FORTHRIGHT PARTNERS, LLC

INVESTMENT LETTER, FOURTH QUARTER 2022

EXECUTIVE SUMMARY

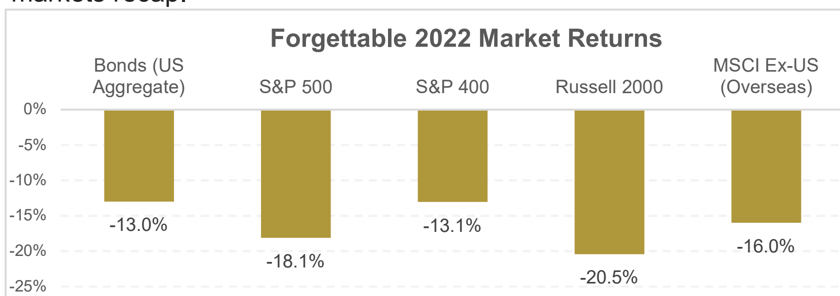
Balanced portfolios should do better in 2023 as the worst is likely behind for the bond market.

Volatility will probably remain high as the markets continue to wager that interest rates will start to decline soon. In the interim, the Federal Reserve seems resolute with its hawkish stance.

In a slow-growth environment, valuation and dividends do matter.

2022: A YEAR TO REMEMBER (OR FORGET)

A "once in a generation type event" is how the National Weather Service described the recent Christmas week weather event. That is perhaps also à propos to describe the 2022 investment landscape, with both the stock and bond markets posting double-digit losses. Companies benefitting from the pandemic bubble, such as Carvana and Shopify, saw their stock prices decline as much as 90/95%. The Nasdaq Composite Index, laden with growth stocks, plummeted over 30%. Please see page 3 for detailed 2022 markets recap.



Inflation hit 40-year highs because of COVID-related easy monetary/fiscal policies and supply chain disruptions. Consequently, central banks across the globe were forced to embark on a program of interest rate increases and quantitative tightening to bring inflation back down to targets. The Federal Reserve hiked short-term interest rates from 0% to 4.5% in nine short months. This not only led to the carnage in financial markets, but also resulted in the U.S. Dollar's rise to 20-year highs, as discussed in last quarter's commentary.

"The future ain't what it used to be."

Yogi Berra

LOOKING AHEAD: THE GOOD, THE BAD AND THE UNKNOWNS

The Good

Inflation

Recent monthly CPI data have pointed in the right direction, having come down from 9+% to 7.5%. Energy, used-car, appliances and housing prices have declined meaningfully. We have most likely seen peak inflation, with most economists expecting inflation rates to fall to the 4-5% area by mid-year.

Bond Market

The Federal Reserve has telegraphed that "peak rates" will likely be in the 5.25-5.5% area. Investors can earn 4%+ staying in short-term "risk-free" Treasury Bills and Notes. This will provide a steady income stream as well as stability for balanced portfolios.

The Bad

Slow Growth / Economic Recession / Corporate Earnings Decline

The inverted yield curve (short-term rates higher than long-term rates) has been a fairly reliable indicator of past economic downturns and this time will be no different. The only unknown is how wide and deep the economic slow-down will be. Anecdotally, the housing & construction markets have begun to cool off and corporate lay-off announcements increasingly frequent. An economic slow-down will likely lead to lower corporate earnings, posing headwinds for the equity market.

The Unknowns

Consequences of China re-opening

Will it lead to short-term supply disruptions as more workers get sick? Will it cause global inflation to re-escalate as Chinese consumers start spending after 3 years of Zero Covid Restrictions? Will the Virus mutate to cause milder or more severe symptoms? On balance, China's re-opening will help global growth, but just like the US re-opening, China's re-opening will be a messy process.

Geopolitical Tensions

The prolonged Russia/Ukraine conflict and increasingly adversarial relationship between the West and China will lead to new and uncertain diplomatic and economic realities.

EQUITY MARKETS: BECAUSE I SAY SO

The Federal Reserve has clearly communicated that they will not stop raising rates until the inflation dragon has been slayed. However, investors refuse to listen, hoping the Federal Reserve will pivot as inflationary pressures subside, arguing that the Federal Reserve's current policy will lead to an unnecessarily harsh recession. They may be right, but it does not matter. Just like petulant children arguing with their strong-willed parents, when the parents put their foot down and declare "Because I say so," you know who wins the battle.

VOLATILITY IS HERE TO STAY

The markets will likely over-react to every single economic release, resulting in strong up and down days depending on their conjecture on the timing of the Federal Reserve's pivot. These short-term noises will be frustrating but investors may benefit from remembering the following:

- Do not fight the Fed. The investment landscape remains challenging as the Federal Reserve continues to shrink its balance sheet (aka, taking money out of the system).
- Take advantage of volatility. While this is not the time to plunge into risky assets, global stock markets were down significantly in 2022. There are bargains to be had. Buying quality companies on market dips is a solid long-term strategy.

"The more things change, the more they stay the same."

Jean-Baptiste Alphonse Karr

2023 INVESTMENT STRATEGY

We remain cautious in the short term but are seeing opportunities. Balanced portfolios should do better this year, as the worst part of the bond market carnage is likely over.

According to Ibbotson Associates, from 1926 through 2021, dividends provided close to 40% of the average annual total return on the S&P 500 Index. However, for the 3 calendar years ending in 2021, only ~10% of the Index's return came from dividends. We believe that in a slow growth environment that will play out over the next few years, dividends will make up a larger percentage of equity total returns than in recent memory.

For the foreseeable future, we will continue to maintain a slight underweight in stocks and focus on finding nuggets that are selling at reasonable prices. For bonds, we still favor Treasury Bills and short-term high-quality bonds, not willing to take too much credit and interest rate risk yet.

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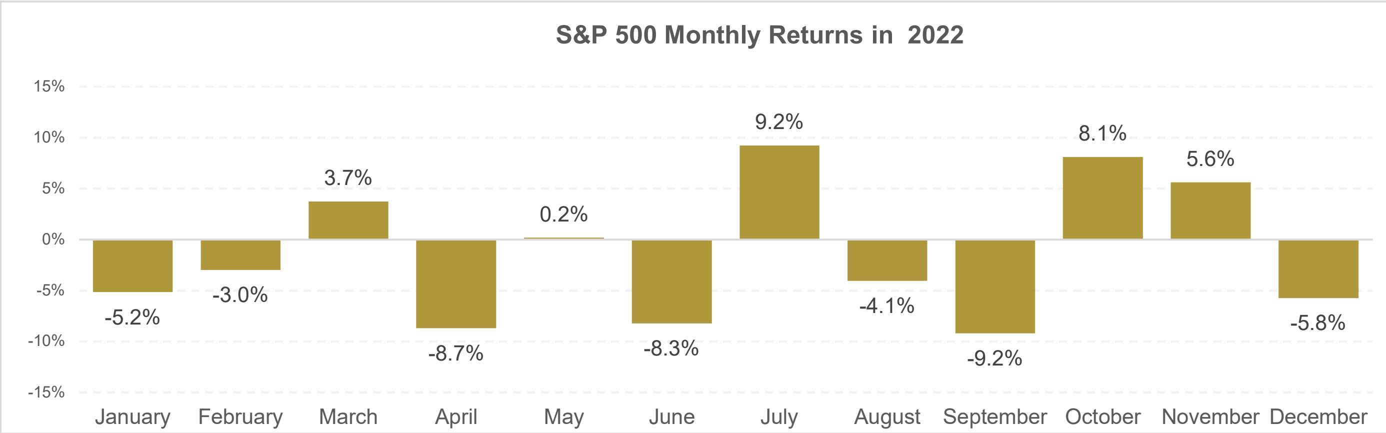
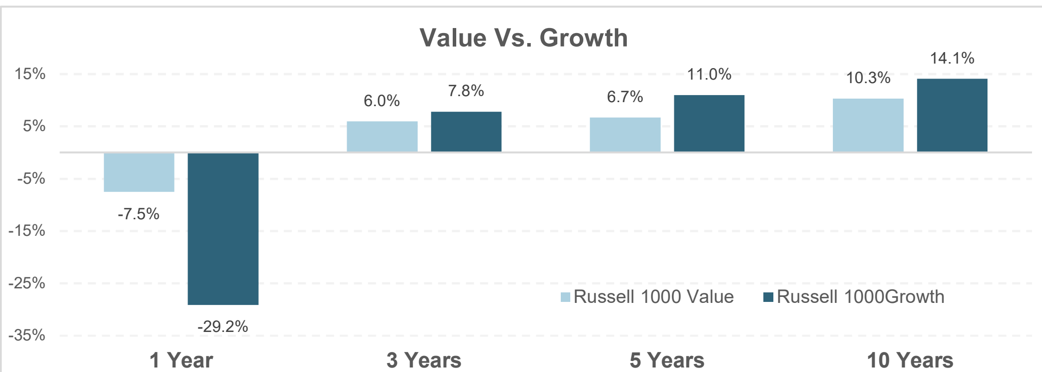
2022 MARKET HIGHLIGHTS

The monthly saga



It has been a nauseous roller coaster ride. The S&P 500 declined over 5% in 5 out of the past 12 months.

Value stocks finally made a come back



Even though value stocks outperformed growth stocks by almost 22% in 2022, they continue to lag on a longer-term basis. Value stocks may have more room to run to close the long term performance gap.

Longer-Term results

US large cap stocks had the weakest performance in 2022 but still outperformed other asset classes over longer periods. Overseas and small cap stocks have performed the worst over the past 5 years, but sporting the most attractive valuations as a result.

Pandemic darlings then and now

	Peak Price	12/30/2022 Price	% Decline
Peloton	$162.7	$7.9	-95%
Zoom	$559.0	$67.7	-88%
Shopify	$169.1	$34.7	-79%
Carvana	$361.0	$4.7	-99%