First Quarter 2022
Market Recap
Performance Review
and Near-term Outlook

Market Recap

Stock market momentum that characterized Q4 of 2021 sputtered and stalled during Q1 2022. Although starting the new year at record highs, uncertainty permeated markets throughout Q1. Global inflationary pressures deeply rooted in pandemic related supply chain disruptions, a shift to less accommodative monetary policy by central banks, and the eruption of the crisis in Ukraine did, and continues to, challenge investors.

Most major markets and indices ended Q1 in negative territory. We regularly reinforce with clients that when growth-oriented strategies and/or market momentum stumble, Lake Jericho managed portfolios will typically experience those negative effects more deeply than broad-market indices. Q1 is no exception.

Though deemed transitory early during 2021, inflation continued its upward trend, hitting a 40-year high in January. U.S. Federal Reserve policy makers had long been divided over the nature of this burgeoning inflation and what, if anything, need be done. Late during Q4, recognizing they were behind the 8-ball, Fed Chair Jerome Powell abruptly changed messaging, signaling to markets an intent to move more quickly, more substantially, to normalize policy than previously communicated. During the first week of the new year, U.S. stocks began an orderly 10% decline as investors digested the shift in tone and braced for economic slow-down.

Entering February, markets stabilized. The bulls seemed to be in charge once again. Growth and momentum strategies surged ahead. Then late in February, Russia invaded Ukraine. A major supplier of oil and natural gas to Europe and Asia, and of commodity needs to the global market, quick sanctions imposed by the world's major economies upon the Putin regime caused oil and commodity prices to soar.

> "You have to go through good times and bad times to get where you're trying to go"
>
> Allen Iverson

Investor confidence further waned as infection rates surged yet again in China, this wave deemed the worst since the original outbreak. China re-implemented large-scale lockdowns, now more disruptive to global supply than the original outbreak.

The prospect of war once again in Europe, persistent inflationary pressures, rapidly rising interest rates, and expectations of slowing global growth prompted investors to sell off equity positions once again. Major stock indices reached losses of between -10% and -18% from their January all-time highs.

Having cut its key benchmark interest rate – the "Fed Funds Rate" – to essentially zero at the beginning of the pandemic, mid-March the U.S. Federal Reserve did increase the Fed Funds rate for the first time in nearly four years. Having wisely signaled such intentions at the end of 2021, the move was expected and warmly accepted. I often remind readers that the market dislikes uncertainty far more than it dislikes bad news.

On Fed announcement day, the S&P 500® Index ended the session 2.24% higher, sparking a relief rally into quarter-end that cut the -10% to -18% losses by half. As measured by the Russell 3000 Index, a measure of 3,000 U.S. companies and a proxy for the *complete* U.S. stock universe, U.S. stocks finished Q1 with a loss of -5.28%. The tech-heavy growth component of the Russell 3000 Index finished with a loss of -9.25%, while the cyclical-oriented value component finished -0.85% lower.

Once again besting their domestic small-company counterparts, both foreign developed and emerging market stocks, and with most bond categories deeply in negative territory, U.S. large-company indexes suffered the smallest drawdowns in Q1. Rather than the Nasdaq, or the S&P 500®, the Dow Jones Industrial Average was the top performing large company index during Q1. When trouble looms over the horizon, investors flock to the relative safety of large, well-capitalized, dividend paying "blue chip" stocks.

The Energy and Utilities sectors were the top performing sectors for Q1. They were also the only two of the 11 S&P industry sectors posting positive returns with gains of 38.97% and 4.70% respectively. The worst performing industry sectors during Q1 were Communications (-11.27%), Consumer Discretionary (-9.37%), and Technology (-8.54%).

Energy prices have been on the rise as the global economy reopens from the pandemic induced shut down. After plunging to $16.94 per barrel for WTI Crude in April 2020, prices rebounded strongly in 2021. Along with the price of crude, so did the performance of the Energy sector. Although returning 46.44% during 2021, believing there is more room to run, we initiated Energy sector positions for most client portfolios during Q1. Oil prices rose sharply in March following Russia's invasion of Ukraine, have since pulled back a bit, but remain above $100 per barrel.

Reducing exposures to the more long-duration stocks in the Technology and Communications sectors, adding Energy and Materials sectors exposures, and holding cash rather than bonds contributed positively to client performance during Q1. But those tactical tweaks did not overcome the underperformance of our long term, strategic holdings in the Technology and the Communications sectors. We also held, and intend to maintain, our overweight allocation to Health Care Technology and Devices, despite a tough Q1 outing finishing with a loss of -7.42%.

Performance Review

Lake Jericho managed and advised portfolios are typically invested in some variation of either one of two strategies - either (1) a global-macro strategy broadly diversified by geography, asset type, and sector, executed via exchange traded funds (ETF), or (2) a concentrated individual stock/bond strategy heavily biased towards U.S. large-company technology, health care, and consumer-focused stocks. Within each strategy the sector weights, asset types, and geographic diversification or concentrations, have meaningful impact upon returns. Further, within the individual stock strategy, these macro factors can overwhelm individual stock selection and performance in the short run.

Throughout each *Review*, we generally discuss market performance relative to the S&P 500® Index simply because it is the most widely followed measure of equity market performance. Because our investment horizon is, most typically, long term, and we do actively manage macro positioning, sector allocations, and other performance factors, our performance during any single quarter, or even a full year (as with 2021), might significantly deviate from any single equity market benchmark.

Additionally, most Lake Jericho clients hold risk profiles that are not appropriately benchmarked against an all-equity index. We provide the bulleted benchmark returns immediately below, and the iShares (by Blackrock) Core Allocation ETF Portfolio Series benchmarks within the tabled data at the end of this *Outlook*, for a proper, relative performance comparison against independent, objective, balanced, globally diversified strategies managed to standardized risk profiles.

- The Dow Jones Industrial Average – a price-weighted measure of the performance of 30 "blue-chip" U.S. companies with significant technology company influence but more balanced with meaningful representation from health care, financial, and industrial companies - finished Q1 with a loss of -4.10%, for a one-year total return of +7.11%.
- The S&P 500® Index, a broadly diversified, committee selected index of 500 large U.S. companies, finished Q1 with a loss of -4.60%, for a one-year total return of +15.65%.
- The technology and consumer-cyclical heavy NASDAQ Composite Index finished Q1 with a loss of -8.95%, for a one-year total return of +8.06%.
- Small- and mid-sized companies, as measured by the Russell 2500™ Index, finished Q1 with a loss of -5.82%, for a one-year total return of +0.34%.
- International developed markets, as measured by the MSCI World (ex-USA) Investable Market Index, finished Q1 with a loss of -5.18%, for a one-year total return of +2.31%.

- International emerging markets, as measured by the MSCI Emerging Markets Investable Market Index, trailed their developed markets counterparts to finish Q1 with a loss of -6.95%, for a one-year total loss of -9.49%.
- The Bloomberg Barclays U.S. Aggregate Bond Index, a measure of the performance of the U.S. investment grade bond market, finished Q1 with a loss of -5.93%, for a one-year total loss of -4.15%. As interest rates continue to move higher, bond performance will generally continue to be negative.

Near-term Outlook

It has been a rough start to 2022. COVID. Supply chain. Inflation. Rising interest rates. The threat of war. Slowing growth. Do I dare say recession? Stagflation? So much remains unknown, so is likely to continue in the short run. Perhaps into 2023. However, the economy has momentum as we enter Q2. And I take comfort in two facts, two core data points, that drive a significant part of my decision making:

- Employment, wages, and consumer spending remain strong, despite surveys telling of weaking consumer sentiment. Employment measures are the best since the 1970's. And a strong consumer, in an economy that is largely driven by consumer spending, puts quite a high floor under my "worst case" scenario.
- Corporate earnings for Q1, despite some high-profile shortcomings, are surprising to the upside with beats averaging around 4%-5%. Admittedly, expectations had been lowered. But it turns out, at lease at this early point in this earnings reporting cycle, that analysts have been far too pessimistic.

Yes, equity markets are pricing in policy uncertainty, rising inflation, and pessimistic consumer sentiment. But if U.S. companies can not only withstand, but climb, this wall of worry with continued strong results, then I stand with Treasury Secretary Dr. Janet Yellen and her position that while growth will slow recession in the U.S. is unlikely.

So, versus my resistance to altering positions at the close of 2021, I am now more *tactical* in my near-term outlook and executing judicious changes in client portfolios. We remain, generally, fully invested but are becoming incrementally more defensive in the allocations held. Should we reach a point in the macro environment where significant *strategic* change is necessary, I will comment in more detail at that time.

As always, I am available to discuss anything within this Outlook, or your own specific portfolio performance questions. And if there are any changes in your personal/financial situation that we have not already discussed, we need to schedule a more in-depth review.

Until then, be well. And thank you for your continued trust and support.

A.J. Walker, CFA CFP® CIMA®
Founder, President, and CEO
Lake Jericho, LLC

The iShares Core Allocation ETF Portfolio Benchmark Series

Total Return Comparisons For Comparable Risk and Allocation Profiles

All Periods Ending March 31, 2022

Core Allocation Portfolio (Ticker)	Q1 2022	1 Year Total Return	3 Year Total Return	5 Year Total Return
Conservative (AOK)	-5.60%	-0.92%	16.37%	27.58%
Moderate (AOM)	-5.55%	0.23%	20.39%	33.44%
Growth (AOR)	-5.45%	2.15%	28.65%	45.54%
Aggressive (AOA)	-5.36%	4.82%	37.04%	58.05%

The iShares Core Allocation ETF Portfolio series is designed to meet the needs of investors who would like to maintain fixed target levels of exposure through a portfolio diversified across domestic, international, and emerging market equities, bonds, and other instruments. The Core Conservative Allocation Strategy seeks approximately 30% exposure to global equity markets. The Core Moderate Allocation Strategy seeks approximately 40% exposure to global equity markets. The Core Growth Allocation Strategy seeks approximately 60% exposure to global equity markets. The Core Aggressive Allocation Strategy seeks approximately 80% exposure to global equity markets. Presented here is the iShares Core Allocation ETF Portfolio Benchmark NAV total return performance as reported by iShares, constructed with no investment advisor fees, and with no transaction costs, while Lake Jericho portfolio performance is actual performance, net of all fees, including investment management, administration, and transaction expenses.

For any portfolio with an inception date within the current quarter, or within the current year-to-date, that observation period data will not be directly comparable to the iShares Portfolio Benchmark data above. Nonetheless, your individual portfolio performance data is presented here for informational purposes. For direct comparison based upon exact portfolio inception dates, please access the custom reporting features within the Portfolio Analyst tool in your client portal.