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Quarterly Market Update – Q3 2022

The GOOD/The BAD/The UGLY

The Good

The U.S. Consumer has Never Been Healthier

We believe the aggregate consumer is flush with cash, and once pent-up demand can safely be unleashed, the U.S. economy can continue to rip higher. The average U.S. Household are worth ~30% more. Consumer balance sheets are well fortified and flush with cash - ready to spend when supply chain and virus risks ease.

The Bad

Inflation is Persistent, Though Peaking?

The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations. But it appears that inflation is beginning to peak, even though the 5YR inflation breakeven figures are well above the Fed's 2% target. For markets, how the Fed chooses to address inflation is as important as the inflation itself.

The Ugly

Phantom Earnings Potentially Driving Negative Revisions

Earnings Expectations for the S&P 500 have only come down 3% in 2023. Anecdotally, margins continue to compress at the corporate level, but have not yet been represented in overall analyst's earnings expectations. We believe that if earnings were to significantly drop, which they tend to fall ~20% during a recession, the market could follow.

Fed Tightening Misstep

The yield curve officially inverted in Q1 2022. Now, it is up the Fed Chair Jerome Powell to recognize the level of flattening. This means caution in communication if the Fed is to avoid the mistakes of the Yellen Fed, namely inverting the yield curve and slowing the flow of liquidity to main street by redirecting said liquidity towards Wall Street. We believe the Fed is between a rock (slower growth) and a hard place (inflation).

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Equity Market in Review

A Market in Review

Interest Rates Tend to Mask Market Problems: Since the beginning of QE in 2008, investors have learned that lower-for-longer interest rates can mask a lot of problems that linger beneath the market. Now that the Fed has begun QT, and interest rates have been driven higher, the market is starting to recognize a few “sins” in the market, i.e., inflation, interest rates, QT, taxes, etc. The question is whether or not stocks will atone for these “sins”.

Bear Market Rallies are Normal: This past quarter saw the fourth bear market rally this year. Bear market rallies grow larger and longer as a bear market progresses. This occurred in the long bear markets of the 1930s, 2000-03 and 2007-09. This last rally was by far the biggest of the current bear market.

What Concerns Us the Most?: In short, what concerns us most about the markets today is:

- The potential for a Fed policy error;
- A general tendency to think about turns in the economy and stock prices in V-shaped terms; and
- Downturn in S&P 500 Earnings

Source: Strategas, Data as of 9/30/2022

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	-9.22%	-4.89%	-23.88%	-19.43%	8.81%	9.67%	11.97%
NASDAQ	-10.44%	-3.91%	-31.99%	-30.11%	10.89%	11.54%	14.50%
Dow Jones Industrial	-8.76%	-6.17%	-19.72%	-17.03%	5.07%	7.88%	10.75%
Russell 2000	-9.57%	-2.18%	-25.11%	-25.78%	4.98%	4.79%	8.89%
MSCI EAFE	-9.30%	-9.26%	-26.71%	-26.81%	-0.33%	0.23%	4.56%
MSCI EM	-11.71%	-11.46%	-26.99%	-30.70%	-1.13%	-1.56%	2.00%
U.S. Barclays Agg.	-4.32%	-4.75%	-14.61%	-15.34%	-3.43%	-0.37%	0.90%
Investment Grade Bonds	-6.11%	-5.92%	-21.20%	-21.99%	-4.60%	-0.23%	1.86%
High Yield Bonds	-3.73%	-0.70%	-14.43%	-13.95%	-1.20%	1.29%	3.35%

Source: Bloomberg. Data as of 9/30/2022. Returns include Dividends. Returns over 1YR are Annualized.

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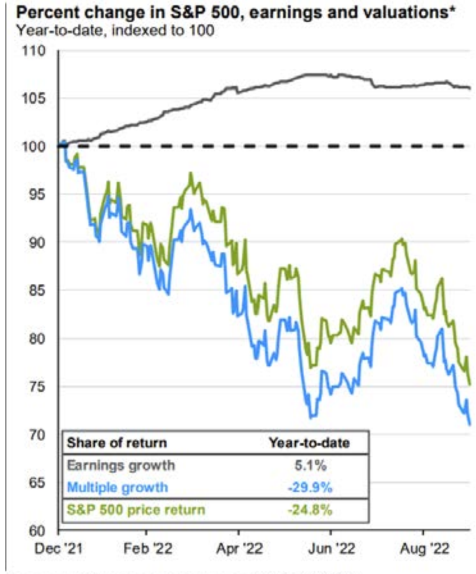
Composition of Returns

Where Did Returns Come From? Thus far in '22, the downturn in the market has been fully attributable from multiple compression. This makes a lot of sense to us, as the market correction was all about higher rates, inflation, an exogenous geopolitical event and not about an economic or earnings slowdown.

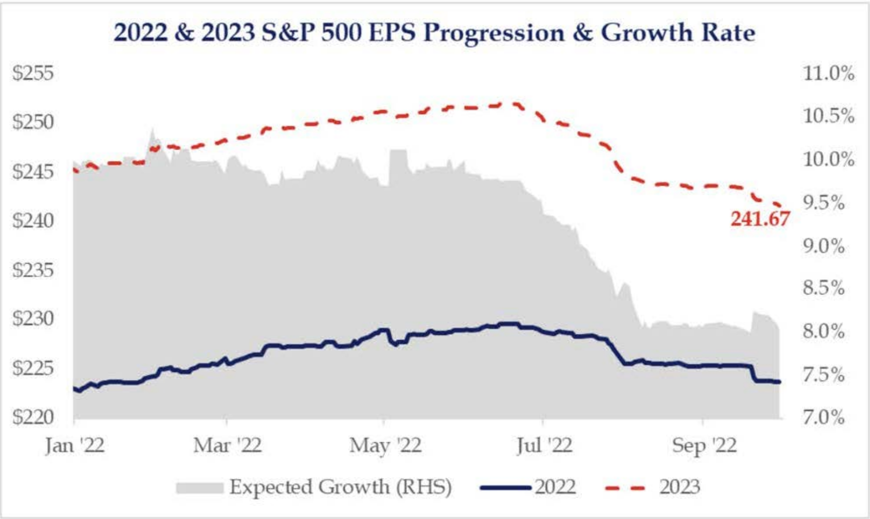
- *S&P 500 Dividend Yield*: 1.73%
- *S&P 500 '23 Earnings Expectations*: Earnings in '23 have already increased by 9.7% v. '22.
- *Multiple Compression YTD*: The S&P 500 entered '22 with a 21.5x price-to-earnings multiple, placing it in the 95th percentile versus its history. As mentioned above, multiple compression attributed to all the market's underperformance this year, placing its current valuation at 14.7x.

The Risk of "Phantom Earnings" Remains: The S&P 500 decline this year have been driven entirely by falling valuations, which in turn have moved in line with rising interest rates. As a result, the equity risk premium remains close to where it started the year. While rotations within the equity market have signaled expectations of slowing growth, index valuation does not appear to be providing a buffer for the uncertainty around the path of future earnings.

Earnings fall about 20% on average during recessions. Oddly, expectations for 2023 earnings remain at $244 an 8% increase over this year's level. 2022 earnings expectations of $225 was a 10% increase from 2021. Thus, we haven't seen a downward revision in estimates.



Source: Strategas, Data as of 9/30/2022



Source: Strategas, Data as of 9/30/2022

Valuation Update

Valuations is a metric that measures investor sentiment in the market.

What is Valuation Telling the Market?

There are many factors that influence the multiple investors are willing to pay for equities. Let's break down Price-to-Earnings ("P/E") multiple:

- Price: The current market price of the underlying asset.
- Earnings: The amount of net income a company has per the number of stock shares that it has issued.

= Valuation is a measure of value expressed by market participants. If the perceived level of risk is high, investors demand a lower multiple in an effort to protect against that risk. Likewise, much like we have seen this year, when interest rates rise, equity multiples tend to contract, as the discounting of future cash flows, or earnings, becomes more expensive.

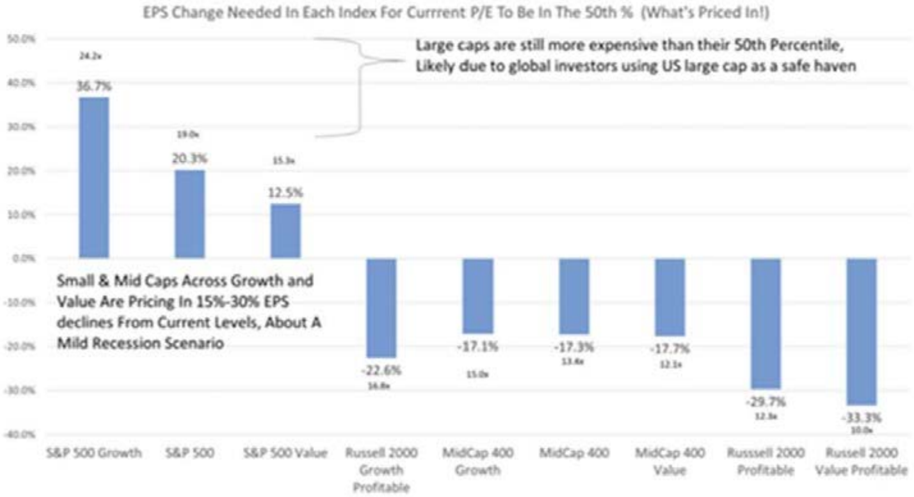
Source: Strategas, Data as of 9/30/2022

Not All Asset Classes are Created Equal:

- A year ago, all growth indices were expensive relative to their history and all value indices were inexpensive.
- Clearly, the market does not believe in the "E" for small and mid-caps.

➢ The S&P 500 Index would need to see EPS expectations increase by ~10% - 35% for the P/E to be at it's historical long-term average.

➢ Small and Mid-Cap indices would need to see EPS fall by ~15% - 30% for P/Es to be at historical levels, said another way, we believe that they are already baking in a mild recession.



Source: Raymond James, Data as of 9/30/2022

Keeping Things in Perspective

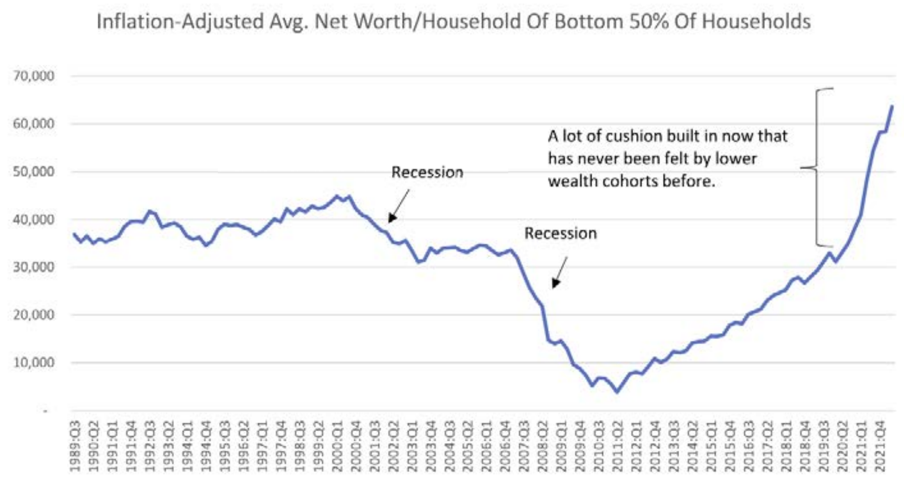
Valuations is a metric that measures investor sentiment in the market.

What Are the Bulls Saying?

- Inflation has peaked.
- The Consumer's propensity to spend remains intact, given the amount of excess capital in their savings and investment accounts.
- Oil is "resetting", which will benefit consumer's pockets.
- China could give up on their "zero-COVID policy".
- Investors believe that there is a Fed "pivot" after the recent move by the Bank of England.

What are the Bears Saying?

- Inflation will be higher-for-longer, as the sticky aspects of inflation, wages, and energy, will not subside.
- The Fed is all wrong – hiking too slowly or too fast.
- Future Fed pivots are based on the fact that their current policy is working.
- Healthy Consumers are false prophets, i.e., elevated savings are masking the realities of inflation.
- Unemployment will get worse
- The housing market is just the tip of the iceberg.



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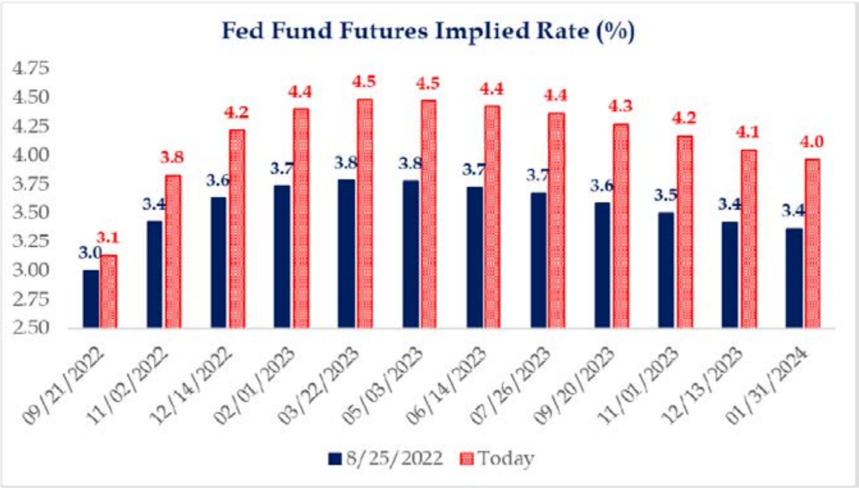


Source: Strategas, Data as of 9/30/2022

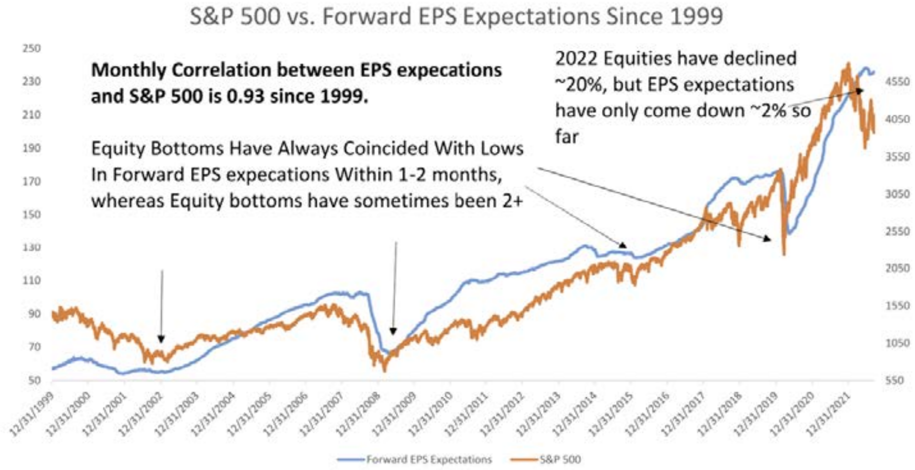
Market Outlook – Q4 2022

Investors are Grappling with the Idea that this Recent Rise in Risks and Volatility May be Around for a Sustained Period

<u>We are Cautious on the Economy Moving Forward, Why?:</u>

- Earnings Growth is likely to slow as we head into 2023.
- The Fed will continue tightening and the *Fed Put* is no more.
- Money supply continues to slow and is lower than nominal GDP which is not a great environment for risk assets.
- A full-fledged transition from QE to QT.

While our bias to believe that the lows established in June may not hold, we have a much stronger conviction in the idea that future equity returns will be more difficult to achieve new highs in the interim, as the transition from QE to QT unfolds.



Source: Raymond James, Data as of 9/30/2022.

<u>Hot Topics:</u>

QE → QT: We are going through the fastest tightening cycle since 1994. This has put pressure on yield (upward) and valuations (downward). We believe the transitions from QE to QT is one of the most challenging risks facing investors over the last twenty+ years.

Inflation: U.S. demand looks to be slowing, which is a key sign of restrictive policy. A recession should bring down U.S. inflation considerably (even in the 1970s this was true). **We are less worried about further inflation surprises & more focused on recession/slowdown.**

Source: PSC, Data as of 9/30/2022

We continue to maintain that a market "bottoming" is a process, one that given the degree of imbalance and disequilibrium in the economy could take some time to play out.

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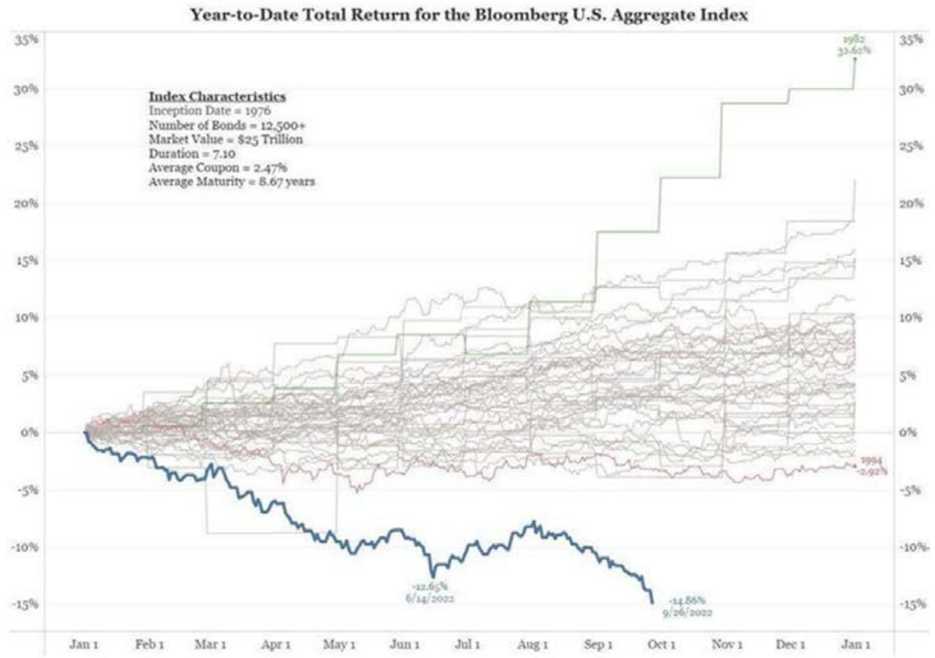
Fixed Income Market in Review

Bonds Continue To Not Provide Safety

Within Asset Allocations, Fixed Income Has Been As Helpful As a Screen Door On a Submarine **–** This year has been the worst start to traditional 60/40 portfolios since 1931 and the microcosm is – the historically safe haven in the portfolio. If the year ended today, it would be the worst annual return in history for the U.S. Aggregate bond index, with a loss of -14.61%. The -2.9% loss in '94 is the largest "official" on record with history on this index going back to 1976.

Long Duration Fixed Assets Continue to Face Headwinds in Inflationary Periods - We believe that bonds, in an inflationary environment, don't serve as a portfolio hedge as most investors expect. We see this trend continuing over the short and medium-term periods. Fixed income remains a difficult place to invest until its yield > inflation.

Principle Loss Trumps Yield Income - The income from bonds was neither able to offset the price loss from rising rates nor able to recuperate the negative impact from inflation. In fact, just doing a simple calculation, the negative total return from bonds YTD 2022 would take just over 3 years of income to offset the price – substantial capital lost in just nine months.



Source: Bianco, Data as of 9/26/2022

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
U.S. Aggregate	-4.32%	-4.75%	-14.61%	-14.60%	-3.26%	-0.27%	0.89%
U.S. Investment Grade Bonds	-6.11%	-5.92%	-21.20%	-20.97%	-4.33%	-0.22%	1.72%
U.S. High Yield Bonds	-3.73%	-0.70%	-14.43%	-13.80%	-1.30%	1.13%	3.23%
iShares 20+ Year Treasury Bond	-8.23%	-10.29%	-29.92%	-27.69%	-9.02%	-1.88%	0.43%
International Bond Index	-2.80%	-3.26%	-12.87%	-13.06%	-4.20%	0.00%	
U.S. Treasury TIPS	-2.87%	-2.62%	-3.98%	-2.86%	2.44%	2.35%	1.28%

Source: Bloomberg. Data as of 9/30/2022. Returns include Dividends. Returns over 1YR are Annualized.

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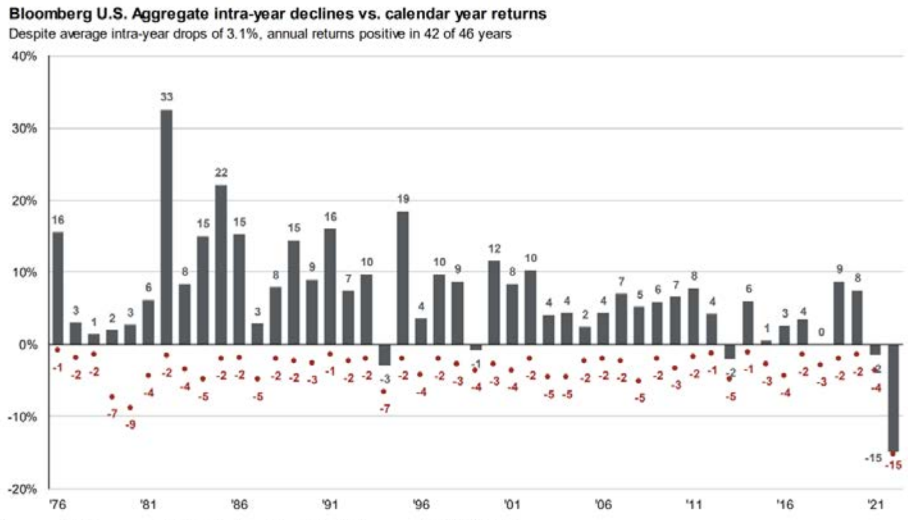
The Fundamental Bond Backdrop

Bond Market Volatility:

The Pain Has Continued – The pain in the bond market continued in the third quarter, as the U.S. Bond Index is down 15% year-to-date. Since the late 1970s, no other year has come close to experiencing similar pain. This year's drawdown is almost twice as large as the next biggest. Global bonds have faired even worse.

Is a Fed Put in the Future? We continue to believe that the Fed Put is much lower right now, as FOMC Chairman Jerome Powell, has stated that the Fed is going to keep raising until we have a recession unless inflation meaningfully improves.

Rarified Air in the Bond Market – Of the 187 quarters since 1976, there has never been a period that has seen negative quarterly returns for both stocks and bonds three quarters in a row.



Source: JPMorgan Guide to the Market, Data as of 9/30/2022

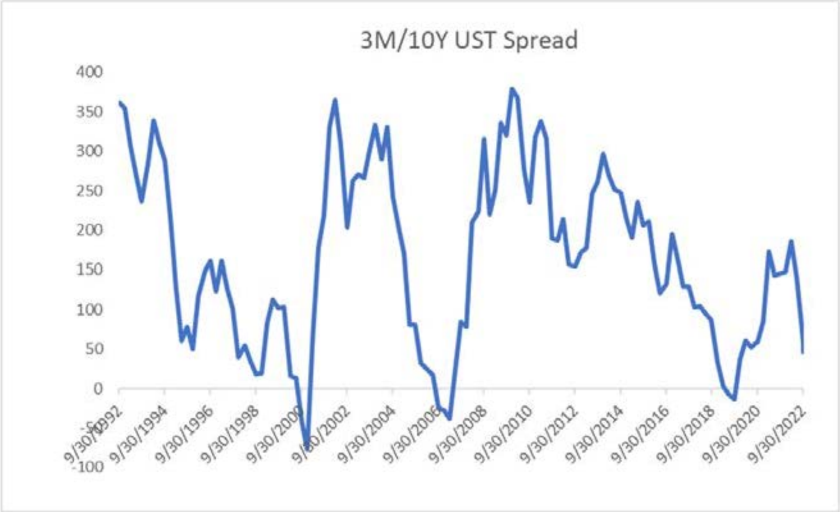
What Are Credit Spreads Telling Us?

Credit Spreads – Spreads continued to widen during the quarter, as the market took a risk off perspective. The widening was even more draconian in the more cyclical areas of the market.

High Yield > Investment Grade - HY has continued to outperform Investment Grade due to their shorter duration and Energy exposure.

Let's Talk Yield Curve

What Can Cause a Yield Curve Inversion? An inversion is bad because it estimates that the Fed will hike above neutral, which has been historically dangerous for the economy. During Q3, the Fed hiked above their historical neutral rate of 2.5%, as the Fed Funds rate sits at 3.25%. The consensus expectation is that we will see 4.4% by year end.



Source: Bloomberg, Data as of 9/30/2022

Bond Outlook – Q4 2022

When Do Bonds Begin to Look Attractive?

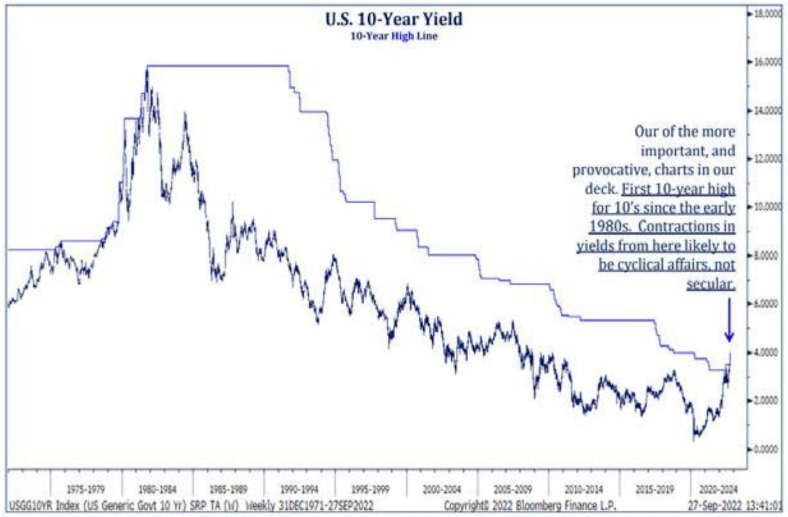
Until bonds can yield a higher rate than Core Inflation, the asset class will continue to lose money safely. We believe that the bond outlook will remain bleak, until yields increase, or inflation decreases.

More recently, we've seen rates tick up, sparking the conversation of fixed income's positioning in asset allocations.

Bond Volatility Will Continue:

We believe that the bond VIX Index will continue to remain elevated due to:

- The market continuing to digest the ever-changing terminal rate, and
- The transition into a *Quantitative Tightening* environment which has decreased the liquidity in the Treasury market.



Source: Strategas, Data as of 9/30/2022

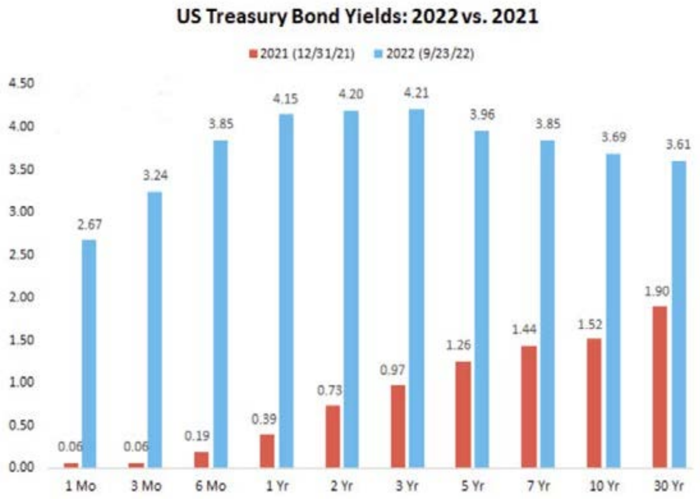
Areas of Potential Opportunity:

For the first time in a long time, the treasury market is giving investors some sort of yield. In fact, we believe that there is going to be a competition for capital, as the percentage of stocks with yields greater than the 10YR Treasury is returning to it's pre-GFC levels. Less than 20% of the stocks in the S&P 500 have a yield > 10YR Treasury.

Any Area That Worries Us?

Given the cracks showing up in economic data and the Fed's stated intent is to crush inflation by tightening financial conditions, we believe the credit sensitive side may be a difficult place to hide.

Understanding that credit spreads are wider than where we started the year, we believe that there could be more pain to come, as the slightly higher juice (coupon) being paid won't be worth the squeeze.



Source: Charlie Bilello, Data as of 9/30/2022

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Economics

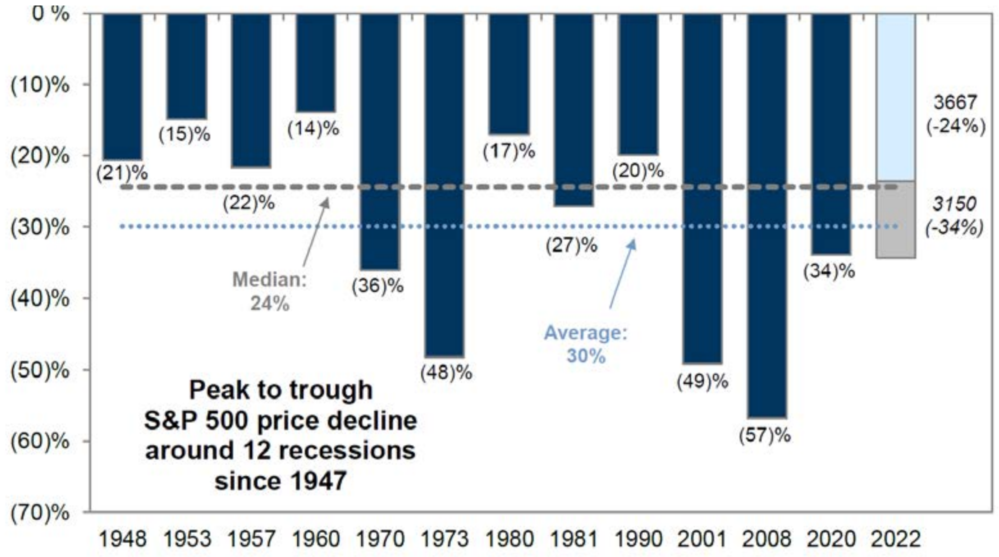
What Does a Recession Mean?

What is a Recession?
Broadly speaking, a recession is popularly defined as two consecutive quarters of negative GDP growth, but that is not a hard and fast rule.

What Can Cause a Recession?
In our opinion, it's important to remember that recessions are the ultimate end result of government or Fed policy mistakes. Either the Fed tightens rates too quickly or too much and/or we get some Federal policy change that causes economic catastrophe.

…Are Recessions Bad for Stocks?
Recessions themselves are arbitrary designations, and the economy slows well ahead of any official recession. More importantly, market declines occur long before recessions are even declared.

That's at least partially why stocks are down so much YTD, so to a point, at least some potential for a recession is already being priced in. By the time the economy is in "recession" stocks may well have bottomed and will be looking towards the recovery. March 2020 is a perfect example of this.

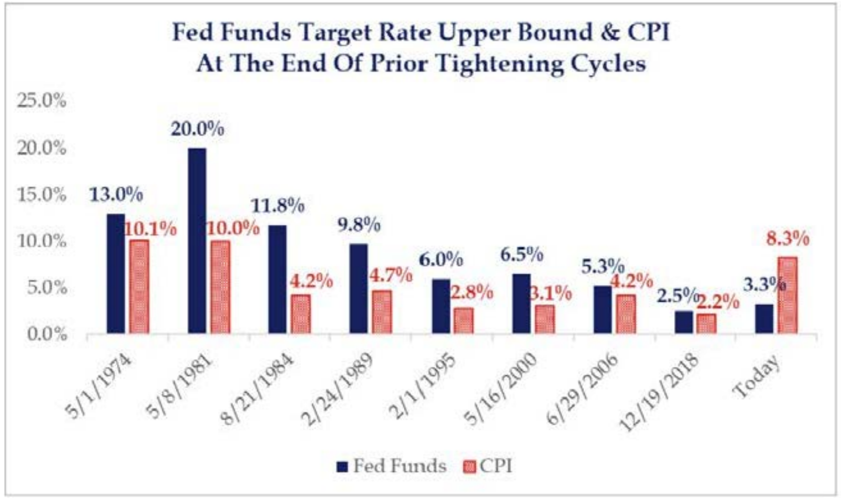


Source: Goldman, Data as of 9/30/2022

Fed Up With Low Rates

Will The Fed Remain Credible?

- Global central banks are in the process of removing extraordinary monetary policy measures that were put in place because of the COVID-19 pandemic.
- The Fed is heading into uncharted waters - policy makers have already begun raising rates at a historical pace while implementing quantitative tightening (QT) at the same time, all while stocks are in a technical bear market.
- We believe that the Fed will continue being hawkish, i.e., increasing rates. Historically speaking, the Fed only stopped tightening after the Fed Funds rate exceeded the prevailing rate of inflation as measured by the CPI. With the Fed Funds rate at a mere 3.25% and the CPI currently running at 8.3%, we may have a long way to go.



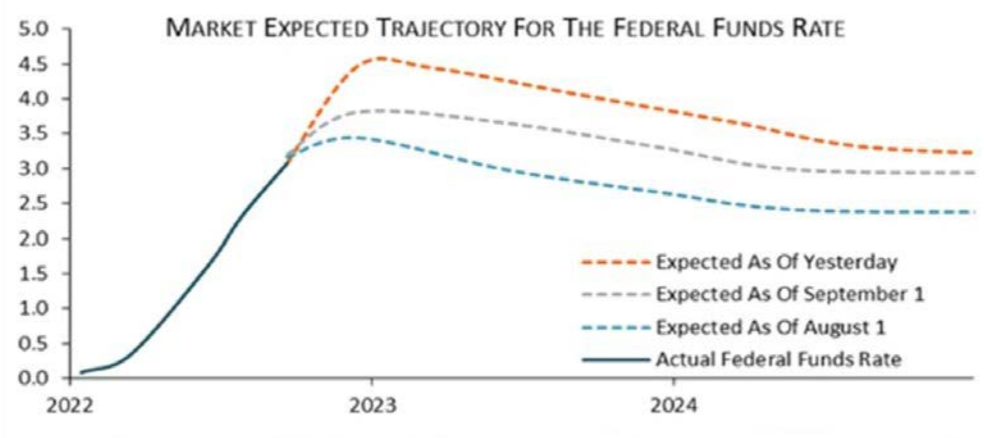
Source: Strategas, Data as of 9/30/2022

Soft vs. Hard Landing Narrative – What is the Difference?

- *Soft Landing:* Fed tightens Monetary policy without a recession.
- *Hard Landing:* Fed tightens Monetary policy with a recession.

What Are the Chances of a Hard Landing?

- Fed officials remain unanimously optimistic about the prospects for the US economy. No surprise there. It would be extraordinary if the central bank openly admitted that a downturn is coming.
- Historically, there has been only one instance when Fed tightening above neutral did not result in a recession—the 1994-95 episode, which was accompanied by a large increase in productivity.
- A piece of good news coming from markets is the recent sharp decline in inflation expectations; but that seems to be the result of recession fears, not a reason not to expect a recession.



Source: PSC, Data as of 9/30/2022

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What is Quantitative Tightening?

What Is It? Quantitative Tightening is a process where the Federal Reserve reduces its balance sheet to reverse the economic impact of “Quantitative Easing,” or “QE,” where global central banks pump liquidity into the financial system to provide liquidity during periods of economic stress like the Great Financial Crisis, or more recently, the COVID-19 pandemic.

What Are the Characteristics of QT?

- The Fed began the QT process in June reducing the reinvestments of principle payments in Treasuries and Mortgage-Backed Securities.
- Alongside QT, the Federal Open Market Committee (FOMC) will be raising interest rates (Fed Funds Rates).

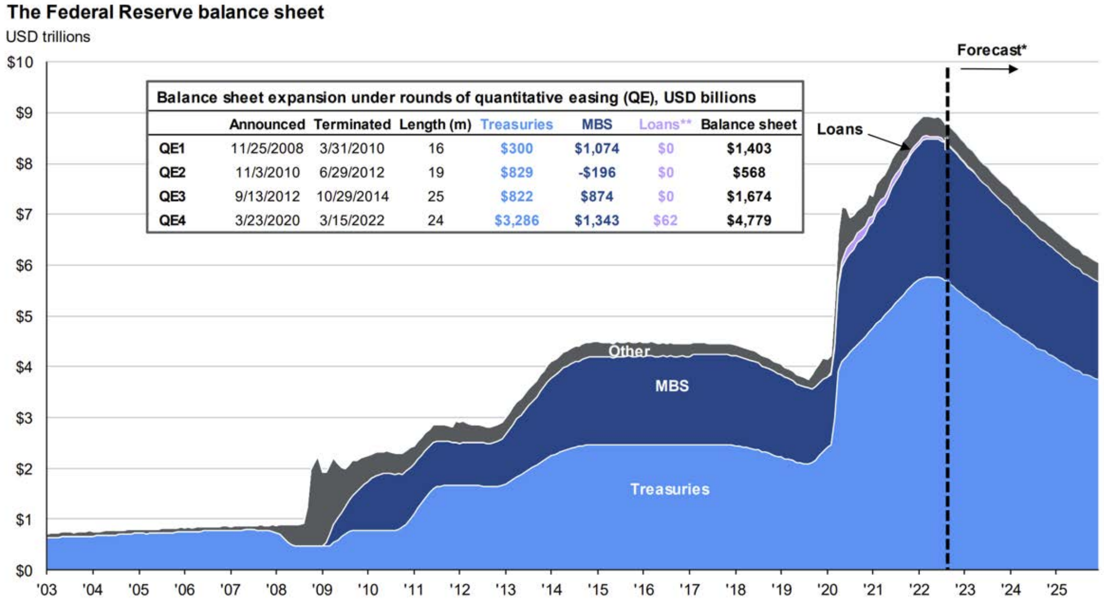
How Does the Withdrawal of Liquidity Work?

At its core, QT is when the Fed receives principal repayments from its security holdings, and rather than use those proceeds to purchase new securities, it extinguishes it and reduces the amount of reserves in the system.

What Will the Market Impact Be?

Quantitative easing (QE) pumped a massive amount of liquidity into the system, and now there is too much. Therefore, the initial reduction in the balance sheet shouldn’t be a cause for concern.

The massive increase in yields and decline in bond prices, has already occurred. As a result, the tightening in financial conditions and expected liquidity removal, to some extent, has already been priced into markets.



Balance sheet expansion under rounds of quantitative easing (QE), USD billions

	Announced	Terminated	Length (m)	Treasuries	MBS	Loans**	Balance sheet
QE1	11/25/2008	3/31/2010	16	$300	$1,074	$0	$1,403
QE2	11/3/2010	6/29/2012	19	$829	-$196	$0	$568
QE3	9/13/2012	10/29/2014	25	$822	$874	$0	$1,674
QE4	3/23/2020	3/15/2022	24	$3,286	$1,343	$62	$4,779

Source: JPMorgan Guide to the Market, Data as of 9/30/2022

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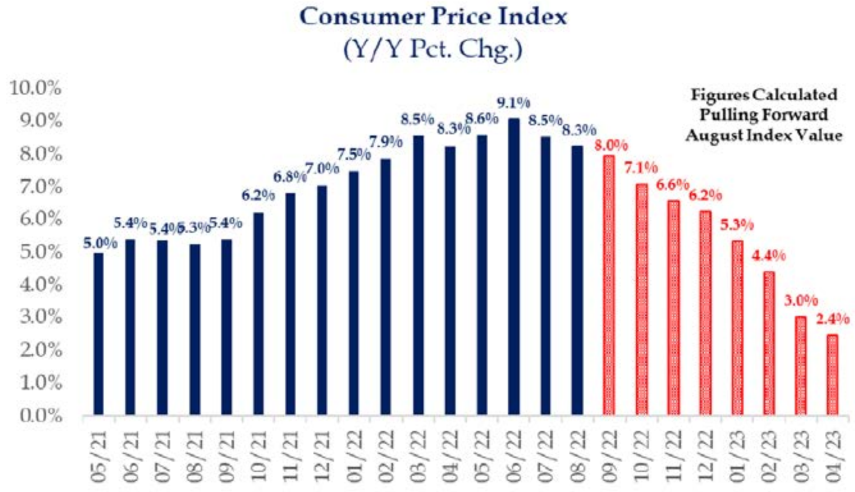
Inflation Continues to Inflate

Inflation Remains the *CORE* Problem:

- Bottom line, from a medium- and long-term standpoint, inflation remains one of, if not the, most important variables in the market. If inflation statistics and inflation expectations do not show signs of weakening, the Fed will need to continue being aggressive, hence the recent fed hikes. Otherwise, the Fed could lose its credibility.
- The ramification of this would be an increased chance that the Fed makes a policy error, i.e., raising rates so fast that it would push the economy into a recession.



Source: Strategas, Data as of 9/30/2022

Inflation is a Regressive Tax on Main Street America:

- The biggest question facing investors is: can the Fed get inflation under control without inducing a recession along the way?
- With inflation consistently running over 8%, the Fed believes it has more of a duty to protect ordinary Americans from the regressive tax of inflation than bailing out investors with continued accommodative policy (Quantitative Easing).

Upward Pressure on Inflation is Likely Moving Forward:

- Inflation remains stubbornly high and the contributing inputs have flipped to more structural problems. Examples of this are: Energy pricing, Housing pricing, Services pricing, and Labor pricing.

Future Inflation Projections

Month	0.0% M/M	0.1% M/M	0.2% M/M	0.3% M/M	0.4% M/M	0.5% M/M	0.6% M/M	0.7% M/M	0.8% M/M	0.9% M/M	1.0% M/M
Sep-22	6.05%	6.15%	6.26%	6.37%	6.47%	6.58%	6.68%	6.79%	6.90%	7.00%	7.11%
Oct-22	5.41%	5.62%	5.83%	6.05%	6.26%	6.47%	6.68%	6.89%	7.11%	7.32%	7.53%
Nov-22	4.86%	5.18%	5.49%	5.81%	6.13%	6.44%	6.76%	7.08%	7.40%	7.72%	8.04%
Dec-22	4.28%	4.69%	5.11%	5.53%	5.96%	6.38%	6.80%	7.23%	7.65%	8.08%	8.51%
Jan-23	3.67%	4.19%	4.71%	5.24%	5.76%	6.29%	6.82%	7.35%	7.89%	8.42%	8.96%
Feb-23	3.15%	3.77%	4.40%	5.02%	5.65%	6.28%	6.92%	7.56%	8.20%	8.85%	9.50%
Mar-23	2.82%	3.54%	4.27%	5.00%	5.73%	6.47%	7.21%	7.96%	8.72%	9.47%	10.23%
Apr-23	2.24%	3.06%	3.88%	4.72%	5.55%	6.40%	7.25%	8.10%	8.97%	9.83%	10.71%
May-23	1.59%	2.51%	3.44%	4.37%	5.31%	6.26%	7.21%	8.18%	9.15%	10.13%	11.11%
Jun-23	0.88%	1.90%	2.92%	3.95%	4.99%	6.04%	7.10%	8.17%	9.25%	10.34%	11.44%
Jul-23	0.57%	1.68%	2.80%	3.94%	5.08%	6.24%	7.41%	8.59%	9.78%	10.98%	12.20%

Source: Strategas, Data as of 9/30/22

What is the State of the Consumer?

The Market and Economy Are Not the Same Thing:

- What's the Difference?
  - The Market: The market tends to be a more volatile vehicle predisposed to investor sentiment on the perceived current environment.
  - The Economy: The economy is based off the health of the consumer and their propensity to spend over longer periods of time.

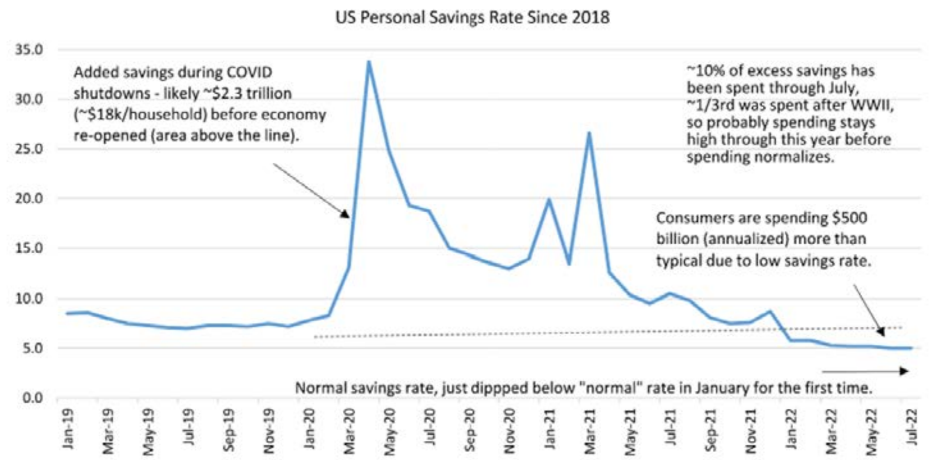
The Consumer's Wallet Doesn't Jiggle, Jiggle – It Folds:

The market invests in the *Change* in the near-term (i.e., Savings Rate), and the *Level* in the long-term (i.e., Total Net Worth).

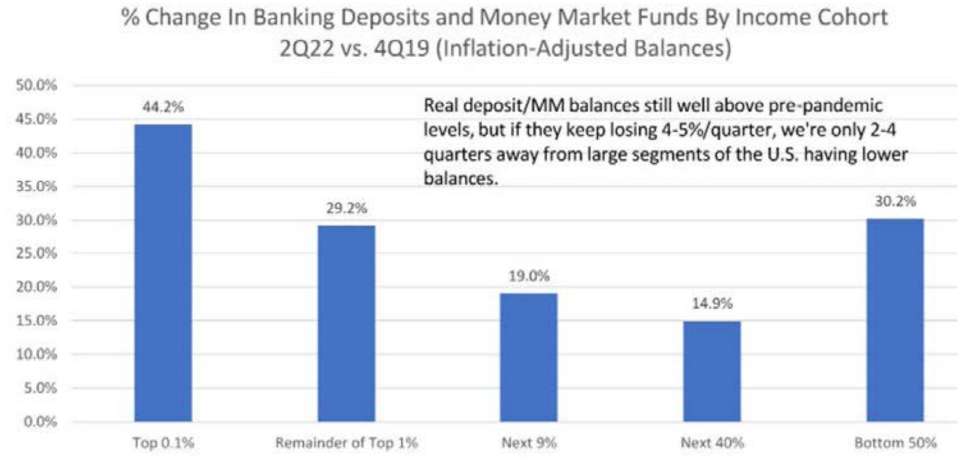
The Short-Term Problem: It's no secret that the Consumer is flush with capital. BUT, the strength of the consumer isn't a saving grace in the face of multi-decade high inflation, especially in the short-term. The *Savings Rate* has been declining, as people spend more capital, given the increased cost of basic goods. The big question is: *Will record retail spending levels persist the longer inflation sticks around*?

The Long-Term Solution: Any way one slices it, the consumer continues to be flush with capital, which should drive economic benefits over a full business cycle.

The *income statement* is your capital intake minus the expenses. If the expenses > capital intake, you must tap your savings account, i.e., balance sheet. If one starts the see their *balance sheet* completely deplete, then it becomes worrisome – we are no where close to that.



Source: Raymond James, Data as of 9/30/2022

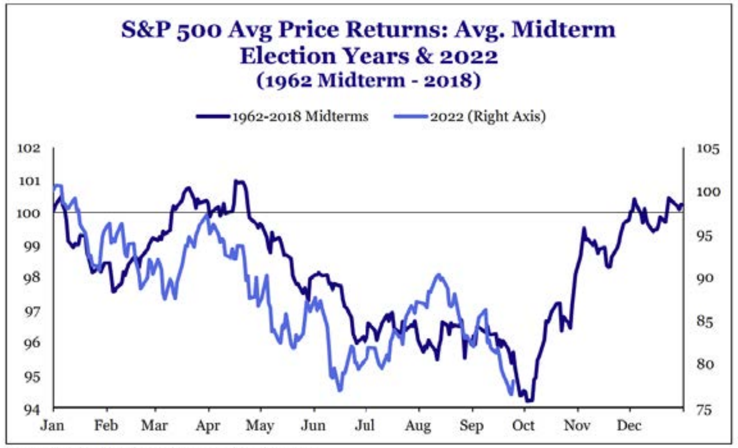


Source: Raymond James, Data as of 9/30/2022

Mid-Term Election Years

Unfortunately, It's That Year Again – Enter Stage Left … Politics:
Historically, Mid-Term Election Years Tend to Be More Volatile: This year has been no different. In fact, on average, the intra-year drawdown for the S&P 500 during mid-term election years is 19%, while it's just 12.5% in non-mid-term years.

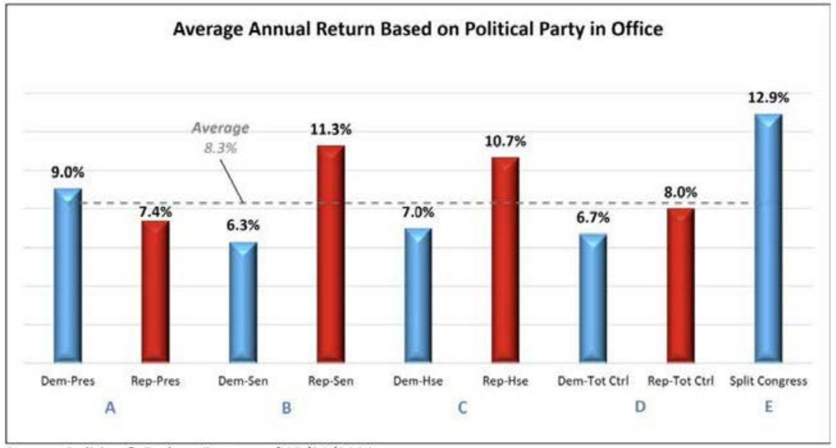
Will it Be An Inflection Point For Stocks?: The good news is that just getting to the election has historically been a catalyst for stocks with the S&P 500 not declining in the 12-months following a midterm election since 1946. The only two times when the market did not rally into mid-terms were 1974 and 1978 when inflation was accelerating.



Source: Strategas, Data as of 9/30/2022

A Friendly Public Service Announcement:
Stock Market Outcomes Are Not Predicated By Political Control:
Conventional Wisdom: States that Democratic control tends to be bad for the economy and the stock market because of their big government tendencies, while fiscally conservative Republicans are good.

Facts: ….It Doesn't Matter which Political Party is in control. Bull markets and bear markets come and go, and it's more to do with business cycles than political party control.



Source: Politico & Forbes, Data as of 12/31/2021

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Asset Allocation

Asset Allocation Woes

Portfolio Volatility as Correlations Rise:

- The current tightening cycle that we find ourselves in today is unique. Unlike prior tightening cycles, both stocks and bonds have been positively correlated which is in stark contrast to the negative correlation we've grown accustomed to for more than 20 years. <u>In fact, for the first time ever, both stocks and bonds are negative for three consecutive quarters.</u>
- *Why?* This is due to the nature of the counter cyclical inflation (supply side driven) as opposed to pro cyclical inflation (uptick in aggregate demand) that's been plaguing developed economies for the latter part of 2 years now.

Quarters With Both Negative Returns For Stocks and Bonds

Quarter-End	S&P 500	Barclays Agg.	Quarter-End	S&P 500	Barclays Agg.
Mar-77	-8.4%	-0.8%	Mar-94	-4.4%	-2.9%
Dec-77	-1.5%	-0.1%	Jun-94	-0.3%	-1.0%
Dec-78	-6.3%	-1.4%	Mar-05	-2.6%	-0.5%
Dec-79	-1.3%	-3.1%	Jun-06	-1.9%	-0.1%
Mar-80	-5.4%	-8.7%	Jun-08	-3.2%	-1.0%
Jun-81	-3.5%	-0.3%	Sep-08	-8.9%	-0.5%
Sep-81	-11.5%	-4.1%	Jun-15	-0.2%	-1.7%
Jun-84	-3.8%	-2.1%	Mar-18	-1.2%	-1.5%
Mar-90	-3.8%	-0.8%	Mar-22	-4.9%	-5.9%
Mar-92	-3.2%	-1.3%	Jun-22	-16.4%	-3.9%
			Sep-22	-3.8%	-5.3%

Source: Strategas, Data as of 9/30/2022

Traditional 60 / 40 Portfolio Woes:

- This year has offered no shortage of headaches, but the most acute source of pain for most traditional portfolios has been the positive correlation between falling stock and bond prices.
- There is historical precedent for balanced 60/40 portfolios experiencing negative calendar year returns. What makes 2022 so uniquely challenging? So far, it is the first time in recent history when both stocks and bonds have had steep, simultaneous declines.

60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928 - 2022)

Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	26.6%	1947	3.5%	1966	-4.8%	1985	29.0%	2004	8.2%
1929	-3.3%	1948	4.2%	1967	13.6%	1986	20.8%	2005	4.0%
1930	-13.3%	1949	12.8%	1968	7.8%	1987	1.5%	2006	10.2%
1931	-27.3%	1950	18.7%	1969	-7.0%	1988	13.2%	2007	7.4%
1932	-1.7%	1951	14.1%	1970	8.8%	1989	26.0%	2008	-13.9%
1933	30.7%	1952	11.8%	1971	12.4%	1990	0.7%	2009	11.1%
1934	2.5%	1953	0.9%	1972	12.4%	1991	24.1%	2010	12.3%
1935	29.8%	1954	32.9%	1973	-7.1%	1992	8.2%	2011	7.7%
1936	21.2%	1955	19.0%	1974	-14.7%	1993	11.7%	2012	10.7%
1937	-20.7%	1956	3.6%	1975	23.6%	1994	-2.4%	2013	15.6%
1938	19.3%	1957	-3.6%	1976	20.7%	1995	31.7%	2014	12.4%
1939	1.1%	1958	25.4%	1977	-3.7%	1996	14.2%	2015	1.3%
1940	-4.2%	1959	6.2%	1978	3.6%	1997	23.8%	2016	7.3%
1941	-8.5%	1960	4.9%	1979	11.4%	1998	23.0%	2017	14.1%
1942	12.4%	1961	16.8%	1980	17.8%	1999	9.2%	2018	-2.5%
1943	16.0%	1962	-3.0%	1981	0.5%	2000	1.2%	2019	22.6%
1944	12.4%	1963	14.2%	1982	25.4%	2001	-4.9%	2020	15.3%
1945	23.0%	1964	11.3%	1983	14.7%	2002	-7.1%	2021	15.3%
1946	-3.8%	1965	7.7%	1984	9.2%	2003	17.2%	2022*	-20.4%

Source: Compounded Capital, Data as of 9/30/2022

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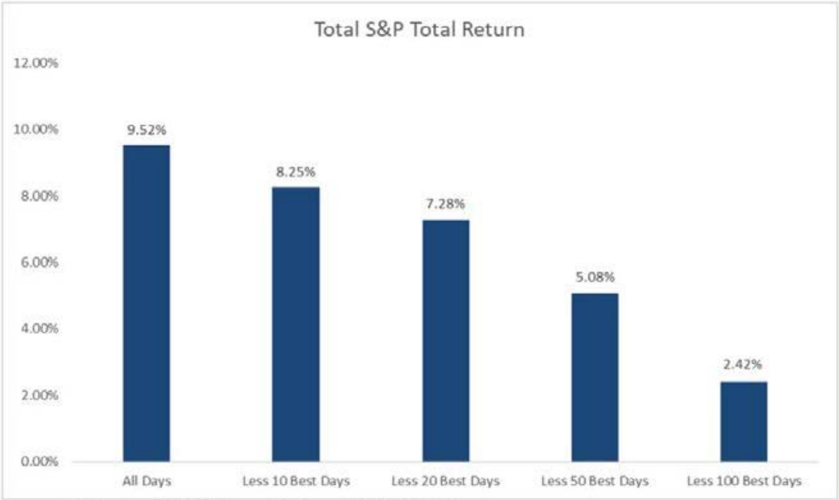
Consistent Behavior Breeds Winners

Failure to Stay Invested:

- *It Pays to Stay Invested* - The US stock market has been resilient through its history. Stocks routinely recovered from short-term crisis events to move higher over longer time periods.

- *Timing the Market* - By trying to predict the best time to buy and sell, you may miss the markets biggest gains. Attempting to guess short-term swings make it very difficult to produce consistent results. The best method for loss avoidance is to expand your time horizon.

- *Behavior Gap* - We have found the shorter time frame you choose the more apt you are to get whiplash and trade excessively. This behavior challenge often leads to emotions driving decisions over your goals.



Source: Aptus Capital Advisors, Data as of 9/30/2022

Remember to Expand Your Time Horizon:

- No one ever knows that the market is going to do – especially on a daily basis – we know that volatility tends to breed more volatility – whether it's up or down.

- In our view, investors also tend to focus too much on the short-term "noise" in the market. There is usually great deal of variability in the day-to-day, with different economic, geopolitical, and company-specific news constantly moving markets.

- We believe the best method for loss avoidance is to expand your time horizon.

Source: Aptus Capital Advisors, Data as of 9/30/2022

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