INVESTMENT PARTNERS ASSET MANAGEMENT

10 Station Place, Metuchen NJ 08840 Tel: 732-205-0391 Fax: 732-205-0395

2022 Mid-Year Update **June 7, 2022**

It is no secret that fixed-income and equity markets have been downwardly biased thus far in 2022.

The volatility is largely the result of rapidly-rising interest rates stemming from tightening monetary policy at the US Federal Reserve, galloping inflation, and heightened geopolitical risks in Eastern Europe. Markets react negatively to environments like the one we're experiencing because higher inflation and interest rates tend to increase input and borrowing costs which, in turn, crowd out capital expenditure, decrease cashflow, and depress corporate profits (especially for companies with debt).

With inflation coming in at 8.5% for the 12-month period ending in March 2022, returns in the bond market haven't been this poor since 1980 (with the Bloomberg Aggregate Bond Index down approximately 9.00% from January 1 through May 22). In the equity markets, the S&P 500 has had the worst return for the start of any year since 1939 (with the S&P 500 Index down roughly 18% year-to-date through May 22).

On the fixed income side, the reason for the market decrease is simple: rising rates impact bond prices because bonds with lower coupons are no longer as attractive when the prevailing interest rate in the marketplace has increased. Additionally, with US government bonds yielding higher rates relative to foreign bonds, there has been an increased demand for dollars - which impacts the competitiveness of US exports, the value of foreign assets, and dollar-adjusted foreign profits.

Current market conditions described above also typically put downward pressure on equities when market participants compare the **rate of return on a 10-year treasury bond to a company's dividend-adjusted Price-to-Earnings-Growth ratio calculated by P/E ratio / (earnings growth + dividend yield).** Bottom line: the market value placed on a company's future cashflows usually decreases when the yield on a 10-year Treasury increases.

Finally, investor sentiment has turned very negative because of the uncertainty surrounding the duration and magnitude of the Fed's actions to combat inflation (i.e. how long this cycle will last, and how far they will go).

Thought Leaders' Opinions Vary Drastically Regarding the Economy and the Markets.

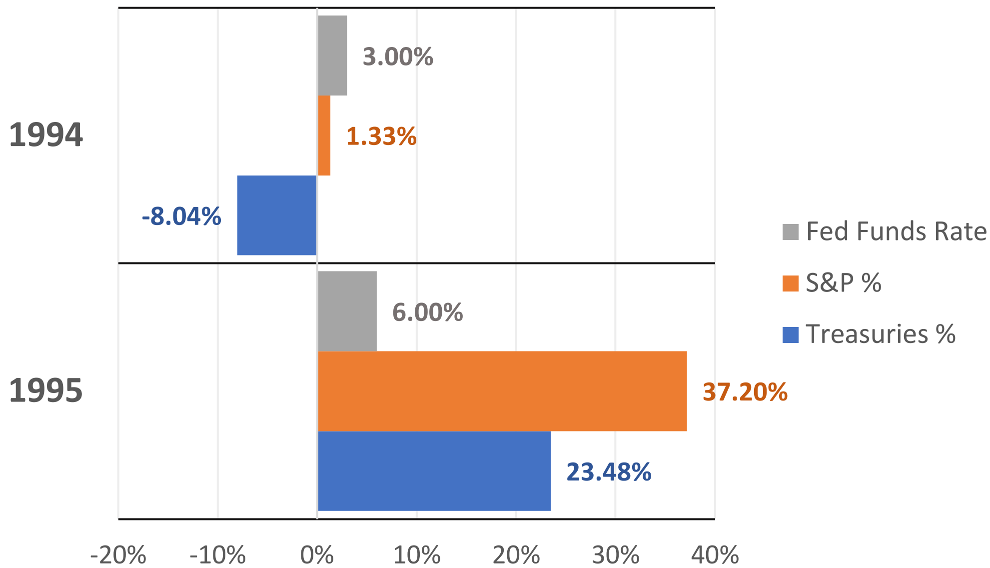
"*That hurricane is right out there, down the road, coming our way. We just don't know if it's a minor one or Superstorm Sandy or Andrew or something like that. You better brace yourself.*" – JPMorgan CEO Jamie Dimon referring to the US Economy June 2, 2022

"*While economic growth and investment returns may moderate, the macro backdrop is still highly supportive for risk assets* with contributions *from: 1) growing global immunity to COVID-19, 2) continuing economic re-opening, 3) pent-up savings, and 4) relatively easy financial conditions.*" - GS Global Investment Research June 3, 2022

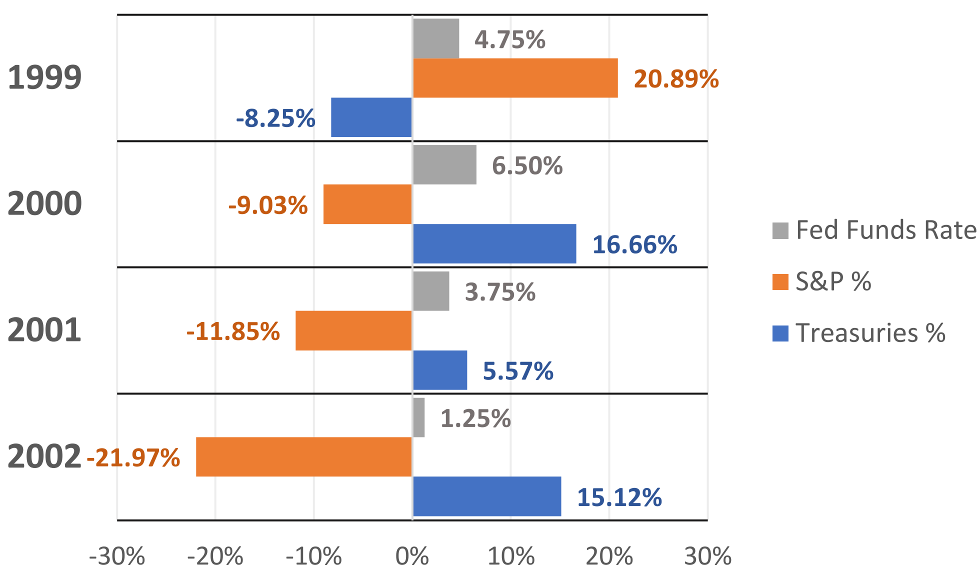
12-month S&P targets also vary significantly among firms: ranging from high 4000s to low 3000s (approximately +15% to -15% from current level of around 4100).

While we don't usually see uniform agreement among macro research analysts, it's rare to see such a wide disparity in projections. To determine the reasons behind the differing estimates, we researched the market outcomes from four Fed-tightening cycles over the past 30 years.

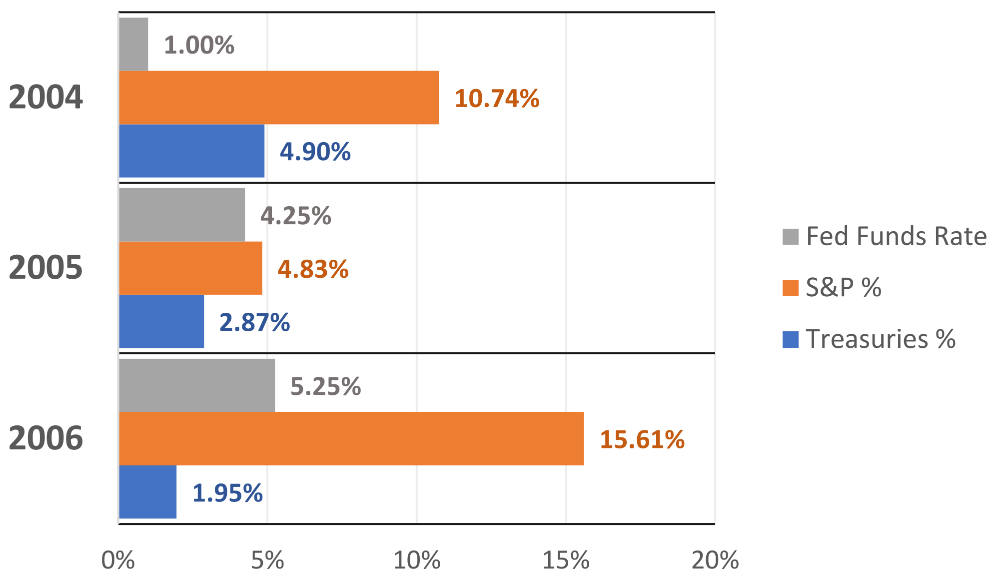
1994-1995 (**Soft Landing**): To combat inflation, the Fed increased rates seven times from 3% to 6% over the course of 12 months (Feb 1994 to Feb 1995). Between Jan 1 and Nov 15 1994, US domestic bonds lost 10%. Treasuries with durations of 1-3 years lost 5%, and 20-year bonds lost 20.5%. The S&P returned 1.33% that year, after being down -4.8% through 3 months. The following year, though, the S&P was up 37.2% and treasuries returned 23.5%.



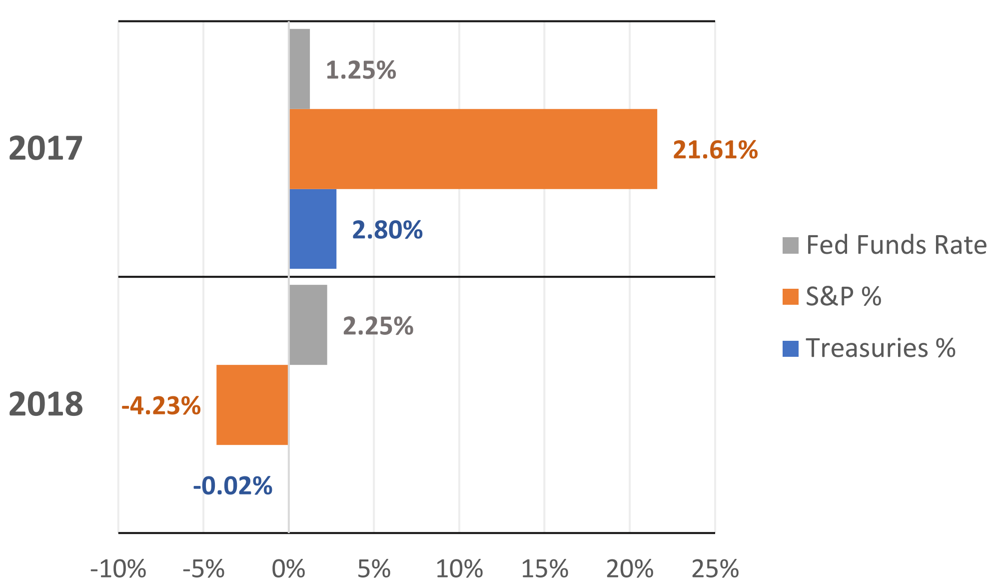
1999 – 2000 And Following Period (**Hard Landing**): To cool off the economy and address the excesses of the dot.com era, the Fed raised rates six times from 4.75% to 6.50% over the course of 12 months (June 1999 to May 2000). In 2000, and 2001, because of the flight to safety as the stock market retreated, treasuries returned 16.6% and 5.57%, while the S&P was down -9.03% and -11.85% respectively. It should be noted that during 2002, Treasuries continued to perform, up 15.12%, but the S&P repeated its slide for a third consecutive year, losing another -21.97% before bottoming out before the 2003 war in Iraq. Interestingly, this is when the Fed first brought short-term rates to the then all-time-low of 1% to stave off a recession and reflate financial assets.



<u>2004 – 2006</u> (**Soft Landing**): To take back the rate cuts from early 2000s, the Fed raised rates 17 times from 1.00% to 5.25%. Due to the relative strength of the global economy, and the steepness of the yield curve at the time, both Treasuries and equities had positive performance during this period. In 2004, 2005 and 2006, Treasuries produced 4.9%, 2.87%, and 1.95% returns, while the S&P was up 10.74%, 4.83%, and 15.61% respectively. It wasn't until 2 years later that the *threat* of rising rates from increased energy prices contributed to the popping of the housing bubble and the financial crisis of 2008-2009.



<u>2017-2018</u> (**Soft Landing**): Worried about having a lack of monetary-policy tools to fight future recessions, the Fed raised rates seven times from March 2017 to December 2018 from 1.25% to 2.5%. Treasuries were up 2.8% in 2017 and flat (-0.02%) in 2018 while the S&P returned +21.61% in 2017 and lost -4.23% for 2018.



Our thoughts:

Having researched these four different tightening cycles which occurred over the past 30 years, we now see why there are such different views about potential market forecasts. In short, some analysts expect the Fed to gracefully orchestrate a Soft Landing, and others expect a Fed misstep causing a Hard Landing.

Regardless of which scenario ultimately plays out, we believe the current volatility will likely persist until a) there is evidence that inflation is cooling, b) the war in the Ukraine winds down, and c) The Fed signals that there is an end in sight for its tightening cycle. Absent more clarity on one or more of those items, our updated base case for the next 12 months is for the market to have large daily and weekly swings, with the S&P 500 Index potentially trading between 3500 to 4500 marked by down weeks / months and intermittent, pronounced, bear-market rallies.

Possible Action Items:

Remember that after each of the tightening cycles described above, markets eventually recovered. In some instances, markets improved gradually over a number of years. In other cases, large upturns took place over relatively short periods of time.

Over the decades, markets have provided long-term *rewards* for investors *because they have risk*. Current market conditions are a reminder that everyone's tolerance for risk, in the objective of seeking a long-term return, is different. Evaluate your acceptable threshold for volatility if current market conditions persist for 12 months or longer. For example, based on your portfolio allocation, estimate the potential impact if, in the short-to-intermediate run, the market were to retrace the gains from 2020 and 2021 (i.e. if the S&P 500 traded down to Pre-Covid level of low 3000s).

You might decide you'd like to change the risk profile to some extent in your portfolio, but avoid drastic or impulsive moves which might significantly imbalance your allocation. Also, resist the urge to chase recent hot trends or stocks. The importance of a diversified portfolio is to have a number of asset classes with differing correlations to each other in an attempt to smooth out returns somewhat over different market conditions.

If you have an appropriate risk tolerance and a long time horizon, periods of volatility tend to create opportunities for investors. Lower security prices for a given asset class typically translate into higher future returns in that asset class down the road. So, be tactical and opportunistic. We seek companies (or funds of companies) with solid balance sheets that have potential for sales / earnings growth (and which might currently be trading at low historical multiples.)

Prioritize dividend and interest income as a part of total return. When a portfolio produces its own cashflow (from dividends and interest), it gives an investor the chance to reinvest at lower prices during unfavorable market cycles.

For the same reasons, continue to dollar cost average if you are currently doing so. This technique entails investing a fixed amount of money into your portfolio allocation at regular intervals over a long period of time.

Consider incorporating non-traditional strategies into your diversified asset allocation, if you are not doing so already.

Pair *Value* investments with *Growth* investments within asset classes and geographic exposures. This helps to ensure your portfolio has some representation in areas of the market that may have the potential to rebound when, as, and if different styles go in or out of favor.

Finally, try to reduce your screen time. Financial news networks and websites can be insightful, but paying attention to them compulsively may cause needless anxiety and stress. Emotions are not very reliable guides when making investment decisions. So, if you have a very long time horizon, and you have developed an investment plan which aligns with your risk tolerance, stick with it - revisiting your asset allocation from time to time.

General Disclaimer

Opinions and views expressed in this presentation are solely those of the presenter and not necessarily the opinions of Investment Partners Group, its affiliates, employees, or subsidiaries (Collectively "The Company", "We", "Us", or words of similar import). Disclaimer pertains to all documents provided to client in conjunction with presentation.

This presentation does **not** constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or purchase, any shares or other security, investment interest or provide investment advice - nor shall it form the basis of, or be relied on in connection with any contract thereof. Any information contained in this presentation should **not** be considered a complete analysis of every material fact with respect to any company, industry, security or strategy. Any and all investments discussed herein may **not** be suitable for all investors and may be subject to a high degree of risk. For this and other reasons, Investment Partners Group does **not** recommend that investors buy or sell any securities mentioned in this presentation, if any. Furthermore, there is no certainty, and we make no guarantee, that any strategy discussed in this presentation may be executable in an appropriate size or amount and/or at the prices described herein, if any. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness **cannot** be guaranteed. Investment Partners Group and/or its affiliates (including but not limited to Investment Partners Asset Management ("IPAM")) may effect transactions, including transactions contrary to any views expressed herein for themselves or their clients (including but not limited to pooled investment vehicles or funds managed by IPAM and or its affiliates.) Furthermore, Investment Partners Group and/or its affiliates (including but not limited to IPAM) may have positions in securities mentioned herein (or options with respect thereto), and may also have performed investment banking services for the issuers of such securities. In addition, Investment Partners Group and/or its affiliates (including but not limited to IPAM) , their employees, employee's families, and other affiliated persons may have positions and effect transactions including transactions contrary to any views expressed herein in the securities or options of the issuers mentioned herein, if any, and may serve (or may have served) as directors of such issuers.

Accounts are not FDIC insured. Investing involves risk. Past performance is not a guarantee of future results.

Forward-Looking Statements This discussion and analysis contains certain forward-looking statements and projections that involve a number of risks and uncertainties. Actual events or results may differ materially from the expectations and projections in this presentation. Past performance does not guarantee future results. Market and other risks may affect the actual results achieved by investors.

Performance and Model Disclaimer
Investment Partners Asset Management ("IPAM") is an SEC registered investment adviser principally located in Metuchen, New Jersey. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended by IPAM) made reference to directly or indirectly in the above presentation will be profitable, equal any corresponding indicated or suggested historical performance level(s), or be suitable for your portfolio. Moreover, you should not assume that any discussion or information contained in this presentation serves as the receipt of, or as a substitute for, personalized investment advice from IPAM or any other investment professional. Should you become a client of IPAM, please remember to contact IPAM, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services. A copy of IPAM's current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

Investment Partners Asset Management ("IPAM") has indicated its objectives and strategies depicted herein as of a specific period in time. There is no assurance, and we make no guarantee, that we will achieve the objectives described herein, if any, or that such strategy will even result in a profitable outcome over any period of time. Furthermore, allocation models discussed herein, if any, are samples only, and **should not** be considered investment advice for anyone. Such models can and do change over time based on many factors including market conditions, and are subject to change without notice. Actual client portfolios may differ materially from models shown herein. Client portfolios are generally customized and may not adhere directly to any particular model. Please consult your own financial advisor. **Please Note: Past performance is not indicative of future results.** Therefore, no current or prospective client should assume that future performance will be profitable, equal the performance results attempted by this strategy, or equal any corresponding historical benchmark index or Exchange Traded Fund (ETF) referenced in this presentation, if any. The historical index performance results for all historical benchmark indices or ETFs may not reflect the deduction of transaction and custodial charges, or, in some cases, the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. Furthermore historical benchmark indices or ETFs may not include the impact of reinvested dividends or other investment income which would have the effect of increasing those indices historical performance results. The historical performance results for any/all indices and ETFs, if provided, are supplied exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether IPAM's objectives meet, or continues to meet, his/her investment objective(s). For example, the S&P 500 Index (the "S&P") is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard & Poor's chooses the member companies for the S&P based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. A corresponding description of the index (i.e., a domestic equity index) is available from IPAM upon request. It should not be assumed that IPAM portfolio holdings will correspond directly to any such comparative index.

The IPAM performance results that it may seek to achieve do not reflect the impact of taxes or fees. For reasons including variances in the investment management fee, differing client investment objectives and/or risk tolerance, market fluctuation, the date on which a client engaged IPAM, investment tax rates, management services, and any account contributions or withdrawals, the performance of a specific IPAM client's account may vary substantially on a net basis from portfolio performance results IPAM attempts to achieve. In the event there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise IPAM immediately.

Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by IPAM) will be profitable. Information pertaining to IPAM's advisory operations, services, and fees is set forth in IPAM's current disclosure statement, a copy of which is available from IPAM upon request.

Client performance results included herein, if any, have been compiled exclusively by IPAM (or a vendor contracted by IPAM). The results have not been independently verified, nor should they be considered to be AIMR or GIPS compliant. IPAM attempts to shows client results net of its fees, if and when possible for the systems utilized. In some instances, a client may choose to pay its fees by methods which are not captured by the performance calculating systems, (e.g. from an outside account, by check). In such instances, the results calculated herein would exclude the impact of fees. Results for accounts, certain indices or ETFs, if any, for periods prior to those shown herein were not calculated and therefore were not included in this presentation. If the returns for periods prior to those shown were calculated and included it might have the effect of changing the historical performance, if any, as it is depicted herein. Under certain circumstances deposits or withdrawals in a client account may alter the performance figures calculated using time-weighted methodologies. The results utilized in this presentation may be different if other methods are utilized or if they are calculated by other systems than the ones actually used. The results utilized in this presentation may be different if other methods were utilized or if they were calculated by other systems than the ones actually used.

Sources:

https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html
https://www.thebalance.com/fed-funds-rate-history-highs-lows-3306135
https://www.putnam.com/advisor/content/perspectives/8963-market-performance-during-fed-tightening-cycles
https://www.businessinsider.com/personal-finance/