BCM 4Q22 Market & Strategy Commentary: Decathlon Tactics & Sector Strategies

Entering the Year Cautiously Contrarian: Considerations of Key Market Levers and Emerging Opportunities

By the BCM Investment Team

What a difference a year makes. In hindsight, the markets entered 2022 on an unstable precipice. Conversely, 2023 is beginning to look like a valley, with much of the prior excesses already stamped out in a painful 2022 for investors.

Stock Market	2021	2022	Change
S&P 500 P/E Trailing	22.7	17.5	**-22.9%**
S&P 500 Trailing 1 Year Performance	28.7%	-18.5%	**-47.2%**
3 Year	26.0%	7.5%	**-18.5%**
5 Year	18.4%	9.4%	**-9.0%**
ACWI P/E Trailing	21.6	15.6	**-27.8%**
ACWI Trailing 1 Year Performance	19.1%	-18.0%	**-37.0%**
3 Year	21.0%	4.4%	**-16.6%**
5 Year	15.0%	5.8%	**-9.2%**
S&P 500 Profit Margin	13.1%	11.1%	**-2.1%**
VIX (average)	19.63	25.55	**5.9%**
AGG Return	-1.77%	-13.02%	**-11.3%**
# of IPOs	2436	1333	**-45.3%**
IPO Proceeds ($B)	$459.9	$179.5	**-61.0%**
# of Trillion Dollar Companies	7	4	**-3**

Economy	2021	2022	Change
Fed Funds Rate	0.08%	4.33%	**4.25%**
10 Year Treasury	1.51%	3.87%	**2.36%**
30 Year Mortgage 2021 Low vs. 2022 High	2.83%	7.32%	**4.49%**
Nominal GDP Growth Q3 2022	10.2%	9.2%	**-1.0%**
Real GDP Growth Q3 2022	5.0%	1.9%	**-3.1%**
Inflation High	7.0%	9.1%	**2.1%**
Inflation Low	1.4%	7.1%	**5.7%**
Crude Oil Current	$77	$79	**2.1%**
Crude Oil High	$85	$124	**46.1%**

Other	2021	2022	Change
Daily Global Covid Cases at Year End	2,040,940	317,959	**-84%**
Bitcoin Price 2021 High to 2022 Current	$67,734	$16,579	**-76%**
Sam Bankman Fried Net Worth	$15 to $20B	$0	**-100%**

2022 was an incredibly challenging investment environment. Although prospective investment returns look positive, the investment environment remains fraught. Global economic conditions are weakening, Central Bankers remain inflation obsessed, a war rages on in Ukraine and the world's second largest economy re-opened in earnest despite medical missteps. If we are indeed headed for a recession, it may be the most anticipated in history.

Market participants seem steeled for worse to come. We believe the investment environment is significantly risk-averse, returns are battered across virtually every asset class, investor sentiment is depressed, and hedging is widespread. On the corporate front, CEOs are taking decisive preventative measures in anticipation of falling demand. This caution is a positive for both the economy and investors as it reduces the likelihood of businesses blindly misallocating resources and building overcapacity, resulting in a deeper and longer economic contraction.

Entering the year (again) as contrarians. While our quantitative systems entered 2022 signaling caution, in this "prepared" and risk-averse environment, our systems are relatively contrarian once again, this time seeing favorable shorter-term risk-reward across a broad range of sectors. As a result, we begin 2023 with our Decathlon strategies near the high end of their equity exposure range at each risk level (Conservative, Moderate, Growth). Our bottom-up fundamental view is also constructive. Favorite contrarian sectors include Semiconductors and Homebuilding, but our systems see opportunity across a relatively diverse set of sectors.

However, continuing uncertainties temper our short-term outlook with some caution. None of this is to say we enter 2023 absent risk—it is still unclear whether the Fed's aggressive interest rate hikes may have some unforeseen consequences or if they are actually as adamant about increasing unemployment as they imply. If some asset class or business was to "break" from the fallout, we would expect further market turmoil and would try to respond quickly.

Over the long term, we remain optimistic that technological innovation will continue to drive growth. While the focus is currently on the short-term economic outlook, in the long run economic prosperity is driven by innovation, not simply the tempering of economic cycles. We've enjoyed several decades of low inflation and rising quality of life from serial innovations in technology. First the personal computer empowered us, then the internet connected us to the world's information, and most recently the mobile smartphone enabled us to access all this knowledge and transact at any place and time. Perhaps a new form-factor on the path towards further connectivity and integration with computers will emerge. The internet of things (smart appliances of all kinds), wearable healthcare, biological "programming" or the integration of useful artificial intelligence might be the next steps in this evolution.

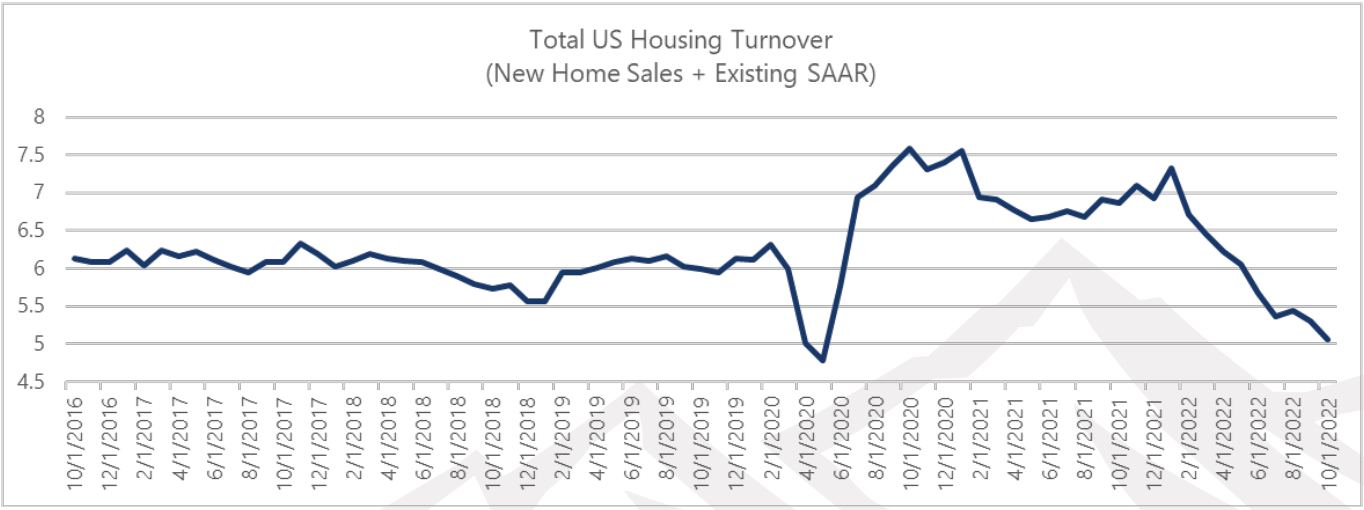
On the Fed, Inflation and Interest Rates:

The modern world economy is an incredibly quick problem solver, likely far more adaptive than that of the 1970s.

- An increasingly digitized and interconnected economy can adapt quickly.
- Despite anti-globalist and onshoring rhetoric, we've seen some impressive Global coordination:
  - Within 9 months of being declared a pandemic, the world sequenced Covid-19 and developed tremendously effective mRNA vaccines.
  - After Russia's invasion of Ukraine, the European economies innovatively sourced enough natural gas to completely fill storage for Winter 2022-23 and replace Russian sources. In this same vein, consider the coordinated response to the Russian invasion and Ukraine's clever and efficient use of weapons to withstand and push back the Russian invaders.
- We expect the modern economy to continue to solve the recent inflation problem without potentially harmful Central Bank intervention.

Most inflation, aside from wages, appears to be transitory.

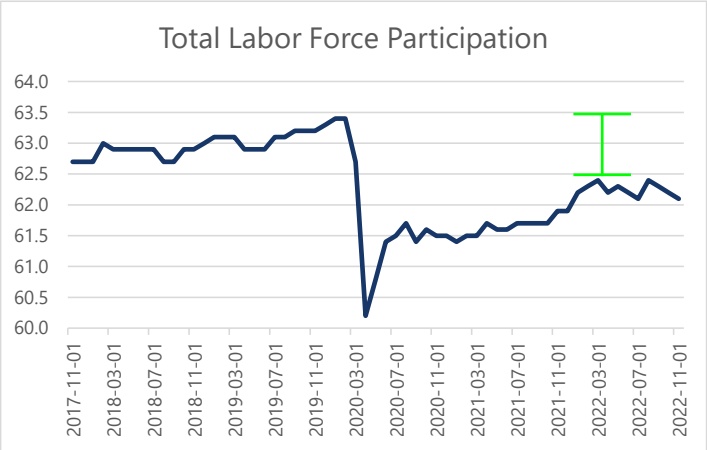
- Energy prices have dropped dramatically.[1]
- Shipping rates and Covid-related supply-chain bottlenecks have been solved.[2]
- Food prices are temporarily disrupted by weather and Ukraine.
- Thanks to the Central Banks' rate hikes, any sectors that require credit financing such as housing and automobiles[3] have seen sharp declines in demand.

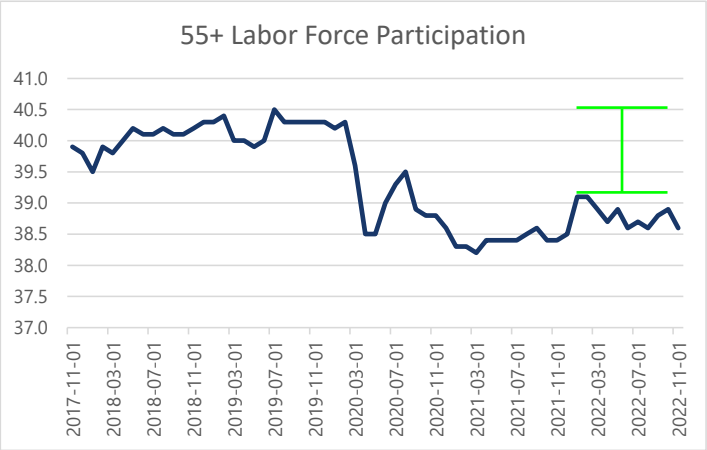


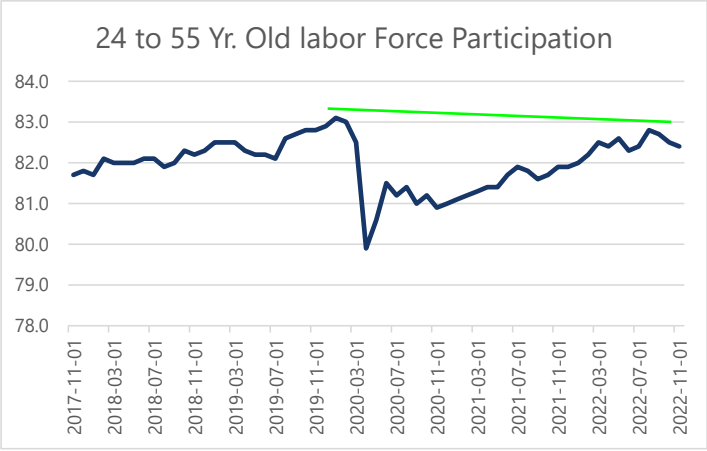
Source: Bloomberg, Data from 10/31/16 to 10/31/22

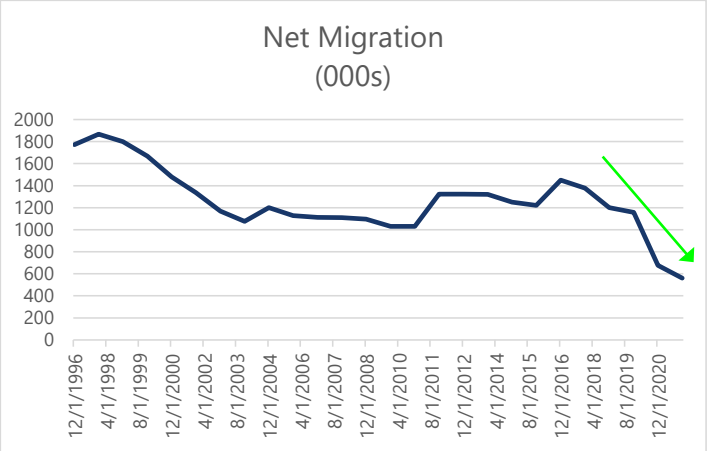
The labor market has structurally changed and the solution isn't higher interest rates.

- The Covid-19 lockdowns and the work-from-home technological revolution revealed the tradeoffs of office work and the new life-enhancing possibilities of more flexible work-from-home arrangements.
- Financially secure Baby-Boomers have chosen to age out of the workforce while net immigration into the U.S. continues at depressed levels—due to Covid-19 restrictions—limiting the supply of workers in many service industries.
- The result is a large shortfall in the overall supply of labor, not excessive demand for labor which interest rates might curb.[4]









Source:For Labor Force Participation, FRED data from 11/1/2017 to 11/1/2022 by quarter. For Net Migration, Bloomberg with annual numbers from 1996 to 2021.

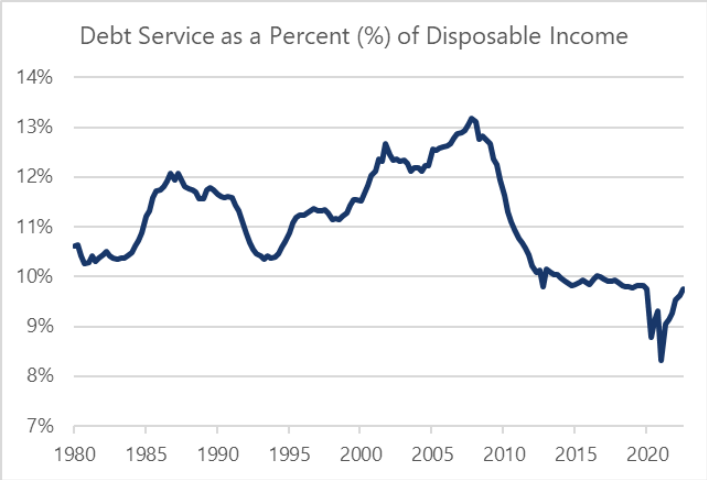
We expect Central Bankers will soon recognize they have played the part of an impatient doctor – continuing to over-dose their seemingly unresponsive "patient" with interest rate hikes.

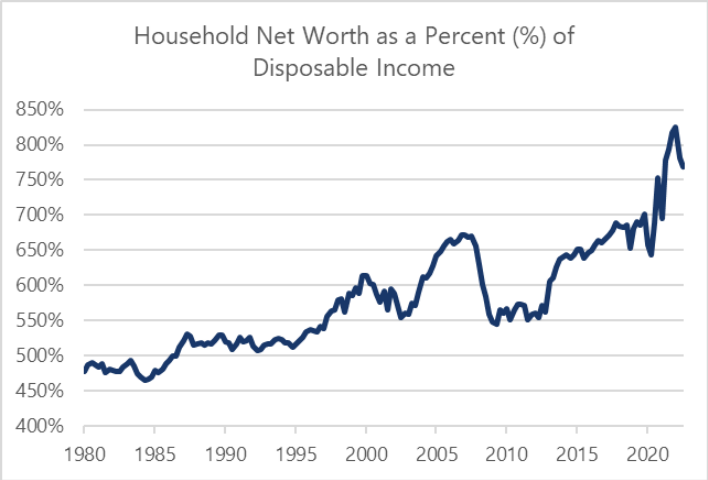
- The FED's successive interest rate hikes haven't had the intended effect of slowing wage inflation.
- They have caused immediate and worrisome adverse effects on other important sectors, particularly housing-related and real estate.
  - Housing turnover has skidded to a near halt, causing a dramatic recession in real estate, mortgage origination, home furnishings and construction trades. Heretofore, this same Federal Reserve would be racing to rescue the crucial sector.
  - In another strange twist, existing homeowners have been spared from the pain of higher interest rates, as just about everyone refinanced their mortgage far below prevailing rates.

On the Economy:

We believe the prospective recession of 2023 may look very different than those of the past.

- It would likely be self-inflicted, rather than forced through a major misallocation of resources and accumulation of bad debt.
- Neither Consumers nor Businesses are encumbered with debt. Only the Federal government has accumulated large amounts of debt from the Covid response.[5] Setting aside the potential future tax obligation, interest expense is historically low as a percentage of disposable income, and household wealth remains high which should add resilience.





Source: FRED database 1/1/1980 through 7/1/2022 by quarter.

Nearly every industry that experienced a surge in growth during Covid-19 has reverted towards trend. Most have already taken steps to correct these errors.

- Many businesses falsely read the changes in demand as permanent and, subsequently, over-invested in human resources and inventory. It wasn't just startups like Peloton, DoorDash and Shopify, but some of the best growth companies in the world including Amazon, Google, and Target.
- We expect many of these companies to resume their successful growth after they digest the excesses and recalibrate their trajectory. Amazon, Apple, Google, Meta and Microsoft all are meaningfully reducing staff or limiting growth to selective areas, as are young gig-economy companies, like Lyft, DoorDash and Shopify.
- In some cases, these mis-calibrations are likely to present healthy businesses with attractive M&A opportunities as otherwise valuable businesses struggle to find capital to internally fund their operations.

On Innovation:

The recent Electric Vehicle bubble is reminiscent of the dot.com bubble.

- The recent fall from grace of Tesla's high-flying stock price[6] and the whole electric vehicle sector is reminiscent of the ending of the dot.com stock bubble.
- In hindsight, after the dot.com share prices collapsed, there was somewhat of a "golden age" for the leading internet companies with truly revolutionary products, like Amazon.com, E-Bay, and Google.
- By analogy, with all sorts of innovative electrical vehicles on the horizon from both start-up and incumbent auto manufacturers, we might be beginning a great period for "electrification" investments, and perhaps electric vehicles will evolve into "smart cars" with unanticipated capabilities in the same way the cellphone became the smartphone.

In healthcare, the "War on Covid-19" catalyzed many innovations.

- Certainly, MRNA technology has many exciting applications.
- Also on the healthcare front, breakthrough medicines from Novo Nordisk and Eli Lilly originally developed to treat diabetes appear to have extraordinary potential as weight-loss medications. Obesity is a common underlying factor of many life-shortening healthcare problems and affects quality of life. The new medicines might quickly become the biggest sellers and most impactful of all-time.

AI and Deep Learning technologies are reaching a consumer-facing stage.

- Microsoft recently announced a $10B investment into Open AI after their Chatbot ChatGPT reached over one million users in online beta testing.[7]
- It is likely AI will augment humans and potentially increase productivity in unforeseeable ways in the near future.

Looking Ahead:

Asset markets are forward-looking discount mechanisms. In a potential reverse of 2022—when the economy held up while asset prices fell in anticipation of weaker economic conditions—economic conditions are likely to further deteriorate into 2023, and yet attractive investment opportunities may emerge.

While both our fundamental view and quantitative models are currently constructive on risk, we acknowledge that it may be seductive to chase risk after a poor year for all assets while the environment remains very uncertain. Lower risk assets like fixed income may also be attractive given their higher yields. Acting nimbly is likely to be more beneficial than simply increasing risk.

As always, we thank you for your business and trust, and we look forward to navigating these ever-shifting market environments.

Beaumont Capital Management (BCM) Strategy Commentary

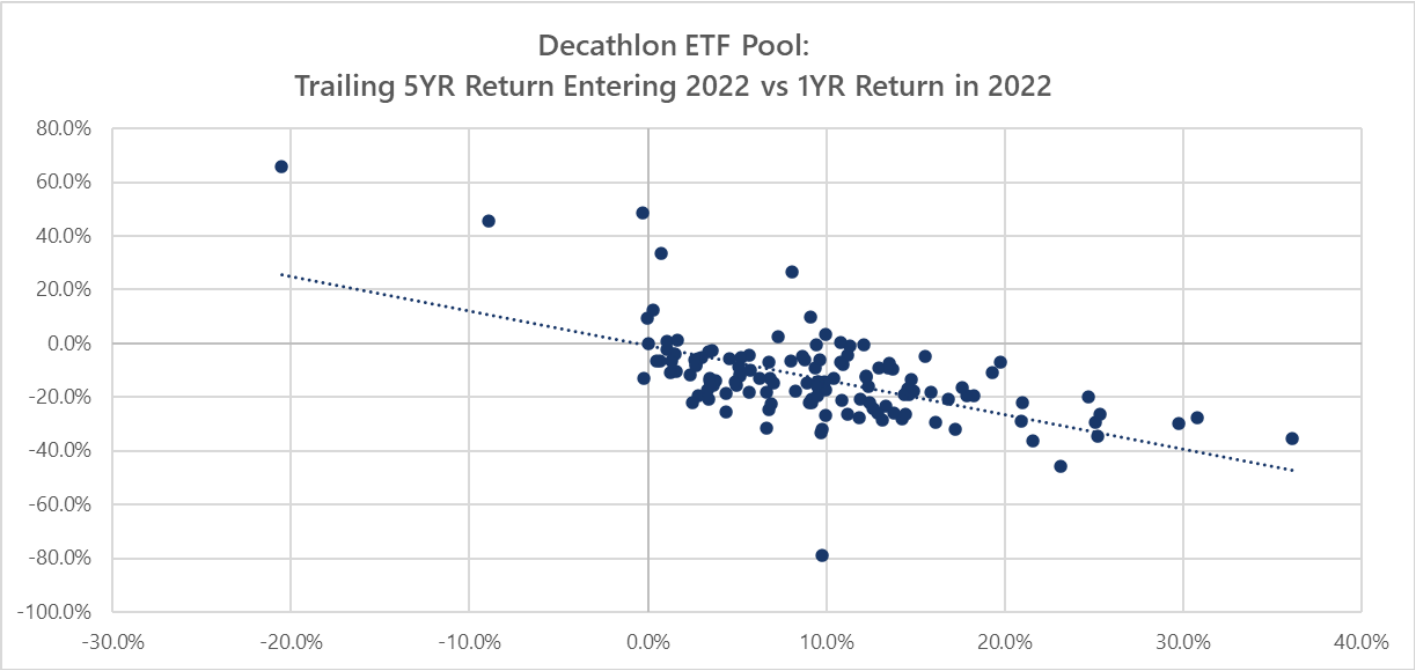
BCM Decathlon Tactics Strategies

Asset markets continued to rebound in the fourth quarter with both stocks and bonds ultimately rising despite a poor end to the year. All three risk profiles (conservative, moderate, and growth) entered the quarter roughly in-line with their neutral risk level and added additional equity positions near the end of the year. While adding additional equity exposure as markets declined was uncomfortable, it has been a good decision so far as equities have rallied in the new year. We believe the portfolios contain unique collection of diversified equities giving us multiple ways to "win". As last year progressed, the Decathlon system continued to digest the new information patterns of this unique environment and as a result, security selection within equities improved. Positions that we added to the portfolios later in the year, such as home construction and S&P dividend, have continued to realize strong performance relative to the broad equity markets.

The Decathlon quantitative system takes a psychological, risk-adjust ed, probabilistic approach to asset allocation. It's greatest contribution to performance may come when it is correctly contrarian--identifying favorable entry points in market declines or taking profits when markets are too enthusiastic for their own good. In the first case, which represents the current environment, the risks are highly publicized and well-reflected in asset prices, making for an attractive risk-reward ratio.

The major headwinds to performance during the quarter were interest rates and the U.S. Dollar, which both fell, reversing their price action from the previous quarter. Fixed income allocations in the conservative and moderate strategies generally have a lower duration and higher credit exposure than broad U.S. fixed income. The additional credit exposure was a positive contributor to performance, but it was not enough to offset the impact of lower portfolio duration. For most of the year the U.S. Dollar served as a "goldilocks" asset, rising steadily with low volatility, but this trend reversed in the fourth quarter. The falling U.S. Dollar provided a lift to all international assets making them relatively more attractive than U.S. assets which made up the majority of the portfolios.

While only time will tell if it is permanent, 2022 may have represented a "sea change" within the equity markets. Not only did the market leaders falter, but across our entire investment universe there was a strong inverse relationship between trailing 5-year returns of a security entering 2022 and that security's performance in 2022. Our system capitalized on the strong performance of these market leaders in the past, but due to the long-term nature of these patterns, it can take time for the system to recognize long-term changes in leadership. Many of the most recent positions in our quantitative systems represent sectors we haven't seen highly ranked often in the past, such as industrials and financials. If we are indeed in the midst of a sea change in leadership, our systems may also have learned to embrace the new environment.



For illustration purposes only.
Source: ETF data is from the 129 ETFs in the Decathlon pool from 12/31/16 through 12/31/2021 and 12/31/2021 through 12/31/2022.

BCM Decathlon Growth Tactics – Prior Quarter Attribution

We expect the portfolio's average asset allocation over time will be roughly 70% global equities and 30% fixed income, with significant variation over shorter periods due to the strategy's opportunistic nature. At the end of the quarter the portfolio was allocated to 60% U.S. equity, 30% global equity, and 10% fixed income. The portfolio underperformed a 70% MSCI ACWI / 30% US Broad Market Index benchmark during the quarter.

What Helped:

- Maintaining a higher average allocation to equities, as equities outperformed fixed income
- The equities that we added near the end of the year performed relatively better than global equity markets

through the end of the year

- More value-oriented sectors that we added in the second half of the year, such as dividend stocks and home construction, continued to perform well during the quarter

What Hurt:

- Adding equities near the end of the quarter as equities performed poorly to end the year
- Limited exposure to international equities, which received a performance boost from the falling U.S. Dollar
- Continued exposure to growth equities, specifically the technology sector

Quarterly Attribution:

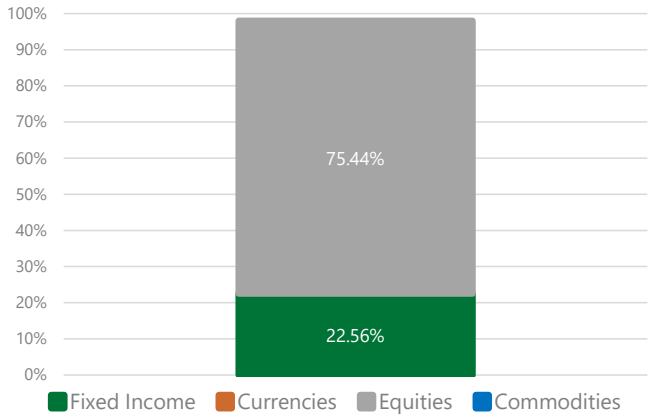
Net Attribution Effects

Allocation	+0.4%
Timing	-1.0%
Selection	-0.4%

Net Performance

	Strategy	Benchmark*
1 – Year	-14.89%	-18.21%
5 – Years	2.92%	4.30%
10 – Years	6.10%	6.44%

Average Asset Allocation



Top Performers

	Asset Class	% of Time Held	Marginal Contribution
Home Construction	Equity	100%	0.71%
Global Healthcare	Equity	50%	0.48%
S&P Dividend	Equity	100%	0.32%
North American Natural Resources	Equity	16%	0.28%
U.S. Medical Devices	Equity	100%	0.21%

Bottom Performers

	Asset Class	% of Time Held	Marginal Contribution
Short-Term Treasuries	Fixed Income	50%	-0.04%
Convertible Bonds	Fixed Income	93%	-0.24%
U.S. Broker Dealers	Equity	50%	-0.27%
U.S. Technology	Equity	100%	-0.33%
U.S. Consumer Discretionary	Equity	50%	-0.87%

* 70% MSCI ACWI / 30% Bloomberg U.S. Aggregate Bond Index prior to September 2022 and 70% MSCI ACWI / 30% ICE BofA US Broad Market Index thereafter

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BCM Decathlon Moderate Tactics – Prior Quarter Attribution

We expect the portfolio's average asset allocation over time will be roughly 50% global equities and 50% fixed income, with significant variation over shorter periods due to the strategy's opportunistic nature. At the end of the quarter the portfolio was allocated to 50% U.S. equity, 30% fixed income, and 20% global equity. The portfolio underperformed a 50% MSCI ACWI / 50% US Broad Market Index benchmark during the quarter.

What Helped:

- Exposure to convertible bonds, which resulted in a higher equity market sensitivity than the portfolio's asset allocation would suggest
- The equities that we added near the end of the year performed relatively better than global equity markets through the end of the year
- More value-oriented sectors that we added in the second half of the year, specifically dividend stocks, continued to perform well during the quarter

What Hurt:

- Adding equities near the end of the quarter as equities performed poorly to end the year
- Limited exposure to international equities, which received a performance boost from the falling U.S. Dollar
- Continued exposure to growth equities, specifically the technology sector

Quarterly Attribution:

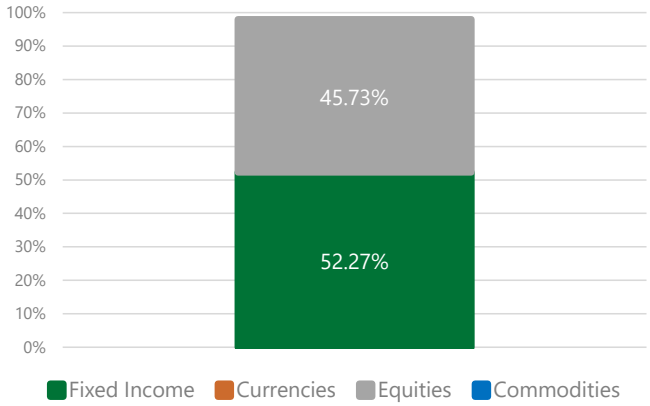
Net Attribution Effects

Allocation	-0.4%
Timing	-1.2%
Selection	-1.1%

Net Performance

	Strategy	Benchmark*
1 – Year	-12.80%	-15.35%
5 – Years	3.22%	3.19%
10 – Years	5.17%	4.98%

Average Asset Allocation



Top Performers

	Asset Class	% of Time Held	Marginal Contribution
S&P Dividend	Equity	100%	0.32%
Convertible Bonds	Fixed Income	84%	0.12%
Semiconductors	Equity	100%	0.10%
Home Construction	Equity	16%	0.10%
Global Healthcare	Equity	16%	0.06%

Bottom Performers

	Asset Class	% of Time Held	Marginal Contribution
Limited Term Bond	Fixed Income	50%	-0.05%
Short-Term Treasuries	Fixed Income	70%	-0.26%
U.S. Broker Dealers	Equity	50%	-0.26%
1 – 3 Year Treasuries	Fixed Income	84%	-0.29%
U.S. Technology	Equity	100%	-0.33%

* 50% MSCI ACWI / 50% Bloomberg U.S. Aggregate Bond Index prior to September 2022 and 50% MSCI ACWI / 50% ICE BofA US Broad Market Index thereafter

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BCM Decathlon Conservative Tactics – Prior Quarter Attribution

We expect the portfolio's average asset allocation over time will be roughly 20% global equities and 80% fixed

income, with variation over shorter periods due to the strategy's opportunistic nature. At the end of the quarter the portfolio was allocated to 70% fixed income, 10% U.S. equity, 10% global equity, and 10% currency. The portfolio underperformed a 20% MSCI ACWI / 80% US Broad Market Index benchmark during the quarter.

What Helped:

- Selling the technology sector in November, after a strong start to the quarter
- The equity position that we added near the end of the year performed relatively better than global equity markets through the end of the year
- Exposure to high yield bonds as credit spreads tightened during the quarter

What Hurt:

- Adding equities near the end of the quarter as equities performed poorly to end the year
- The U.S. Dollar fell during the quarter, reversing its strong performance from the third quarter
- Holding more short-term bonds as interest rates generally fell during the quarter

Quarterly Attribution:

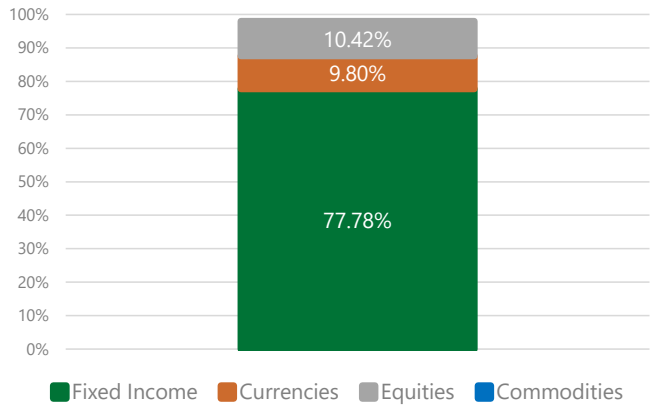
Net Attribution Effects

Allocation	-1.5%
Timing	-0.1%
Selection	-0.7%

Net Performance

	Strategy	Benchmark*
1 – Year	-11.31%	-13.99%
5 – Years	1.22%	1.34%
10 – Years	2.72%	2.66%

Average Asset Allocation



Top Performers

	Asset Class	% of Time Held	Marginal Contribution
Short-Term High Yield	Fixed Income	100%	0.22%
Global Healthcare	Equity	16%	0.06%
U.S. Technology	Equity	50%	0.05%
MBS	Fixed Income	60%	0.02%
Enhanced Yield Agg.	Fixed Income	6%	0.00%

Bottom Performers

	Asset Class	% of Time Held	Marginal Contribution
1 – 5 Year Corp. Bonds	Fixed Income	50%	-0.05%
Agency Bond	Fixed Income	100%	-0.15%
Short-Term Treasuries	Fixed Income	100%	-0.15%
U.S. Broker Dealers	Equity	39%	-0.24%
Convertible Bonds	Fixed Income	93%	-0.24%

* 20% MSCI ACWI / 80% Bloomberg U.S. Aggregate Bond Index prior to September 2022 and 20% MSCI ACWI / 80% ICE BofA US Broad Market Index thereafter

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BCM Sector Strategies

BCM U.S. Sector Rotation, BCM Diversified Equity, BCM Growth and BCM Moderate Growth

The **BCM U.S. Sector Rotation Strategy (U.S. Core Equity Allocation)** began the quarter 50% invested in equities with the remaining 50% allocated to cash or cash equivalents. In early-October we further reduced equity exposure to 25% of the portfolio with the remainder in cash or cash equivalents. We maintained this allocation for just shy of a month, returning to a 50% equity exposure by adding the energy and healthcare sectors in early-November. Over the remainder of the quarter, we added additional sectors on three separate occasions and by the end of the quarter the portfolio was fully invested and owned seven sectors. The portfolio underperformed its benchmark, the S&P 500 index, primarily due to its high cash or cash equivalents allocation at the beginning of the quarter.

In the fourth quarter the S&P 500 rose 7.56%, clearly a strong quarter but still leaving the index down nearly 20% on the year. Despite the index ending the year on the edge of a bear market, we find the portfolio fully invested in seven sectors. This may seem somewhat counterintuitive, but it is simply another example of a year that has been anything but normal. This year has been characterized by two interesting phenomena: wide dispersion in intra-sector performance and subdued volatility despite negative price action. Even excluding the energy sector, which rose over 50%, the six remaining sectors in the portfolio at the end of the year averaged a -4.5% return during 2022. Additionally, the low realized volatility in the market has allowed us to buy back sectors faster by using a shorter moving average. As a result, we believe we are well positioned for 2023. We currently own a diverse collection of sectors that give us the opportunity to perform differently than the broad market and if the broad market continues to rally, we may be able to buy back the sectors we don't currently own at levels much lower than those were we sold them.

In the BCM U.S. Sector Rotation Strategy, we use an equal-weight portfolio construction. As a result, when the strategy is fully invested, its results will tend to differ from the S&P 500 Index. We remind investors of this frequently in order to set proper expectations surrounding the strategy. Our goal is not to track the S&P 500, but instead to provide exposure to sectors exhibiting positive momentum and eliminate exposure to those that are not, while reducing risk relative to the index. We believe that over time this strategy will produce desirable results, with the S&P 500 being the relevant benchmark, but investors in the strategy should expect a fair degree of tracking error along the way.

The **International Equity Allocation** entered the quarter with a 50% exposure to developed international equities and the remainder in cash or cash equivalents. In December, we added additional exposure to international developed equities bringing the allocation to 75% invested. The allocation underperformed its benchmark, the MSCI World ex-U.S. Index, during the quarter due to its cash equivalents allocation.

When momentum is positive, we believe the allocation should be fully invested with an overweight allocation to emerging market equities, specifically emerging market consumers. International equity markets are beginning to re-establish positive momentum after realizing strong performance during the quarter, aided by the falling U.S. Dollar. If international equity markets continue their recent positive momentum, we would expect to fully reinvest the allocation shortly. We have yet to add emerging market equities to the allocation as they continued to lag developed market equities during the fourth quarter, as they have for most of the past year.

The **Global Macro Allocation** entered the quarter with a 75% allocation to a U.S. dividend paying companies and the remainder in cash or cash equivalents. In December, we fully invested the allocation by adding a 25% position in a semiconductor sector ETF. The allocation underperformed its benchmark, the MSCI World Index, primarily due to its cash equivalents allocation.

We continue to hold the U.S. dividend paying companies on the thesis that with the Baby boomers entering and

enjoying retirement, there will be continued demand for high-quality, high-dividend securities. Higher interest rates may siphon off some demand for such equities, but we believe they remain relatively attractive in the prevailing market environment. Stable companies that pay and grow dividends over time have held up better than the broad market during its recent drawdown.

We purchased a semiconductor sector ETF during the quarter as we view this year's sell-off as a timely opportunity to add exposure to a sector with strong long-term fundamental tailwinds. While the industry has historically been subject to violent cyclical swings, over the past decade the industry has consolidated substantially. Many sub segments in the semiconductor supply chain have only a few material competitors. This oligopolistic industry structure creates more rational behavior, leading to shallower cycles and better business economics. This is coupled with ever expanding use cases that provide a higher level of certainty surrounding future growth.

The **High Quality Fixed Income Allocation** maintained a constant exposure throughout the quarter with equal 50% allocations to short-term corporate bonds and broad domestic fixed income. The allocation underperformed its benchmark, the US Broad Market Index, due to its shorter duration as interest rates fell across the yield curve. This was slightly offset by a positive contribution from the allocation's overweight exposure to credit.

The purpose of this allocation is to reduce risk for more conservative investors. The BCM Investment Committee currently intends to keep the allocation's duration about a year shorter than the US Broad Market Index while adding additional credit exposure through a mix of passive and active funds.

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Sources and Disclosures

[1]Crude oil fell from a high of $123 in March to a price of $77 on 12/31/2022. Source: Bloomberg
[2]The Baltic dry index, a measure of the cost of ocean freight has declined 55% from its highs in May. Source: Bloomberg[3]Federal Reserve Bank of St. Louis, Federal Funds Rate from 1/1/2022 through 9/30/2022
[3]The Manheim US Used Vehicle Value Index has fallen 14.9% year-over-year through December 2022. Source: Bloomberg
[4]The Federal Reserve has hiked rates at the most aggressive pace in history starting in April, yet the U.S. economy didn't have as many people employed as Pre-Covid until August.
[5]Government debt increased $5 Trillion or roughly $16,000 per capita
[6]Tesla's stock price reached a high of $409.97 on 11/4/21 and closed 2022 at $123.18 a decline of 70%. Source: Bloomberg
[7]Microsoft in talks to invest $10 bln in ChatGPT-owner OpenAI, Semafor reports | Reuters

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As with all investments, there are associated inherent risks including loss of principal. Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Sector and factor investments concentrate in a particular industry or investment attribute, and the investments' performance could depend heavily on the performance of that industry or attribute and be more volatile than the performance of less concentrated investment options and the market as a whole. Securities of companies with smaller market capitalizations tend to be more volatile and less liquid than larger company stocks. Foreign markets, particularly emerging markets, can be more volatile than U.S. markets due to increased political, regulatory, social or economic uncertainties. Fixed Income investments have exposure to credit, interest rate, market, and inflation risk. Diversification does not ensure a profit or guarantee against a loss.

The MSCI ACWI Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets. The ICE BofA US Broad Market Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, quasi-government, corporate, securitized and collateralized securities. The Standard & Poor's (S&P) 500® Index is an unmanaged index that tracks the performance of 500 widely held, large-capitalization U.S. stocks. The MSCI World® Index tracks developed equity markets. The MSCI World Ex-US® Index tracks developed equity markets excluding the United States. The ICE BofA US Broad Market Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market. Indices are not managed and do not incur fees or expenses. "S&P 500" is a registered trademark of Standard & Poor's, Inc., a division of S&P Global, Inc. MSCI is a registered trademark of MSCI Inc.

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