

## Portfolio Manager



**Tony Soslow, CFA®**  
Co-Head of Equity

## Top Contributors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
UFP Industries, Inc.	1.74	0.40
Pinnacle Financial Partners, Inc.	2.61	0.26
Belden Inc.	2.41	0.24

## Top Detractors as of September 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
STAAR Surgical Company	0.75	-0.58
Duckhorn Portfolio, Inc.	1.35	-0.57
Malibu Boats, Inc. Class A	0.76	-0.42

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.

## Fed's Inflation Focus and Earnings Downtraff Drive Equities Lower

### Market Review

The global equity bear market resumed in uniformity in September as most broad indices declined nearly 9%. Continuing their fight against headline inflation, the U.S. Central Bank lifted the federal funds rate 0.75% for the 3rd consecutive meeting to 3.00-3.25%. Markets anticipate continued tightening into Q1 2023 as the battle to drive high headline inflation back down to 2.00% remains the U.S. Central Bank's stated singular purpose. Just as Mike Tyson famously said – "Everyone has a plan until they get punched in the mouth," We anticipate that the Fed's plan may again get interrupted by changes in economic or credit conditions. To this end, Vice Chairwoman Lael Brainard said last week (potentially in reaction to either rumored Credit Suisse solvency issues and/or U.K. pound weakness) – "the risks may be getting more balanced."

### Profit Margin Cycle Interrupted

After expanding for nearly ten years on the back of declining interest rates, lower tax rates, and cost benefits from offshoring and trade, Institutional Brokers' Estimate System (IBES) earnings data suggest that S&P 500 profit margins peaked in Q2 2021. With interest rates higher, credit spreads wider, labor market tightness, Russian-Ukraine supply constraints, and U.S.-China trade relations weakened, can we expect profit margins to resume their prior uptrend? We believe profit margin expectations in both the current earnings slowdown and future recovery will meaningfully determine ending Price to Earnings ("P/E") and P/Cash Flow ratios and thus impact how we value equities and their cycle returns moving forward. At first glance, the current low international, small, and mid-cap P/E ratio of 12.5 appears to be a great potential starting point for long-term investors, especially if long-term inflation matches market expectations and recent history of near 3%.

### Third Quarter Portfolio Highlights

- Navigator® SMID Cap remains fully invested with 48.6% of the portfolio in mid-cap stocks with the balance in small-cap stocks and cash.
- The portfolio continues to focus on those anti-fragile small and mid-cap companies which we believe will continue to see strong business momentum despite rising inflation and tight labor market conditions.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology represent our largest sector weights, each greater than 11%.
- Our positioning in Industrials and Materials helped relative performance, while positioning in Healthcare and Consumer Staples acted as a drag.
- During the quarter, to benefit from improving business fundamentals, we added Generac Holdings, Voya Financial, and Curtiss-Wright to the portfolio. The three most recent exits were Amphastar Pharmaceuticals, Taylor Morrison, and The Duckhorn Portfolio.

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



- The top three contributors to absolute portfolio return in the quarter for the SMID Cap portfolio were UFP Industries, Pinnacle Financial Partners, and Belden. The top three detractors for absolute portfolio return were Staar Surgical Company, The Duckhorn Portfolio, and Malibu Boats.

## Positioning and Outlook

Portfolios began the quarter well positioned for rising corporate finance rates, a consumer constrained by higher food and energy costs, and continued Fed tightening. Our focus on more antifragile companies helped portfolios decline less than their benchmarks apart from our ADR/International Equity portfolio, which suffered due to its highly underweight position in an outperforming China.

While we continue to anticipate additional Fed tightening, slower economic growth, and growing inventories, the large price declines in many sectors of the market combined with lower inflation expectations give us growing confidence that equity investors should expect typical equity market cycle returns from this point forward. P/E ratios for our Small Cap, SMID Cap and ADR/International Equity strategies near 13 and thus offer earnings yields – a historically important component of long-term returns – of over 7.5%. As upward changes in finance rates tends to hurt both high duration and fragile companies the most, and we don't know the precise end and impact of Fed tightening, we are continuing to prefer companies with more consistent and less cyclical cashflows.

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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 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. The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities. 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.

Antifragile companies are those which possess a large majority of strong balance sheet, income statement and other metrics such as debt-to-equity, gross margins, earnings variability - which have shown to demonstrate less stock price volatility on a going forward basis. Companies with poor credit metrics, high financial and operating leverage high historically been more fragile to adverse changes in economic and earnings conditions.

The price-to-earnings ratio is the ratio for valuing a company that measures its current share price relative to its earnings per share (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Foreign markets are any markets outside of a company's own country. Selling in foreign markets involves dealing with different languages, cultures, laws, rules, regulations and requirements.

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