

NEWSLETTER AND CAPITAL MARKETS REVIEW

LATE SUMMER 2022

In this late-Summer edition of our newsletter, we are going to take a look at the July rally and its precedents in historical bear markets, and then later in the newsletter step through the looking glass and reflect (pun very much intended) on a very different August.

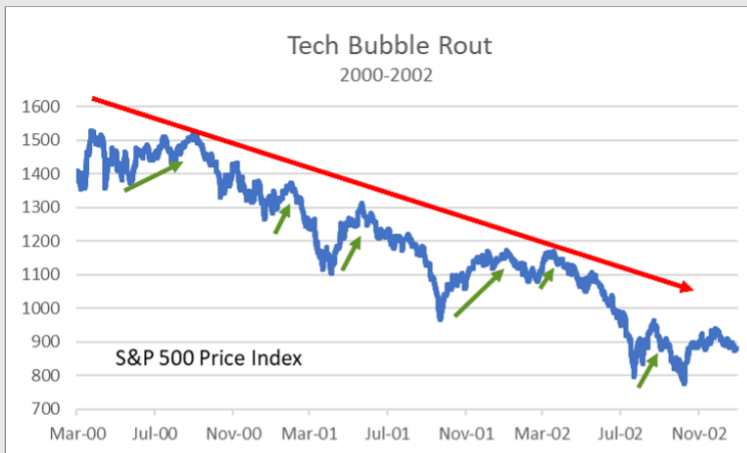
July 2022 was the strongest month for US stocks since the early days of the pandemic relief rally. The S&P 500 price level rose 9.1%, which was the strongest monthly performance result since April 2020 when the index rose 12.7% on the news of (un)coordinated but massive action by the Federal government. It is not at all unusual to experience strong periodic rallies during bear markets. We believe this was the case with March's 11% gain (which occurred over about two weeks) and this past month's similarly strong performance.

The 2020 pandemic bear market recovery was unusual in historical context because the rout that set the stage was government induced by the economic shutdown followed by a hyper stimulated monetary and fiscal policy response. The US was certainly not alone in making the top-down decision to slow or halt major segments of the economy, but the magnitude of its response was without peer. From our perspective, it is not as instructive to examine that short-lived bear market as it is the Technology

Bubble (2000-02) and the Financial Crisis (2007-09). The duration of those bear markets were about 30 and 17 months respectively, and the peak-to-trough S&P 500 price declines were 49.2% and 57.8% percent (the red arrows on the charts). It can

be argued that the Tech Bubble rout was prolonged by the heightened uncertainty in the wake of the tragic 9/11 terror attacks. Coincidentally, during both the bursting of the Tech Bubble and the Financial Crisis there were at least six bear market rallies ranging from 8

to 21% (these are pointed out by the shorter green arrows). Why 8%? Many institutional investors use 8% as a long-term estimate of US stock market returns.



Where we were at the time these charts were struck, seven months into this bear market, is very different than two and half years previously with the shock and then awe of the very brief COVID reset. We believe there is further downside given several macro

headwinds, the most critical of which is persistent inflationary conditions limiting the US Federal Reserve's monetary policy options.

[Charts by Wilde Capital Management LLC from data from Standard & Poors (c)2022]



Market Review [cont'd]

This is a highly unusual economic environment that is showing obvious deteriorating indicators ranging from decelerating profit growth, contracting manufacturing activity, inventory reduction, low consumer confidence readings and stagflation. Why unusual? Because the Fed is actually tightening through both ending QE and raising policy rates. One continuing bright spot is the pace of employment growth, at least on the surface. On August 5th, the US Bureau of Labor Statistics reported a monthly increase of 528,000 non-farm jobs in July, well above the consensus estimate of 250,000. However, much of the increase was in lower paying sectors and in some cases second and third jobs. This suggests to us that many workers are having difficulty keeping up with inflation that is outpacing what otherwise should be meaningful real wage growth.

As mentioned, another major factor that we are surprised is not getting more media attention is quantitative tightening (QT) that is set to accelerate in September. The Fed has begun to unwind the \$4.5 trillion in assets accumulated during the pandemic by allowing \$30 billion of US Treasuries and \$17.5 billion of mortgage-backed securities per month to roll off the balance sheet. Those figures are set to double. The combined contraction in liquidity brought on by increasing policy rates and rotating from QE to QT will sorely test risk assets in the coming months.

Unfortunately, in economics pain deferred is not pain denied. We were collectively already heading for some kind of reckoning for policy decisions going back to at least the Financial Crisis where the Fed may have remained too accommodative for too long through QE and historically low rates. There was always one more reason not to take action, and then the Fed and Congress put stimulus on blast in a very untargeted way in 2020, significantly amplifying the amount of corrective that would be necessary to approach historic norms. Now the pain is here and it will not be denied. But, taking a healthy step back, for investors at least, this is some ugliness in the middle of generally pretty great results. The three-year annualized total return of the S&P 500 for the period ending on July 31st was approximately 13.4%, well above the long-term average annual return spanning several decades. The reason we highlight this is because, while the short-to-intermediate term outlook presents serious challenges for the US capital markets, the longer term will likely be brighter for investors.

Portfolio Positioning

Our outlook and portfolio decisionmaking in early 2022 has, regrettably for the capital markets, proven correct, and we are maintaining that stance as the markets continue to swoon. In the first half of the year, we took steps to reduce our exposure to equity risk as the capital markets digested their nearly unprecedented run-up since the pandemic nadir in March of 2020. Our feeling has been that signals of transient inflation are becoming more systemic and, combined with a regime change from the Federal Reserve from stimulating to tightening, the short-term prospects for equities are less attractive. Since that time markets took a brief respite and even rallied a bit before continuing to grind and sometimes lurch lower. We subsequently took a further incremental step away from equities in both US and foreign markets as we look for the catalyst that will define the bottom of this downward trajectory, the recent bear market rally in US equities notwithstanding. Within our ETF models, we made the shift primarily in US large cap growth and in Developed Europe equities, and in our ESG models through core and growth-biased large cap equities and broad international equities. All proceeds were committed to cash and cash equivalents for the moment. This further reinforces our underweight allocation to equities overall as well as keeping a modest underweight in fixed income, with cash now even more overweight. Within global equities, we materially lowered US exposure, kept an underweight in Emerging Markets, and established an underweight with respect to Eurozone stocks while continuing an underweight in Japan. Within fixed income, we are overweight in the US with a preference for mortgages and investment grade corporate credit. We have little to no exposure to non-US fixed income except through Green Bonds in our ESG series portfolios. All portfolios holding fixed income maintain lower duration than the benchmark.

Our Risk Outlook and ESG Considerations sections will return with the Q3 2022 newsletter.



Late Summer Capital Market Review

We seem to have settled into a month-to-month rhythm of “Tale of Two Markets” comparisons, with both equities and bonds oscillating between short-lived bear rallies and painfully sharp drawdowns. The net of it is, for a patient investor, that the general trajectory has been downward and we believe will remain so for several quarters yet to come. Again, none of our “dirty dozen” risks outlined in prior newsletters have really been addressed from global conflict to high inflation to aggressive central bank policy moves. We struggle to attribute the July rally to anything but helium, and find August to be more reflective of conditions as they are – poor with no clear resolution point in sight that would “paint the bottom of the tape”. Most concerning is that bonds, which have been the go-to safe harbor since the 1980’s, are not buffering diversified portfolios. There are few places other than cash and time deposits (savings, CDs, etc.) that provide sanctuary and a positive, although sub-inflation, return.

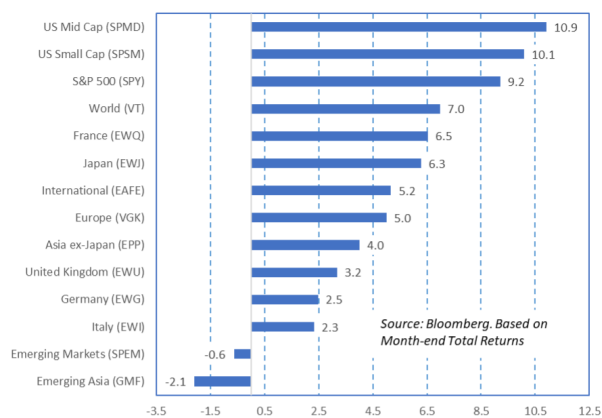
Equity Markets

For most of the world, equity results could not have looked more different between July and August. Curiously, the worst news in a period of high volatility usually comes from the least developed markets, and yet Emerging Markets have provided the closest thing to a smooth ride listed equities had to offer this Summer. Broad EM (SPEM) hardly moved from month to month, while Emerging Asia alone (GMF) wound down during the otherwise global rally in July, perhaps anticipating what was to come, and then held more or less steady into August.

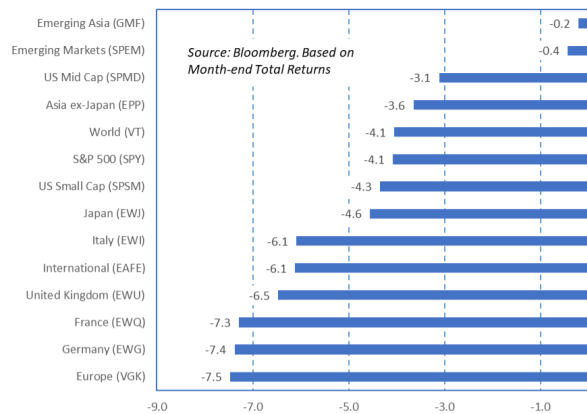
Europe (VGK, EWQ, EWU, EWG, EWI) was whipped around the most, with their core economic fortunes mixed up with energy markets, interest rates and the knock-on effects of the Russia/ Ukraine conflict. The July bear market rally was all but given back in August as longer term realities set back in.

July and August taken together, the US fared better than many developed markets in that it did not cede all of the ground gained in July (yet). Driven seemingly by little more than a pause to take a deep breath from the drawdown defining most of 2022, US equities surged by 9 or 10%. Little had really changed in risks and market drivers (see Wilde Capital’s “dirty dozen risks” in the Q2 newsletter) to warrant such a strong move, but the more positive sentiment lingered into August, when for the most part US equities gave back less than half of their earlier advances, besting other markets.

Global Equity ETF Performance
July 2022



Global Equity ETF Performance
August 2022



The returns cited reflect total return performance of exchange traded funds listed in the corresponding bar charts

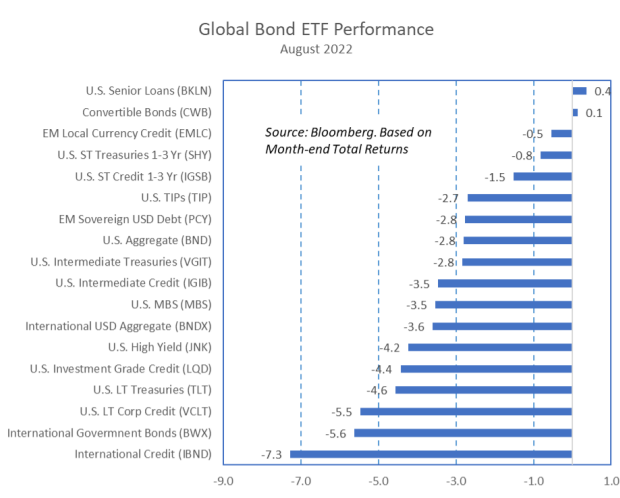
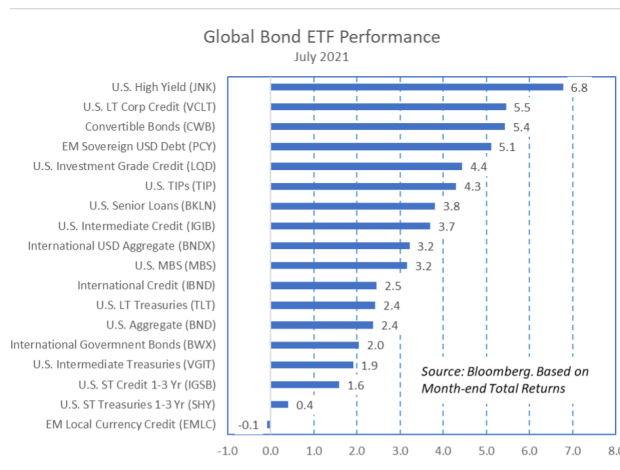


Bond Markets

Not dissimilar from equity markets across July and August, bond markets similarly posted feast-or-famine results. July provided temporary respite for battered bond investors before bonds resumed their slide in August, taking back some, all, or even more than all of the July gains.

Little surprise, equity sensitive bonds like junk (JNK), convertibles (CWB) and senior loans (BKLN) moved with the US equity market in July. What is more surprising is that loans and converts more or less held their ground in August while both equities and bonds slid.

International credit (IBND) was probably the worst news, picking up a few points in July only to give that back X 3 in an August rout. Nothing changed of any consequence over the Summer in terms of policy in the various central banks or in overall economic or geopolitical conditions that would have buoyed bonds, suggesting market participants may have temporarily overshot selling ahead of the market and just paused to regroup for a few weeks. There are few if any indications that major policymakers are backing away from a more hawkish stance, bringing QE to an end and aggressively raising rates in the face of persistently high global inflation. Our view - July was aberrant and August more accurately reflects conditions on the ground.



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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

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Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions. Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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