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QUARTERLY REVIEW & OUTLOOK Q1-2022

"The World Has a Funny Way of Not Coming to an End"

— James Grant

The first quarter of 2022 began with a sizable sell-off as markets responded quite negatively to a big jump in inflation, rising interest rates, spiking oil prices, the War in Ukraine, and an inverted yield curve all of which stoked fears of a possible recession. At its worst, the Nasdaq had tumbled over 20%, and the S&P 500 was off close to 15%. Last year ended with investors enthusiastic but, by the end of February, enthusiasm had turned to extreme pessimism as the "list of terribles" weighed. As the quote at the top of the letter states, "The World Has a Funny Way of Not Coming to an End", and as cooler heads prevailed, the markets began a big recovery rally, cutting losses substantially by quarter-end.

It's easy at times to think of the "Market" as one entity where everything goes up or everything goes down. However, for many years now, the complexity of the "Market" has been much greater as certain sectors and companies have been doing well while others have not largely based on perceptions for interest rates and other factors. As we stated in our last quarterly letter, this "rotational" market is actually quite healthy because it constantly refreshes the investment environment by taking speculation out of over-heated areas and looks for value in new sectors.

Though we remain longer-term constructive, we see volatility continuing as individual areas of the investment landscape continue to respond both negatively and positively to a less friendly Federal Reserve and geopolitical worries from Russia and China with the Ukraine War and the potential takeover of Taiwan. Mid-Term Presidential Election years also tend to be the most challenging of the 4-year Presidential cycle, and this mid-term year is no exception.

We continue to see a positive investment thesis in the more "value" oriented sectors and companies. As interest rates rise and inflation increases, investing in companies with good earnings visibility, solid balance sheets, and the ability to

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raise prices are attractive. We continue to be cautious investing in areas that trade at expensive valuations based on earnings that are many years off in the future. Though inflation is on everyone's mind, we are closely monitoring whether some of these inflationary pressures are starting to subside. It's too early to say that certain areas have peaked; however, we know that some transportation rates and other commodities are trading well below their recent highs.

As they say, "Bull markets climb a wall of worry." There are certainly plenty of things to worry about, but that seems to be the case most of the time. The Market has had a lot of negative things to process, but it remains remarkably resilient, especially in sectors that can perform in a higher interest rate environment.

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