Q1

2022

HIGH PEAKS
ASSET MANAGEMENT

QUARTERLY MARKET UPDATE

The outlook for 2022 was very bright as stocks rallied into the end of the year as portfolio and hedge fund managers poured money into the markets. The Covid challenges seemed to be fading away as optimism for a return to normalcy and continued growth in the stock market was high. Unfortunately, optimism for a prosperous and uneventful 2022 was short lived as new challenges for growth arose and inflation skyrocketed.

All major stock market indexes finished down for the quarter, but not nearly down as much as they had been in early March. The S&P 500 index closed the quarter down 4.9%, the Dow Jones Industrial Average was down 4.6% and the NASDAQ ended 9.1% lower. The Russian invasion of Ukraine on February 24th eventually sent oil futures above 130 a barrel while interest rates on U.S. treasuries spiked. Tech and growth stocks fell out of favor over the period while value and income generating equities made a comeback comparatively.

There were few places to hide as bond prices took a major hit. As we know bond prices move inversely to bond yields and as bond yields spiked from 1.51% in the 10-year treasury to 2.33% by month's end, the Core U.S. Aggregate Bond Index was down over 6%. We have been moving our clients into shorter duration bond structures in anticipation of rising rates, however these short duration bond structures weren't completely insulated from loss. We anticipate that with the higher yields being earned by these short-term bond structures, the price will recover relatively quickly, these lower duration bond funds suffered about ½ of the losses as the broader bond market.

The pull back in the stock market and rapidly rising yields in the bond market were accelerated by the Russian invasion and rising fuel and commodity prices. The Federal Reserve has suggested that they will move quickly to combat inflation by raising interest rates further and discontinuing the bond buying program that our economy has become largely dependent on since the end of the recession in 2008/2009. Inflation has been running very hot and we hope that the Fed's efforts in controlling it and bringing it down to manageable levels will fend of a broad recession in the economy. This remains to be seen.

As interest rates rise, we will look to transition our clients out of shorter term bond instruments into medium to long term duration vehicles to take advantage of the higher yield environment. We anticipate that the volatility in the stock market will continue for the near to intermediate term and look for alternative investments to enhance and diversify portfolios.

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Q2

2022

HIGH PEAKS
ASSET MANAGEMENT

QUARTERLY MARKET UPDATE

Well, there is one word which best summarizes the second quarter of 2022 and that is brutal. Nearly every aspect of the investment landscape took a beating in this quarter. The asset allocation assumption that bonds will bolster a properly allocated portfolio when the stock market corrects, completely fell apart. Bond prices fell as dramatically as the stock market, and there were few places to hide as a result, let alone hope to have positive performance.

We have not seen worse equity market performance for the first half of the year in over 50 years. The S&P 500 Index closed the quarter down about 13% and 21% for the year while the Dow Jones Industrial Average was down about 11% for the quarter and 15% for the year and the tech heavy NASDAQ was down around 22% for the quarter and 26% for the year. The pullback in the equity markets has been expected for some time and there is an argument to be made that this pullback is healthy for long-term sustainable growth. The equity markets have been red hot since the end of the financial crisis and ensuing recession. While investors may have been lulled into a false sense of security over recent years this volatility is a reminder that equity investing is not without risk and that fundamentals should play a pivotal role in equity selection.

The bond markets have also been roiled by rapidly rising inflation and the federal bank's efforts to combat these early 80's era inflation numbers by quickly jacking up interest rates. The Fed raised the over night rate by .75% at its last meeting and has informed that it's focus is bringing inflation under control even if that means sending the U.S. economy into a recession. This rapid and extreme increase in interest rates has had a devastating effect on bond prices. As we know, bond prices move inversely to interest rates and when interest rates move so far so fast, we see bond prices get smoked. The 10-year treasury moved from about 2.35% at the beginning of the quarter to almost 3% to end it, while it began the year at 1.51%. This has sent the Barclay's Aggregate Bond Index down about 5% for the quarter and almost 11% for the year. This type of negative price performance is unusual for a conservative asset class that is largely relied on to hedge stock market volatility.

While the equity market and bond market volatility is certainly troubling we remind our investors that this type of volatility is to be expected in markets. We have seen this before and the markets have always come back, it may take a year, two years or five, but if history is any indication the markets will recover as will investor portfolios. While this these markets are troubling, we also see opportunity in these markets and continue to seek to capitalize on these opportunities to accomplish our client's longterm growth objectives.

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Q3

2022

HIGH PEAKS
ASSET MANAGEMENT

QUARTERLY MARKET UPDATE

The third quarter of 2022 saw all most all conventional investments continue their significant decline as stocks and bonds both continued to slide. Bond traditionally function as a buffer to portfolios when stocks sell off, but in this unusual market event, both stocks and bonds are taking it on the chin. The S&P 500, the broadest domestic stock market index was down about 4.9% for the quarter and almost 24% for the year as of September 30th. The NASDAQ, which has a high concentration of tech and growth stocks was down almost 4% for the quarter and 32% for the year, while the Dow Jones Industrial Average was down a little over 6% for the quarter and almost 20% for the year.

Bonds did not fair much better in Q3 with the U.S. Aggregate Bond index down 4.75% for the quarter and down 14.61% for the year. This type of sell off in bond prices is very rare and is a function of the persistently low interest rate environment which was shocked to life by the Federal Reserve in an effort to fend off inflationary pressures which have been the highest since the early 80's. Bond prices move inversely to bond yields and the Federal Reserve as been very aggressive in raising interest rates in the first three quarters of the year and have given no signs of letting up. The 10-year treasury, the benchmark for bonds, started the year at 1.51% and closed out the quarter up 2.32%, at 3.83%. This monumental rise in interest rates both in time and magnitude is responsible for the sell-off in bonds across the board.

The rising interest rates may be beginning to have their desired effect of curbing inflation as the third quarter also saw global food and fuel prices decline consistently over the period while other inflation indicators have remained stubbornly high. In addition to the inflationary environment, we have concerns about the war in Ukraine and annexation of Ukrainian territories by Russia, slowing growth numbers coming out of China and an incredibly strong dollar which weighs on U.S. exports adding fuel to the sell-off fervor in equities. It remains to be seen if the U.S. will slide further into a recession and if corporate earnings and low unemployment numbers will continue to remain resilient.

We have positioned our clients for rising interest rates by keeping duration short in our fixed income (bond) strategies and for this equity market sell off by lightening allocations to stocks and favoring value over growth. We may look to reallocate to longer duration bond instruments as interest rates stabilize and may introduce more aggressive equity allocations to take advantage of the broad stock market sell off as market conditions dictate.

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Q4

2022

HIGH PEAKS
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YEAR END UPDATE

We hope your 2023 is off to a great start! I think 2022 was a year we would all like to forget, at least as far as the stock and bond markets go. It was the worst year for the equity markets since the financial crisis and the worst year for bonds ever! We had suggested that the equity markets were over-valued and that bond yields would be rising in the face of pent-up inflation pressures for quite some time. We positioned our clients accordingly, however most if not all of our clients saw losses in their portfolios as drawdowns in investments affected virtually every equity and bond class with the exception of energy and utilities.

On the equity side, the Standard and Poor's 500 Index, the broadest U.S. stock market index was down 18.13% for the year. The Dow Jones Industrial Average was off about 7% for the year and the technology heavy NASDAQ composite index was down about 32.5%. Again, there were very few safe places to hide with this broad market sell off; the technology stocks that had risen the highest the fastest fell the furthest, and as you would expect value stocks held up the best.

On the fixed-income or bond side of the ledger, we saw the Barclays US-Aggregate Bond Index down 13% for the year and the Barclays Global-Aggregate Bond index down 16.25%. The Federal Reserve Bank raised the Fed Funds rate seven times for a total of a 4.25% increase. The Fed Funds Rate increase was the driver for the massive bond selloff we saw, as we know bond yields move inversely to bond prices. The Federal Reserve raised interest rates very aggressively in an attempt to fend of rampant inflation. This year Consumer Price Index extended to over 9%, which was the highest levels this country as seen since the early 80's. The war in Ukraine and a lot of pent-up inflation pressure from multiple years of accommodative Federal Reserve Policy were to blame for the high inflation numbers.

We were arguably in a massive bubble in both equities and bonds coming into 2022 and as is the last chapter most bubble stories, it was burst. In preparation for these market events, we have attempted to keep our clients protected by leaning more towards value stocks and low duration fixed income investments instruments. Now that the bubble has burst, and markets have adjusted, we will begin to advise our clients to move to transition into more growth-oriented equity investments and fixed income products which are of an average duration.

As always, it has been a pleasure to serve your investment needs and we appreciate your trust and confidence in High Peaks Asset Management. Please let us know if you'd like to schedule an inperson or virtual portfolio review. We wish you all the best for 2023.

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