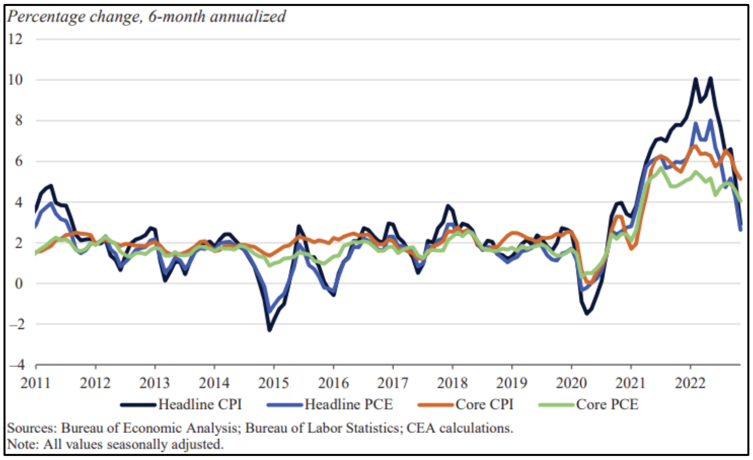
Whenever the Fed hits the brakes, someone goes through the Windshield

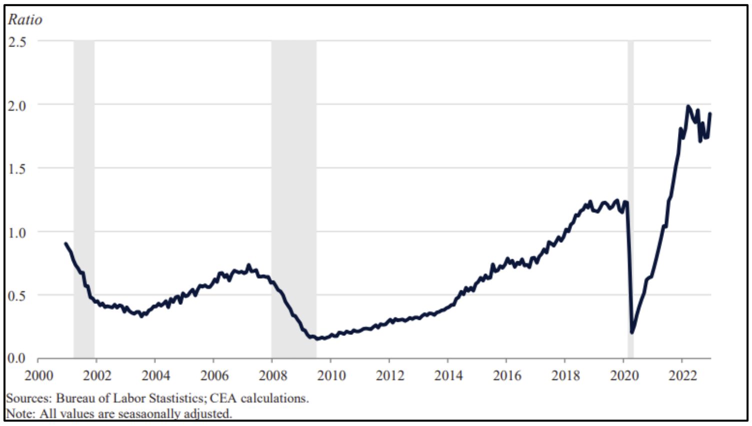
In the first quarter of 2023, economic and market outlooks reacted to a surprisingly resilient labor market, persistently elevated inflation, and cracks in the banking system emerging. The S&P 500 returned 7.46%, the Russell 1000 growth 14.91%, and the Russell 1000 Value 0.44%. The vast majority of market performance was technology stocks; market leaders were NVDA (+86%), TSLA (+72%), META (+70%), CRM (+45%), AMD (+44%), GE (+42%), and AAPL (+30%). The strong upswing in these names can been attributed to 1) attractive valuations (vs recent history) going into the year after significant selling pressure during the second half of 2022 and 2) the market significantly discounting the likelihood that the Fed will stick to its stated "higher for longer" approach, expecting that the Fed Funds Rate exiting the July meeting is unchanged from current levels, which is below the appropriate policy range in the past two meetings.

All Eyes on the Fed



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; CEA calculations.
Note: All values seasonally adjusted.

The March CPI data came in somewhat lower than expected as the Consumer Price Index year-over-year change decreased to 5% in March versus the expected 5.2% and February's 6.0%; an encouraging sign for investors hoping for a rate cut in 2023. March nonfarm payroll growth slowed versus the prior months however the unemployment rate ticking down to 3.5%. The continued labor market tightness contrasted with improving inflation data increases uncertainty about the Fed's path forward and whether it is the appropriate response. As of April 12th, markets are pricing in a 73% chance of a 25 bps rate hike in May. The current implied Fed Funds rate for May is at 5.01%, holding until the July meeting, after which it declines to 4.87%. In the April Fed minutes, it was revealed that Fed staff began including a "mild recession starting later in this year" in their projections. This is the first time that the emergence of any recession has been mentioned in the Fed minutes, giving some legitimacy to the previously unsupported idea of a rate cut in 2023. CPI and PCE remain at elevated levels and the US still has a historically tight labor market.



Sources: Bureau of Labor Stastistics; CEA calculations.
Note: All values are seasaonally adjusted.

Banking Turmoil Leading to Credit Crunch and impact on impending Recession

The current banking turmoil is partially caused by rising rates as more hikes further decrease the mark-to-market value of bank assets as US banks have $620B in unrealized losses on bond investments. In addition, the elevated levels of rates led to providing customers with more attractive, higher yield alternatives compared to bank deposits, further contributing to the ongoing turmoil in the banking sector.

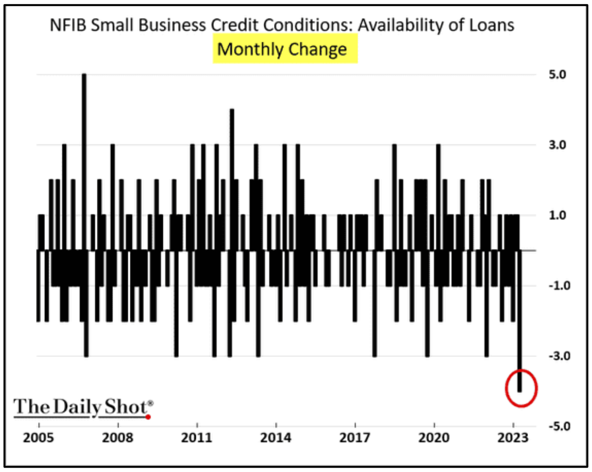
While we do believe the crisis led by Silicon Valley Bank's (SVB's) collapse is likely over given that the panic among depositors seems to be dissipating as well as due to prompt actions taken by regulators (primarily, Bank Term Funding Program), however, we expect banks, especially smaller banks, to tighten credit and lending standards as they become more cautious given the competitive deposit market, greater economic uncertainties, and deterioration in Commercial Real Estate (CRE) loans' credit quality (largely due to declining occupancy rates in the office buildings).

Many investors have concerns over CRE loans and the threat that they pose to the banking sector and overall economy. Lenders with less than $250 billion in assets account for roughly 50% of US commercial and industrial (C&I) lending and 80% of CRE lending. Due to expected credit tightening by small banks and their notably high share in C&I and CRE lending, we could see real estate sector and smaller businesses to face credit crunch, which would be further exacerbated as a large amount of CRE loans is set to come due in the next 5 years.

The banking positions we have in the Brookmont Dividend Growth portfolio will not be put under any stress as they are all G-SIBs with the exception of PNC and USB but those banks are still held to a much higher regulatory standard (demonstrated by their inclusion in the Fed's annual stress test) than regional banks, such as SVB. Our banks in the Dividend Growth Portfolio have relatively low CRE exposure and very minimal exposure to office loans when compared to regional banks with an outsized exposure, as presented in the table below.

	CRE loans	CRE-to-total loans	Office properties	Office-to-total loans
BAC	$70B	7%	$18B	**1.7%**
WFC	$156B	16%	$36B	**3.8%**
USB	$55B	14%	$7B	**1.9%**
PNC	$36B	11%	$9B	**2.8%**
JPM	$108B	10%	$11B	**1.0%**

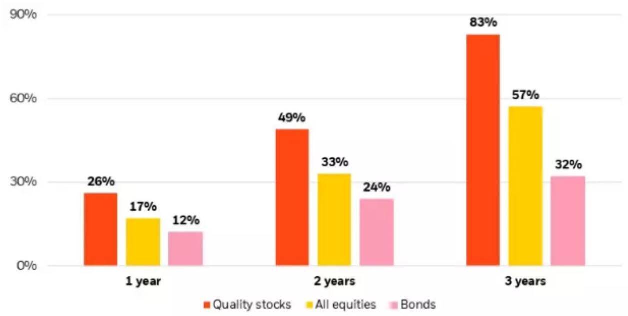
Tightening credit conditions may result in slowdown in the economy due to likely reduction in consumer spending and business investment, however, it is not a structural issue that typically is associated with deep recessions (as shown in the chart on the right). Tighter credit conditions have the potential to alleviate inflationary pressures, which may in turn prompt the Federal Reserve to reverse the hiking cycle.



For Equities: Quality Dividend Growers Weather Recessions

Quality readying to lead?

Average returns after Fed hiking cycle ends, 1984-2021



Source: BlackRock Fundamental Equities, with data from the Board of Governors of the Federal Reserve System and Bloomberg, calculated from Aug. 31, 1984-Dec. 31, 2021. Returns are calculated from the month when the Fed stops raising rates for peak rates periods in 1984, 1989, 1995, 2000, 2006 and 2018. All equities represented by the Russell 1000 Index and bonds by the Bloomberg U.S. Aggregate Index. "Quality" is defined as the top quintile of stocks ranked in the Russell 1000 Index using a proprietary research screen that assesses companies on 13 "quality" metrics. **Past performance is not indicative of current or future results. Indexes are unmanaged. It is not possible to invest directly in an index**.

In the event of a recession, we have confidence in the companies within the Brookmont portfolios in part due to their high-quality business models, strong financials, and exceptional management teams. We screen for pricing power and revenue diversification because sufficiently diversified revenue streams provide a buffer against the negative impacts of a recession, particularly one with uneven impacts across different industries, as the company is not solely reliant on one product or service or a single customer segment. These companies have also been anticipating a recession for well over a year and have been able adjust their strategies accordingly. Microchip Technology, which is owned across the Brookmont strategies, is an excellent example of this. In their most recent quarterly results, the company was questioned as to why they had positioned shareholder return conservatively when leverage targets are reached. The answer is that the company has ~$2B of debt with an interest rate below 100 bps; rather than rolling the debt on maturity and increasing the effective rate to above 5%, the board sees it as prudent to continue cash debt repayments. This response demonstrates a tactile approach that will increase shareholder value over the long term. This opportunity was also only available because of the company's focus on financial strength and resiliency over the past few years, which resulted in leverage levels low enough to allow options in capital allocation.

The high-quality companies that we select to invest in are well capitalized with significant cash reserves and have easy access to credit, allowing them to invest organically in operations and take advantage during recessionary periods to capture additional market share. Company fundamentals are responsible for a stock's long term returns and companies with superior management are built to weather diverse economic markets. Likelihood of a potential recession and hiking cycle reversal should make quality dividend growers more attractive relative to other investment options.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities.

Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbaised barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, included those accounts no longer with the firm. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividend could have a negative effect on cumulative returns. There is no representation that this

index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the Strategy.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

The Brookmont Dividend Growth Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. Required minimum investments and advisory fees differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed and Investment Management Agreement with our firm.

Past performance is not indicative of future results