Portfolio Commentary

Navigator® Global Tactical

Portfolio Manager

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Senior Portfolio Manager

Top Contributors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 ETF	20.95	1.38
iShares Core S&P Small Cap ETF	9.20	0.76
iShares Core MSCI Total International Stock ETF	8.51	0.13

Top Detractors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio Intermediate Term Treasury ETF	7.87	-0.14
iShares 7-10 Year Treasury Bond ETF	11.43	-0.10
iShares 1-3 Year Treasury Bond ETF	0.30	-0.09

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

After Pain in Bonds, Stock and Bond Correlations Should Normalize

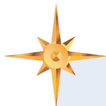
Market Review

Inflation and rising interest rates continue to be the story in 2022, and market movements have been largely driven by the perception of upcoming Federal Reserve policy. The quarter began with optimism, as a robust rally was driven by the belief that a hawkish Fed was already discounted by markets after startling inflation prints over 8% and the yield on the 10-Year Treasury moving from 1.5% to 3.5% between January and June. Interest rates fell between mid-June and July, prompting an over 15% rally in the S&P 500, but CPI and PPI reports indicated that inflation was not cooling as quickly as the Fed might have hoped. As a result, markets endured three consecutive 75 basis point rate hikes in June, July, and mid-September. After markets peaked in mid-August, the pain came to stocks and bonds equally, and while the S&P 500 (IVV) is down 23.9% year to date, the bond market has undergone historic pain, with the U.S. Aggregate Bond Index down 14.6% - its worst nine-month period in history. Commodities were not spared either, as they declined 14.3% on the quarter, though they are still up 8.3% year to date. Cash was king and the Treasury Bill (BIL – up 0.4%) was one of the only sources of gains.

Third Quarter Portfolio Highlights

- The portfolio entered the quarter invested 100% in cash, but moved to favor U.S. Treasuries on July 1st. As the rally in July expanded, our models turned positive towards credit on July 20th. As a result, the portfolio moved into a risk on position, purchasing U.S. and international equities. The risk-on rally in equities continued for a few weeks into mid-August, but it stalled as hopes for a less hawkish Fed evaporated. After the market peak, it took only a few weeks for our models to deteriorate. We exited equities in late August and transitioned to a maximum defensive position in cash, as U.S. Treasuries continue to rank last in our credit market matrix.
- As has been the case throughout 2022, market weakness came not from a deteriorating economy but from rising interest rates and a hostile monetary backdrop. The yield on the 10-Year Treasury has gone from 1.5% to start the year to 3.5% on June 14th. Rates then declined back to 2.6% on August 1st – prompting the July to August rally – but surged again to 4% by September 27th as inflation and a strong jobs market forced three consecutive 75 basis point rate hikes.
- As both bonds and stocks took a dive in September, our models continue to favor cash. With bonds and stocks now both oversold and both at multi-year extremes in fear and sentiment, we believe a sizeable recovery rally is in order. We expect that our credit-based models will likely turn positive in the fourth quarter and provide the potential for gains. However, we believe with high odds of a recession in 2023 or early 2024, this presents a tactical rather than a strategic opportunity.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.



Positioning and Outlook

The onset of COVID-19 brought the unprecedented to many aspects of our lives, and the financial markets were no different. We witnessed a globally coordinated central bank intervention and stimulus that was unrivaled in history. It proved opportunity for investors, as U.S. stocks soared and credit markets were boosted by direct central bank purchasing for the first time in history (in the U.S., at least). The support for and demand for credit drove U.S. (and global) real interest rates to negative levels. In the United States, real interest rates shot to below -1%. Many (sometimes even us) warned and worried that fixed income and long duration assets had become misaligned and represented risk without reward. 2022 has proven those predictions to be true, but prior to 2022 people had been warning that bonds were overvalued for years, and they provided attractive returns for much longer than expected. The Global Tactical portfolio is driven by objective, credit-driven models that listen to markets' message, stay in tune with the present, and do not forecast.

Let's assess the damage in fixed income after the worst nine months in the Bloomberg Aggregate Bond Index's history. While the Aggregate Index is down 14.6% this year, the index is down 3.2% per year over 3 years, 0.9% over five years, and is up 0.9% over ten years. Those returns are poor and do not make up for inflation. On the other hand, we believe bonds now deliver higher yields, and real yields are compelling, topping 1% and reaching their highest levels since 2010. The idea that bonds should be shunned and possibly removed from portfolios strikes us as the wrong idea at the wrong time. While it is true that core inflation is entrenched and the Fed should continue to hike rates (another 75 basis point hike is expected in November), it is also true that Clark Capital and many others have a 2023 recession or growth slowdown as the base case. In such an environment, we believe it will be difficult to see growth above even a modest level, that stocks and bonds should return to their normal correlations, and we would expect Treasuries to provide the potential for gains during market weakness. While our models currently have parked us in cash, we are witnessing oversold conditions and the most pessimism since the 2020 COVID-related bottom. We anticipate that we will enter back into equities and a risk-on position before the quarter ends, quite possibly here in October. We anticipate that 2023 will present a more challenging economic growth environment but a much less hostile Fed. We believe that should provide the Global Tactical portfolio an opportunity to produce gains in multiple market scenarios.

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The iShares Core S&P 500 ETF seeks to track the investment results of an index composed of large-capitalization U.S. equities.

The 10-year Treasury note is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-year Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity.

A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. Treasury bills are usually sold in denominations of $1,000.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices. Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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