FORTHRIGHT PARTNERS, LLC

Investment Letter, First Quarter 2022

EXECUTIVE SUMMARY

The investment landscape will remain challenging and volatile amidst continued geopolitical and economic uncertainties.

Playing defense is the best offense.

Changes can be unsettling, but they also bring forth new opportunities.

Be defensive.

Be opportunistic.

Be flexible.

RUSSIA'S INVASION OF UKRAINE HAS CHANGED THE WORLD AS WE KNOW IT.

Our hearts go to the Ukrainians, who continue to bravely defend their country as the Russian invasion enters its eighth week. The unfolding humanitarian crisis is first and foremost on our minds. However, as your investment advisor, this letter will focus on the economic and investment impact of the conflict.

A SEISMIC SHIFT

The past half century of globalization was underpinned by a combination of economic and political liberalization. The removal of trade and financial barriers, along with lightning-speed technological innovations, have led to unprecedented wealth across the globe.

Global trade, however, is not without its unique problems. Disputes ranging from intellectual property rights to dumping allegations (selling products below cost) have pitted nations against one another. While the West has benefited from cheap imports (primarily by outsourcing production), it has seen its working middle-class dwindle. More recently, the pandemic also exposed the weaknesses of the global supply chain, as evidenced by periodic shortages of specific goods. The political chasm between democracies and autocracies has increased, as the latter no longer prioritize economic growth over the threats (loss of power and control) presented by the spread of democracy.

What are the likely implications?

End of Post-World War II Peace Dividend
NATO countries have already announced their plans to increase defense spending.

Regionalization of World Trade
Trade may become less global as rising geopolitical tension can lead to trading blocs based on political / ideological views.

Manufacturing Reshoring
The West will likely start bringing manufacturing jobs back to their own countries, especially for important sectors such as semi-conductors and medicine. The re-shaping of the supply chain will be a multi-year development.

These potential implications are inflationary in nature.

INFLATION

Inflation has been rising at a rapid rate over the past 12 months, primarily as a result of the enormous growth in money supply since March 2020. Pandemic-related supply disruptions only exacerbated the problem. When Russia invaded Ukraine, the nature of inflationary pressures changed from predominantly short-term supply / demand imbalances to more stubborn price increases of basic resources: energy, grains, fertilizers, various metals and minerals. Higher energy and food prices will likely persist for the next couple of years. While soaring prices hurt consumers, they do incentivize producers to increase production, which will eventually bring prices down. The bottom line is that these macro adjustments will take time, meaning that we will continue to experience economic pain in the short run. Longer-term, inflation will likely abate due to slow population growth, aging demographics and technological innovations.

Most central banks have already begun raising interest rates to help tame inflation. Rising interest rates are effective in slowing economic growth and thereby reducing inflationary pressures. However, they cannot solve energy and food <u>supply</u> issues.

INVESTMENT STRATEGY

Higher energy and food prices often lead to slower economic growth as consumers have less discretionary income. In addition, the Federal Reserve's plan to raise interest rates and shrink its balance sheet, coupled with the end of stimulative fiscal policies, all but guarantee slower economic growth. Recession risks have increased. Since markets do not like uncertainties, the investment landscape will remain challenging. Here are our key investment themes for 2022:

Defensive

Maintain equity exposure close to the low-mid end of clients' target equity allocation range. Emphasize dividend-paying stocks with solid balance sheets and reasonable valuations.

Opportunistic

The economic / geopolitical changes outlined above also create new investment opportunities (reshoring, electrification, food production…). Market volatility will give us a chance to purchase them at attractive prices.

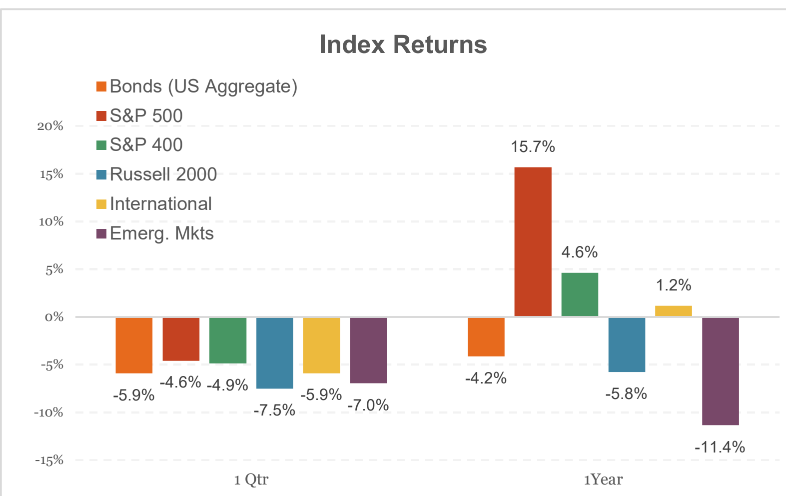
Flexible

"Expect the Unexpected" is this year's theme. We will adjust our investment positioning as current events unfold.

"The future is uncertain… but this uncertainty is at the very heart of human creativity."

Ilya Prigogine (Chemist, Nobel Laureate, Russian Jew who fled the Soviet Union in 1921 and settled in Belgium.)

FIRST QUARTER MARKET HIGHLIGHTS



Both stocks and bonds lost ground in the first quarter. While volatility in the stock market has captured most headlines, the real carnage was in the bond market, with long bonds losing over 10% and the Bloomberg Aggregate Index posting its biggest decline (6%) since 1980. On the other hand, the S&P 500 Index lost "only" 4.6%, though the daily swings have made it feel much worse. While US large cap stocks continued to perform better than other asset classes, leadership has made a dramatic turn. Energy (+39%) and utility (+5%) are the only two sectors that posted positive returns. The S&P technology sector declined roughly 9%, but many pandemic favorites have lost over 30% in value.

Interest rates have increased meaningfully in the past three months. 10-year bond yields moved from 1.5% to 2.7% while the average 30-year mortgage rate has risen to 4.7% from 3.2%. It is widely expected that the Federal Funds Rate will reach 2.5% by year-end. Bond prices drop when interest rates increase. In a rising interest rate environment, investors may question the rationale for bond investments. We believe that investing in short-term bonds will allow investors to see their income gradually increase as interest rates rise, short-term bonds will also help reduce portfolio volatility.

CONTACT INFORMATION

Baoky Vu, bnvu@forthrightinvestments.com

Beverly Kelly, bwkelly@forthrightinvestments.com

Hong-Tsun Simon, CFA , htsimon@forthrightinvestments.com