



BRASADA LONG-SHORT EQUITY FUND

MARKET OUTLOOK
JANUARY 2024

DISCLOSURE

This document contains general information on Brasada Capital Management, Brasada Long-Short Equity Fund L.P. (the "Fund"), as well as Brasada Managed Accounts across several strategies.

This summary is neither an offer to sell nor a solicitation of an offer to purchase interests of the Fund. Offers and sales will be made only pursuant to a confidential private placement offering memorandum which will be made available to qualified purchasers.

There can be no assurance that past or targeted performance is any indication or guarantee of similar performance in the future.

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Our Journey

Brasada was founded in 2008 and is based in Houston, TX.

We are an independently owned, SEC-registered, investment advisor.

Our clients are individual investors.

We invest in individual securities and not other funds.

Our team has nearly 200 years of combined investment experience.

SPEAKER BIO



Gabe Birdsall, Co-Founder & Portfolio Manager

Gabe Birdsall is a founding partner of Brasada Capital Management and the lead Portfolio Manager of Brasada Long-Short Equity Fund LP, Brasada Preferred Income Strategy, and Brasada Municipal Bond Strategy. Prior to Brasada, he was spent 13 years at AIM Investments most recently as Vice President of AIM Capital Management, Inc. where he was co-manager on several different growth products as well led the day-to-day research efforts for AIM's \$15 billion large and multi-cap growth offerings; additionally, he was the domestic-lead manager of the \$1 Billion AIM Global Aggressive Growth Fund (AGAAX).

Before assuming responsibility for these funds, he worked for two years on AIM's derivative equity trading desk.

Gabe earned a Bachelor of Business Administration degree with a concentration in Finance from Stephen F. Austin State University and a Master of Business Administration degree, with concentrations in both Finance and International Business, from Houston's University of St. Thomas.

SPEAKER BIO



Tien San Lucas, Senior Analyst

Tien San Lucas is a senior analyst at Brasada Capital Management. Prior to joining Brasada, she was a Senior Analyst at AIM Investments (now Invesco) supporting a \$15 Billion asset base of multi-cap growth investments in the consumer discretionary, financials and basic materials sectors. Before joining AIM, Ms. San Lucas was an equity research associate at Morgan Stanley in New York covering the personal computing hardware industry. She also served as manager of investor relations and as a research analyst with Compaq Computer Corp (now the Hewlett-Packard Company).

Ms. San Lucas earned a Bachelor of Arts in journalism at The University of Texas at Austin and a Masters of Business Administration in Finance from the University of Houston.

2024 OUTLOOK



KEY TOPICS



Unprecedented volatility from Fed policy

Market dislocations in 2020-2023

2024 outlook:

- Direction of interest rates

- Soft landing is the base case scenario

FED POLICY CREATED UNPRECEDENTED VOLATILITY



In August 2020, the Fed announced a pivot away from its 2% inflation target, a framework used for 40 years, believing inflation would be "transitory." The Fed pledged it would keep rates low.

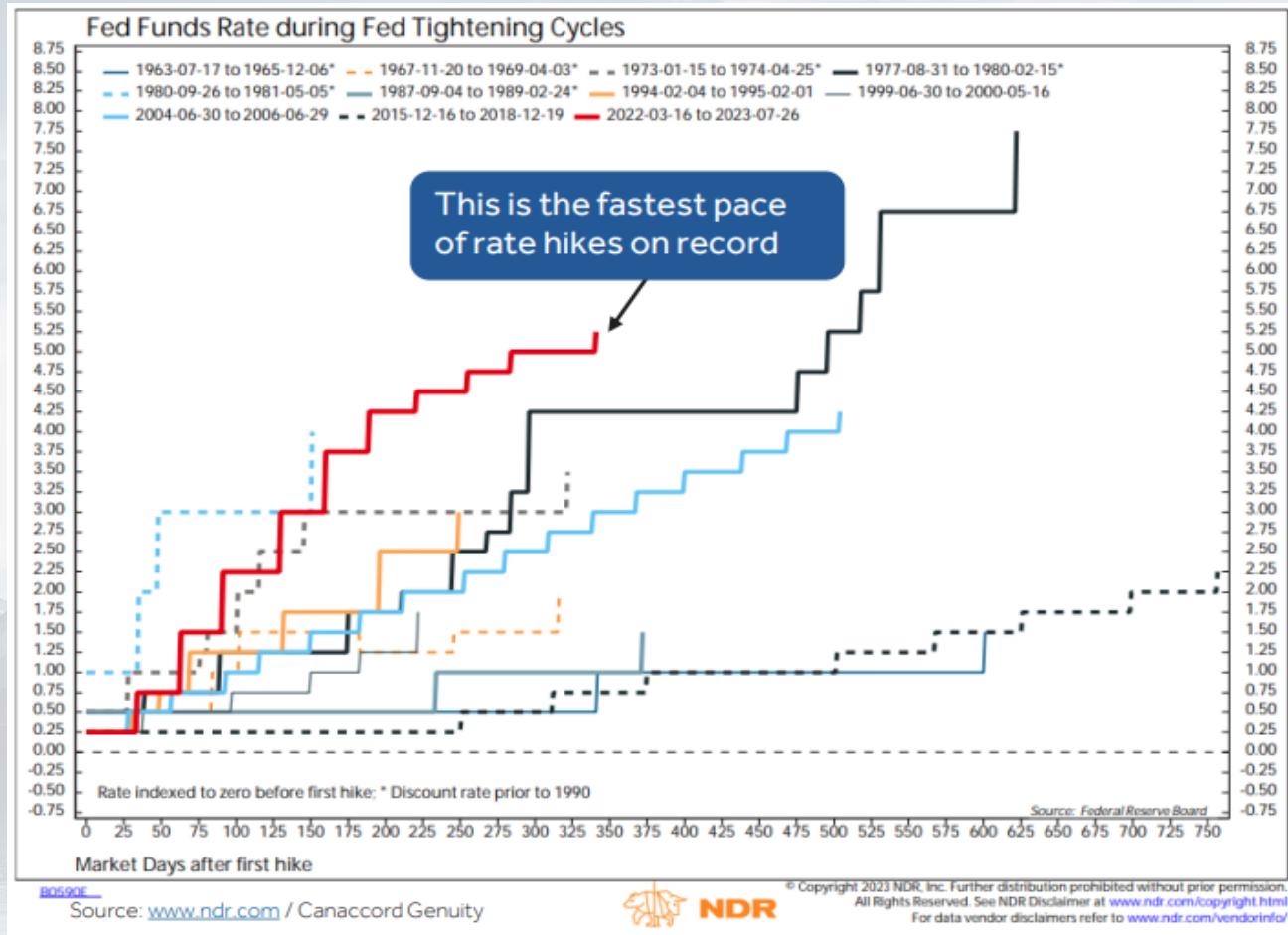
We believed this paradigm shift would lead to higher growth, higher rates, and inflation. The question then was, "Would the Fed maintain low interest rates while inflation heats up?"

Four quarters later, in November 2021, the Fed pivoted yet again.

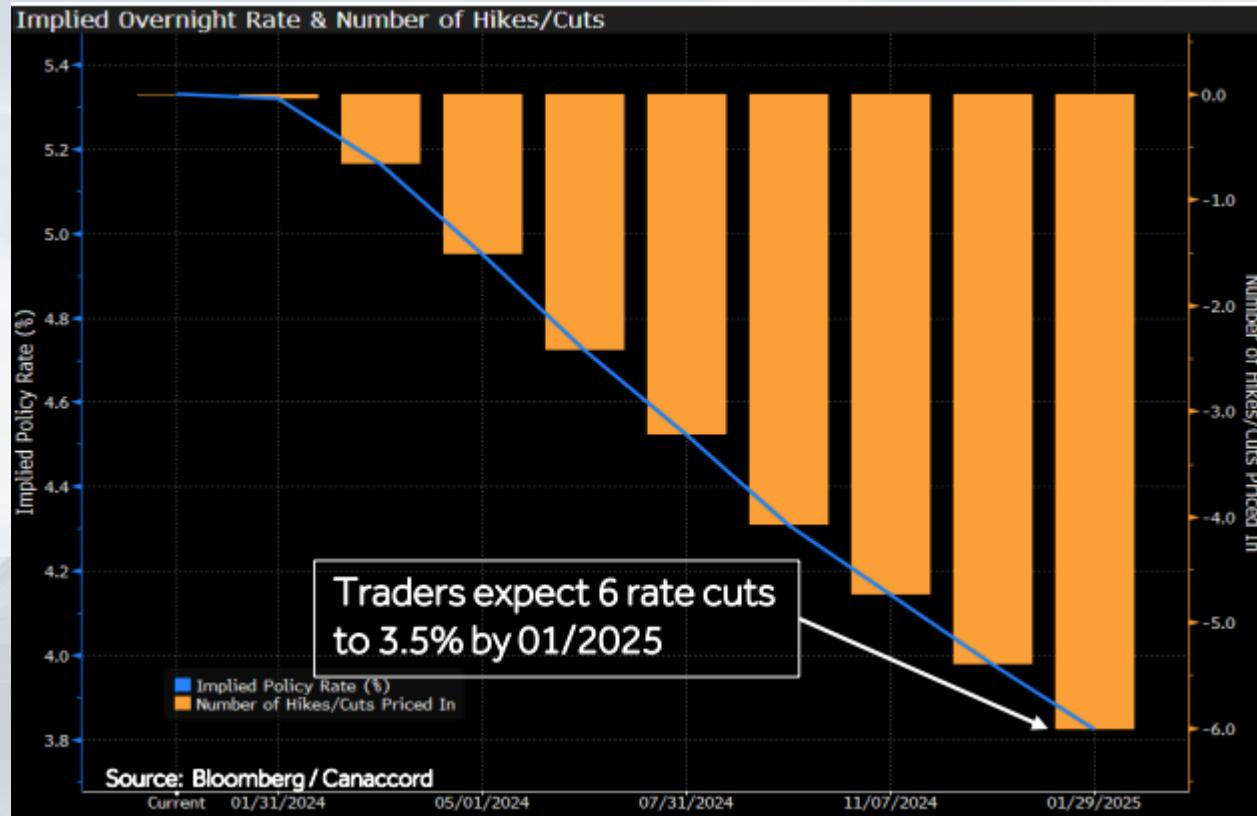
The Fed described inflation as "lingering," and announced steps to address high inflation by tightening financial conditions.

The Fed is now poised to cut in 2024. Investors had been betting the Fed would cut 6 times, beginning in March.

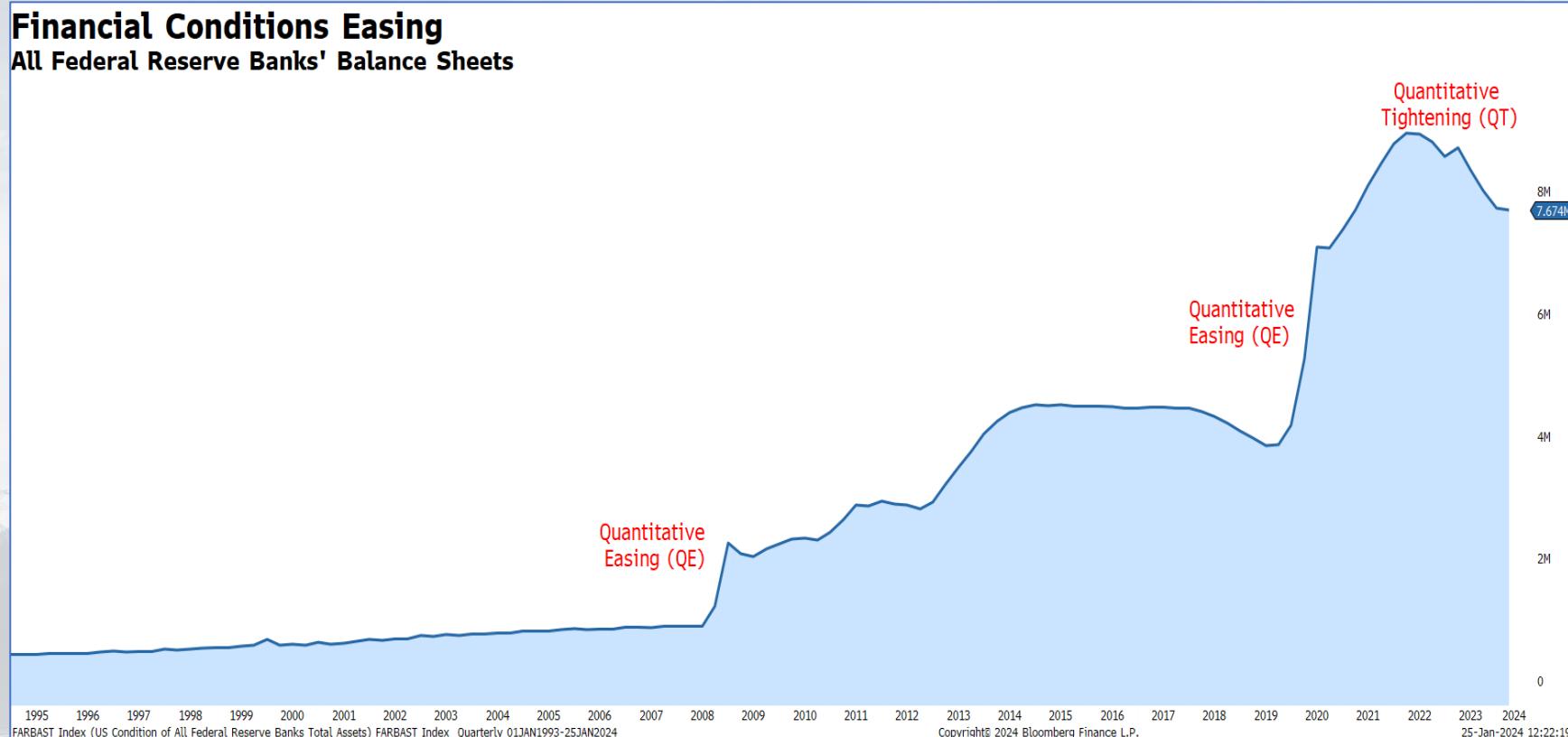
FED POLICY SHIFTED RAPIDLY, 2020-23



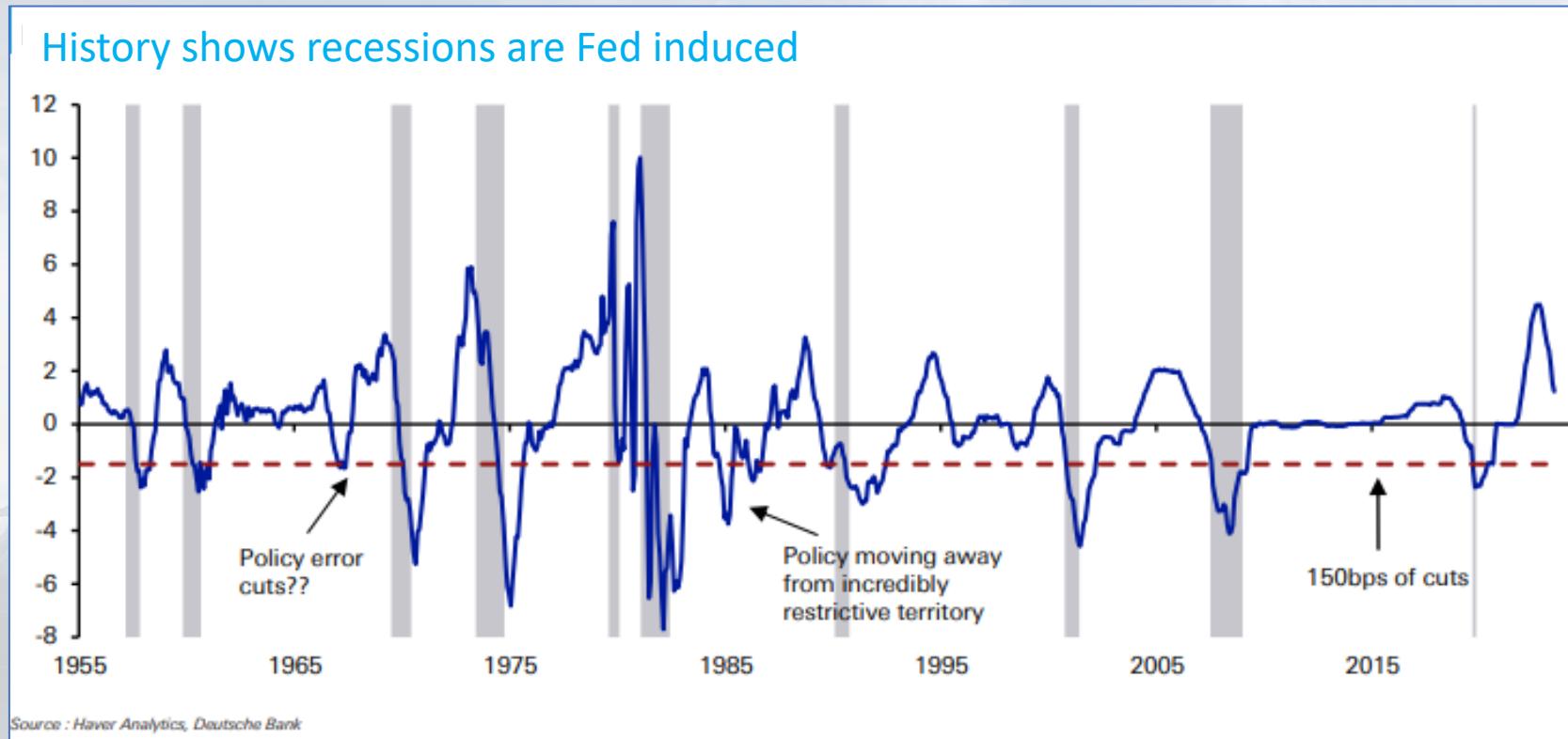
FED POLICY SHIFTING RAPIDLY, 2024-25



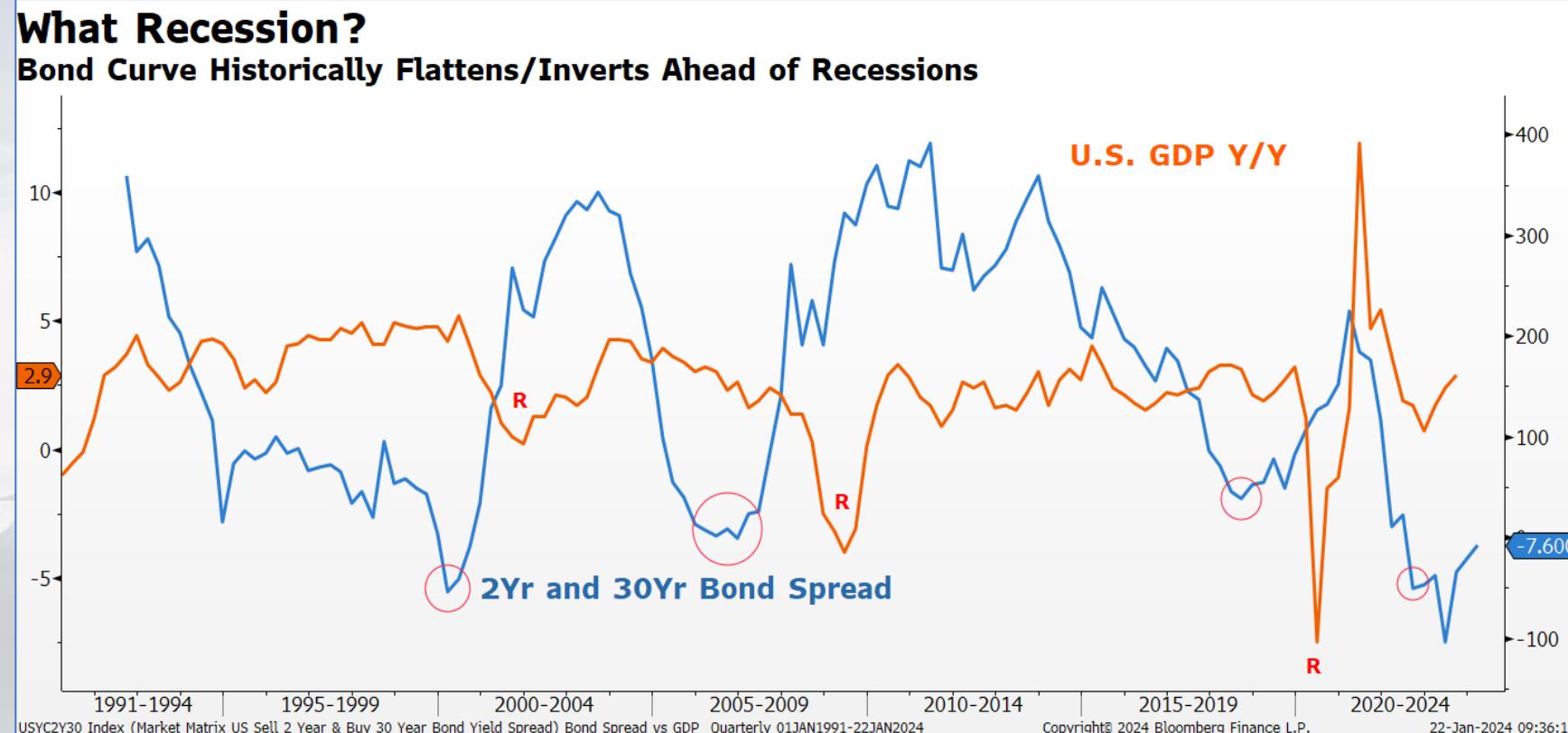
FED'S BALANCE SHEET NORMALIZATION



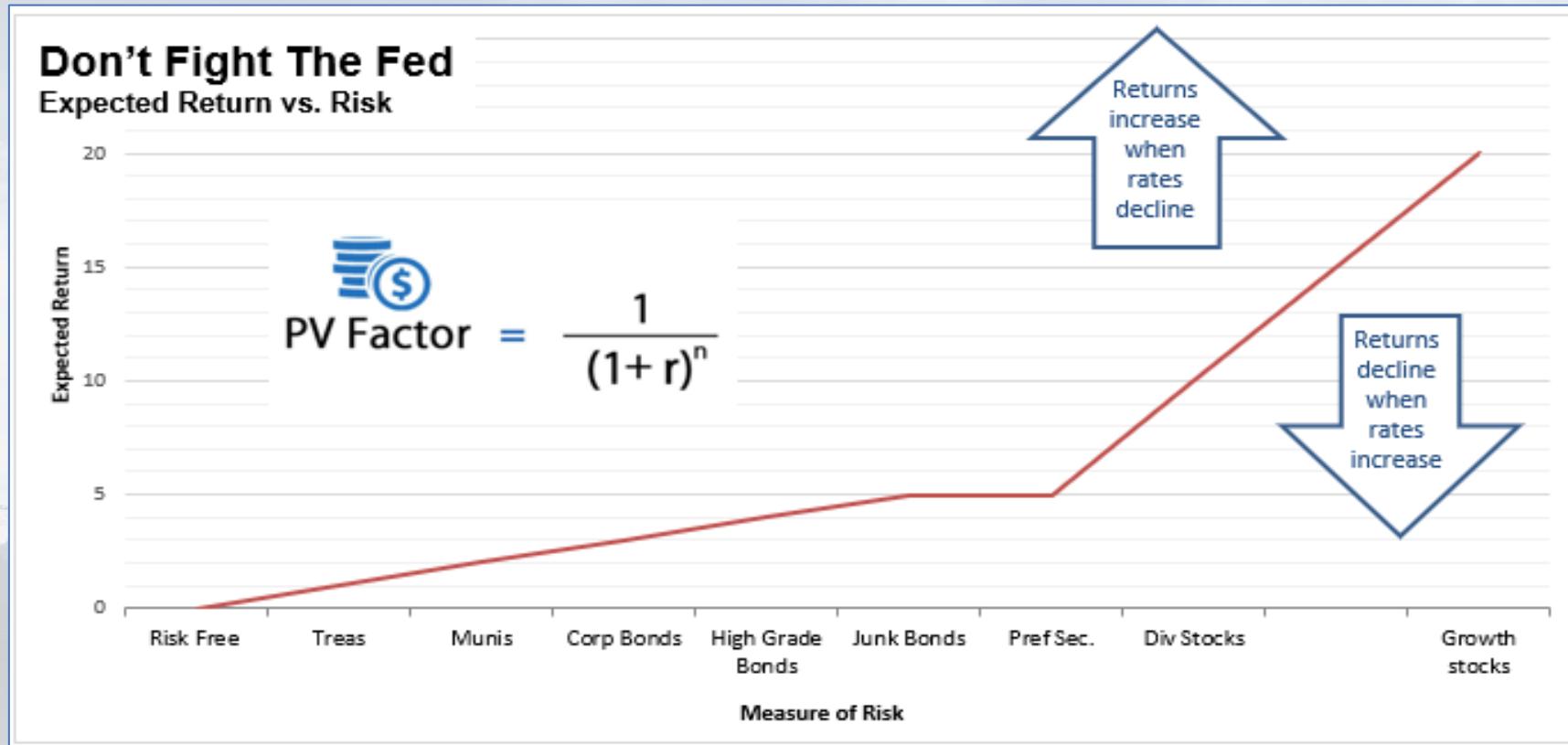
IMPACT OF HIGHER RATES HISTORICALLY



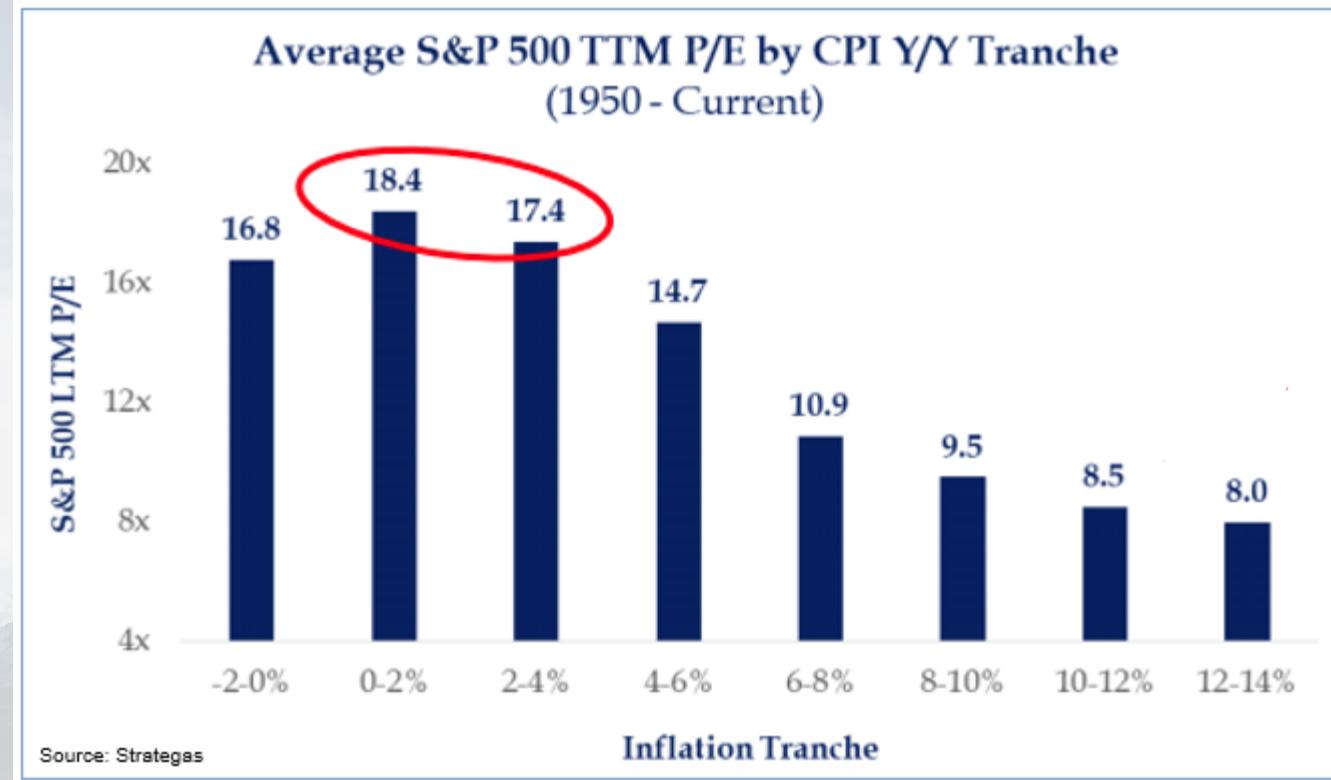
THE BOND CURVE WAS WRONG



IMPACT OF RATES ON THE EFFICIENT FRONTIER



IMPACT OF RATES



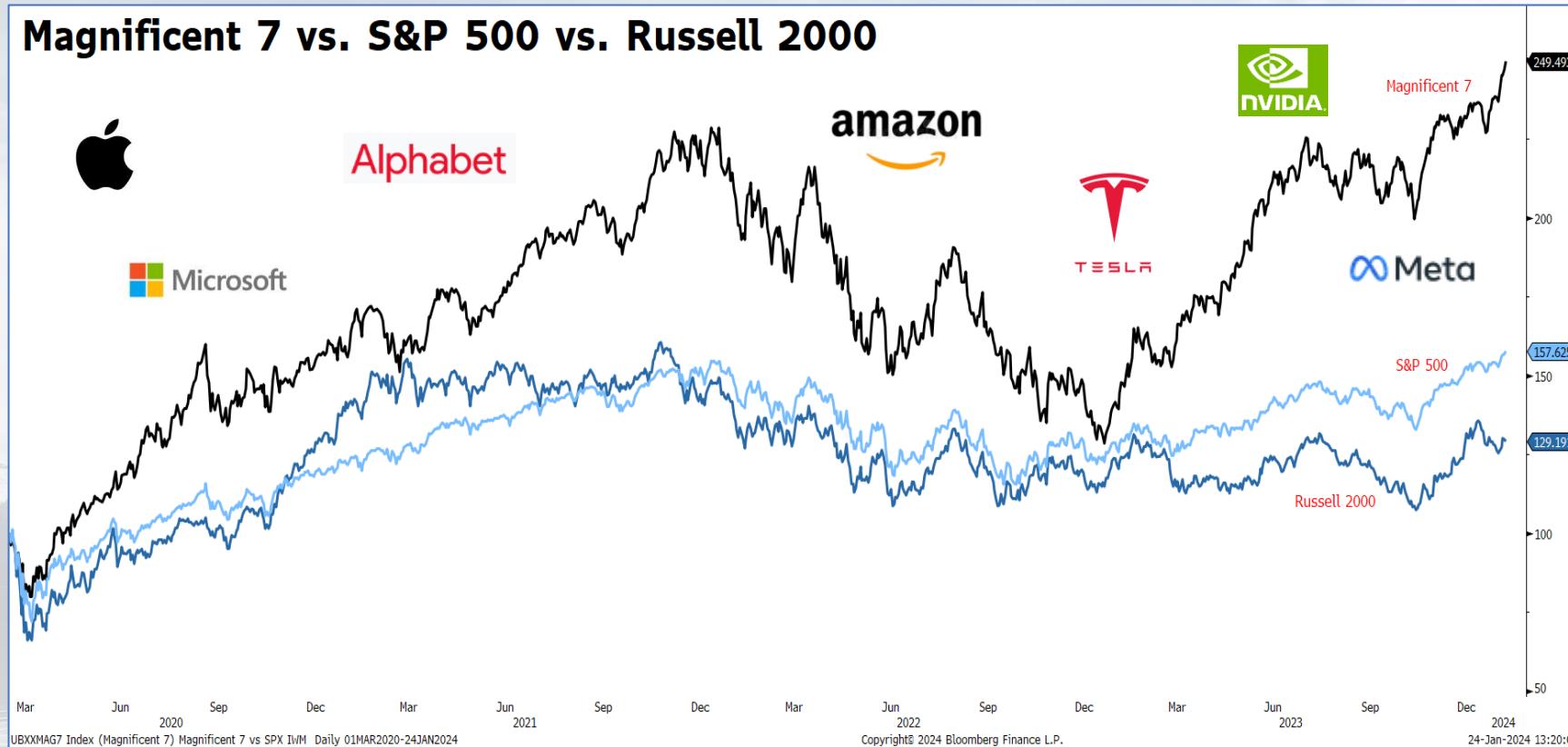
Fight for Capital (Goodbye TINA)

High Hurdle Rates

Risk-Free vs. Risk

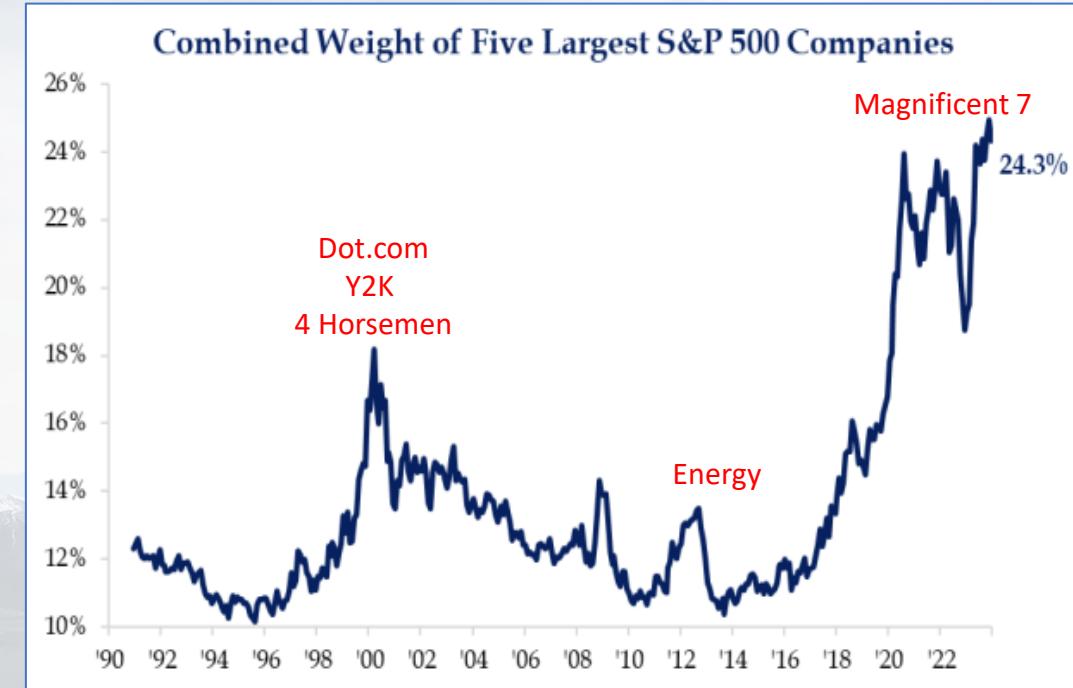
First debate
since 2007

S&P 500 PERFORMANCE DRIVEN BY 7 STOCKS



TOO BIG AND HEAVY?

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years		
<u>Year</u>	<u>Top 10 as % of Total</u>	<u>S&P 500 % Perf.</u>
2007	78.7%	3.5%
2023	68.4%	24.2%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%



HARD, SOFT OR NO LANDING?



The Case for a Soft Landing

- Consumer is in good shape (70% of U.S. GDP)
- Jobs market strong
- Inflation easing
- Home prices and equities
- Credit conditions not deteriorating
- Inventory restocking
- Reshoring/onshoring
- Inflation Reduction Act, Infrastructure Investment and Jobs Act & Chips Act
- Artificial intelligence, GLP-1 drugs

The Case for a Hard Landing

- Impact from aggressive Fed hikes lag
- Inverted yield curve
- Banking credit exposure to office REIT and concerns on unrealized investment losses
- Consumer subsidies going away (student loans, childcare)
- Consumer drawdown on excess savings
- M2 money contraction
- Inflation stays elevated
- Geopolitical instability and wars

HOW THE S&P 500 IS DIFFERENT FROM GDP



S&P	GDP
2/3 manufacturing	2/3 consumption
20–25% business spending	70% consumer spending
15% consumer discretionary spending	20–25% discretionary consumer categories
40% overseas	10% international trade
higher commodity prices BOOST	higher commodity prices DRAG

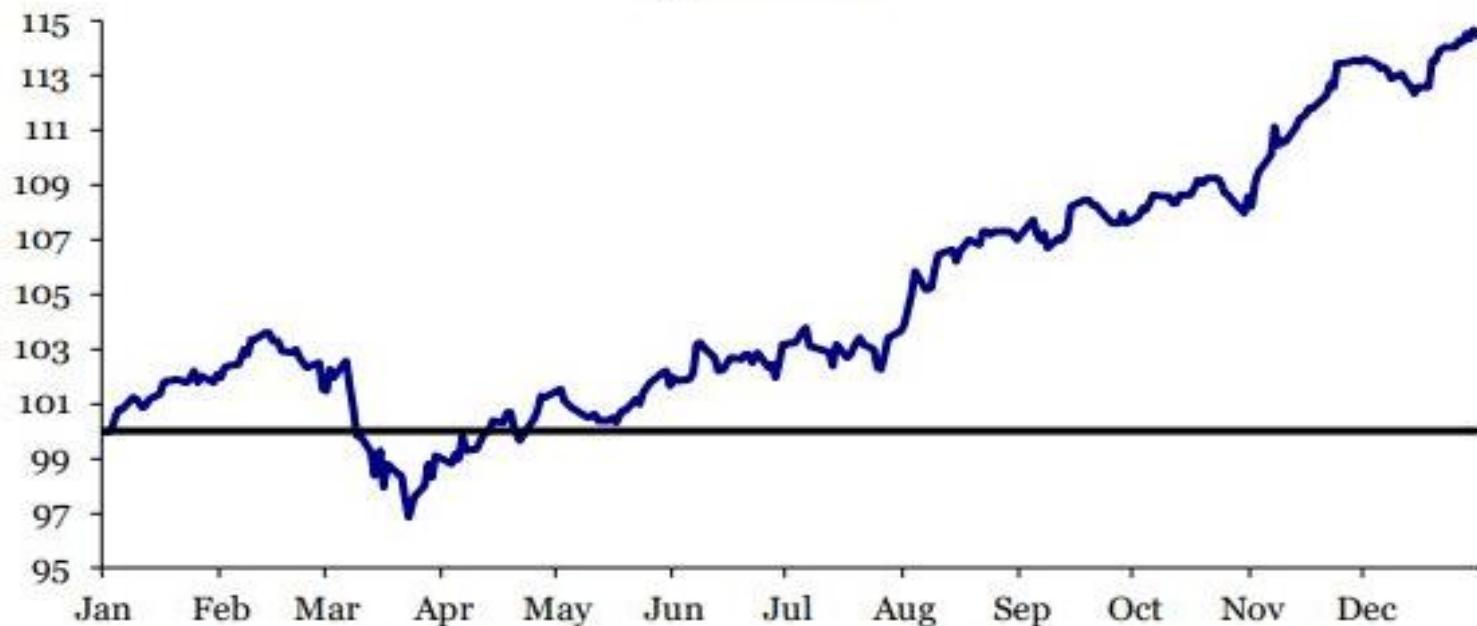
ECONOMIC GROWTH



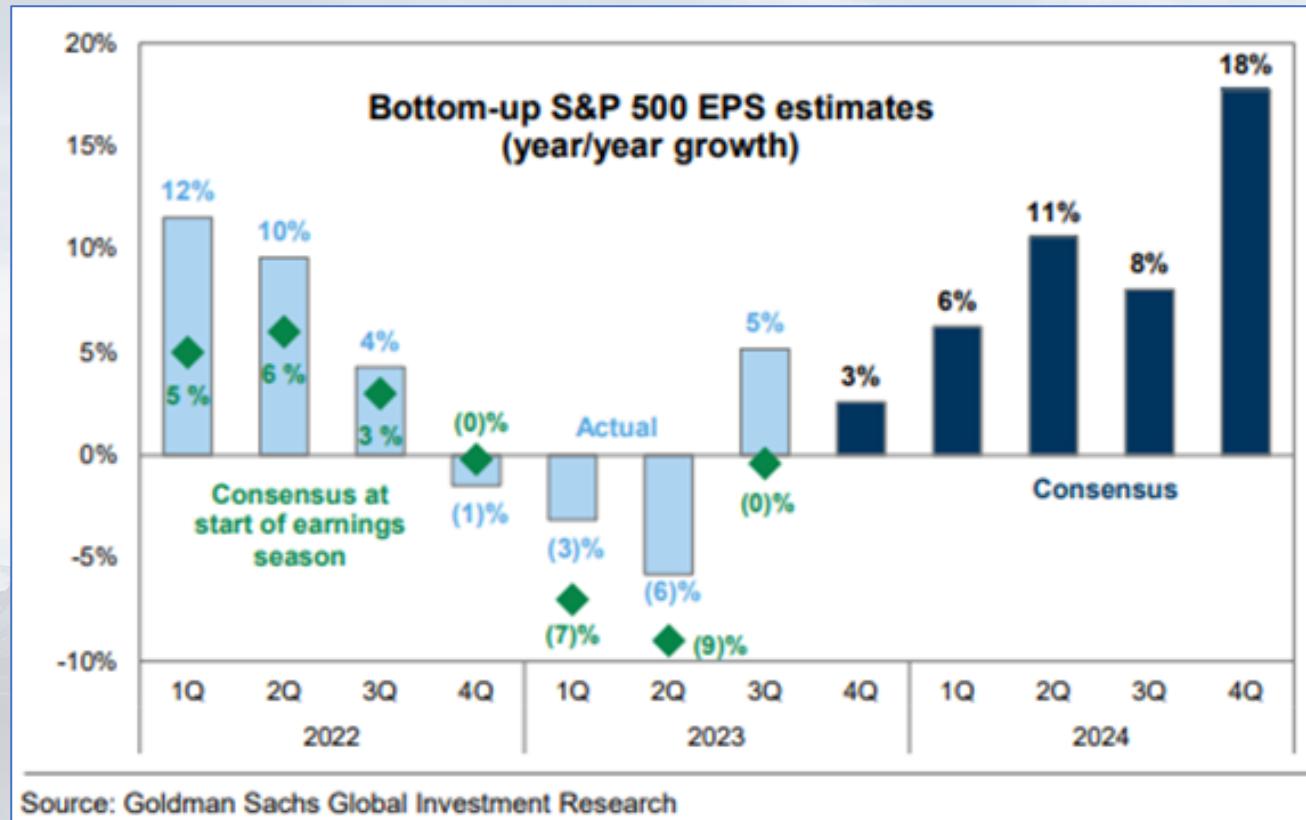
PRESIDENTIAL CYCLE IS FAVORABLE



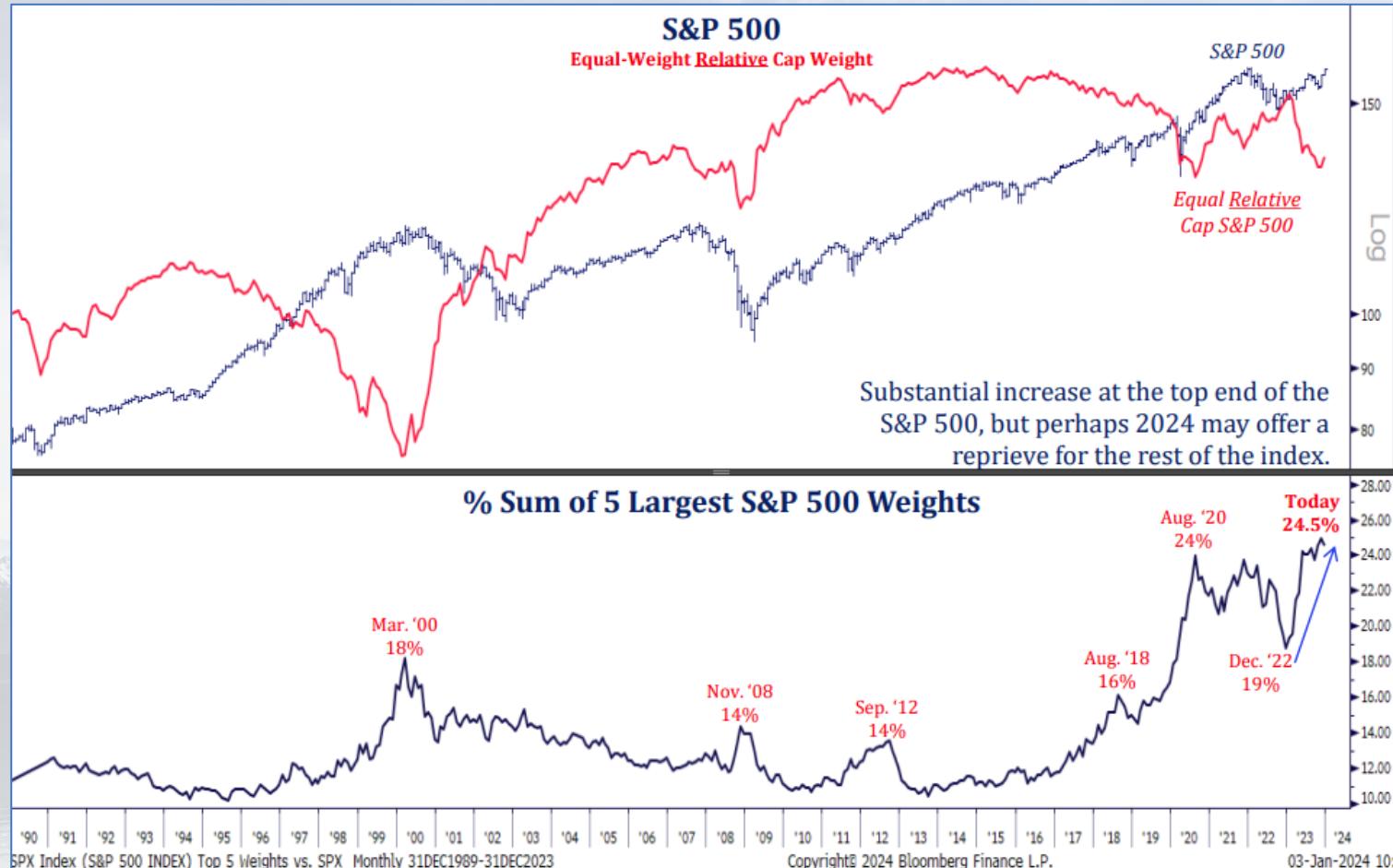
**S&P 500 Avg. Performance: Presidential Re-Election Years
1972 - 2020**



S&P 500 PROFITABILITY EXPECTATIONS



DISLOCATION OPPORTUNITY



DISLOCATION OPPORTUNITY



DISLOCATION OPPORTUNITY

Russell 2000 vs. S&P 500

Second longest underperformance of small caps



SUMMARY

Fed policy: financial conditions easing

Quantitative tightening (QT) peaking in H2

Presidential cycle

Credit risk

Forward growth is being cut

Will investors miss inflation?

Q&A and Discussion on Stocks