MARKET RECAP:

After a very difficult first of the year, equity markets rebounded in July and August. Why? Investors hoped inflation was easing and dreamed the Fed would “pivot or pause”. We heard and read these words repeatedly as the hopefuls wished the Fed would stop raising interest rates driving investors away from bonds and back to equities. It didn’t happen, at least not consistently.

OUR POSITION:

1. The Fed is in charge, and they are hawkish. They will continue interest rate hikes until rates hit 5% to 5.5 %. Make no mistake about it---the FED is committed to reducing inflation.
2. Obviously, we are in a Bear Market, and it is not over. Keep in mind that Bear Markets are known for impressive rallies. However, big money (institutional $) will take money off the table during these intervals. Another reason amongst many why market timing is a fool’s game.

Recent questions from our clients:

1. **What will it take for a Bull Market to return?** We will have to see a drop in inflation and demand will have to remain better than expected. We don’t expect this scenario in the near future.
2. **What industry areas should we avoid and what areas should we emphasize in our portfolios?**

   With interest rates rising we are avoiding the Housing, Banking, Retail and Staples. We are limiting or avoiding these areas in our choices of individual stocks, ETFS and watching the allocations of all our mutual funds managers.

   We’ve cut back in Tech with an understanding that this sector is a long-term play and a sector that drives positive returns. At this point, the sector is being negatively affected by falling demand. We’re looking for the demand to stabilize with one to two flat quarters. Currently, we look for the tech growth drivers i.e., semi-conductor and capital equipment companies.

   We are focusing our attention on Healthcare, Defense and those areas that do not necessarily run in tandem with the markets such as oil and gas and other commodities.

3. **Should we be increasing our bonds in the portfolio?**

   Interest rates increases has driven bond yields up more than they have been in a decade. Bonds provide good downside protection, which would be especially helpful if conditions turn out to be worse than currently anticipated. For these reasons, we are making a modest shift to our target allocations.

   We’ve added short term individual bonds (18-month terms) with each rate hike and will continue to do so as interest rates increase. Our research in the core bonds continues and we’ll be investing in this area as they provide better longer-term rates.

4. **What do you think the markets will gain once this Bear has ended?**

The financial analysts we respect and have followed over decades have provided the material below.

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Updated Five-Year Expected Returns for Equity and Core Bonds

	Current Level	Downside/Bear	Base Case Lower	Base Case Upper	Upside/Bull
US Stocks	3,586 USD	-3.6%	3.9%	10.1%	15.0%
Europe Stocks	1,565 LCL	-2.2%	3.0%	10.9%	20.7%
Emerging-Markets Stocks	54,180 LCL	0.6%	9.3%	16.3%	23.8%
US Core Bonds	4.75%	8.0%	5.3%		5.8%

US Stocks: S&P 500 Index, Europe Stocks: MSCI Europe Index, Emerging-Markets Stocks: MSCI EM, US Core Bonds: Bloomberg US Aggregate Bond Index. Europe and EM stocks return estimates in local currency—the US dollar will impact returns for dollar-based investors. Return estimates as of 9/30/2022.

Closing Thoughts

It's been a tough year, with most investors braced for continued volatility. But all bear markets come to an end, and it is worth remembering that the bottom is by definition the point at which things collectively feel worst. We think long term and remain confident in our ability to deliver the long-term returns required to meet financial objectives by balancing risk through diversified portfolios with many of the investments we hold providing bright spots.

As always, we thank you for the trust you've placed in us and welcome questions you may have.

Best, regards,

Debbie Wiggin
Anil Patel

*** Estimated returns are annualized and generated by iMGPFM (IM Global Partner Fund Management, LLC). This table shows our five-year, annualized asset class return estimates across several broad macroeconomic scenarios we believe are possible. Collectively, the scenarios encompass the range of outcomes we believe are reasonably possible and therefore worth considering in creating our portfolio allocations. We make assumptions for various fundamental and valuation metrics we believe are consistent for each asset class within each macro scenario then incorporate current prices to generate an estimated return. The macroeconomic scenarios and estimated returns can change. When this happens, we will clearly note it and give guidance on new estimates. See "Estimated Returns Disclosure" at the end of this commentary for more information on macro scenarios and fundamental/valuation metrics used in the analysis.*