MoneyMatters

Market Update

Q3
2022

Willful Patience

ROEHL & YI
INVESTMENT ADVISORS, LLC

Willful Patience

On behalf of everyone at Roehl & Yi, we understand and appreciate your concerns about the state of affairs in our world. As emergence from the global pandemic that began in 2020 has shown positive strides, we face new challenges.

Three core elements have converged to create 'a perfect storm.' We find ourselves in a year with one of the slowest starts for the stock market since 1970 (Source: *Bloomberg*), the worst bond market start since 1787 (Source: *Deutsche Bank, Martin Capital*), and an elevated inflation rate not seen in 40 years. (Source: *Wall Street Journal*) Although many factors are responsible, this rare intersection has significantly increased energy, food, housing, and transportation costs while leaving investors anxious about how to protect their portfolios and savings.

We are in a bear market, sparking recession fears. In the event a recession does occur, we believe it should look vastly different from what was experienced in 2008, as we'll address in this edition. A ray of light still remains – historical, positive market returns are seen even through periods of broad volatility. We recommend that you let reason and patience be your guide.

Market Recap

Stock Market

A bear market is defined as a prolonged period of price declines, typically a condition in which securities prices fall 20% or more from recent highs. The causes of a bear market are, in general, a weak or slowing economy, bursting market bubbles, pandemics, wars, and geopolitical crises. The S&P 500 was down 16.1%, US bonds were down 4.69%, and international stocks were down 14.51%* for the quarter. (Source: *Morningstar*)

*The MSCI EAFE Index is an equity index that captures large- and mid-cap representation across 21 Developed Markets and countries around the world, excluding the US and Canada.

2022 Market Returns

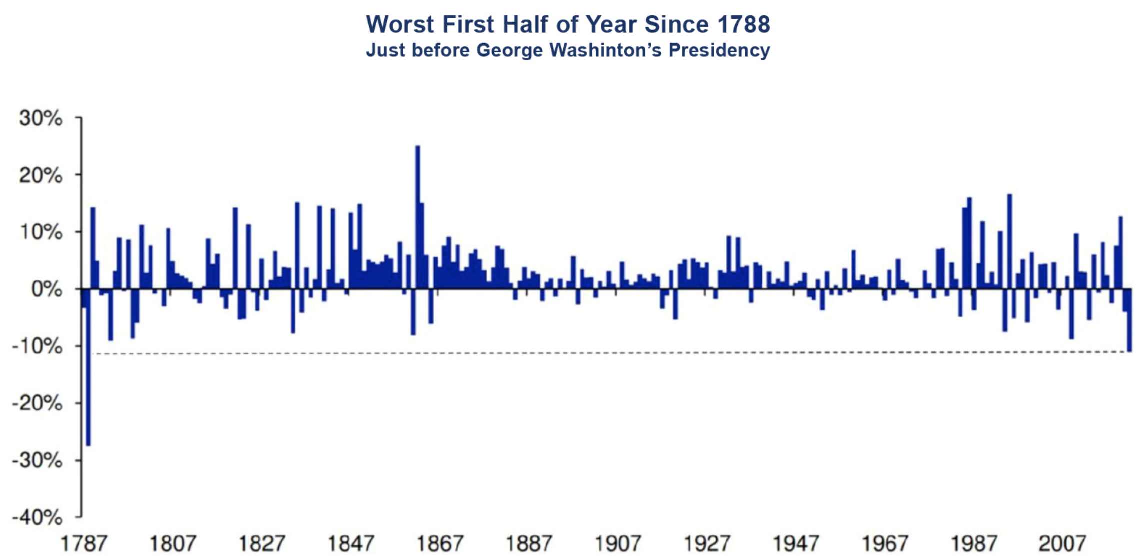
2022 Market Returns, 6 Months Ended June 30th

	2022 YTD	2021 FULL YEAR	CURRENT YIELD	COMMENTS
EQUITIES				
S&P 500 US Large Stocks	-20.0%	28.7%	1.7%	Essentially giving back 2021's strong gain.
Russell 2000 US Small Stocks	-23.4%	14.8%	1.2%	Back to late 2020 level.
MSCI EAFE Non-US Large Stocks	-19.6%	11.3%	3.5%	Back to January 2018 level.
MSCI Emerging Markets	-17.6%	-2.5%	2.7%	Only a slight positive return for the past 10 years.
MSCI All Country World	-20.2%	18.4%	2.3%	The world stock index, including the US.
MSCI All Country World Ex-US	-18.4%	7.5%	3.2%	The world stock index, exclusing the US.
BONDS				
Bloomberg US Aggregate Bonds	-10.4%	-1.5%	2.9%	Sharp rise for US interest rates - all bonds lost value.
US 20+ Year Treasuries	-21.1%	-4.7%	3.2%	Longest maturity US government bonds are the most sensitive.
Bloomberg US TIPS Index	-7.6%	5.5%	6.0%	Even inflation-linked bonds suffered loss due to the rise in rates.
Bloomberg US High Yield Index	-14.0%	4.3%	8.0%	Increasing default risk also affecting the weaker credits.
Bloomberg Non-US Gov. / Corp Bonds	-18.0%	-8.7%	2.2%	In US dollar terms foreign bonds have suffered most.
MISC.				
Dow Jones US REIT Index	-18.7%	38.7%	3.2%	Down in sympathy with other interest rate sensitive assets.
Dow Jones Commodity Index	20.8%	31.1%		Strong showing though down from May high.
Gold	-1.5%	-4.1%		Held its value: strong dollar + rising rates usually kryptonite.
Oil	44.0%	57.0%		Big "winner" in markets this year = $5 gas prices.
Bitcoin	-64.0%	44.0%		Been exposed as tide goes out, at December 2020 level.
US Dollar, Change	9.0%	3.5%		Strong US dollar so far this year in "flight to safety".
Consumer Price Index, 12 Month Change	8.6%			Highest CPI in ~40 years.
US 10 Year Treasury Bond Yield	2.9%			Doubling from 1.5% to start the year.

Source: Blue River, LLC
Data as of 6/30/2022.

This has been the worst bond market start to a year since 1787, before George Washington was president. (Source: *Deutsche Bank, Martin Capital*) In addition, this is only the second time in more than four decades that both stocks and bonds posted losses for two consecutive quarters. The last time investors saw back-to-back down quarters for stocks and bonds was in 2008, and before that, 1981. (Source: *Morningstar*)

US 10-Year Treasury Index (or Proxy) Total Return



Source: Deutsche Bank, Martin Capital
Data as of 7/1/2022.

The Speculative Frenzy Ends in a Hard Landing

Since Q1 of 2021, Roehl & Yi has monitored and reported on what is called the Speculative Frenzy, a phenomenon that shows investor appetite for certain stocks shifts greatly over time. The start of the frenzy began with the 2020 shelter-in-place orders that saw many investors, old and new, turn to the stock market for entertainment, using apps such as Robinhood for trading. We believe that this speculative investing with a lack of a focused strategy contributed to market volatility. Now, the bubble has finally burst.

Technology-related companies, considered "stay-at-home" stocks, which attracted huge investments and gains in 2020, have retreated to become some of the weakest-performing names in 2022 peak to trough.

Key plummeting stocks include:

• Netflix: -76.29% • Shopify: -81.16% • Roku: -83.22% • Zoom: -86.17 • Robinhood -88.39% • Peloton: -92.75%

(Source: *Rayliant Research*)

US Tech Collapse 2.0

US Tech Downturns

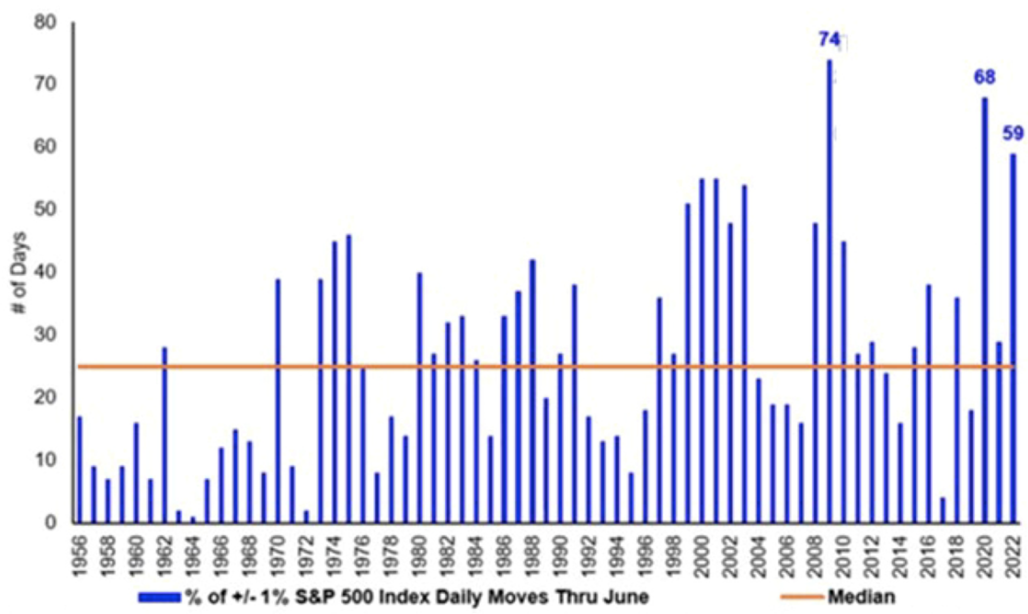
US STOCK	PEAK	TROUGH	DRAWDOWN
Netflix	11/1/2021	5/12/2022	-76.29%
Shopify	11/22/2021	5/12/2022	-81.16%
Palantir	1/28/2021	5/12/2022	-83.17%
Roku	7/27/2021	5/12/2022	-83.22%
Coinbase	11/10/2021	5/12/2022	-85.32%
Zoom	10/20/2020	5/12/2022	-86.17%
MicroStrategy	2/10/2021	5/12/2022	-87.23%
Rivian	11/17/2021	5/12/2022	-88.02%
Robinhood	8/5/2021	5/12/2022	-88.39%
Peloton	1/14/2021	5/12/2022	-92.75%

Source: Rayliant Research
This chart should not be taken as a recommendation to buy or sell any security. Past performance is not indicative of future results.
Data are as of 5/12/2022

Through these massive selloffs, we are seeing increased levels of volatility with 59 +/- 1% S&P 500 daily moves through June 2022. (Source: *Bloomberg, Martin Capital*)

Market Volatility

Number of +/- 1% S&P500 Daily Moves Through June



Source: Bloomberg, Martin Capital
Data as of 6/30/2022.

The bubble also burst for digital assets. Inflation, aggressive interest rate rises, and geopolitical shockwaves from the war in Ukraine washed across financial markets. This caused investors to disinvest.

Bitcoin posted the largest quarterly drop in its history, losing 56.6% amid a widespread pullback in the cryptocurrency market. Though cryptocurrencies have been highly volatile for their entire history, losses of this size have never been seen for any quarter since the first Bitcoin began trading in 2014. The price of Ethereum, the second-largest cryptocurrency by market cap, tumbled 67.5%. (Source: *Morningstar*)

This has also exposed a fragile system of credit and leverage in digital assets that rivals the credit crisis that shook the traditional finance sector in 2008.

The Upside: Historical Market Performance

The historical annual returns of US stocks fall in the +8% to +10% range depending on the time period analyzed. (Source: *Zacks Investment Management*) These returns factor in bear markets—even significant ones like the 2000 tech bubble and the 2008 global financial crisis. Over the last 20 years, 70% of the stock market's best days have occurred within two weeks of its worst. (Source: *JP Morgan Guide to the Markets 2022*)

THE ECONOMY

Recession Fears

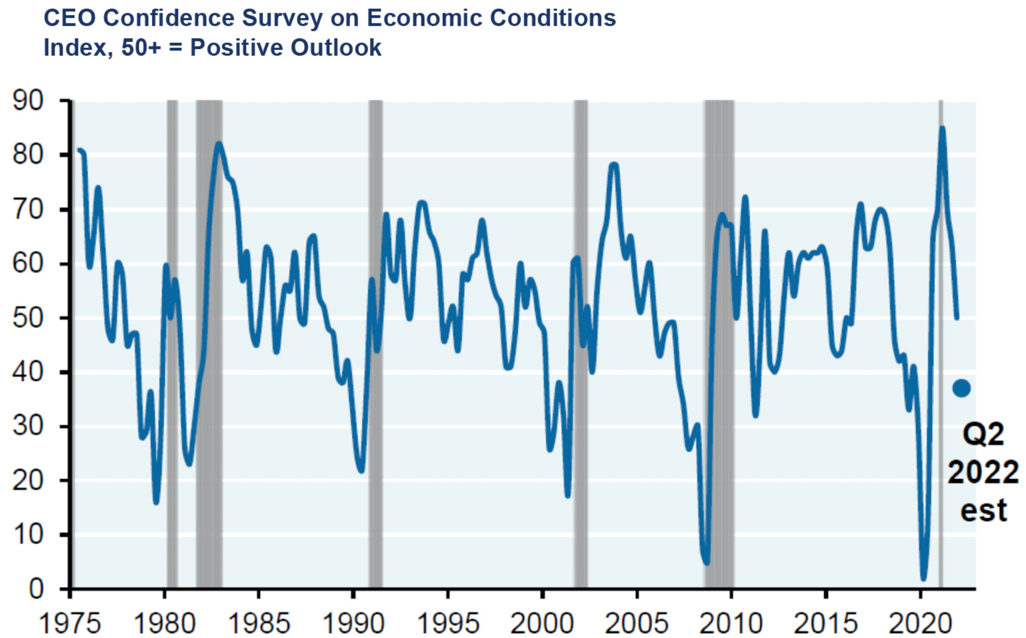
Business activity is showing signs of slowing across certain sectors. With rising interest rates, recessions fears are ballooning causing many to wonder what a recession may look like and how long it could last.

A recession is marked by two consecutive quarters of negative growth. Should the US experience a recession, Roehl & Yi believes it may look vastly different from prior recessions that were flanked by lower economic output and high unemployment, for the following reasons:

- The unemployment rate fell 4% to 3.6% in May 2022 (Source: *BLS, FactSet, J.P. Morgan Asset Management*), and demand for workers in the private sector remains strong. Unemployment benefit recipients stand at 1.3 million, in stark contrast to the 2008 financial crisis, when over 6.5 million unemployed Americans received benefits. Moreover, there have been more than 10 million open jobs in the US every month of 2022, which is nearly double the number of typical job openings in years before the pandemic. (Source: *Zacks Investment Management*)

- CEO confidence is strong, which is a meaningful indication of willingness to continue investing in capital expenditures. In the following chart, we see that confidence levels are historically low before a recession starts (the blue line indicating confidence and the gray bars indicating a period of recession). However, CEO confidence remains at a 50+ positive outlook for Q2 2022. (Source: *JP Morgan Asset Management, Conference Board*)

CEO Survey on the Current Economy



Source: JP Morgan Asset Management, Conference Board.
Data are as of Q1 2022. Shaded areas = recessions.

- Personal savings remain high. At the end of Q1 2022, Federal Reserve data showed households had $18.5 trillion in cash in checking accounts, savings accounts, and money market funds. Before the pandemic, that figure was $13.3 trillion. (Source: *Zacks Investment Management*)

- Banks are not showing signs of distress. According to Federal Reserve 'stress tests,' banks could easily navigate a 10% unemployment rate and currently maintain capital ratios of 9.7%, which is over double the 4.5% required by law.

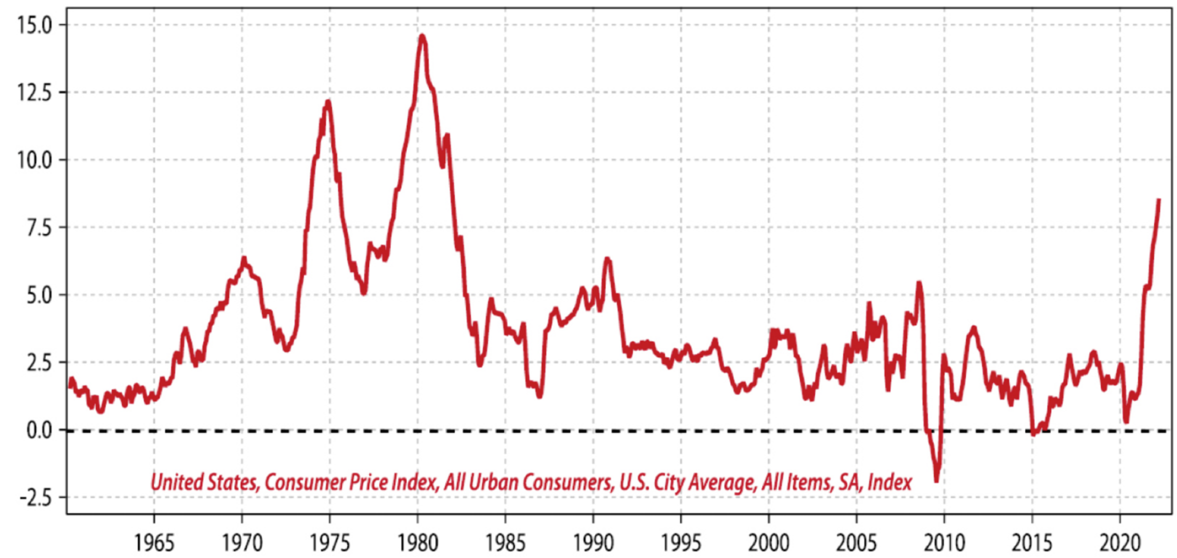
One unknown factor, however, is interest rates. The Federal Reserve plans to raise interest rates to 3% from 1.75%. With the planned intent to ward off inflation, an unintended consequence could be massive pullback in spending, resulting in eventual higher unemployment. This remains to be seen.

Inflation

US inflation reached 9.1% (Source: *Wall Street Journal*), and the consumer price index, ending June 2022, showed the largest increase for any 12-month period since 1980. (Source: *Gavekal Research, Macrobond, Martin Capital*) Gasoline prices drove much of the increase, with shelter and food prices also major contributors.

Inflation: 40-Year Highs

US Consumer Price Index, All Items



Source: Gavekal Research, Macrobond, Martin Capital
Data as of April 2022.

Similar to energy, even before the war in Ukraine, global and US agricultural inventories had been tightening due to demand recovery, growing production costs, and production shortfalls in key growing regions due to adverse weather. The sudden loss of Ukrainian exportable supplies – which are especially acute in wheat, corn, and vegetable oils – and a large cut in Russian exports has agitated price volatility.

The Bright Side of Rising Interest Rates

As the Federal Reserve raises interest rates, banks are responding by paying out higher Annual Percentage Yields, or APYs, to consumers. Investors can take advantage by moving extra cash into bank accounts with increased interest rates. This can allow additional returns on savings and help combat the wealth erosion from inflation.

Roehl & Yi's Final Thoughts

Willful patience is your ally.

Jim O'Shaughnessy, Chairman and CEO of O'Shaughnessy Asset Management (OSAM), author, and named a "world beater" and a "statistical guru" by *Barron's*, reminds us of the four horsemen of the investment apocalypse. These four horsemen are fear, greed, hope, and ignorance. All but one – ignorance – is an emotion. These four things have wiped out more value in an investor's portfolio than the most vicious bear markets.

Consider these suggestions:

- Refrain from making emotionally charged financial decisions in a panic over recession fears. Remember that economic cycles are just that—cyclical.
- Discuss tax-loss strategies with your financial advisor.
- Take advantage of lower-cost entry points by using the laws of dollar cost averaging.

Bear markets do provide opportunities for prudent investors.

The R&Y Promise

Roehl & Yi has made a commitment to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi, and we ask that your first phone call be to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.

·ROEHL & YI·
INVESTMENT ADVISORS, LLC

For A Personal Wealth of Reasons

450 Country Club Rd., Suite 200, Eugene, OR 97401
Tel: 541.683.2085 • Toll Free: 888.683.4343
www.Roehl-Yi.com