WILDE CAPITAL MANAGEMENT

Portfolio Update

September 18, 2023

Wilde Capital's last significant tactical portfolio adjustments in early March were set to address the prevailing conditions of persistent inflation and the Fed's determination to choke it out through continuing rate action, and concerns about corporate earnings and the cost of capital in the face of rising rates. There was also, and may still be, real concern that world economies could be at risk of dipping into recession territory. Our positioning was intended to buffer clients from the shorter-term risks that environment presented.

Immediately after our March adjustments stocks did indeed fall before putting on a display of surprising strength, posting a robust 2nd quarter. Equity markets, except notably China, have largely held those levels through the Summer. Here in the US, the Federal Reserve put their rate-raising campaign on hold and investors managed to look beyond what's now to what's next. Meanwhile, longer bonds briefly flirted with price improvement over that same 2nd quarter, but now at the end of the Summer we find them, as expected, valued lower with rates at or above where they were trading in March. Maintaining short duration, in large part through money market and equivalent investments, has been and we expect will continue to be the right footing for a bond portfolio in an uncertain rate environment.

Global equity markets' ability to shrug off persistent albeit declining rates of inflation, higher policy rates, the war in Ukraine and its supply chain effects, and China's compounding real estate, debt and demographic problems give us reason to find increasing optimism. At the same time, the same warm feelings do not extend to fixed income, as bond markets tend to be more quantitative and less sentiment-driven, and conditions are such that there is little additional compensation to be found for accepting risk.

With this backdrop, Wilde Capital has made a material allocation of portfolio capital back into equities across all portfolios, with a target to be slightly overweight stocks globally, with a tilt in favor of the US over developed and emerging international markets. The source of funds to do so was drawn from cash as well as money market holdings, which still leaves all portfolios with a strong bias to quality and short duration within fixed income, and the total fixed income percentage allocation itself slightly underweight relative to each portfolio's benchmark.

"Notwithstanding" seems to be an appropriate conditional in describing our reasoning as we consider the market and economic landscape. The headline inflation rate continues to decline and the Fed, while not going lightly by any stretch of the imagination, is using a smaller hammer and swinging it with more reserve after a very aggressive campaign to beat down inflation up to this point. But, as anyone who has rolled a cart down a grocery aisle or a flat wagon down a lumber yard aisle can attest, prices may not be climbing as fast today as they were a year ago but they also are not declining. The effects of the post-pandemic rush of inflation are baked in for good, and that still must be reconciled with how the market has moved. There are also other forces at work which may restrain a more enthusiastic investment environment.

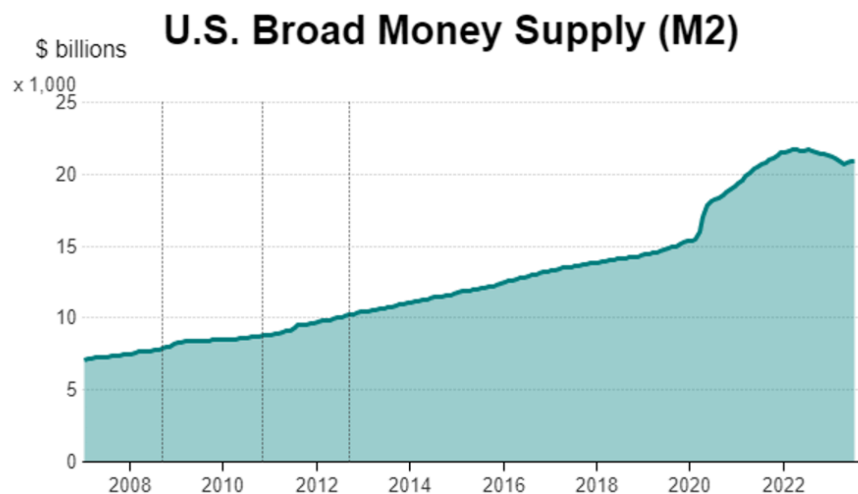
Repricing in areas such as insurance are likely to impose some degree of resistance on a recovery path as well. Insurance companies are dealing with the twin balance sheet challenges of general account portfolios under strain on the asset side and a re-underwriting of risk on the liability side. Insurers are addressing underperforming bonds, including marking to market in their asset-liability matching, somewhat mitigated by the availability of new higher yielding high quality bonds for new liquidity as rates have climbed. While the bond market is re-ordering itself the risk landscape for underwriting risk is also in flux. Property & casualty insurers in particular are taking relentless hits from damage due to wildfire, flood and inundation, and extreme storm events. In some areas of the US companies are withdrawing from markets entirely because they cannot profitably price any more risk. For the rest, premium rates are pushing much higher to address climate and other challenges that are stressing their balance sheets.

Summit, New Jersey 07901 * www.wildecapitalmgmt.com * (866) 894-5332

Our enthusiasm for global equities is strong notwithstanding problems in China. We have reason to keep a very cautious eye on China to see whether their episodic and largely contained institutional crises such as with Evergrande become economic contagia that the CCP can no longer manage. China in economic decline would likely drag on world economies, and China in crisis could spill over Asia Pacific economies as well as into areas that rely on access to Chinese capital and resources like developing Africa. This is among the many reasons we maintain a strong underweight in investment in the PRC at the moment.

Markets have managed to climb and hold ground notwithstanding a very strong upward move in the price of crude oil through the third quarter. The exporter cartels agreed to tighten production in order to support higher prices, but many analysts believe we are at the peak of that effect and if anything we are likely to see prices moderate. There is much reason for optimism in this because equities held up in the face of the Summer oil price surge so that should be a receding threat as oil levels off or even declines.

Perhaps the one unconditional piece of good news which we think continues to be a key driver but now in a more positive sense is the growth of the US broad money supply, designated M2. As we wrote in the past, we had specific and ongoing concerns about the abrupt and massive increase in money supply as the US government undertook unprecedented steps to stimulate the economy after the equally unprecedented move to slow or halt many sectors during the early months of the pandemic. It was our belief along with that of a number of economists and theorists that inflation could not be contained without bringing M2 back in line with historical trends, recognizing that doing so would potentially be extremely painful in real terms such as employment losses. During that calculated contraction markets would also absorb pain. One of the strongest indicators we may have collectively found our “soft landing”, whether or not the Fed deserves the credit, is that M2 came down without much of the expected drama. Unemployment remained at historically low levels, inflation declined, and (equity) markets broadly held their ground when viewed over the full period. Now as M2 is closer to on-trend and modestly increasing again, we see this as a bullish indicator which should help carry us higher unless inflation spikes again.



Wilde Capital Management, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, style, index or strategy will provide positive performance over time.

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.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

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.

Important Disclosures: Exchange-Traded Funds

Exchange-traded funds (ETFs) are investment vehicles that are legally classified as open-end investment companies or unit investment trusts (UITs) but differ from traditional open-end investment companies or UITs. ETF shares are bought and sold at market price (not net asset value) and are not individually redeemed from the fund. This can result in the fund trading at a premium or discount to its net asset value, which will affect an investor's value. Shares of certain ETFs have no or limited voting rights. ETFs are subject to risks similar to those of stocks.

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.

Certain ETFs have elected to be treated as partnerships for federal, state and local income tax purposes. Accordingly, investors in such ETFs will be taxed as a beneficial owner of an interest in a partnership. Tax information for such ETFs will be reported to investors on an IRS schedule K-1. Investors should consult with their tax advisors in determining the tax consequences of any investment, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

WILDE CAPITAL MANAGEMENT

Summit, New Jersey, 07901

(866) 894-5332

www.wildecapitalmgmt.com

contact@wildecapitalmgmt.com

Visit us on social

Facebook.com/wildecapitalmgmt

Instagram.com/wildecapitalmgmt

LinkedIn.com/company/wilde-capital-management