Current Investment Strategy and Themes

- ***October's bear market rally reinforces the high level of volatility in capital markets as sentiment swings wildly.***
- ***Assets remain in the overvalued category based on sustained inflation, rising interest rates, and unpredictable earnings. Caution and diversification within an investors policy allocation remain key. Strategies should reflect lower durations, inflation hedges, and broader equity exposure.***

The Markets in Review: October 2022

- The US equity markets staged another bear market rally in October. In a bull market, the 8.10% S&P 500 gain in October would be euphoric and cause for further optimism that prices would continue to rise. In the current bear market, there was no such jubilation as that gain could not make up the September loss of -9.21%. In either case, when equity markets gyrate in the 5% to 10% range each month, sentiment is driving the markets, not fundamentals. In bull markets, these gains are an expression of the hope earnings growth will continue at an above average rate in spite of the valuations. In this bear market, this rally was again based on the hope that the Federal Reserve will turn "dovish" and slow, stop, or cut interest rates.
- Among the many "first rules" and cliches of investing is that in the long-run, prices and intrinsic value must converge. In the short-run, prices and value may have very little in common. Prices can gyrate wildly. Intrinsic value moves slowly with the growth of the economy and management decisions to produces shareholder value. We have written frequently and consistently over the last decade on how prices had overshot value. Equity value did grow over that period but not at the rate prices would indicate.
- But the economic environment of the last ten years is over. Slow steady growth with low inflation aided by (artificially) low interest rates benefited risk taking investors. Now the course of economic growth is unpredictable. The most common outlook is stagflation; that combination of low growth (and borderline recessions) and high inflation. The Federal Reserve will no longer support artificially low interest rates based on this renewed inflation level.
- Portfolio construction over the last decade focused assets on the largest company stocks, technology stocks and higher-yielding higher-risk bonds. The large-cap equity plus technology overweight was not an illogical decision by investors. The economic and social dominance of mega-corporations and large technology companies grew to record, but not sustainable, concentration levels. This un-heard of concentration also reflects the widening wealth gap in this country.
- We now enter a new environment for building a risk controlled diversified portfolio. Inflation, barely a factor in portfolio construction for 40 years, is key again. The impact on interest rates is being played out every day in the market. Shorter duration management will manage this bond market volatility. Commodities, another long-minimized strategy is also part of the portfolio. The growth component of almost all investors is equities. The great unwinding of the super concentration began. A more equal weighted approach to equities will give better diversification benefits to a portfolio as prices and value come more in alignment.

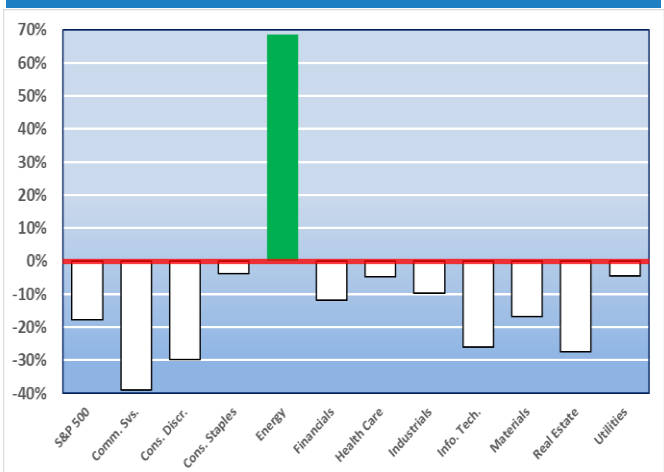
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	Oct 2022	Year to Date	Last 12 Months	Current View
U.S. Large Cap	8.10%	-17.70%	-14.61%	Cautious
U.S. Small Cap	11.01%	-16.86%	-18.54%	Cautious
International Developed	5.38%	-23.17%	-23.00%	Cautious
Emerging Markets Equity	-3.10%	-29.42%	-31.03%	Cautious
Fixed Income				
U.S. Aggregate	-1.30%	-15.72%	-15.68%	Bearish
U.S. Government	-1.37%	-14.14%	-13.94%	Cautious
U.S. Corporate	-1.03%	-18.92%	-18.91%	Neutral
U.S. High Yield	2.60%	-12.53%	-11.76%	Cautious
Non-U.S. Developed	0.31%	-26.64%	-27.43%	Cautious
Emerging Market Debt	-0.96%	-17.51%	-19.01%	Bearish
Alternatives				
REITs	4.89%	-24.61%	-18.51%	Neutral
Commodities	3.38%	17.48%	16.07%	Favorable
Managed Futures	-1.77%	27.51%	21.89%	Favorable
Hedge Funds	0.08%	-4.47%	-5.26%	Favorable

Source: Morningstar, data as of 10/31/2022

S&P 500 Sector Returns 2022 YTD



Source: Morningstar

Important Disclosures

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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Bloomberg U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index.
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the Dow Jones Commodity Index .
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

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