With the fireworks long faded and the bunting stowed away, the high holiday of summer has come and gone. But if the party is over, a question now looms large. Who's going to tell that to the American stock market?

For all of the talk of possible stormy seas on the horizon due to lofty valuations and decades-high interest rates, the story of 2024 has turned out to be one of decidedly smooth sailing. In the first six months of the year, both the Dow Jones Industrial Average and the S&P 500 rose handsomely on the heels of last year's solid returns. Over on the NASDAQ, where Artificial Intelligence (AI) and high-publicity business models reign supreme, the good fortune rolled in as well. Up over 18% since this year began, the index continued to chug along as AI fever once again led the charge. With all three indices continuing to breach or skirt all-time highs, the VIX – which measures fear in the market – has approached multi-year lows. Just like those 4th of July fireworks, the year has certainly begun with a "bang".

In frothy times like these, you may notice that the notion of *all* investments being *good* investments tends to gain traction. As the saying goes: "A rising tide lifts all boats." And yet, digging into the data, we find that the case for careful asset selection – as opposed to "spraying and praying" – remains more compelling than ever. As some cracks may begin to show on the vaunted "AI gang", we believe investor attention will continue to drift towards our more value-oriented neck of the woods. As it does, we are uniquely well positioned on your behalf to capture the upside of a "sector shift".

Let's also consider the aforementioned S&P 500. Of the 500 stocks tracked in this flagship index, a mere twenty-five accounted for nearly two-thirds of this past quarter's gains, or put simply, a *minority* of stocks created the *majority* of returns. To your dedicated team of investment professionals, this phenomenon is a stark reminder that even when "all boats" are rising, some certainly rise higher than others. Which is why, even as we happily report that many of those top twenty-five companies are Tufton holdings, we remain hard at work on your behalf, in diligent search of the tugboats that will pull next quarter's barges.

In the pages ahead, you'll find an overview and our most current market insights about one company that we believe fits that bill – Carrier Global Corporation (CARR). In an effort to more deeply articulate the thinking behind those insights, we've also included our firm's outlook for both the economy and financial markets (please see our article beginning on page two entitled "The Second Quarter of 2024: Back to the Future"). It's our hope that you'll read them at your leisure and give us a call should anything catch your eye. Because no matter where the summer takes you – and we do hope it's somewhere relaxing – you can rest assured that we'll be here, carefully guarding the trust you've placed in us.

Chad Meyer, CFA
President

Inside This Issue

The Second Quarter of 2024: Back to the Future

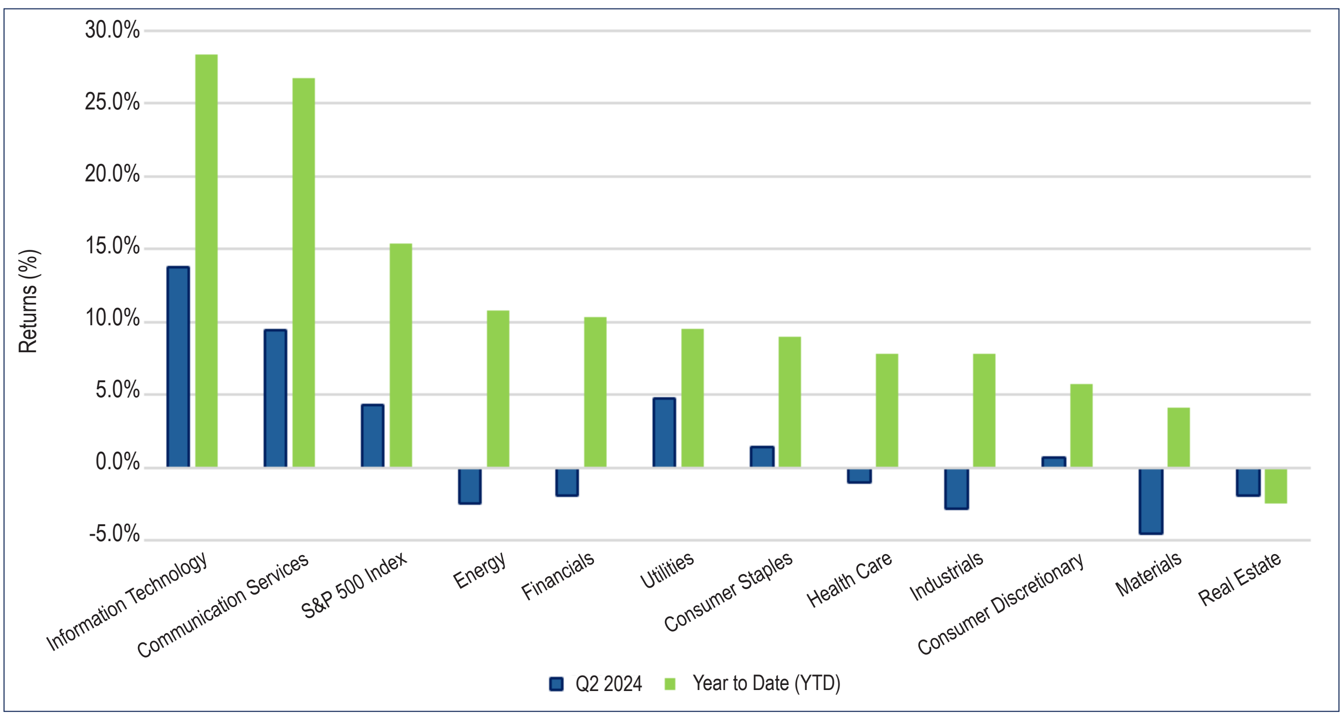
Eric Schopf
Director of Research/
Partner

The second quarter of 2024 extended the bull market run. The Standard & Poor's 500 delivered a total return of 4.28%. For the year, the index is up 15.4%, and it is up 55% following the 21% bear market decline experienced in the first nine months of 2022. Unlike the widespread price appreciation in the first quarter, the second quarter was a repeat of calendar year 2023 with a very small select group of stocks, most tied to the Artificial Intelligence boom, driving most of the performance. Only three of the eleven index sectors outperformed the broad index during the quarter. Utility stocks finally joined the party when investors realized that all the AI computing power will take a lot of energy. Year-to-date, only two sectors have outperformed. As was the case in 2023, diversification has not been rewarded, and the equally weighted S&P 500 declined by 2.6% in the quarter. Artificial Intelligence stocks have sucked all the oxygen out of the market.

Bond market volatility continued during the quarter with the 10-year United States Treasury Note moving from 4.20% to 4.44%. A brief spike in late April took the yield to 4.7%, and the interest rate gyrations reflect uncertainty. At the beginning of the year, the consensus opinion on interest rates cuts was "not if but when." By the end of April, the market was asking "not when but if."

The Federal Reserve has remained resolute in its battle against inflation. The federal funds rate, which is the interest rate that banks charge each other to lend or borrow excess cash overnight, has been pegged by the Fed at 5.5% for the past year. The rate is a primary tool in achieving monetary policy. Higher rates make capital more expensive and act to slow

Narrow Performance with Few Winners



Source: FactSet

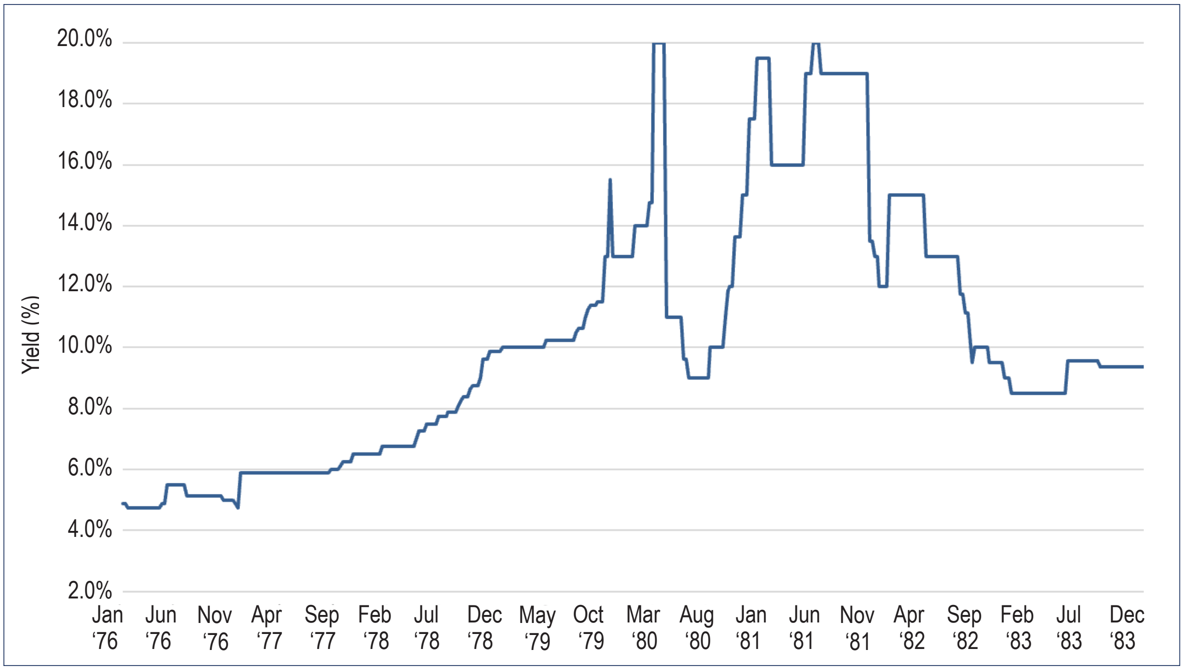
the economy, but signs of success are becoming more apparent. Initial claims as well as continuing claims for unemployment continue to trend higher. The unemployment rate has reached 4.1%. Although the headline rate is still very low by historical standards, it is up sharply from the trough level of 3.5% reached in the first quarter of 2023. The Personal Consumption Expenditures Price Index, a broad measure of inflation at the consumer level, dropped to a 2.57% year-over-year gain in March. The rate is down significantly from the 6.81% peak recorded during the second quarter of 2022. We have reached an important inflection point, and the Fed will need to act because the federal funds rate is far too high given the level of inflation. Maintaining rates at current levels threatens to tip the economy into recession. In the early 1980s, the Fed, led by Chairman Paul Volker, ended tight monetary conditions too soon in an effort to help the economy escape a nasty recession that lasted five months. The result was a resurgence of inflation that required a second round of interest rate hikes. The second recession was worse than the first and lasted fifteen months. Despite risks to the economy, the Fed is in no mood to repeat the mistakes of the past.

Handicapping future fiscal policy became a lot tougher following the presidential debate. President Biden's performance raised concerns about his health and his ability to serve. While Biden subsequently dropped out of the race, the Democratic nominee is now uncertain, but Vice President Kamala Harris appears to be at the top of the list as a replacement. A slew of state governors has also been mentioned as possible candidates. These include Gavin Newsom, Gretchen Whitmer, Josh Shapiro and J.B. Pritzker. Each has served as governor for five years except for Shapiro, who has only been in office for eighteen months. While their political agendas are not clear, the Democrats remain resolute in their plan to replace Donald Trump.

The Republican side of the aisle became more settled with the Supreme Court's ruling that Donald Trump

Continued on page 4.

U.S. Federal Funds Rate



Source: FactSet

Second Quarter... Continued from page 3.

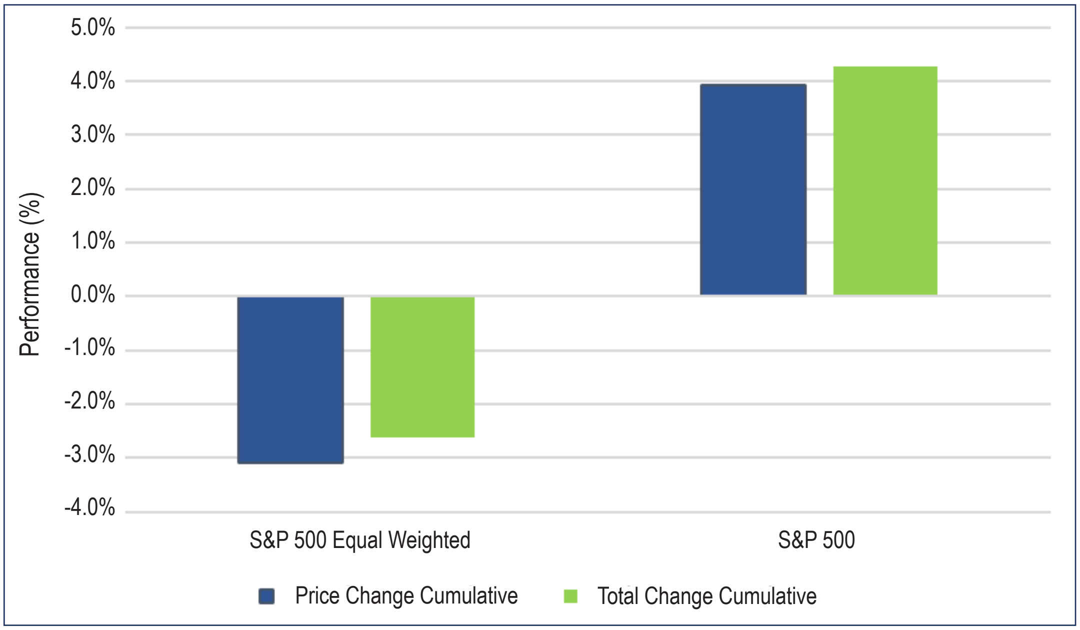
has immunity from prosecution for some official acts involving his alleged efforts to reverse the 2020 election result. The ruling means that the Republican nominee will not face trial in the federal case before November's election and helps clear the deck for his presidential run. Although the candidate is now known, the platform is not. Competing agendas have emerged from factions within the party, and just how far to the right the party shifts has yet to be determined.

Regardless of where the Republicans land, platform differences between the party front-runners are stark. Spending priorities, taxation, regulation, trade and foreign relations are all priority issues with economic consequences that impact inflation, employment and ultimately interest rates and the value of the U.S. dollar. Regardless of who wins in November, the burden of a bloated federal debt may put a lid on political ambitions.

From an investment perspective, we are facing slower economic growth. Gross domestic product grew just 1.4% in the second quarter, a meaningful drop from 3.4% in the first quarter. Corporate revenue growth is decelerating, and profit margins are shrinking. The inflation bubble has been deflated, but the damage has been done and companies are having a difficult time passing on higher costs to consumers. As a result, dividend growth has cooled. Although the operating environment has become more challenging, the stock market is at record levels, primarily due to the hot industry sectors noted earlier.

I never cease to be amazed at the changes that occur in just three months when I write the review for the quarterly *Viewpoint*. Regardless of the uncertainty, we remain focused on the long term while heeding the mile markers along the way. We continue our search for value, and we manage your portfolio with an eye towards maximum return with minimum risk. ■

S&P 500 Capital Weight vs. Equal Weight



Source: FactSet

AIming for Long-Term Investment Resilience

Alex Olshanskiy
Investment Analyst

Devices, machines and systems are rapidly evolving towards greater intelligence. In recent years, the rapid advancement of Artificial Intelligence (AI) has emerged as a defining global force reshaping industries and investment landscapes. This transformative technology not only revolutionizes how businesses operate but also presents compelling opportunities for growth and innovation within our investment portfolios.

Across our holdings, leaders such as Microsoft (MSFT), Qualcomm (QCOM), Corning (GLW), Digital Realty (DLR), Google (GOOG) and Amazon (AMZN) are at the forefront of integrating AI into their business strategies. Microsoft's Azure AI platform is empowering enterprises to harness machine learning for enhanced decision-making and productivity gains.

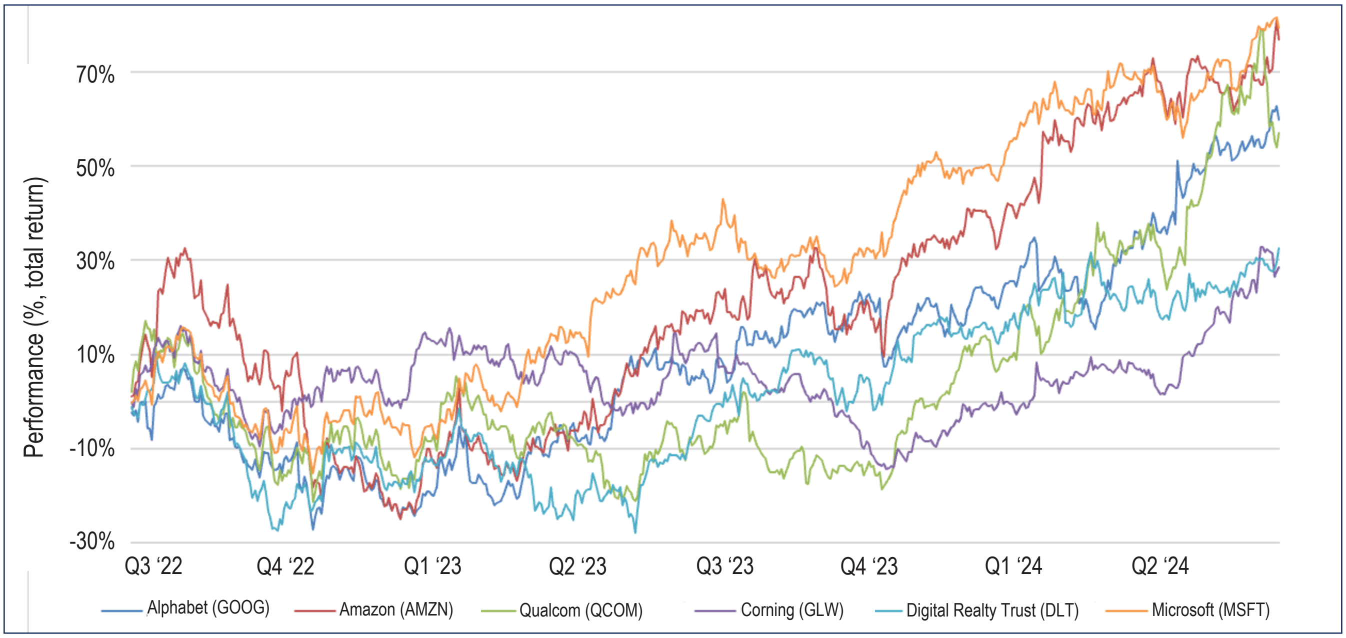
Through strategic partnerships such as OpenAI, Microsoft is accelerating AI advancements by utilizing its robust infrastructure to train and deploy cutting-edge models such as GitHub Copilot, DALL·E 2 and ChatGPT.

Qualcomm is at the forefront of AI-driven innovations in 5G technology, showcasing significant progress in On-device intelligence. The Snapdragon® 8 Gen 3 Mobile Platform introduces a groundbreaking AI Engine capable of supporting up to 10 billion parameters for generative AI models directly on mobile devices, heralding a new era of creativity and technological advancement.

Meanwhile, Corning uses AI to optimize manufacturing processes and develop cutting-edge materials. The demand for fiber optics provides Corning with increased opportunities for innovation, which in turn could drive outperformance.

Continued on page 8.

The AI Landscape



Source: FactSet

Company Spotlight: Carrier Global Corp. (Ticker: CARR)

Barb Rishel
Portfolio Manager

The dog days of summer are upon us, and I find myself seeking out cool temperatures wherever I can find them - indoors or outdoors, mostly indoors! I am especially grateful for the genius of Willis Havilland Carrier, an engineer by trade who invented air conditioning. Carrier installed his new product, named the "Apparatus for Treating Air" in a printing plant in Brooklyn, New York in 1902, and soon, numerous cotton and textile mills across the country found an increase in productivity wherever Carrier's "air conditioners" were installed. Industrial companies all over the world wanted to equip their factories and mills with cooling products, and the Carrier Engineering Corporation was established in 1915. Even today, almost half of Carrier's sales are from international customers.

Sales to private residences came next, and Carrier continued to create more applications of his cooling invention with more than eighty patents in total. One of Carrier's earliest innovations was to equip the "new" Madison Square Garden in New York City in 1925 with an ice rink for professional hockey.

Today, Carrier Global Corp is one of the world's leading heating, ventilation and air conditioning (HVAC) companies, with over $22 billion in sales and over seventy-five distinct brands. As a global leader in intelligent climate and energy solutions, Carrier continues to develop innovative solutions for homes, businesses and data centers.

Since CARR became an independent company following the merger of United Technologies and Raytheon in 2020, the company has undergone a major portfolio transformation, with twelve acquisitions and divestitures over the past year.

Carrier currently has three main segments:

	2023 Sales ($mil)	2023 Profit ($mil)
HVAC	$15,100	$2,300
Refrigeration	$3,800	$428
Fire & Safety	$3,330	$209

Carrier's management team is focused on its heating, ventilation and air conditioning (HVAC) segment, which is its highest market share business and its largest contributor to profits. In 2023, CARR acquired Viessmann Climate Solutions of Germany, a leading European HVAC company, for $13.7 billion. In addition, CARR sold two smaller non-core businesses, beginning with the sale of its commercial fire and security business, to Honeywell for $4.95 billion. Carrier then announced the sale of its industrial fire business to Sentinel Capital Partners for $1.45 billion. These divestitures are expected to close by year-end 2024, and all proceeds will be used to pay down debt.

CARR has leading HVAC market share positions in the U.S. and Europe, and the European market has been identified as a high-growth market over the next five years. Recently, the European Union (EU) has mandated that each country in the Union must reduce building energy usage by 25% by 2035. Germany's goal is to be greenhouse gas neutral by 2045. One of the ways the EU hopes to achieve this is by upgrading the current HVAC systems to heat pumps, and Carrier's Viessmann Climate Solutions division is the leader in efficient heat pumps in Europe.

Carrier Global also has leading market share positions in the U.S., and its air conditioners and heating systems are an integral part of an Energy Star qualification. Several states offer tax credits and rebates to consumers if they install CARR products. Carrier also produces air purifiers, humidifiers, dehumidifiers and a "ductless" air conditioner.

Expansion of data centers to accommodate increased technology usage, such as cloud computing, is a potential high-growth market for Carrier. The production of Artificial Intelligence (AI) semiconductor chips generates seven times the heat as traditional chips, and these factories will require a lot of cooling. Carrier estimates this current $7 billion market will grow to $15 billion in the next three years. Carrier manufactures key products such as water-cooled chillers for this market.

Carrier is also a leading manufacturer of filters and systems for schools and office buildings with its Healthy Building product portfolio. During the pandemic, customers wanted to make sure that the buildings where people work, play and learn were providing clean and safe air quality. Carrier's systems provide state of the art ventilation and filtration systems for school districts and offices around the country.

Carrier's refrigeration segment helps move perishable goods from the producer to the consumer by "connecting the cold chain". Every day, the world relies on the cold chain to provide fresh food, to safely transport and store vital medicines and to protect sensitive materials used in a variety of industries. Carrier is making the cold chain more healthy, safe, sustainable and intelligent, with innovative solutions from transportation to cold storage. Carrier has invested over $1.3 billion in research and development since 2021 to advance more feasible and sustainable refrigeration solutions.

We believe that Carrier Global is well positioned to capitalize on several high growth trends over the next several years, especially as more companies and governments turn to higher efficiency energy solutions in industries such as technology, health care, food and manufacturing. Additionally, we foresee a higher demand for clean and safe ventilation and filtration in schools, offices and businesses. Stay cool! ■

Carrier Global Corp. (Ticker: CARR)

Source: FactSet

AIming....continued from page 5.

Digital Realty incorporates AI to enhance data center efficiency. Data centers will require the use of new technologies, such as AI systems, to provide more effective, secure and efficient services.

Google continues to push the boundaries of innovation with AI-driven products and services. Gemini, its largest and most advanced AI model, is setting new standards for capability and performance in the technology landscape.

Amazon's foundational support for generative AI applications lies in its Amazon Web Services (AWS), which provides customers with scalable infrastructure, cost-effective solutions and a comprehensive suite of AI services. AWS empowers businesses across sectors to build and deploy AI models that drive innovation and efficiency.

As these companies continue to revolutionize and adapt, the investment environment surrounding AI remains dynamic. While AI-driven technologies present substantial growth opportunities, prudent navigation is essential amidst market fluctuations and valuation considerations. The recent surge in AI-related stocks underscores investor enthusiasm, but it also warrants caution regarding potential volatility in sectors where valuations may be perceived as stretched.

Our approach at Tufton emphasizes a balanced strategy that aligns with long-term growth prospects and resilience against market uncertainties. By actively monitoring industry trends and technological advancements, we aim to identify companies with sustainable competitive advantages and robust AI capabilities. This proactive stance ensures that your investments are well-positioned to capture the transformative potential of AI, while at the same time it effectively manages the risk.

We remain committed to providing insights and strategies that navigate the complexities of AI. Our focus on prudent investment decisions, supported by thorough research and analysis, aims to optimize portfolio performance and capitalize on the ongoing evolution of AI technologies. ■

TUFTON CAPITAL
MANAGEMENT
303 International Circle, Suite 430
Hunt Valley, MD 21030