

Q2

Quarterly Market Review

Second Quarter 2022

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This report features world capital market performance and a timeline of events for the past quarter. It begins with our quarterly commentary, followed by the returns of stock, commodities, and bond asset classes in the US and international markets.

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Breathe

"Hope is important because it can make the present moment less difficult to bear. If we believe that tomorrow will be better, we can bear a hardship today." --Tich Nhat Hanh

What a difference three months can make. Back at our "Taking Stock" event in March, we provided historical data which, in total, presented a reasonably constructive picture of what was likely to happen. Unfortunately for all of us, that was just in time for a second quarter 16.7% drop in the US market, a 15.2% drop in international markets¹ and the worst beginning to the year in over 40 years.

Forecasting the economy in the short run is incredibly difficult. As famed economist John Kenneth Galbraith once said, "The function of economic forecasting is to make astrology look respectable."² There are just too many moving parts, and too many unpredictable events, to get it right with any consistency. You might have heard the quip that prognosticators have "predicted eight of the last three recessions."

But even if you get the economy right, there's no guarantee that you also get the market right in the short-term. The following chart, pulled together by Ben Carlson³, shows that the chances of the market rising prior or even during a recession are a toss-up at best.

His conclusion: "Timing of the economy is hard. Timing of the stock market is harder."

There are two natural, but unhealthy, responses to the market decline. The first is to alter the long-term plan by selling equities and holding the proceeds in safer assets, such as cash.⁴ We've spoken to each of you about this in the past, but it's hard enough to make one right call (when to sell), let alone two right calls (when to sell and when to get back in). Indeed, as Howard Marks, one of the founders of Oaktree, said in a recent letter, "...our

Recession	6 Months Prior	During the Recession	One Year	Three Years	Five Years	Ten Years
Nov 1948 - Oct 1949	9.83%	4.12%	31.48%	87.98%	171.33%	497.04%
July 1953 - May 1954	-6.46%	27.57%	35.92%	83.74%	144.81%	294.38%
Aug 1957 - April 1958	9.28%	-6.51%	37.31%	66.35%	89.72%	211.33%
April 1960 - Feb 1961	-1.04%	18.40%	13.61%	35.06%	68.41%	111.33%
Dec 1969 - Nov 1970	-7.78%	-3.45%	11.24%	20.63%	25.16%	145.87%
Nov 1973 - Mar 1975	2.86%	-17.90%	28.32%	21.99%	55.33%	252.40%
Jan 1980 - July 1980	7.67%	16.14%	12.92%	55.89%	100.89%	345.64%
July 1981 - Nov 1982	-1.02%	14.66%	25.40%	67.24%	103.23%	350.51%
July 1990 - Mar 1991	3.09%	7.64%	11.04%	29.84%	98.21%	284.66%
Mar 2001 - Nov 2001	-17.84%	-7.18%	-16.51%	8.44%	34.33%	33.16%
Dec 2007 - June 2009	-2.33%	-35.46%	14.43%	57.70%	136.98%	294.17%
Mar 2020 - April 2020	1.92%	-1.12%	45.98%	???	???	???

Sources: NBER, Returns 2.0

business is full of people who got famous for being right once in a row."⁵ And those are the "experts."

The second is altering the plan to try to quickly make up what has been lost. In our 3q letter titled, "Beware of Shiny New Objects," we talked about how easy it is to get sucked into a story of the next great thing. Since then, both Bitcoin and Ether have declined by over 60%. And that doesn't include the myriad of crypto frauds⁶ or the total wipeouts (if you bought into Luna/TerraUSD or bought any crypto through Celsius).

Many NFTs⁷ have fared equally badly or worse. A recent article by Matt Levine⁸ told this story:

An NFT of the first tweet from Twitter Inc. co-founder Jack Dorsey sold in March 2021 for \$2.9 million to Sina Estavi, the chief executive of Malaysia-based blockchain company Bridge Oracle. Earlier this year, Mr. Estavi put the NFT up for auction. He didn't receive any bids above \$14,000.

¹ As measured by the S&P 500 and the MSCI world ex-US indices, respectively.

² Quoted from Davis Funds "Wisdom of Great Investors" <https://davisfunds.com/wisdom/>

³ <https://awealthofcommonsense.com/2022/06/timing-a-recession-vs-timing-the-stock-market/>

⁴ It's illuminating to note that bonds are down over 10% this year as well, so there were few places to hide other than cash.

⁵ <https://www.oaktreecapital.com/docs/default-source/memos/bull-market-rhymes.pdf>, page 10.

⁶ As an example, see Levine, Matt "Meanwhile in Crypto" *Bloomberg Opinion*, *Money Stuff*, April 18, 2022

⁷ For those who need a refresher on non-fungible tokens (NFTs), see our 3q 2021 letter titled "Beware of Shiny New Objects"

⁸ Levine, Matt "NFT Stuff" *Bloomberg Opinion*, *Money Stuff*, May 5, 2022

Breathe

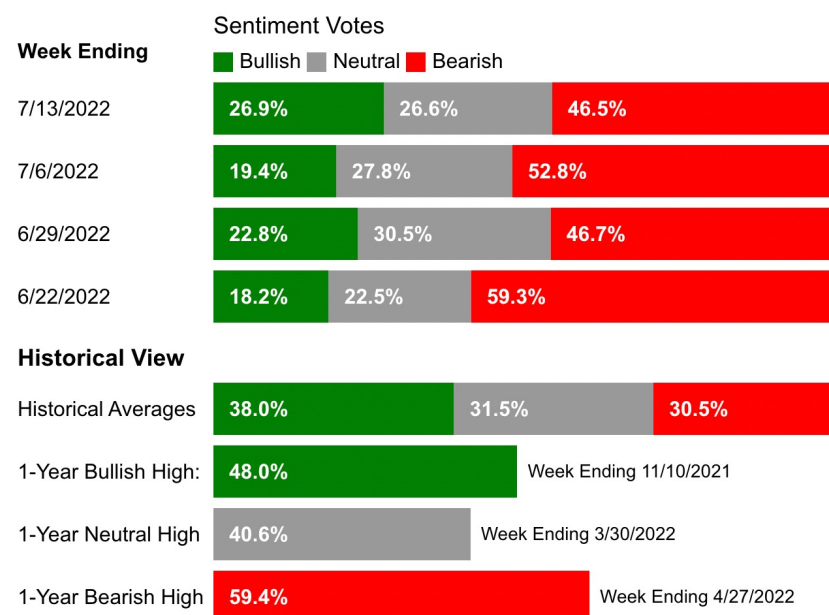
(continued from page 3)

There was also another story in the same article about another NFT whose asking price was \$25.5mm, while the highest bid at the time \$210. Now that is a wide bid/ask spread! And while SPACs haven't declined as much as that, one SPAC index was down 62% in late June.⁹ Some of this reminded me of NetZero, an early internet service provider, who in 1999, when it decided to give away its service for free, the stock jumped. I remember the CEO at the time quipped something to the nature of, "If I knew that would happen, I would have paid people to take the service." We told you then, caveat emptor. As my friend and head of First Eagle Funds, Matt McLennan said recently, "If you are in a storm, at sea, the object is to get home safely not to break the speed record."

Sure, there is plenty to be concerned about. You read about them every day in the paper. Indeed, we cannot guarantee that the market won't decline even further. One client asked me during the quarter what I'm optimistic about. Here are my top few:

1. The market is already down 20%. Valuations are lower. That doesn't mean it can't go lower. But it does mean that I'm paying less for the same businesses, which means my risk is lower going forward. Indeed, even Warren Buffett has been allocating capital to equities in the last few months.
2. Sentiment is bad. Often the market bottoms when sentiment is at its worst because there's nobody left to sell. According to the American Association of Individual Investors (AAII)¹⁰, sentiment is much more bearish than normal (see chart to right). In addition, approximately 55% of people believe we are already in a recession.¹¹

3. Insiders are buying.¹² Because many companies pay executives in stock, normally there are many more insider stock sales than purchases. But as recently as late May, there were more insider buys than sells. There are many reasons an executive would sell (diversification, large expense such as a home, etc.), but there's only one reason to purchase—they think the stock will rise. This is the first time we've seen that since the depths of COVID.



⁹ <https://www.bloomberg.com/news/articles/2022-06-24/spac-stock-prices-reflect-the-end-of-an-era>

¹⁰ <https://www.aaii.com/sentimentsurvey>

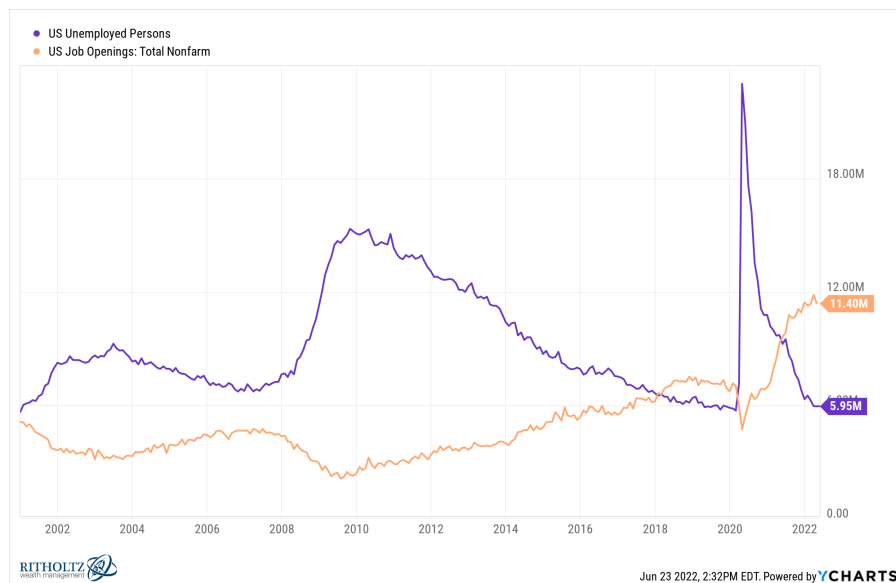
¹¹ <https://today.yougov.com/topics/economy/articles-reports/2022/06/01/economy-economist-yougov-poll-may-28-31-2022>

¹² https://www.bloomberg.com/news/articles/2022-05-23/insiders-put-recession-angst-aside-to-binge-on-their-own-stocks?cmpid=BBD052422_OUS&utm_medium=email&utm_source=newsletter&utm_term=220524&utm_campaign=openamericas

Breathe

(continued from page 4)

4. Inflation will likely peak soon (if it hasn't already). While the headline inflation numbers still look very bad, there are some positives. First, the Federal Reserve raising rates has already impacted economic activity, especially in the housing market.¹³ Second, almost all commodities have already declined – from the peak, oil is down 23%, copper is down 32%, and even wheat (despite the Ukrainian war) is down 19%. These will likely filter into the aggregate data in the coming months.
5. The economy still looks resilient. Below is a chart of US job openings (in orange) and unemployed people (in purple). Note that we are at a record for job openings and near a low in unemployment.¹⁴



What are we doing during this time? First and foremost, we are trying, as Charlie Munger said at the Berkshire conference this year, to "avoid stupid." We will tie each other to the post to avoid the siren song if need be. Meanwhile, we are looking for opportunities in the markets that we can take advantage of, should they arise. We are aggressively taking advantage of the opportunity to tax loss harvest, so clients have a tax cushion going forward. We also have scheduled many meetings with clients to make sure the financial plan put in place still works for them. If you have any questions about anything related to your financial life, please reach out to us.

We understand it is small solace when losing money to know that you could have lost more money by doing something else. But as Ben Graham once said, "The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and a behavioral discipline that are likely to get you where you need to go." Once you create the plan, assuming the goals are the same, stick to it. And if you are in a position to take advantage when markets decline, your future self will thank you.







Avi and the SAM team

¹³ The CPI uses rent and owners equivalent rent as components not home purchases. In the short run, the cost of purchasing has risen (due to higher interest rates) which creates room for more rent growth until home prices start to decline.

¹⁴ <https://awealthofcommonsense.com/2022/06/unemployment-rates-interest-rates-mortgage-rates-credit-card-rates/>

Quarterly Market Summary

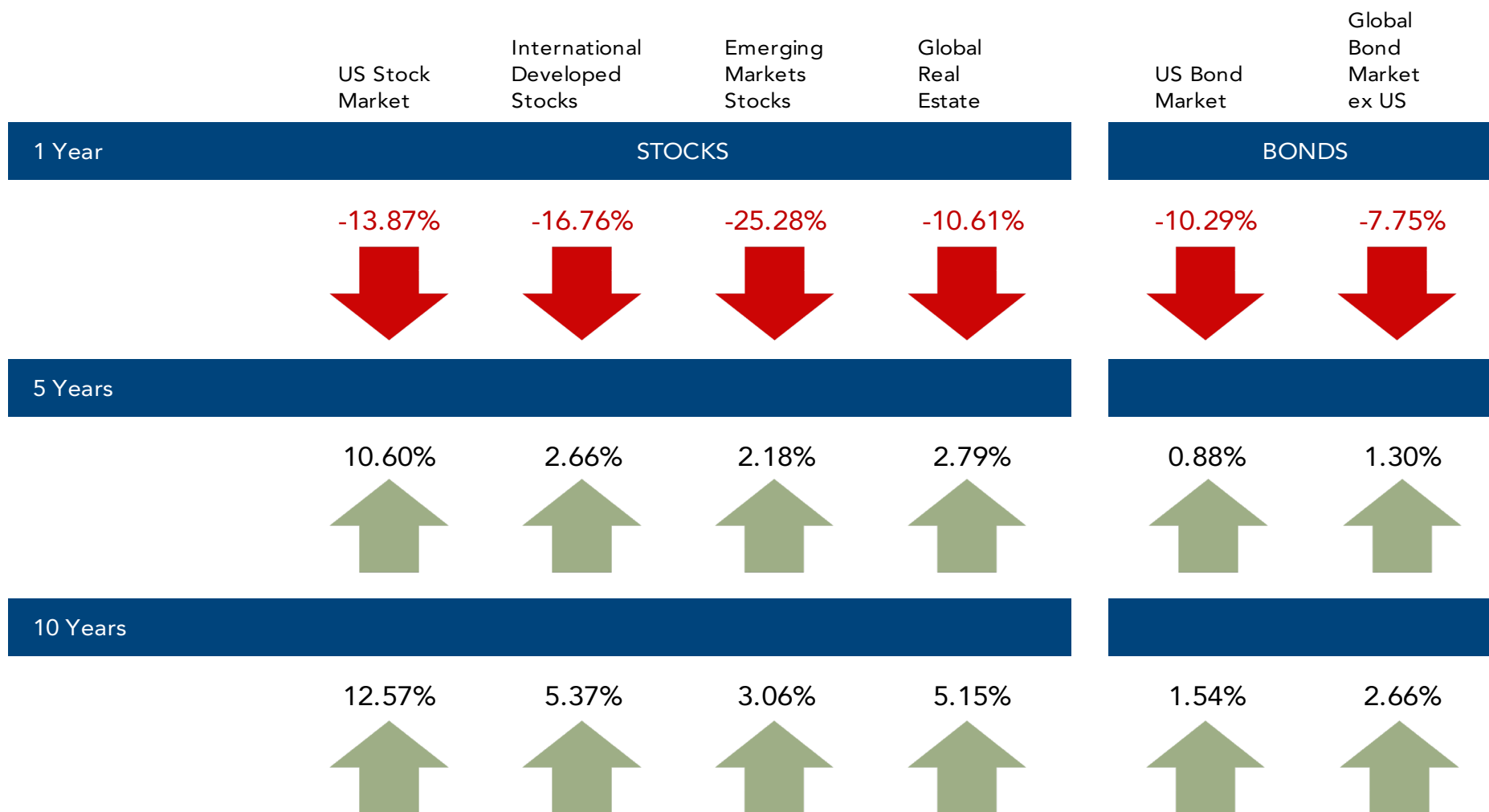
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2022	STOCKS				BONDS	
	-16.70%	-14.66%	-11.45%	-17.22%	-4.69%	-4.01%
						
Since Jan. 2001						
Average Quarterly Return	2.2%	1.4%	2.6%	2.3%	1.0%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2022 Q1	2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

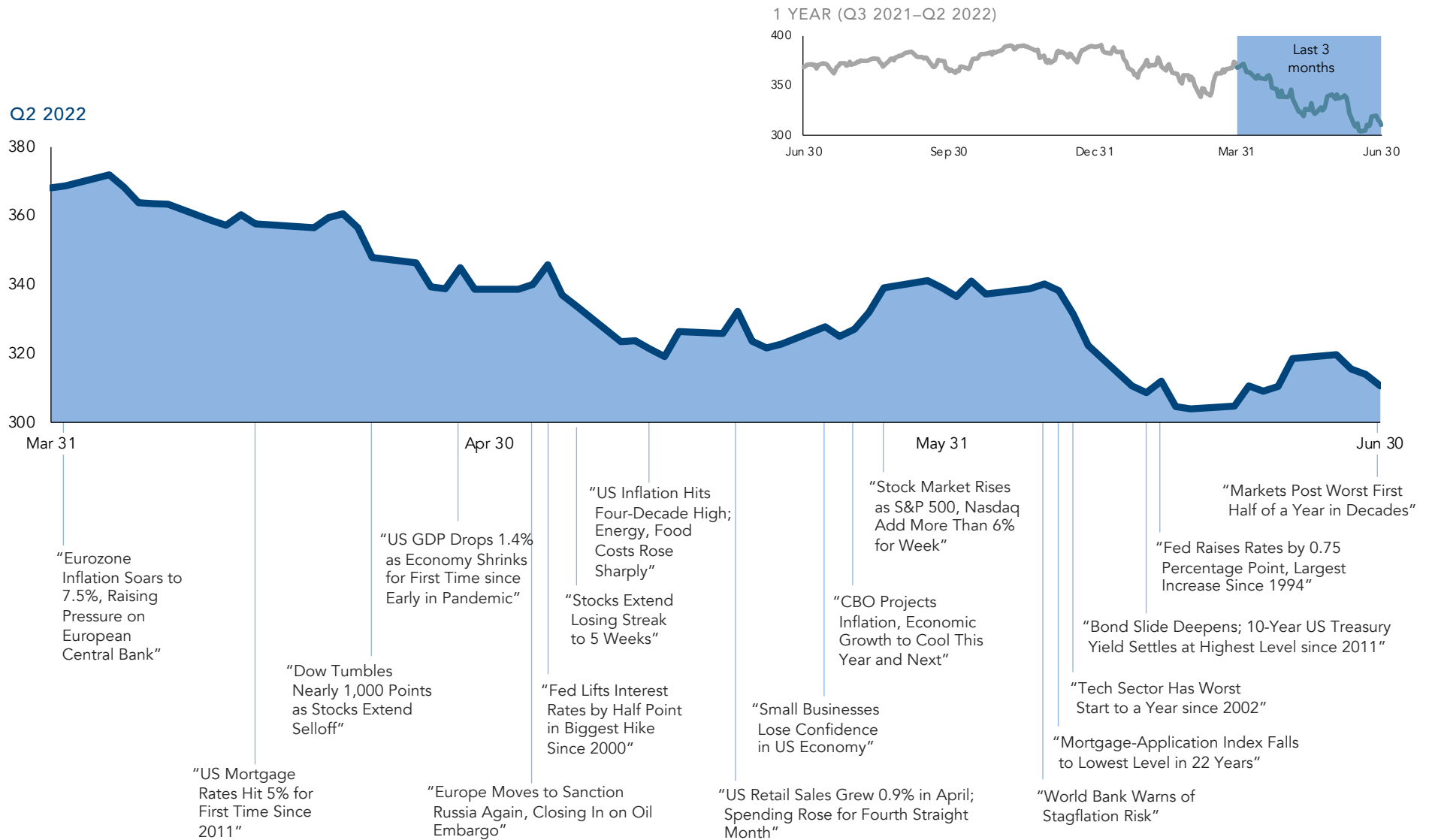
Index returns as of June 30, 2022



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2022



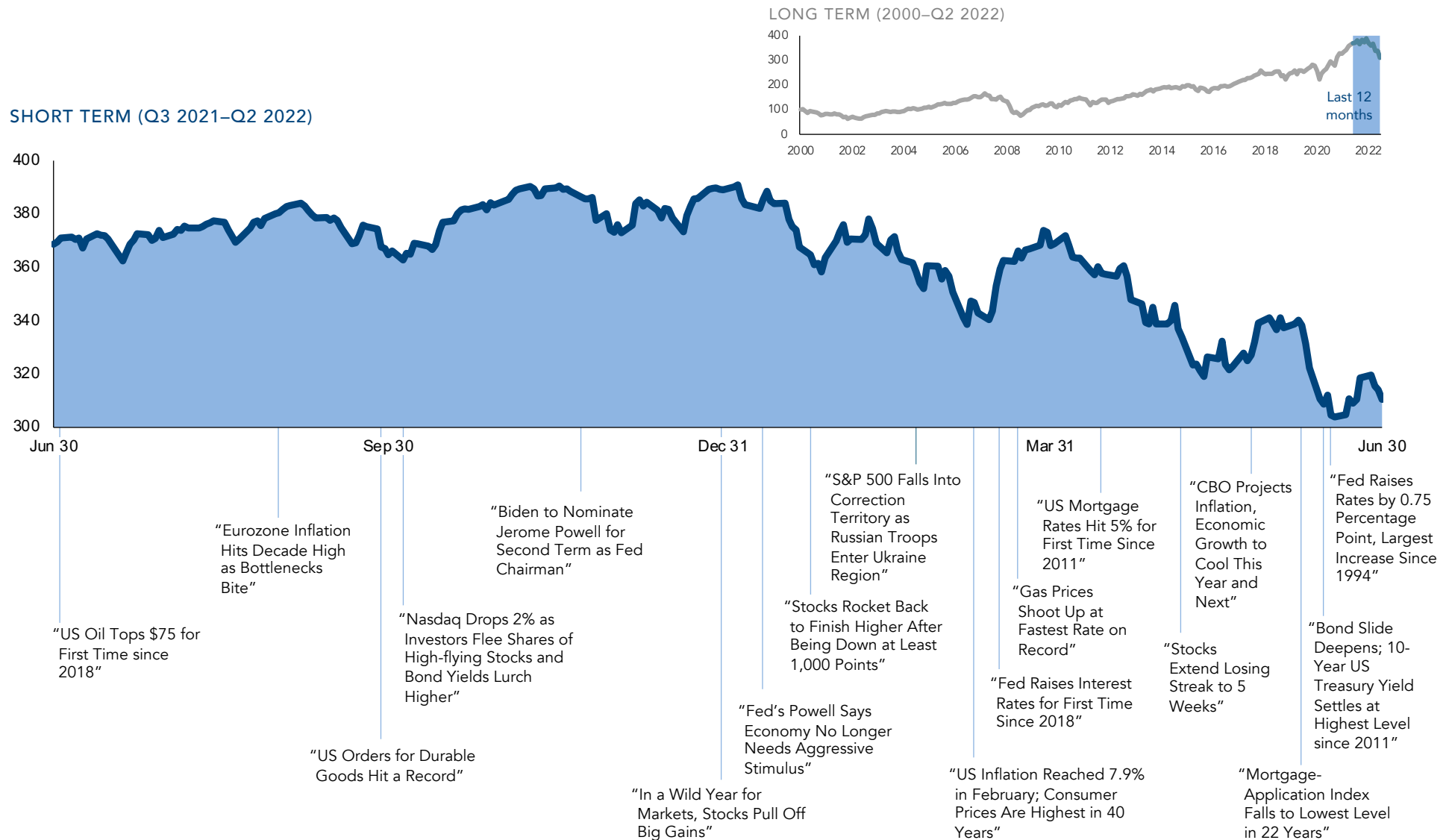
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net dividends]. MSCI data © MSCI 2022, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net dividends]. MSCI data © MSCI 2022, all rights reserved.

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US Stocks

Second Quarter 2022 Index Returns

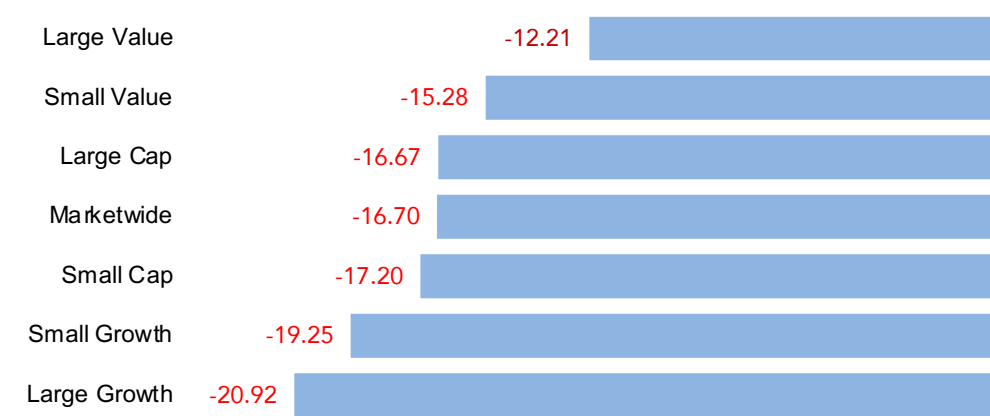
The US equity market posted negative returns for the quarter and underperformed both non-US developed and emerging markets.

Value outperformed growth.

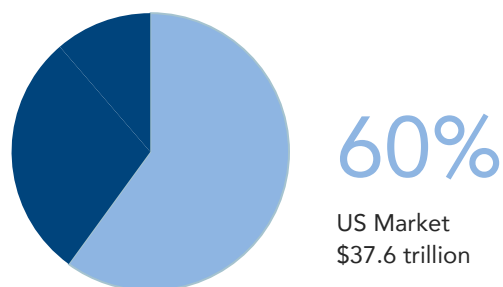
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Large Value	-12.21	-6.82	6.87	7.17	10.50
Small Value	-15.28	-16.28	6.18	4.89	9.05
Large Cap	-16.67	-13.04	10.17	11.00	12.82
Marketwide	-16.70	-13.87	9.77	10.60	12.57
Small Cap	-17.20	-25.20	4.21	5.17	9.35
Small Growth	-19.25	-33.43	1.40	4.80	9.30
Large Growth	-20.92	-18.77	12.58	14.29	14.80

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.

International Developed Stocks

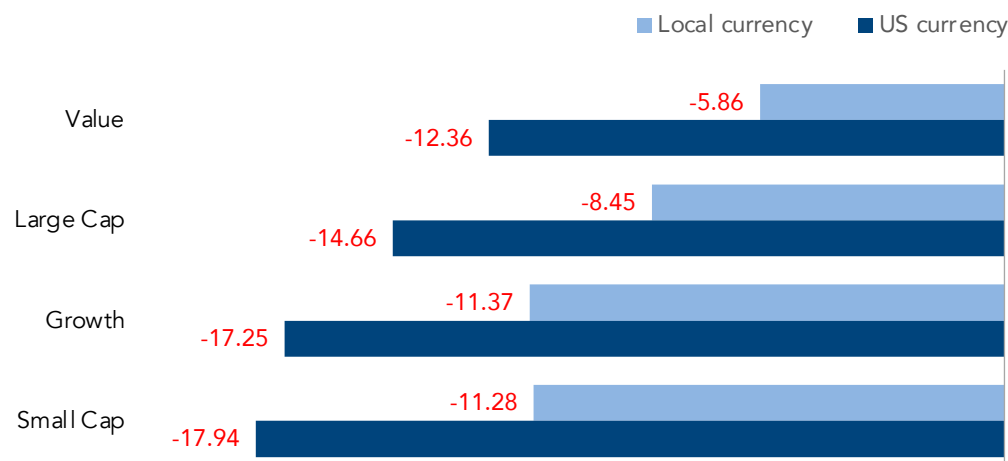
Second Quarter 2022 Index Returns

Developed markets outside of the US posted negative returns for the quarter, outperforming the US and underperforming emerging markets.

Value outperformed growth.

Small caps underperformed large caps.

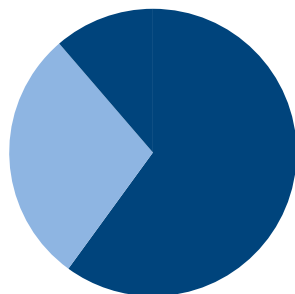
Ranked Returns (%)



World Market Capitalization—International Developed

29%

International
Developed Market...



Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Value	-12.36	-10.28	1.13	1.26	4.42
Large Cap	-14.66	-16.76	1.70	2.66	5.37
Growth	-17.25	-23.37	1.55	3.61	6.04
Small Cap	-17.94	-23.02	1.97	2.16	6.70

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Emerging Markets Stocks

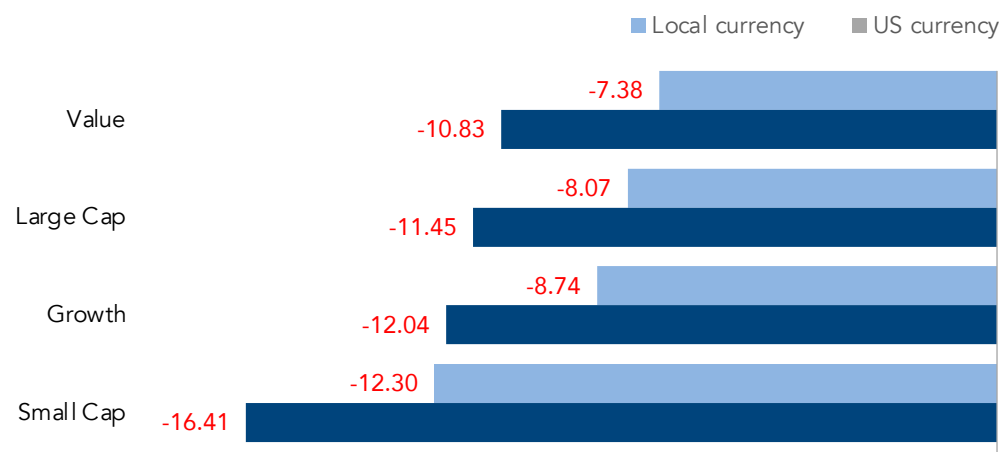
Second Quarter 2022 Index Returns

Emerging markets posted negative returns for the quarter, outperforming the US and non-US developed markets.

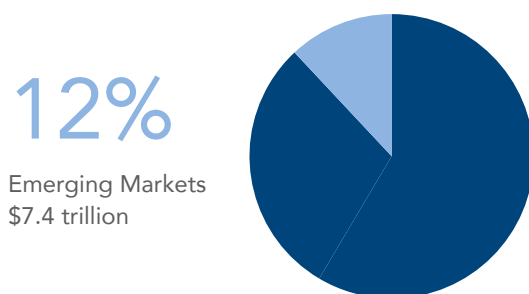
Value outperformed growth.

Small caps underperformed large caps.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

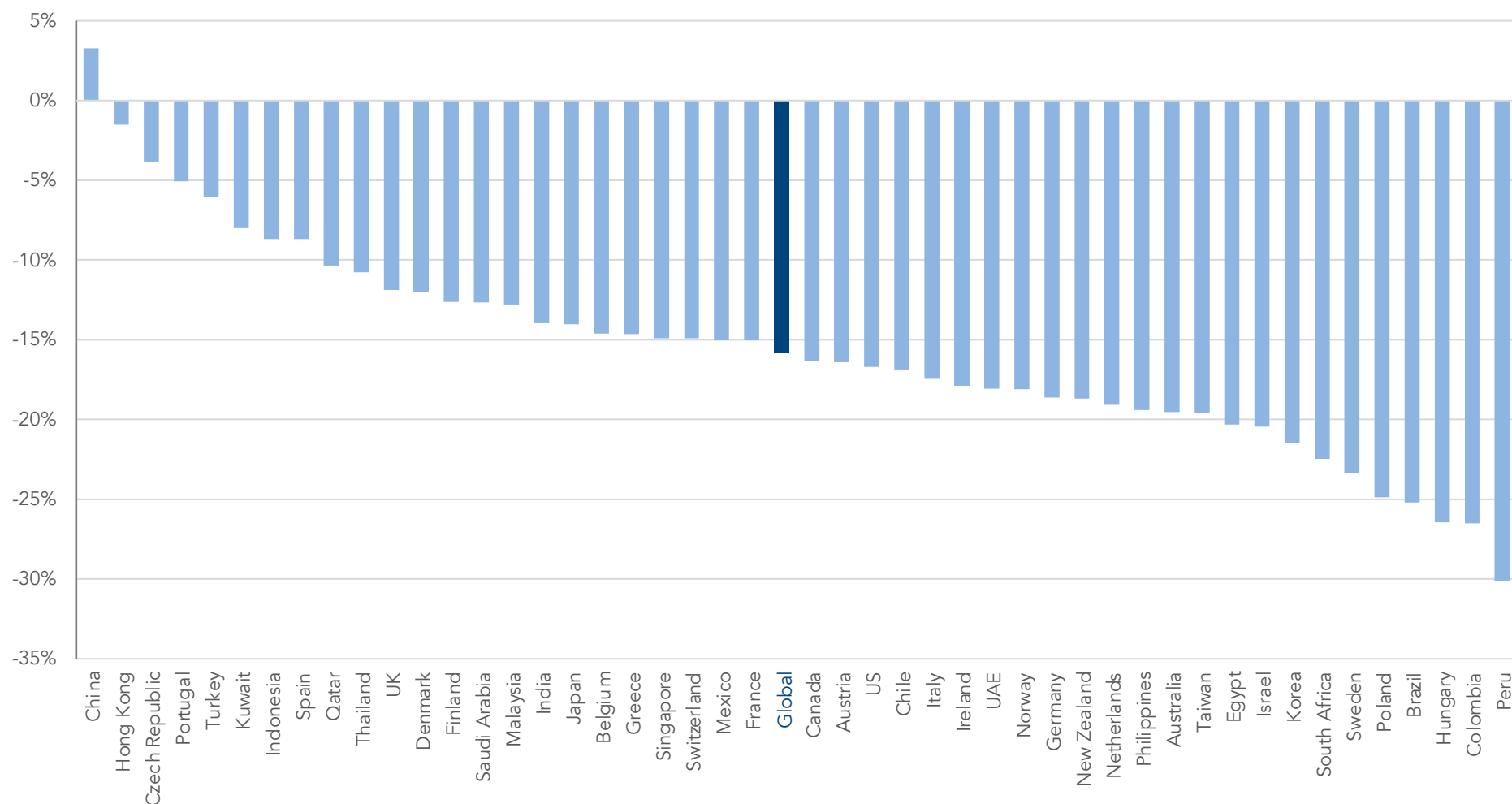
* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Value	-10.83	-18.59	-0.97	1.25	1.46
Large Cap	-11.45	-25.28	0.57	2.18	3.06
Growth	-12.04	-31.18	1.88	2.92	4.54
Small Cap	-16.41	-20.72	5.78	3.48	4.31

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2022, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

Country Returns

Second Quarter 2022 Index Returns



Past performance is no guarantee of future results.

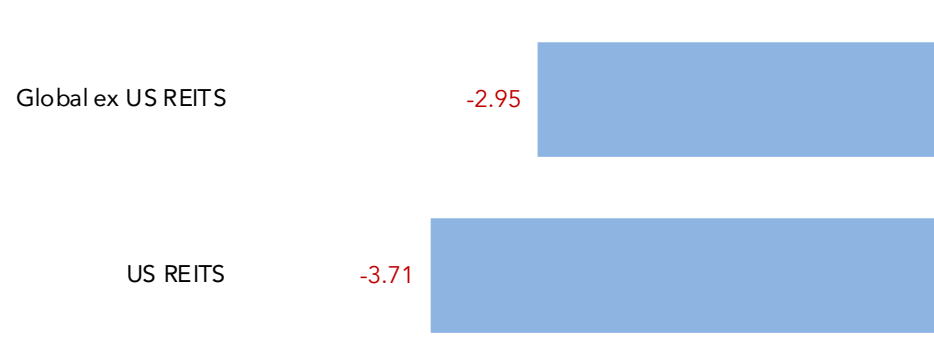
Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.

Real Estate Investment Trusts (REITs)

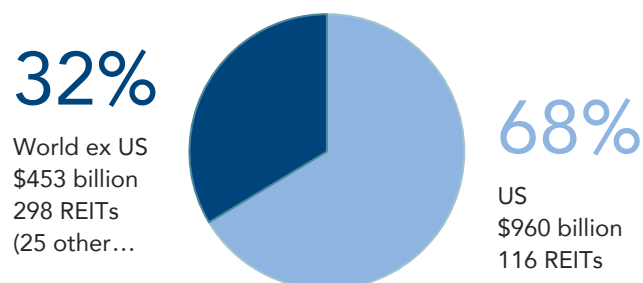
Second Quarter 2022 Index Returns

US real estate investment trusts underperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	YTD	1 Year	* Annualized		
				3 Years*	5 Years*	10 Years*
Global ex US REITS	-17.50	-19.93	-17.73	-4.38	0.20	3.47
US REITS	-18.10	-21.14	-6.41	2.54	4.28	6.61

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

Second Quarter 2022 Index Returns

The Bloomberg Commodity Index Total Return returned -5.66% for the second quarter of 2022.

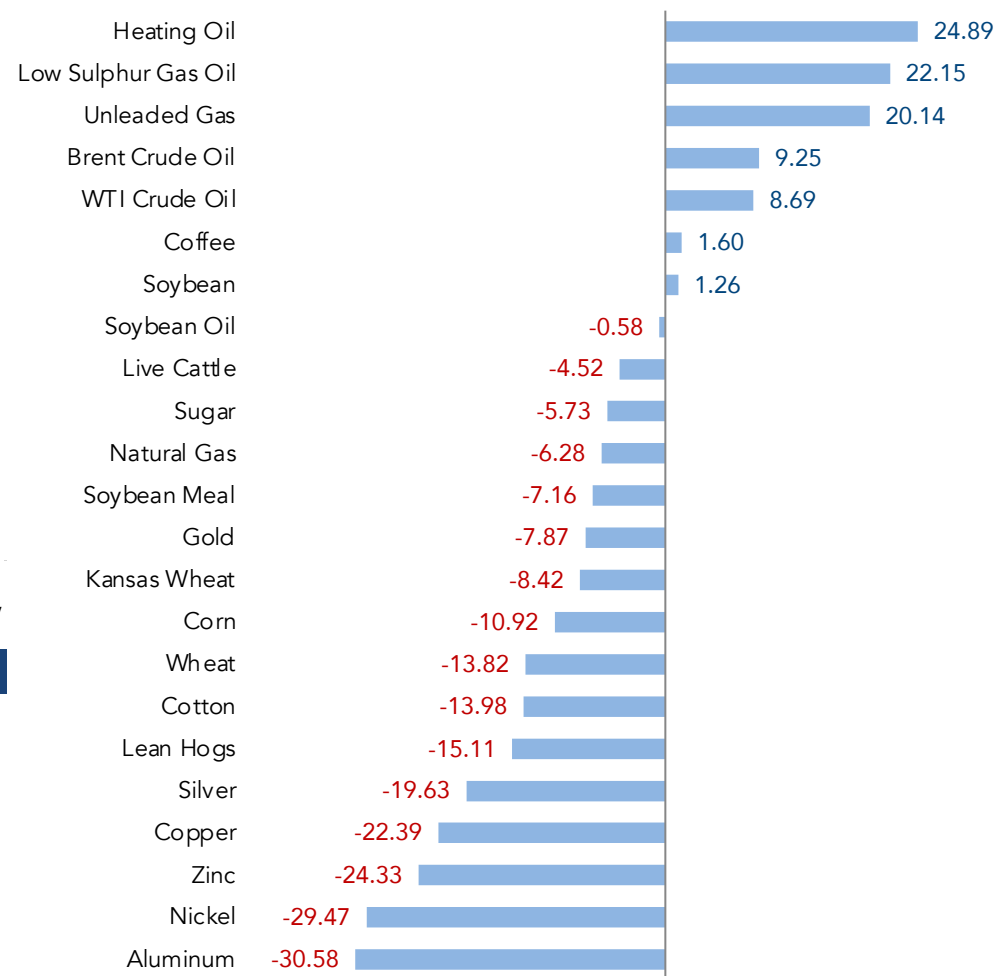
Aluminum and Nickel were the worst performers, returning -30.58% and -29.47% during the quarter, respectively. Heating Oil and Low Sulphur Gas Oil were the best performers, returning +24.89% and +22.15% during the quarter, respectively.

Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**	10 Years**
Commodities	-5.66	18.44	24.27	14.34	8.39	-0.82

* Annualized

Ranked Returns (%)



Fixed Income

Second Quarter 2022 Index Returns

Interest rates increased across all maturities in the US Treasury market for the quarter.

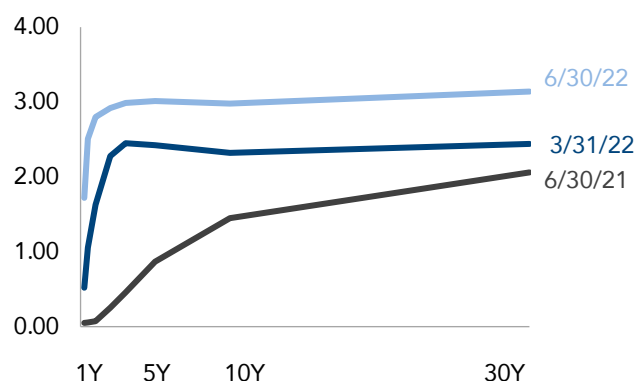
The yield on the 5-Year US Treasury Note increased 59 basis points (bps) to 3.01%. The yield on the 10-Year US Treasury Note increased 66 bps to 2.98%. The yield on the 30-Year US Treasury Bond increased 70 bps to 3.14%.

On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 111 bps to 1.28%, while the 1-Year US Treasury Bill yield increased 117 bps to 2.80%. The yield on the 2-Year US Treasury Note increased 64 bps to 2.92%.

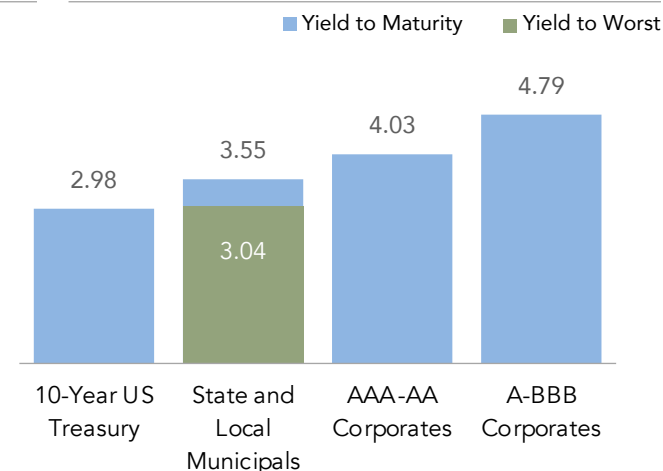
In terms of total returns, short-term corporate bonds returned -1.94% and intermediate-term corporate bonds returned -3.92%.

The total return for short-term municipal bonds was +0.08% and -1.30% for intermediate-term municipal bonds. Within the municipal fixed income market, general obligation bonds outperformed revenue bonds, returning -2.51% vs. -3.37%, respectively.

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years**	5 Years**
ICE BofA US 3-Month Treasury Bill Index	0.10	0.14	0.17	0.63	1.11
ICE BofA 1-Year US Treasury Note Index	-0.48	-1.27	-1.44	0.53	1.10
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-0.95	-3.30	-3.79	0.04	1.08
Bloomberg Municipal Bond Index	-2.94	-8.98	-8.57	-0.18	1.51
FTSE World Government Bond Index 1-5 Years	-4.28	-7.69	-9.90	-2.02	-0.57
Bloomberg U.S. Aggregate Bond Index	-4.69	-10.35	-10.29	-0.93	0.88
Bloomberg U.S. TIPS Index	-6.08	-8.92	-5.14	3.04	3.21
Bloomberg U.S. High Yield Corporate Bond Index	-9.83	-14.19	-12.81	0.21	2.10
Bloomberg U.S. Government Bond Index Long	-11.89	-21.20	-18.42	-2.94	0.50

1. Bloomberg US Corporate Bond Index.

2. Bloomberg Municipal Bond Index.

Global Fixed Income

Second Quarter 2022 Yield Curves

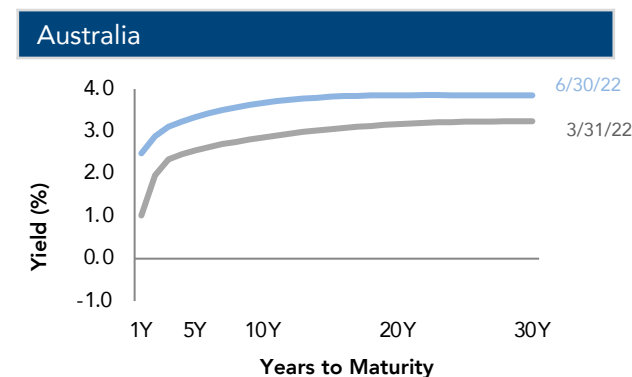
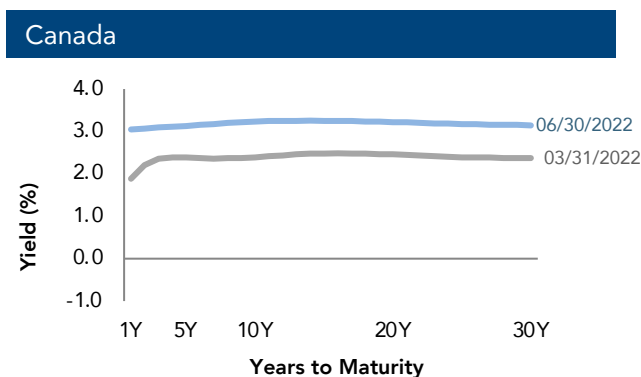
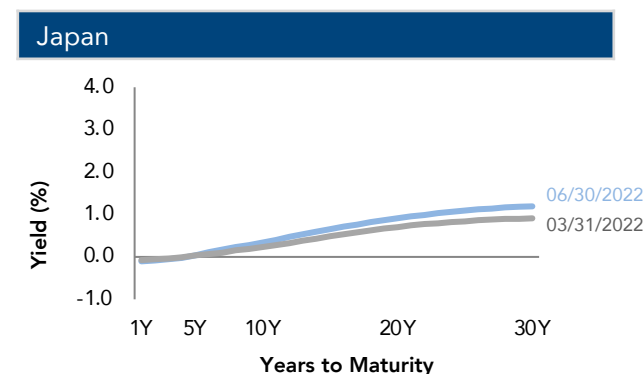
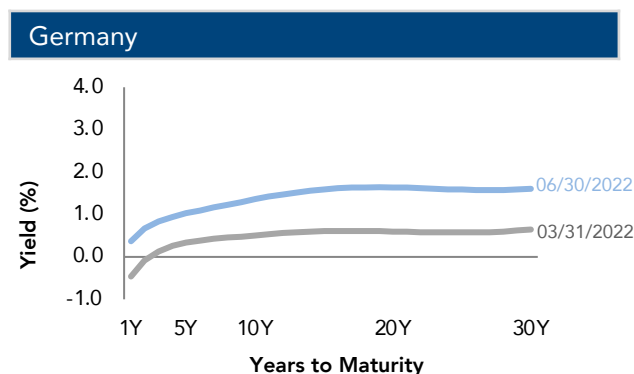
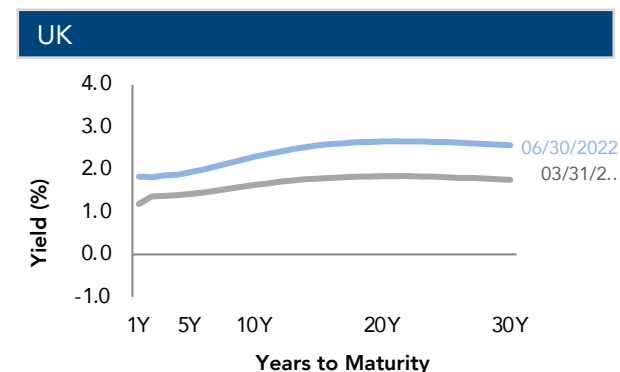
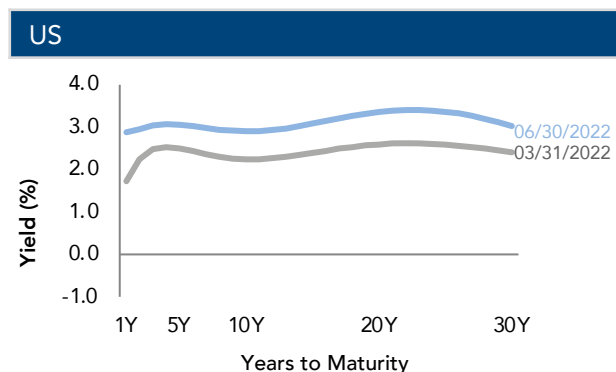
Interest rates generally increased across maturities within global developed markets for the quarter.

Realized term premiums were negative in global developed markets.

In Germany, short-term nominal interest rates increased to become positive during the quarter. In Japan, short-term nominal interest rates remained negative.

Changes in Yields (bps) since 12/31/2021

	1Y	5Y	10Y	20Y	30Y
US	115.5	55.1	66.3	76.0	62.3
UK	64.5	50.6	66.7	81.9	81.6
Germany	83.1	68.9	84.9	103.8	95.7
Japan	-3.0	0.2	11.0	20.4	28.2
Canada	116.2	74.7	83.5	76.4	77.0
Australia	146.4	78.0	81.7	68.5	61.2



Important Disclosures

July 2022

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