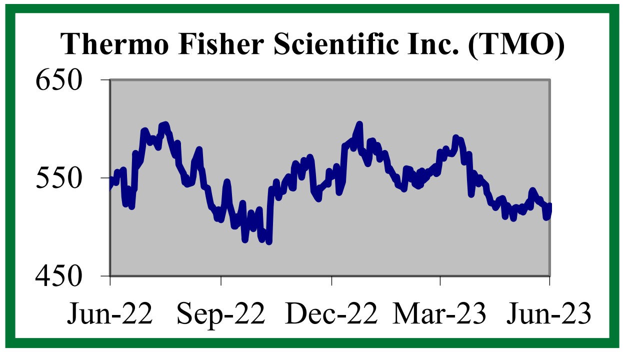
Microsoft has also been moving strategically into additional growth areas, including artificial intelligence (AI). The company invested $1 billion in start-up OpenAI in 2019, becoming its preferred partner for commercializing its AI technologies. CEO Nadella intends to integrate OpenAI's technologies across Microsoft's full product portfolio. Microsoft is currently in discussions to make an additional $10 billion investment in OpenAI, which could give it ownership of 49% of the company.

Microsoft has also recently moved to significantly increase its presence in video gaming, offering $69 billion or $95 per share to acquire Activision Blizzard, a leading videogame publisher of the blockbuster hits "Call of Duty" and "World of Warcraft." The deal, which the U.S. Federal Trade Commission had sued to block on anti-competitive grounds, was recently cleared by a U.S. federal judge and is expected to close sometime this summer, barring any additional challenges.

Microsoft enjoys a wide economic moat due to its large enterprise footprint across a multitude of products and services. This creates a network effect around its applications and operating systems and results in high switching costs for its customers. The company's huge commercial user base, strong customer relationships, and massive amounts of customer data position it well to continue growing revenues and earnings. In addition, Microsoft's business model is not advertising-dependent, like tech rivals Google and Facebook, which has made the company less vulnerable to changes in advertising sales.

Microsoft's financial position is strong. The company generates $57 billion of free cash flow annually, had $105 billion of cash on its balance sheet at June 30, 2023 compared to $60 billion of long-term debt, and enjoys a triple-A credit rating from Standard and Poor's. Microsoft shares trade at a premium to the overall market at 30 times forward earnings, but we believe this premium is warranted by the company's strong earnings and cash flow-generating power, robust growth prospects, and dominant market position.

Thermo Fisher Scientific Inc. (TMO)



Source for chart and financials: Yahoo Finance and Morningstar. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (06/30/2023)	$521.75	Forward P/E	21.5
Market Cap ($B)	$ 200.2	Price/Book	4.8
Dividend Yield	0.3%	Price/Sales	4.7
Return on Equity	14.5%	5-yr. EPS growth rate	8.5%

Thermo Fisher Scientific is a leading provider of life science tools and services to a broad array of health care customers, including pharmaceutical and biotechnology companies, academic and government institutions, diagnostic and health care companies, and industrial and applied science companies. The company's products and services include laboratory analytical instruments, biochemical reagents, laboratory and medical consumables, and software and services for research, discovery, and diagnostics. The company operates across four business segments: Lab Products and BioPharma Services (47% of 2022 Revenues), Life Sciences Solutions (29%), Analytical Instruments (14%) and Specialty Diagnostics (10%).

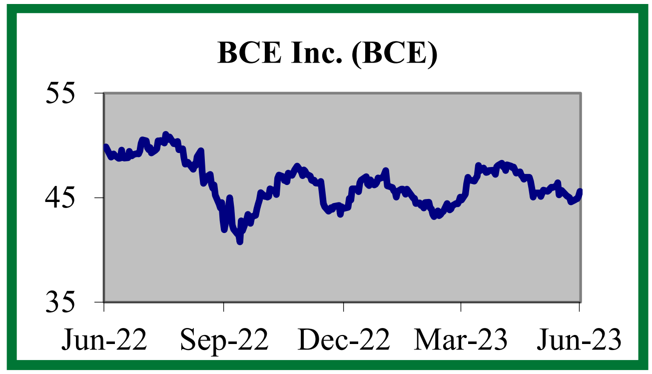
As a result of steady organic growth and several smart acquisitions, Thermo Fisher has become the premier life science tool supplier with an unmatched portfolio of products, services, and manufacturing capabilities. Large pharmaceutical and biotechnology companies see sizable benefits in Thermo Fisher's comprehensive product line and simplified procurement process. In addition, the company benefits from broad exposure to biopharmaceutical growth without taking on too much product-specific risk. Favorable demographic trends should continue to underpin increased demand for new treatments and the need for increased research and testing.

The coronavirus pandemic reaffirmed the company's dominant position within the medical supply chain, as Thermo Fisher was among the first to market with a reliable coronavirus test needed to meet massive demand. The company's large salesforce, distribution network, product portfolio, and customer breadth afford it broad competitive advantages and are the basis of its wide economic moat.

The company's business mix has gradually shifted to more consumable products, which now represent 75-80% of total company sales. We believe this will allow the company to generate more stable and recurring revenues and cash flows, even during weaker economic environments. The current management team has been in place since 2009 and has created a strong culture of growth and innovation.

Thermo Fisher's stock currently trades at 21.5x forward estimated earnings, which is a discount to its historical average. Given the company's consistent, well-managed, and durable growth profile, we believe the stock represents a solid, long-term equity holding for client portfolios.

BCE Inc. (BCE)



Source for chart and financials: WSJ and MarketWatch. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (06/30/2023)	$45.59	Forward P/E	18.4
Market Cap ($B)	$ 41.8	Price/Book	3.1
Dividend Yield	6.5%	Price/Sales	2.3
Return on Equity	13.6%		

Founded in 1970, Bell Canada Enterprises Inc. (BCE) is Canada's largest communications company, providing wireless, broadband, television, and landline services covering about 70% of Canada, primarily in Ontario and Quebec. With roughly 4 million subscribers and a 27% market share, BCE is Canada's largest broadband provider; it is also one of the "big three" national wireless carriers with roughly 10 million customers and a 30% market share.

The company operates through two reportable segments, Bell Communication and Technology Services (Bell CTS) and Bell Media. Bell CTS (86% of revenues) combines the company's wireless and wireline segments, while Bell Media (14% of revenue) provides conventional TV, pay TV, streaming, and digital media services to its customers.

BCE possesses scale efficiencies in both its wireline and wireless businesses that give it an important advantage in Canada's competitive telecommunications markets. The company has invested heavily in its wireline segment in recent years, steadily replacing its copper wires with fiber, which enables it to offer broadband speeds as fast or faster than competitors, as well as popular bundled service offerings. This strategy has paid off with strong broadband subscriber growth and should continue to boost market share gains and margins in coming years.

After posting solid revenue and earnings growth in 2022, BCE's first quarter 2023 results were more mixed, as operating revenue showed continued growth and earnings beat estimates but declined modestly. Earnings were weighed down by inflation, which ate into margins and sent expenses higher across its cost structure. We believe that as inflationary pressures ease in 2023 BCE's margins will improve. In addition, with the bulk of its fiber investment behind it, BCE's free cash flow is likely to rise significantly.

BCE pays a healthy dividend, currently yielding 6.5%. The company has an impressive record of dividend growth and recently increased its dividend by 5%, its fourteenth consecutive annual increase of 5% or more. The steady increase in the dividend expresses management's confidence in the business and its stable and predictable cashflows.

We see continued growth for BCE and its dividend as the company continues to convert its wireline network to fiber and scales its broadband and wireless businesses, making BCE an attractive income investment.

Source for text and charts: 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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