Timothy D. Hussar, CFA | **Director of Investments**

Tim is Director of Investments of WhartonHill Investment Advisors. He is also a Partner of the firm and member of the Investment Committee.

QUARTERLY INVESTMENT PERSPECTIVES: **Q1 2023**

The Year in Review

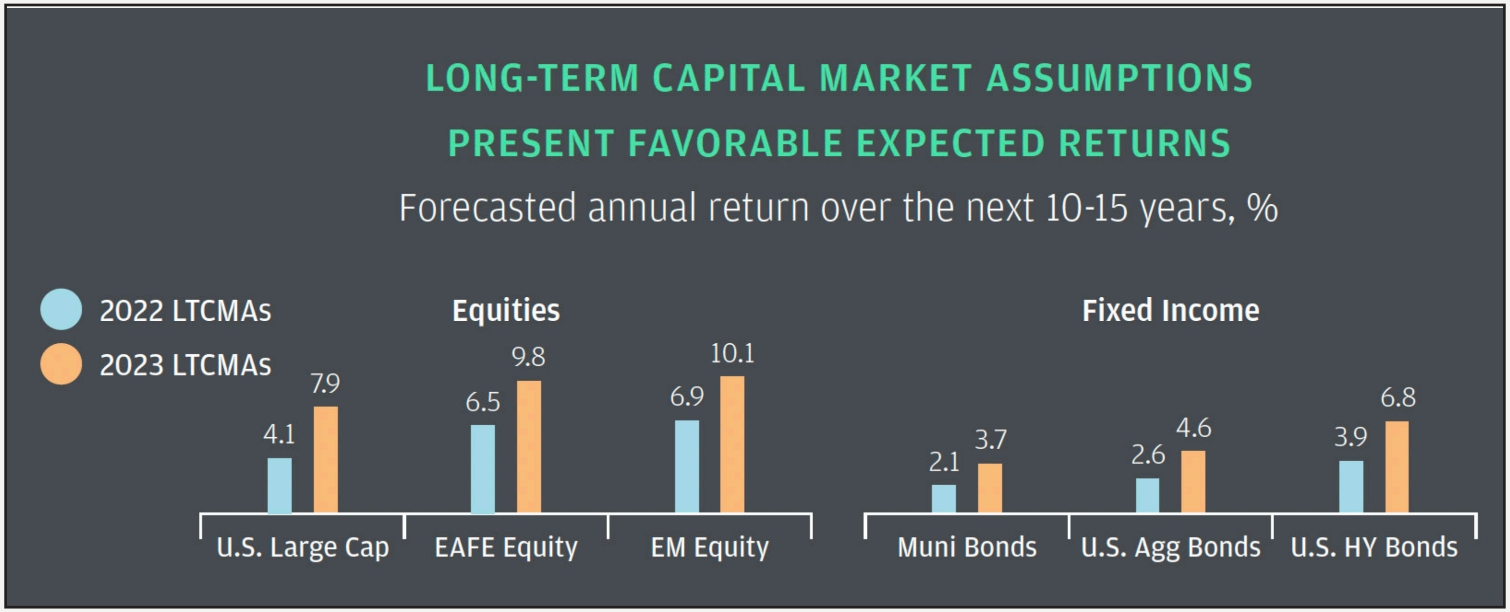
After taking two large steps forward in 2020 and 2021, the stock market took a major step backward in 2022 with its worst calendar year return since 2008. Bonds experienced significant declines as well, with the Barclays Aggregate index falling 12.4%. It was the worst return for the bond index, ever. To say the year was painful from an investment standpoint is quite an understatement. Equities and bonds; large, mid, and small cap stocks; U.S., international, emerging; it did not matter where an investor looked, there were negative returns. If a crystal ball showed all that was to come in 2022, and an investor decided to sit in cash, they would have had to pay taxes on sizeable equity gains at year end 2021, and then lose 8% in the purchasing power of your cash as inflation hit multi-decade high levels. Commodities were one of a few asset classes with a positive return in 2022, but prior to this year, they were a perpetual loser, returning minus 2.6%, annually, over the last fifteen years. The last year flipped the investment script, with the best performers from COVID now performing the worst and the worst performers of the 2010s (value investments) performing the best.

Geo-political risks vied for the spotlight but the Federal Reserve's campaign to halt inflation in its tracks was by far the biggest market moving force. The Dow Jones Industrial Average would swing hundreds of points based on a cool or hot (they were mostly hot) inflation reading. Bonds would nosedive during the press conferences of Jerome Powell, the Chairman of the Federal Reserve, as he reiterated his determination to bring down inflation, even if it risked sending the economy into a recession. In the end, this was what occupied our minds - would the speed and degree with which the Federal Reserve raised rates - from 0.0% to 4.25% in just 12 months - bring about such significant damage to the economy that it would take years to recover? In the end, it remains to be seen how much damage the rate hiking campaign has or will inflict upon the economy. Consumer spending has slowed but remains positive. Corporate earnings have weakened but are still well above levels they were at a year ago. Profit margins remain near all-time highs. And the job market is robust, with unemployment holding near its lowest level in fifty years. Volatility will likely persist in the short-term with the Fed continuing to hike rates.

What we can say with near certainty is that forward investment returns over the coming five years look very attractive. High quality fixed income, from ultra-safe Treasuries to U.S. corporate bonds yield anywhere from 4.5% to 6.0%. U.S. stocks have seen their valuations move to below historic average levels, which has traditionally led to five-year annualized returns of between 8-10%. Simply put, a diversified portfolio currently has its best prospects in recent memory for strong returns going forward.

Investment Market	2022
U.S. Large Cap Stocks	-18.2%
U.S. Mid Cap Stocks	-17.8%
U.S. Small Cap Stocks	-20.5%
International Developed Stocks	-14.1%
Emerging Market Stocks	-20.0%
Barclays US Aggregate Bond	-12.4%
Barclays Global Aggregate Bond	-17.8%

Sources: JP Morgan, as of 12/31/2022



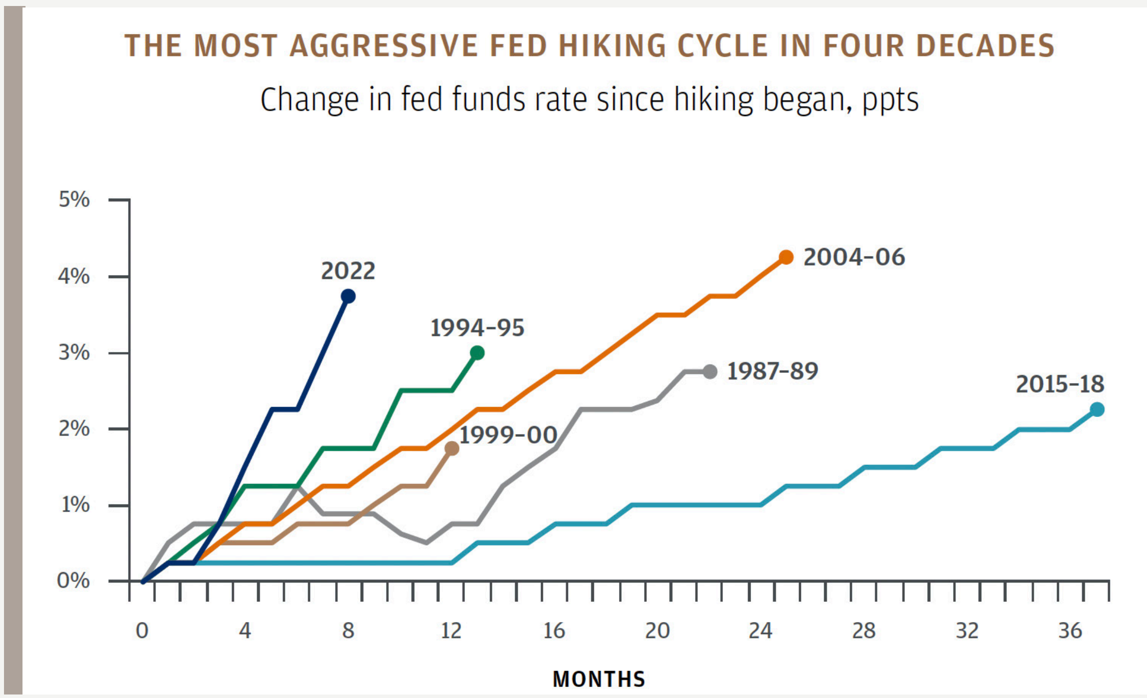
The widespread decline in stocks and bonds has created significantly better return opportunities in the future, thanks to better valuations and higher yields. JP Morgan's Long-Term estimates for U.S. stock returns have risen from 4.1% at the start of 2022 to 7.9%, currently.

3

MARKET REVIEW AND OUTLOOK

Economic Durability

The U.S. economy is currently experiencing what we have called "the strangest recession in history." The classical definition of a recession is two straight quarters of negative GDP growth. The U.S. experienced that in 2022, with the first and second quarter seeing a GDP decline of minus 1.6% and minus 0.6%. So we are in a recession, correct? Well, not exactly. For starters, the context of the early year decline in GDP matters. For all of 2021, GDP growth increased at a 5.7% pace, its fastest increase since 1984. The weakness in GDP to start this year was more of a deceleration from a high level rather than outright weakness in the economy. Second, while the technical definition of a recession was triggered, most other data points were very healthy. Foremost, the jobs market remains incredibly strong, with the unemployment rate at a very low level of 3.7% and corporate profits up 7% from last year. While consumer sentiment has weakened significantly this year, due to inflation and higher interest rates, consumer spending has continued at a strong pace, with Mastercard reporting that holiday spending increased 7.6% from the same period last year. To put it concisely, the current data points we are looking at do not show a widespread slowdown of economic growth happening right now.

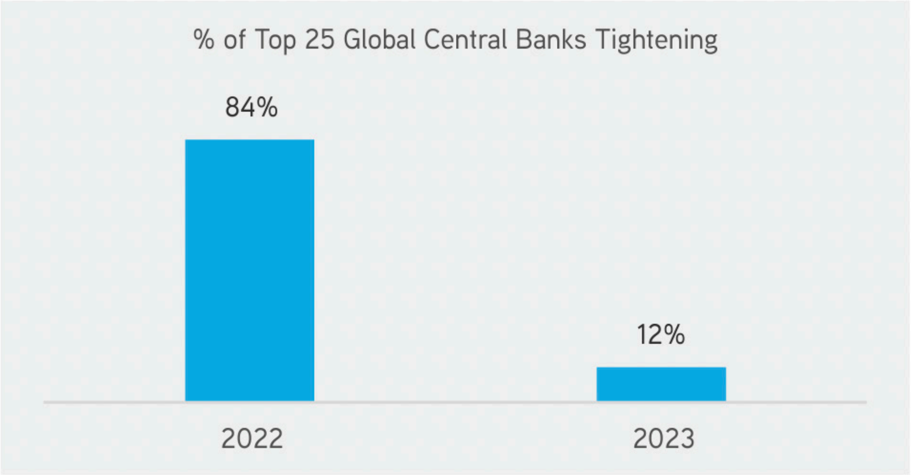


But what about as we head into 2023? The effects of the Federal Reserve hiking rates over 4.0% have been immediately felt in areas like the housing market, where sales volume has come to a halt. Higher rates have also tempered speculative investment areas like SPACs and cryptocurrency, where the absence of free money has caused all sorts of trivial endeavors and pie in the sky growth projections to dry up, for the betterment of everyone watching, we might add. Yet higher interest rates take a longer time to affect capital spending plans and forward outlooks.

MARKET REVIEW AND OUTLOOK

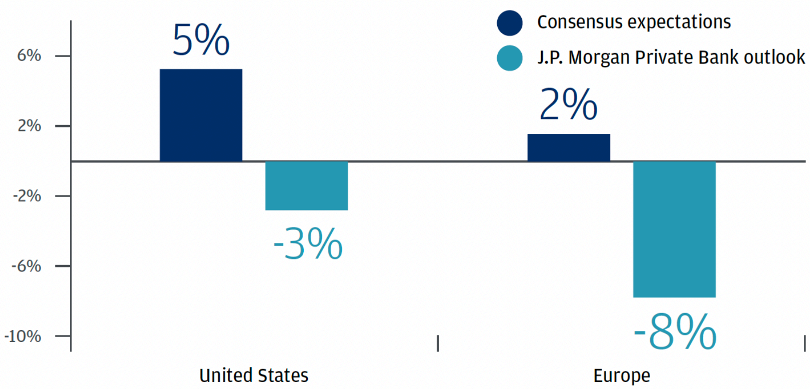
With central banks around the world tightening at a much faster rate than anyone expected in 2022, it will take time for corporations to reset their projections going forward. Consensus estimates for earnings growth over the next year are that corporate earnings will grow by about 5%. However, JP Morgan and some other strategists are now forecasting that we will see a decline in corporate earnings next year. This change in earnings from low growth to a moderate decline is what will drive the markets direction in the short-term. The major question that we are wrestling with is how much of that is currently priced into the stock market levels? During the last 10 recessions, corporate earnings have fallen on average (-29.5%). If the decline in earnings is more like 1980 (down 4.6%) then it seems likely that the market's volatility over the last year has priced in much of the weakness that will occur. If the decline resembles 2008 (earnings fell 92% that year), then it is fair to say there is more pain to come for investors.

It is our view that an earnings decline will be shallow for a few reasons. First is that consumer balance sheets are strong. Typically, a shock higher in interest rates severely hurts the economy because households have too much leverage. This has not been the case in recent years, with corporations able to refinance their debt at historically low levels and U.S. consumers still flush with over $800 billion in cash thanks to the stimulus paid out in the aftermath of COVID. Second, corporations also have strong balance sheets thanks to a decade of low rates, strong profit margins, and stimulus cash helping reinforce their asset base.



CONSENSUS SEEMS TOO OPTIMISTIC ON EARNINGS GROWTH

2023 expected year-over-year change in earnings per share (EPS)

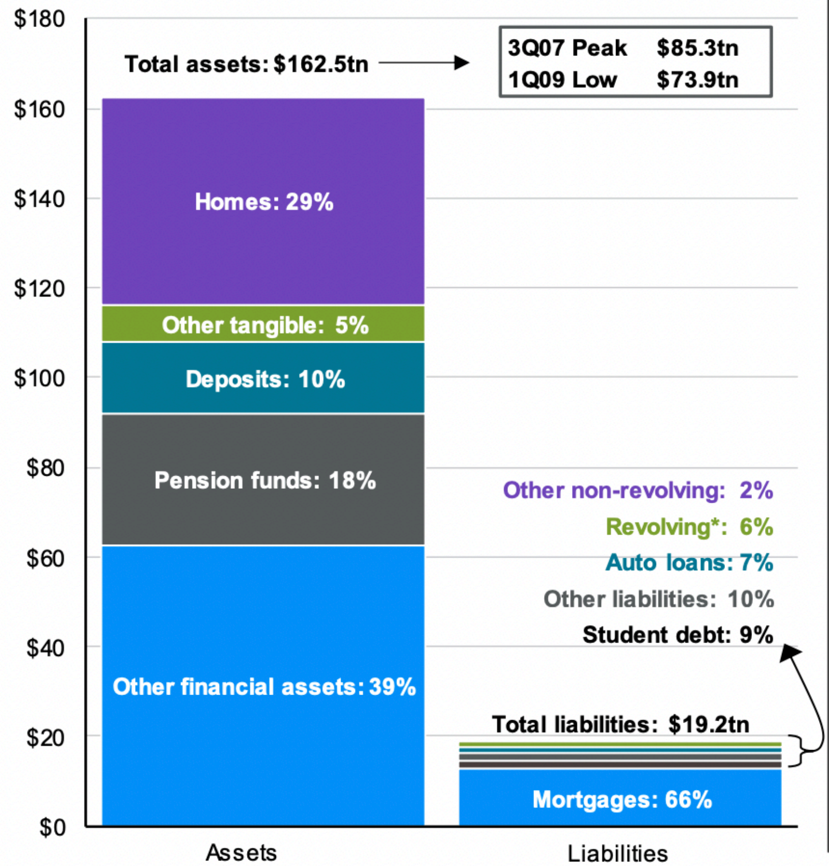


Sources: FactSet, J.P. Morgan Private Bank. Data as of October 2022. Note: It is not possible to invest directly in an index.

Consumer balance sheets are in very strong condition: the amount of debt outstanding is well below past periods of economic stress and there is still over $900 billion in savings leftover from pandemic stimulus

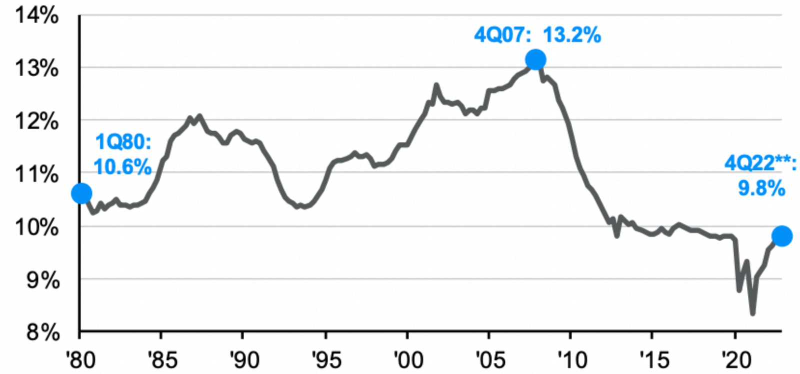
Consumer balance sheet

3Q22, trillions of dollars outstanding, not seasonally adjusted



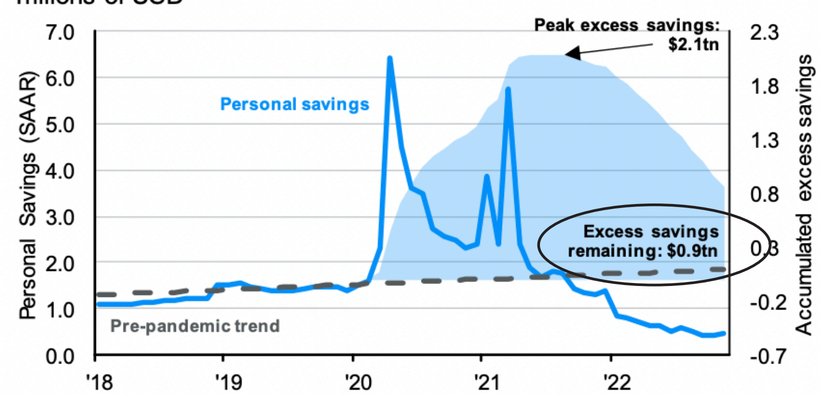
Household debt service ratio

Debt payments as % of disposable personal income, SA



Household excess savings

Trillions of USD

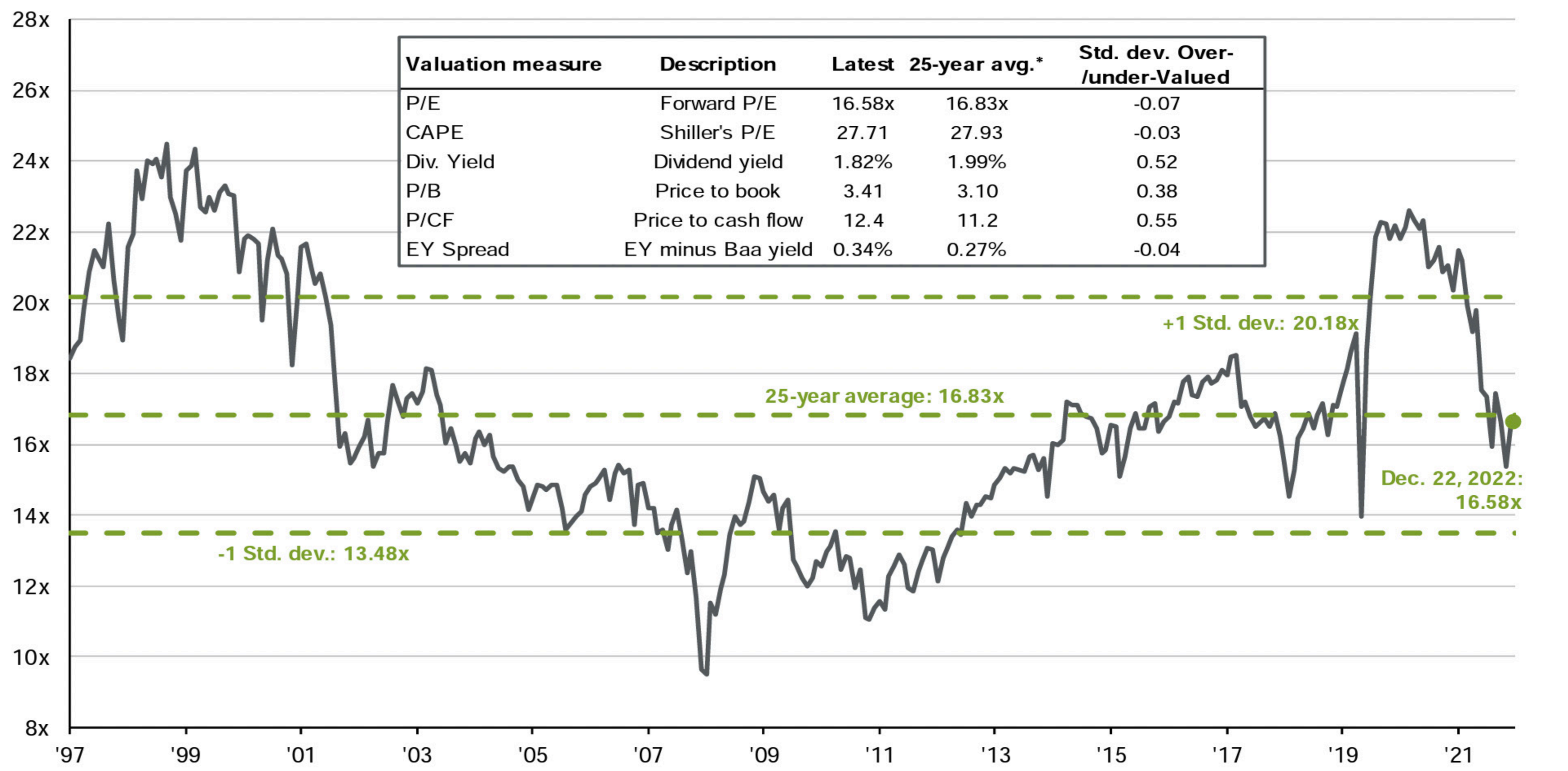


Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.

MARKET REVIEW AND OUTLOOK

U.S. stock valuations are now below average for the first time in years. This has historically provided a good entry point for a long-term investor.

S&P 500 Index: Forward P/E ratio



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	16.58x	16.83x	-0.07
CAPE	Shiller's P/E	27.71	27.93	-0.03
Div. Yield	Dividend yield	1.82%	1.99%	0.52
P/B	Price to book	3.41	3.10	0.38
P/CF	Price to cash flow	12.4	11.2	0.55
EY Spread	EY minus Baa yield	0.34%	0.27%	-0.04

MARKET REVIEW AND OUTLOOK

Taking A Home Country Bias

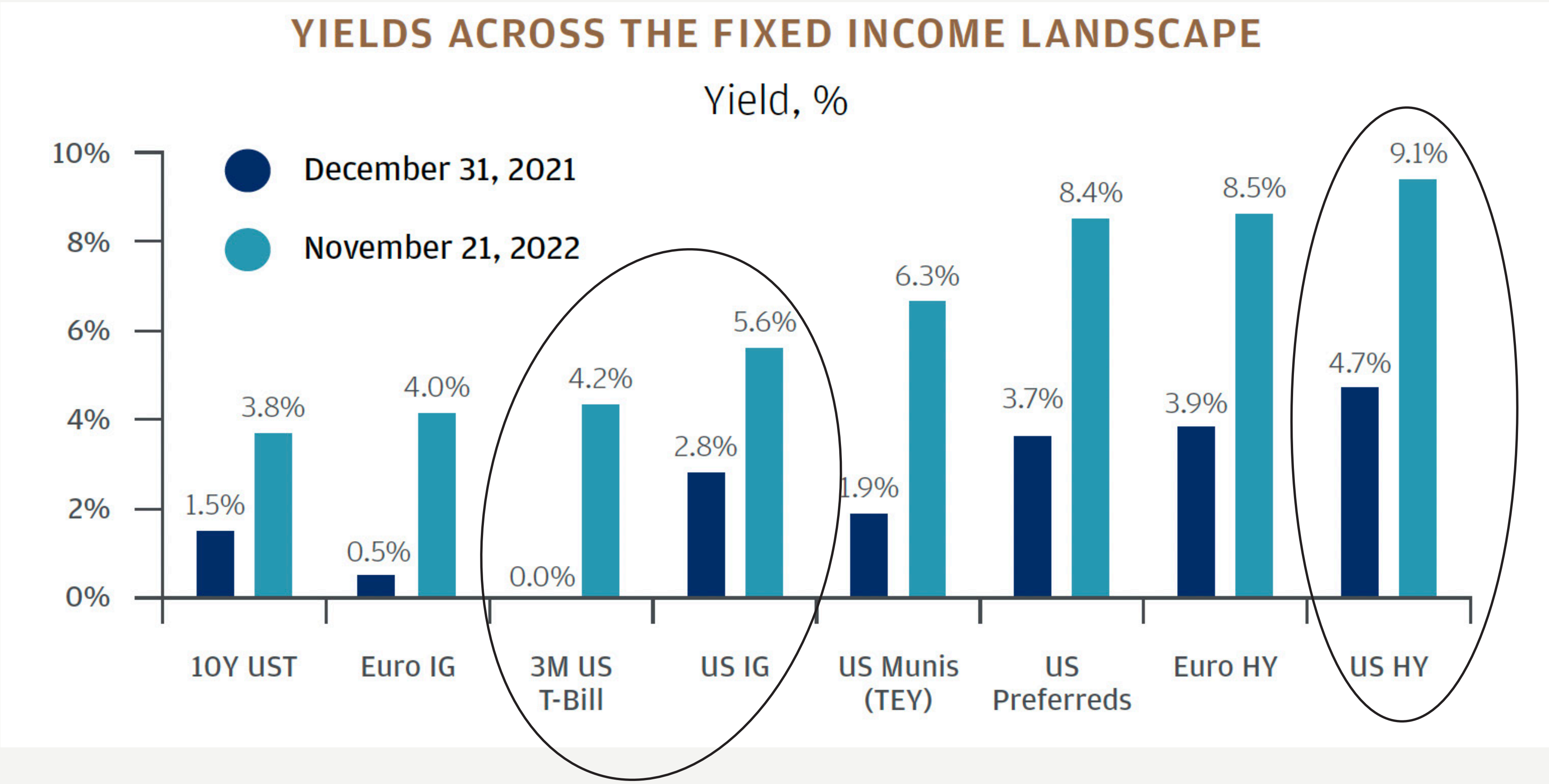
One of our big shifts in the last year and looking forward is that we favor U.S. stocks and bonds and are underweight foreign investments. The reason for this shift is multi-faceted but the two main forces behind this view are as follows: (1) valuations in U.S. stocks and bonds have materially changed and are now attractive for the first time in over a decade and (2) volatility associated with foreign investments has proven to be too much of a hurdle, especially considering that we can own domestic stocks and bonds at reasonable prices.

During the early part of 2022, we exited emerging market positions. This decision was long in the making, but reinforced by both the Russian invasion of Ukraine, which effectively marked all Russian investments to zero, along with the continued hostility of China towards investment capital. Emerging market assets are "cheap" relative to the U.S. and could prove to be profitable over the long-term, but we simply do not believe the valuation discounts reasonably compensate investors for the political risks. China has recently made the decision to reopen its borders and effectively end its "Zero COVID" policy. This may result in short-term outperformance for Chinese stocks. But how long will it be until there is another crackdown on tech companies, capital controls against foreign investment, or a dispute with the U.S. over technology and supply chain reliability? Over our investment careers there have been multiple instances of short-term emerging market outperformance but ultimately they have fizzled out because yet another political domino fell and created a headwind for foreign investors. The last time emerging market stocks outperformed for a multi-year period was during the fallout from the tech bubble. However, that period saw the tailwinds of globalization and China's admittance to the WTO as a catalyst. The tides of globalization are going in the opposite direction now and, if anything, seem like a long-term headwind.

The chart we highlighted on page 2 shows JP Morgan's Long-Term Capital Market Assumptions, which estimate U.S. large cap stocks having a forward return of 7.9%, European stocks having a return of 9.8%, and emerging market stocks a return of 10.1%. The difference here is almost entirely driven by valuations increasing abroad and U.S. valuations compressing slightly. What we believe is not appropriately discounted in this estimate is that foreign valuations have been cheap for the last two decades with multiple opportunities to "catch-up" to U.S. valuations, but they have continually failed. The primary reason for the failure of overseas valuations improving has been political interference, whether it be anti-growth, populist policies in Europe or authoritarian policies in emerging markets. Far be it from us to consider ourselves political experts, but we have much greater confidence that the political stripes at home and abroad will stay the same rather than experience a drastic sea change. For these reasons, we enter 2023 overweight U.S. stocks and bonds thanks to their attractive valuations and long-term return prospects. It is our view that home country assets are best poised to navigate an uncertain short-term economic outlook, while still providing attractive upside for the long-term.

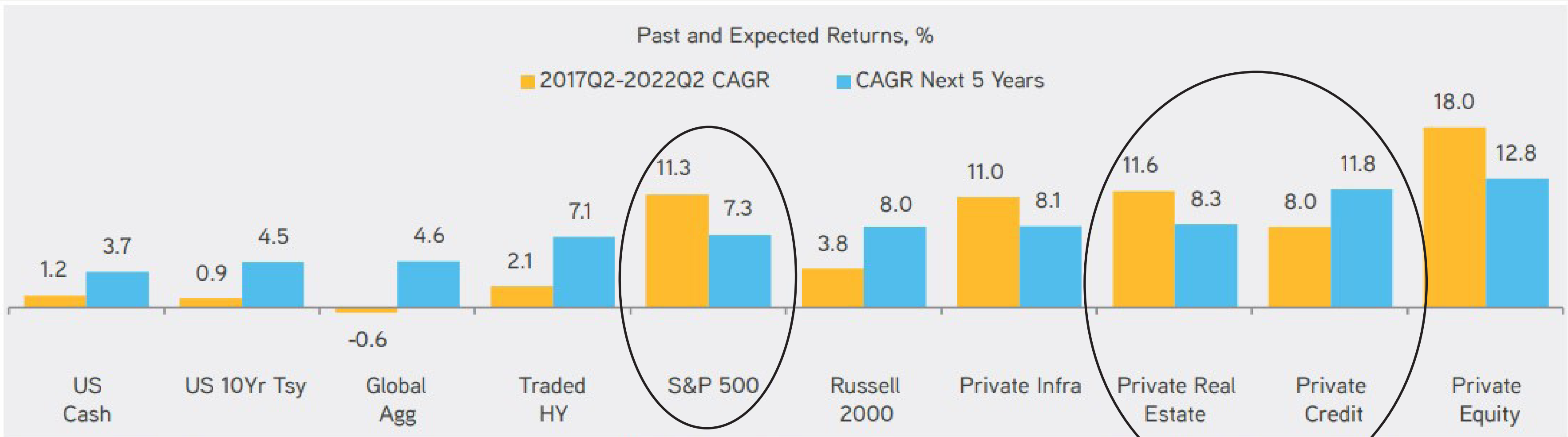
MARKET REVIEW AND OUTLOOK

Bond yields are significantly higher than where they were a year ago. U.S. bonds, from Treasuries to high yield, range from 4.2% to 9.1%.



MARKET REVIEW AND OUTLOOK

As we move from a zero interest rate regime to a normal interest rate regime, equity returns will be positive, but lower than the past. We believe alternatives, such as global infrastructure, private credit and private real estate, will be additive to diversified portfolios, both from a return enhancement and volatility mitigation standpoint.



Our estimates for real estate returns are now designed to capture fund-level returns to LPs, rather than our previous approach of modeling unlevered asset-level returns. Key to our thinking is that this approach offers a better point of comparison between Real Estate, Private Credit, and Private Equity, as well as the fact that it more closely approximates how most investors think about accessing this asset class. Traded HY approximated using U.S. HY. Forward return data as at September 30, 2022. Source: Bloomberg, Cambridge Associates, Greenstreet, BofA, JP Morgan, KKR Global Macro & Asset Allocation analysis.

MARKET REVIEW AND OUTLOOK

Closing Thoughts

What a difference a year makes. Our last annual outlook focused on COVID, the reopening of the economy, and how the pandemic-related uncertainty was behind us. 2022 gave us new perspective on how the world can continually surprise us, with many new risks coming to the forefront.

The Federal Reserve's campaign to stop inflation in its tracks caught many investors off guard this year and proved to provide a major reset for all asset classes. The bad news is that many of the frothy gains from 2020 to 2021 have been given back, while the good news is that the reset has provided opportunities to deploy capital at attractive levels that have not been available in quite some time

To illustrate, one needs to look no further than the building blocks of a 60% stock, 40% bond portfolio. If the 40% in bonds are in Treasuries and U.S. corporate bonds yielding around 4.5%, and the 60% allocation is in U.S. large cap stocks, trading at valuation levels that have conservatively led to returns of 8% in the past, we easily back into portfolio returns of around 6.6% going forward over the next five years or so. While the 60/40 portolio suffered its worst calendar year since 2008, the outlook for diversification is the strongest its been in years.

We expect additional volatility in 2023. It is a distinct possibility that the market is consumed with every word from each Federal Reserve press conference and what it portends for their next move with interest rates. This is one of the reasons we have incorporated a greater allocation to alternatives over the last three years, in part to enhance portfolio return but also to reduce volatility.

However, we would encourage a step back and a framework that looks over many decades of market history - decades that include wars, rising and falling rates, recessions, and yes, now global pandemics. That historical framework shows us that while the short-term is unpredictable, the long-term outlook lends itself to greater certainty, especially with the key component of attractive starting valuations we are looking at right now. As always, we welcome a conversation with you to discuss your investment plan and any questions or thoughts that this outlook may have prompted. We wish you all a happy and healthy New Year, and a safe and prosperous 2023.

DISCLOSURES

Investment advice offered through IFP Advisors, LLC, dba Independent Financial Partners (IFP), a Registered Investment Adviser. IFP and Wharton Hill Investment Advisors are not affiliated. Past performance is no guarantee of future returns. Investors cannot invest directly in an index. Diversification and asset allocation do not guarantee returns or protect against losses. The information given herein is taken from sources that IFP Advisors, LLC, dba Independent Financial Partners (IFP), IFP Securities LLC, dba Independent Financial Partners (IFP), and its advisors believe to be reliable, but it is not guaranteed by us as to accuracy or completeness. This is for informational purposes only and in no event should be construed as an offer to sell or solicitation of an offer to buy any securities or products. Please consult your tax and/or legal advisor before implementing any tax and/or legal related strategies mentioned in this publication as IFP does not provide tax and/or legal advice. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

All data as of 12/31/22 via KKR, JP Morgan, Eaton Vance, the Wall Street Journal, the St Louis Federal Reserve, and the Bureau of Economic Analysis.