

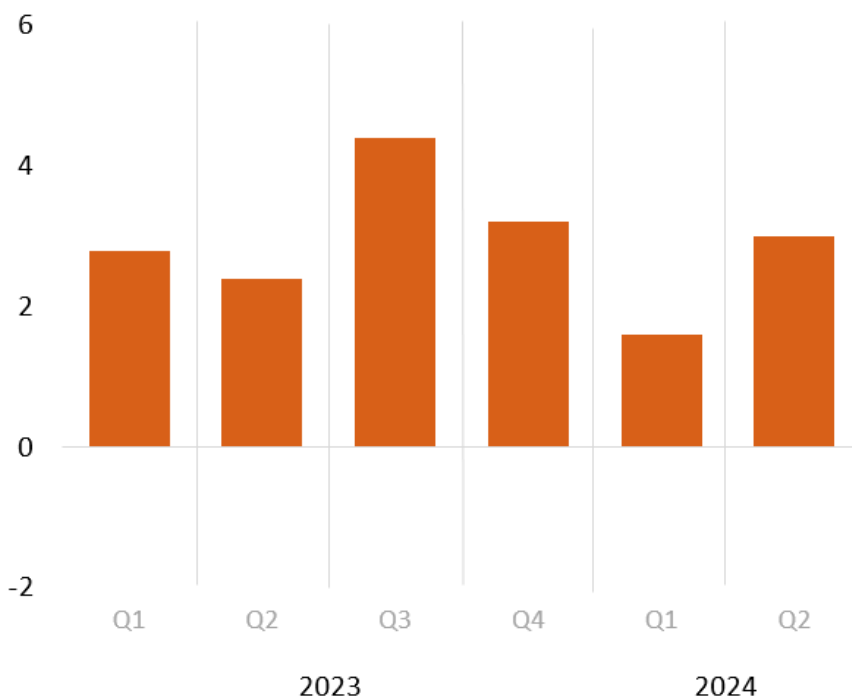
A Goldilocks Economy

Some are saying we have a “Goldilocks Economy” right now.

As one source states it’s an ideal economy that’s not too hot nor too cold but just right, to steal a line from the popular children’s story “Goldilocks and the Three Bears”. In other words, the economy enjoys full employment, low inflation and stable growth all at once.

Gross Domestic Product (GDP): The economic expansion continues. The third, and final, estimate for GDP Q2 2024 was revised upwards to 3%. The U.S. Bureau of Economic Analysis (BEA) attributed the growth primarily to increases in consumer spending, inventory building, and capital spending. Keep an eye on the advance estimate for GDP Q3 2024 at the end of this month. The Atlanta Fed GDPNow tracker recently projected a continuation of 3% growth.

Real GDP: Percent change from preceding quarter

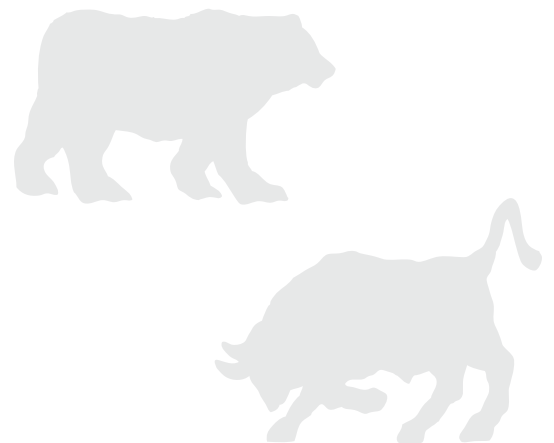


Source: U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

KEY DATES

- 10.30 GDP 2Q Advance Estimate
- 11.7 FOMC Press Conference
- 11.7 Unemployment Report
- 11.13 October CPI
- 11.27 GDP 3Q Second Estimate
- 11.28 Thanksgiving Day
Stock Market Closed
- 12.5 Unemployment Report
- 12.10 November CPI
- 12.18 FOMC Press Conference
- 12.19 GDP 3Q Third Estimate
- 12.25 Christmas Day
Stock Market Closed



Employment: Though softening, the labor market remains resilient. The unemployment rate held steady in September at 4.1%. According to U.S. Chamber, in September there were 8 million job openings compared to 6.8 million unemployed workers.

Consumer: Wages grew by 4.6 percent in August. Consumers continue to spend with higher household income. In September retail sales rose 0.4%, stronger than expected, with sharp increases in clothing, beauty and personal care and restaurants. An alarming trend to keep an eye on is consumer debt, which has risen at an annual rate of 2.1%. Lower interest rates will provide some relief on monthly interest payments.

The Fed's "Recalibration"

In a surprising move ahead of the Presidential election, The Fed cut the federal funds rate by 50 basis points (or 1/2%).

Fed Chairman Powell called this a recalibration to "help maintain the strength of the economy and the labor market, and continue to enable further progress on inflation as we begin the process of moving forward a more neutral stance."

What does it mean? The Fed wants to eventually achieve its long-term 2% inflation target, while maintaining employment levels and overall economic growth. GDP is at the high end of its normal range of 2%-3%. Since February 2023, consumer real income has risen as wage growth outdistanced inflation. Though labor market growth has moderated, unemployment remains below the average of 5.7% dating back to 1948. However, there is no guarantee a rate cut would spur businesses to open more jobs, especially if AI lives up to its promise to increase productivity.

Market Dynamics

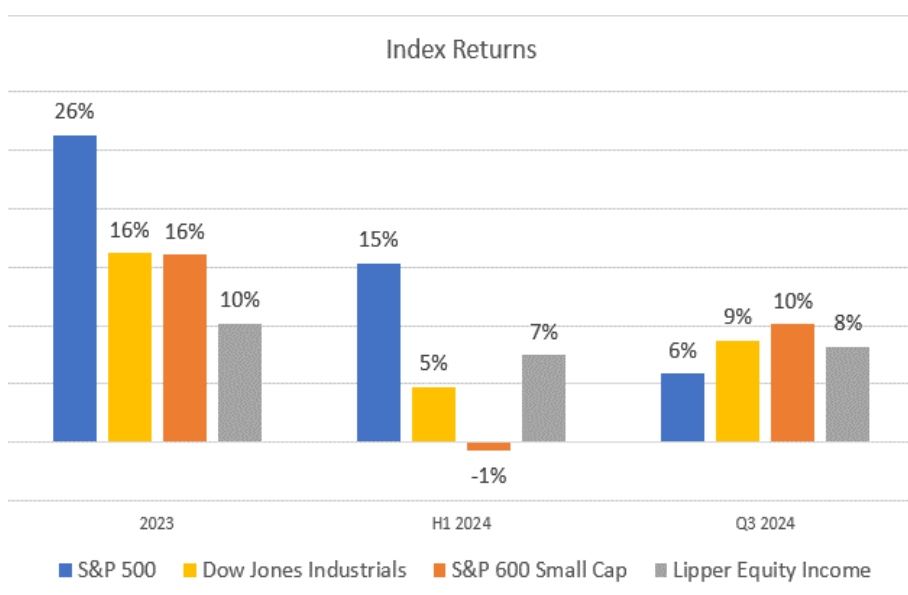
With inflation appearing more under control, the financial markets appear ripe to enter a new phase. How will it match up to historical trends?

Rate Policy Shift: What if we remain in a rate cutting environment? In the last 40 years there have been 7 rate cutting cycles with three of them occurring absent of a recession. During those three periods the S&P 500 averaged a 27% return between the first and last rate cut.

Market Performance Broadening:

At the end of September, NVIDIA, Apple, Microsoft, Amazon and Meta accounted for more than 25% of the S&P 500 market capitalization. Despite historically expensive valuations these stocks, and a handful of other mega and-large caps, surged over the last 2-3 years. They may be near the finish line as small and-mid caps (market capitalization of \$20 billion or lower) gain steam. The S&P 600 (small cap index) rose 9% in the third quarter, outpacing the S&P 500 by 4% points. With valuations tracking near 20-year lows relative to large caps, small and-mid caps are on sale.

Broadening Market (through 9/30/2024)



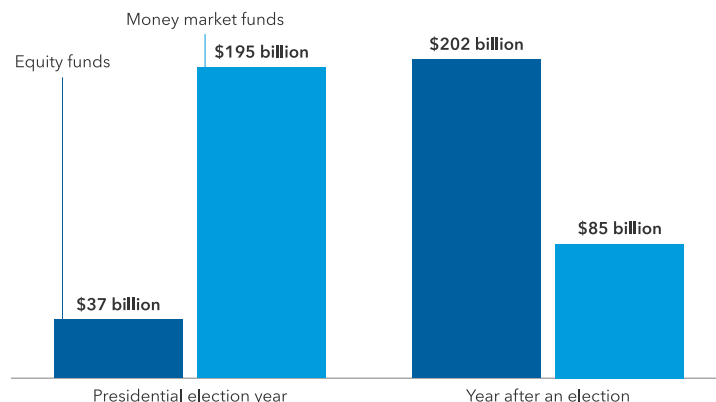
Putting Cash to Work: According to Bloomberg, record cash levels (nearly \$6.5 trillion) sit in U.S. money market funds. How long will it stay? Money market funds tend to see inflows at the beginning of a rate cut cycle as investors seek higher yields.

Money market fund inflows also increase during an election year because of uncertainty in Washington D.C.

Further rate cuts and a decisive election typically results in cash being invested into stocks.

Election — Putting Cash to Work

Average net fund flows by year of presidential term (1992-2023)



Source: Morningstar. Values based on USD. Funds include mutual funds and ETFs. Equity funds include funds within Morningstar's International Equity and U.S. Equity categories. Money market funds include funds within Morningstar's Money Market category. As of December 31, 2023. Past results are not predictive of results in future periods.

High Conviction Stocks

Progressing toward year end and into 2025, we remain excited about CMC's Cash Cow holdings. For instance:

- **Financial stocks:** Financials are CMC's most heavily weighted sector at this moment. Our holdings are diversified across many sub sectors – banks, insurance firms, credit card companies, etc. In general, these holdings are trading at low valuations relative to the broader market and should benefit from improving economic growth. Two of our holdings provide consulting services for mergers and acquisitions (M&A) – a pure-play firm, Moelis, and a more diversified, Goldman Sachs. M&A activity should increase as the Fed lowers interest rates and cash on the sidelines is put to work.
- **Communication Services — Media:** Our firm's largest sub-industry exposure is in regional broadcasters benefiting from digital expansion, local news & sports, and recurring excess cash generation. Americans tend to trust local news more than national network coverage. Viewers watching local news and sports tend to stay tuned for subsequent programming. National firms cannot recreate this programming on their own. Over-the-top streaming services (like Hulu and Amazon Prime) are signing deals with local broadcasters to air and replay their content.

Wall Street does not recognize the value of local broadcasting content. Coverage of the Paris Olympics and strong election spending should result in strong revenue, earnings and cash generation for local broadcasters. We expect our holdings in this category to announce all-time record results. Their soon to be reported third-quarter cash generation should exceed results of any prior full-year cash generation. This cash can be used to pay down debt, raise dividends and repurchase stock.

Examples of two stocks we own are **Gray Television (GTN)** and **Nexstar Media Group (NXST)**.

The stock market capitalization of Gray Television (GTN) is close to its 2024 full-year cash flow from operations. Similarly, we believe the land value of its unencumbered Atlanta Project exceeds Gray's total stock market capitalization. As Gray uses its record cash generation to pay down debt, its future annual interest expense should drop by more than 25 cents per share.

Nexstar Media Group's (NXST) local stations combined cover most of the U.S. population. In recent years, NXST purchased the money-losing CW Network. As NXST improves the CW, its operations should become profitable as early as 2025. A revitalized CW would further enhance NXST's long-term growth trajectory and valuation.

From Our Webinar

We've highlighted the historical impact elections have on the stock market this year. Historically, the stock market is non-partisan, generating strong long-term results despite party control of the white house.

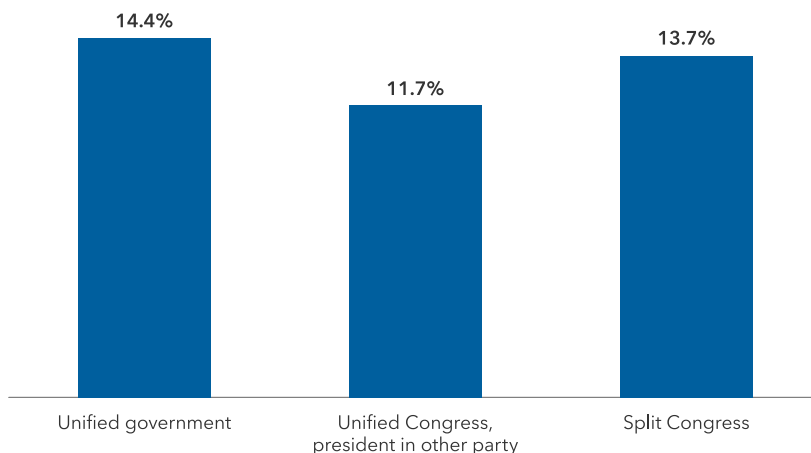
What about Congress?

Same holds true. With any combination of party control the markets on average have produced double digit returns since 1933.

Despite ever changing laws, regulations and tax schemes, American entrepreneurs and business leaders have repeatedly proven their ability to adapt, innovate and move the ball forward.

Election — Stocks Have Risen Despite Party Control

S&P 500 Index — Average annual total return (1933-2023)



Source: Capital Group, Office of the Clerk — U.S. House of Representatives, Senate.gov, Standard & Poor's. "Unified government" indicates White House, House and Senate are controlled by the same political party. "Unified Congress, president in other party" indicates House and Senate are controlled by the same party, but the White House is controlled by a different party. "Split Congress" indicates House and Senate are controlled by different parties, regardless of the White House control. Data excludes 2001 due to Senator Jeffords switching parties midyear. As of December 31, 2023. Past results are not predictive of results in future periods.





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 PRESIDENT & CIO



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