LINCOLN CAPITAL

Lincoln Capital Equity Commentary
Issue #75 – March 2024

March Changes:

Tax-Deferred

New Additions	Complete Sales	Partial Sales	Additional Buys	% Of Account Traded
	EMR			2.4%
	KLG			1.3%
		AMZN		2.6%
SWK				2.6%
CNQ				2.5%

Taxable

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		AMZN		2.3%
SWK				2.5%
CNQ				2.2%

Summary of Month's Action:

Last month equities gained over 3%. Energy was the standout performer, gaining over 10%. No other sector had a notable performance. Given the level of turnover in March, and our upcoming Tally, we will dedicate the balance of this note to trading activity. All figures sourced from Koyfin.

Security Specific Comments:

WK Kellogg Co – (KLG) – We took advantage of the nearly 30% rise in KLG's stock during March and sold our entire position. The company continues to make progress against their goal of 5% EBITDA margin improvement over the next few years (a big deal when margins are at 9%). This will require significant spending, funded using debt. Cereal has been in perpetual decline and there is no obvious reason why that wouldn't continue. Unionized labor and few specifics provided for further margin expansion add to the risks. If everything plays out favorably there could be more upside to KLG, however, at $19.00 or so, the risks are much more balanced. Clients recognized a 60% gain in less than 6 months.

AMAZON.COM, INC. – (AMZN) – We reduced our outsized position in Amazon as today's price more accurately reflects fair value in our opinion. A year ago, when we added to our position around $100, it seemed as though Amazon was in for years of weak margins due to overcapacity and much slower cloud growth. One year and 80% later, it is clear that these were temporary headwinds for the business. CEO Andy Jassy has aggressively cut costs, and North American retail margins have swung from flat to 6% as of last quarter. Amazon's cloud business, while not really benefiting from AI to the same degree as Microsoft, has seen growth stabilize in the low teens. At today's price, we intend to hold our remaining shares and stand ready to add if another compelling buying opportunity emerges.

Emerson Electric Co. – (EMR) – Emerson has gone through a large portfolio restructuring resulting in a company focused on automation and software—higher margin and faster growth businesses. There still may be some upside left here, but we didn't want to overexpose the portfolio to industrials as we find Textron and Stanley Black & Decker to be more attractive investments.

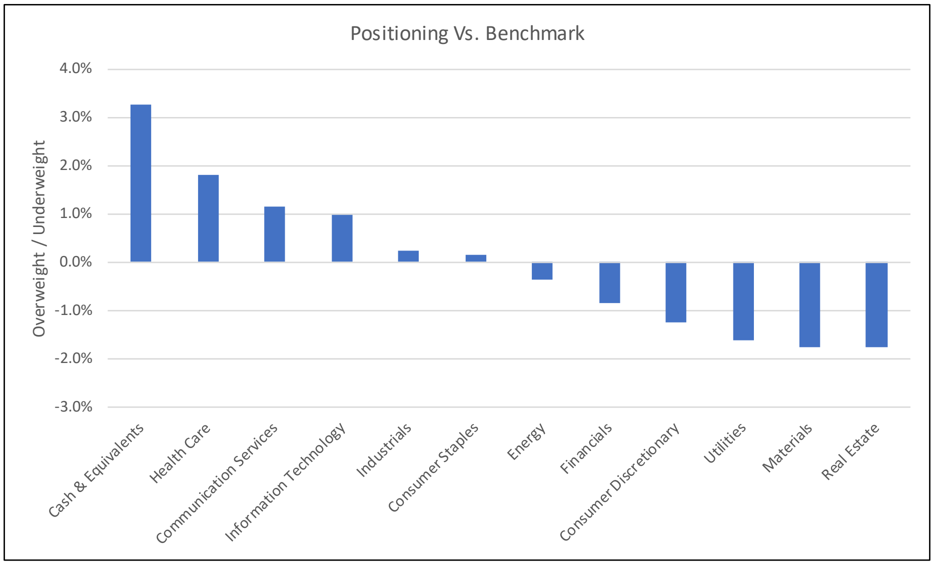
Stanley Black & Decker, Inc. – (SWK) – Stanley Black & Decker traces its roots to 1843. The company likely needs no introduction with brands such as Dewalt, Craftsman, Black + Decker, and Cub Cadet. The company primarily sells tools and outdoor equipment in addition to an industrial business focused on engineered fasteners. The company saw extremely strong sales growth during COVID, which eventually reversed, a trend that was worsened by inventory destocking at customers. The outlook for SWK's markets is not great, but it's stable. Margins are currently depressed, while management has cost-cutting plans and other initiatives in place to drive them back to historical levels. Any strengthening of SWK's end markets would hasten the margin recovery. The company is trading at a historical multiple with depressed margins, a setup that should prove profitable to investors as margins regain ground.

CANADIAN NATURAL RESOURCES LIMITED – (CNQ) – Recent events have made us more constructive on energy, particularly oil. We have stayed away from energy mainly due to our skepticism of U.S. shale's restraint on production growth. Shale companies pumped voraciously in the 2010's driving down the price of crude and damaging shareholder returns. After this episode, producers began to show restraint, curtailing production and focused on maximizing cash flow. While this has obvious benefits for investors, our expectation was it would not last. This opinion was based on the price of crude being multiples of marginal cost. While our expectation hasn't played out, something else has—consolidation. There have been large deals in U.S. shale and independent players are being bought by more patient, stable, and disciplined operators. Some deals include Exxon – Pioneer; Chevron – Hess; Occidental – CrownRock; and Diamondback – Endeavor. This likely reduces supply elasticity in the global crude market.

CNQ is an attractive way to play this constructive view. The company is expected to generate 8 to 9% of their market cap this year in free cash flow and return 100% of that back to shareholders through share repurchases and dividends. They are a dominant player in oil sands, which have attractive characteristics, including low marginal cost and low decline rates. Separately, an expansion of the Trans Mountain pipeline should be in service soon, which will tighten up the differential of Western Canadian Select and West Texas Intermediate.

Tax Exempt Models

Sector Weights Relative to the S&P 500:



	Portfolio	S&P 500
Position Count	21	
Company Market Cap (Billion)	926	805
P/E - Forecast 12-Month	20.7	21.1

Portfolio Holdings (03/31/2024)

Name	Weight	Forward P/E	Sector
Goldman Sachs ActiveBeta US Large Cap Equity ETF	19.0%	N/A	
Microsoft Ord Shs	11.6%	32.5	Information Technology
iShares MSCI USA Quality Factor ETF	8.0%	N/A	
UnitedHealth Group Ord Shs	6.0%	17.3	Health Care
Amazon Com Ord Shs	5.4%	40.8	Consumer Discretionary
Cencora Ord Shs	4.2%	17.3	Health Care
Charles Schwab Ord Shs	4.2%	20.0	Financials
Advanced Micro Devices Ord Shs	4.1%	44.2	Information Technology
T Mobile US Ord Shs	4.0%	17.3	Communication Services
Vanguard US Momentum Factor ETF	3.9%	N/A	
Alphabet Ord Shs Class A	3.6%	21.3	Communication Services
U S Dollar	3.3%	N/A	
Apple Ord	3.2%	25.0	Information Technology
JPMorgan Chase Ord Shs	3.1%	12.5	Financials
Textron Ord Shs	3.1%	14.9	Industrials
Stanley Black & Decker Ord Shs	2.6%	21.7	Industrials
QUALCOMM Ord Shs	2.5%	16.5	Information Technology
Canadian Natural Resources Ord Shs	2.5%	12.6	Energy
Mondelez International Ord Shs Class A	2.1%	19.5	Consumer Staples
Tyson Foods Ord Shs Class A	1.9%	20.0	Consumer Staples
Bank of America Ord Shs	1.6%	11.8	Financials
Total	100%		

(Source LSEG)

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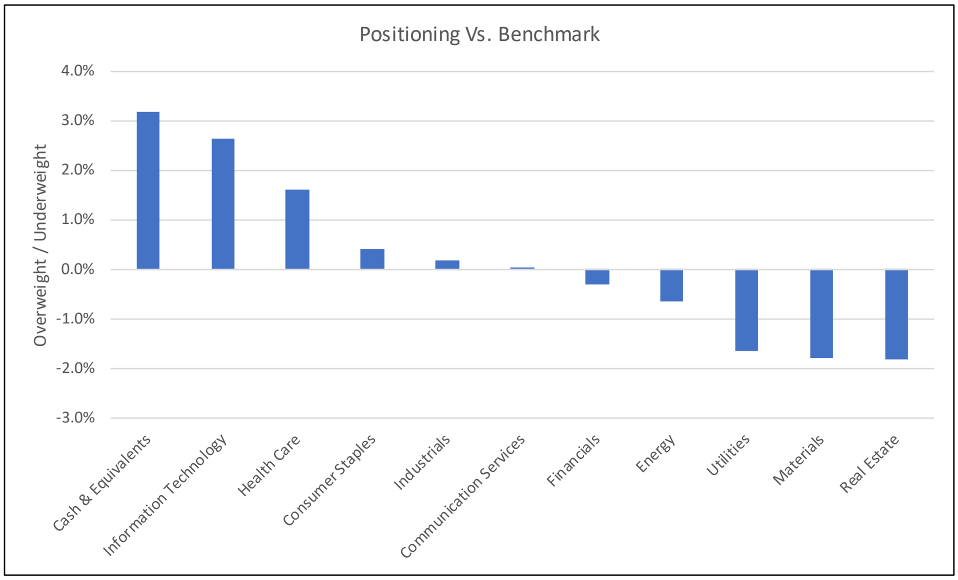
Taxable Models

Sector Weights Relative to the S&P 500:



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P/E - Forecast 12-Month	20.7	21.1

Portfolio Holdings (03/31/2024)

Name	Weight	Forward P/E	Sector
Goldman Sachs ActiveBeta US Large Cap Equity ETF	18.5%	N/A	
Microsoft Ord Shs	13.0%	32.5	Information Technology
iShares MSCI USA Quality Factor ETF	6.3%	N/A	
UnitedHealth Group Ord Shs	6.1%	17.3	Health Care
Amazon Com Ord Shs	5.0%	40.8	Consumer Discretionary
Vanguard US Momentum Factor ETF	5.0%	N/A	
Charles Schwab Ord Shs	4.2%	20.0	Financials
Advanced Micro Devices Ord Shs	4.1%	44.2	Information Technology
Cencora Ord Shs	4.0%	17.3	Health Care
Apple Ord	3.8%	25.0	Information Technology
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U S Dollar	3.2%	N/A	
JPMorgan Chase Ord Shs	3.1%	12.5	Financials
Textron Ord Shs	3.1%	14.9	Industrials
Alphabet Ord Shs Class A	2.9%	21.3	Communication Services
Mondelez International Ord Shs Class A	2.5%	19.5	Consumer Staples
QUALCOMM Ord Shs	2.5%	16.5	Information Technology
Stanley Black & Decker Ord Shs	2.5%	21.7	Industrials
Bank of America Ord Shs	2.3%	11.8	Financials
Canadian Natural Resources Ord Shs	2.2%	12.6	Energy
Tyson Foods Ord Shs Class A	1.9%	20.0	Consumer Staples
Total	98%		

(Source LSEG)

Disclosures:

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