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VIEWPOINTS

1ST QUARTER 2022	*ADVISORY NEWSLETTER*

MARKET COMMENTARY **FREDRIC W. WILLIAMS**

Unfortunately – A Bear Out of Hibernation…

> *"There's no way to dismiss the fear and tragedy that is filling daily headlines. But they shouldn't change long-term trends. In that sense, volatility brings opportunity."*
> - *N. Jasinski, Barron's 3/11/22*

Any overview of the first quarter of 2022 would be remiss if it didn't mention the unfortunate conflict in eastern Europe. The invasion of Ukraine by Russia represents the most significant disruption to the continent's sense of security since the second world war – something that has resonated throughout the world. But as we mentioned in our early March memo on the topic, geopolitical selloffs tend to be short-lived, and thus far that has held true again this time, given the end-of-quarter's rebound in the capital markets.

To be sure, this conflict is far from resolved, and we would expect it to continue to contribute to global uncertainty going forward. Combined with the pre-existing headwinds from rising interest rates and inflation that we mentioned last quarter, all point to more near-term volatility as these factors get sorted out.

But volatility is not new, nor will it disappear – what's important is to put it in the context of a prudent long term investor's time horizon, recognizing that the concerns of your current "self" over 6 months may be little concern to your future "self" 20 years down the road.

> *"The S&P 500 has closed down at least 1% for the day 448 times since the beginning of 2008, according to Dow Jones Market Data. In 2020, stocks incurred daily losses of at least 1% 45 times; on five of those occasion, stocks dropped 5% or more.*
>
> *"Chances are, you barely remember those declines. Investors are exceptionally adept at retroactively revising their memories. No one likes to admit fear or to feel foolish or incompetent, so we polish our own pasts; what was terrifying then becomes not so bad now.*

"That's why it's so important to understand who you are as an investor. Falling markets set up a battle between your present self and your future self.

"If you have decades more investing ahead of you, then your future self is likely to be annoyed – or could be materially impaired – by rash moves made now."

- *J. Zweig, WSJ – Intelligent Investor*

One of the leading contributors to the above referenced "rash moves" are the emotional reactions to changes in the capital markets whereby short-term changes are made to otherwise well-thought-out long-term investment plans, solely as a result of the most recent developments.

"Recency bias describes our tendency to extrapolate recent events or experiences into the future. When applied to investing, this bias can have extremely damaging consequences as it distorts our perception of what has happened in the past and our expectations for what may happen in the future. What happened in the recent past may not repeat tomorrow.

"During bull markets, investors will often forget about bear markets. The most recent experience is that stocks rise and so they are expected to continue to rise. The implication is that investors should buy more stocks as they will surely continue to rise.

"Conversely, in bear markets, falling stock prices lead to panic selling on the view that because stocks have declined, they will continue to decline and never recover."

- *SpringTide Partners, March 2022*

History indicates that neither of those extremes holds true over the longer term – which is precisely the domain of your future "self".

So this may mean that emotionally driven pricing disruptions could be events for prudent investors to take advantage of, within the framework of their more appropriate time horizons.

"These kinds of dislocating events can create really good opportunities for long-term investors because the market is too short-term focused and paralyzed by fear, and just throws the baby out with the bathwater."

- *D. Giroux, CIO – T. Rowe Price*

Which allows us to then restate our closing comments from earlier in March:

"The resilience shown by the markets over time, suggests looking beyond events like these, rewards the patient investor. Unless there has been a material change in your circumstances, we recommend focusing on your long-term goals and staying the course."

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

www.oldportadvisors.com ♦ info@oldportadvisors.com

Index Returns			
Equities	*Percentage Change for the 1st Quarter*	*Percentage Change for the Year*	*Annualized 10-Year Returns*
S&P 500	**-4.60%**	-4.60%	14.64%
MSCI EAFE*	**-5.91%**	-5.91%	6.27%
MSCI Emerging Markets*	**-6.97%**	-6.97%	3.36%
Bloomberg Commodity Index	**25.55%**	25.55%	3.18%
FTSE NAREIT Equity REIT Index	**-3.86%**	-3.86%	9.81%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	**-5.93%**	-5.93%	2.24%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	**-3.02%**	-3.02%	2.69%

Source: BlackRock, Bloomberg, FTSE™, NAREIT®.
*Returns are calculated with net dividends in USD

Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Domestic and Global Market Recap… OPA INVESTMENT POLICY COMMITTEE

The new year started with COVID-19 starting to recede, raising hopes of emerging from two years of a global pandemic. Then Russian forces invaded Ukraine on February 24. The human costs have been extraordinary. We will focus on the economic impact. Equities had started the year in a downturn, and initially moved even lower. Commodities added to early gains, fueled by concerns over supply chain issues and access to critical raw materials. Fears that inflation, already at uncomfortable levels, could surge even higher kept investors from seeking safety in fixed income securities and drove bond yields up significantly.

Following the invasion, equities rallied throughout most of March, which mitigated losses for the quarter. The S&P 500 ended the quarter down 4.6% while the MSCI All Country World Index dropped by 5.4%. Bonds typically provide investors with a ballast against equity drawdowns, but not this quarter. The Bloomberg U.S. Aggregate Bond Index dropped 5.9%. For the first time since the first quarter of 2018 and just the second occurrence since the global financial crisis, both the S&P 500 and the Bloomberg U.S. Aggregate indices finished the quarter in negative territory. The U.S. 10-year Treasury yield rose 87 basis points over the quarter from 1.51% to 2.38%, its highest level since May 2019.

Within equities, small caps underperformed larger companies, falling 7.5% as measured by the Russell 2000 Index. From a style perspective, value stocks, measured by the Russell 1000 Value Index, outperformed the Russell 1000 Growth Index -0.7% to -9.0%. Growth stocks tend to have longer duration cash flows, leading to poor performance when interest rates rise. Value's dominance was even more pronounced within small-cap stocks, as the Russell 2000

Value Index fell just 2.4% compared to a decline of 12.6% for the Russell 2000 Growth Index.

From a sector perspective, energy was one of the only bright spots, returning an outstanding 39%. Oil prices served as a major tailwind, as WTI crude oil prices rose from $75 to $100/barrel throughout the quarter. Other positives were defensive areas of the market such as utilities, up 4.8%, and consumer staples, down just 1.3%. All other sectors had negative returns. Among the worst were growth-oriented sectors, including technology (-8.5%), consumer discretionary (-9.4%), and communication services (-11.3%).

Stocks outside of the U.S. trailed their U.S. counterparts during the quarter. Foreign developed market equity returns, as measured by the MSCI EAFE Index, fell 5.8% in U.S. dollar terms. The MSCI Emerging Markets Index fared even worse, down 6.9% in U.S. dollar terms. In addition to inflation and rising interest rates, the Russia/Ukraine conflict significantly affected market returns internationally. Countries with more exposure to Russian trade underperformed due to the retaliatory sanctions. Stocks in China, which is Russia's biggest trading partner and accounts for 18% of Russia's gross exports, fell 14.2%. Germany, which is Russia's second-biggest trading partner and relies on Russia for 65% of its natural gas imports, saw its equities fall 12.9%.

Within fixed income securities, short-term bonds outperformed longer-term bonds as the Bloomberg U.S. Aggregate 1-3 Year Index fell 2.5%. High yield bonds also outperformed, falling only 4.8%, due to their ability to generate income in rising rate environments. Non-U.S. bonds underperformed their U.S. counterparts due to interest rate hikes and poor currency returns. International developed and emerging market bonds finished the quarter down 7.1% and 10.0%, respectively. The inflation and central bank interest rate dynamic in Europe is very similar to the U.S. The most recent inflation reading was 7.5% on a year-over-year basis while the European Central Bank is holding its benchmark interest rate at 0%.

Commodities were the big winners in the quarter, returning 25.5% as measured by the Bloomberg Commodity Index. Supply chain issues, exacerbated by the strategic role both Russia and Ukraine play in global resource markets, drove many individual commodities up substantially – nickel (+55%), natural gas (+51%), WTI crude oil (+33%), wheat (+30%), and corn (+26%) each jumped more than 25%. Food and energy commodities, items that significantly affect the lives and pocketbooks of global consumers, are at the heart of this conflict. Russia provides 17% of the world's natural gas and 12% of its oil, and Russia and Ukraine generate roughly 34% of global wheat traded. With Russia only committing to exporting to friendly nations and Ukraine trying to execute planting season amidst a war, the price of wheat jumped by 30%. Input costs, such as fertilizer, have also risen dramatically and now sit at levels not seen since 2008 when oil prices were over $150 per barrel.

Western countries responded to Russia's military aggression with economic warfare – several rounds of financial sanctions that were increasingly severe and focused on undercutting Russia's economy. As a result, Russia's currency, the ruble, imploded in value. At the time, President Joe Biden correctly cited this as an example of the economic hardship

Russia would face as a result of the invasion. Russia might have taken comfort in its $600 billion war chest of foreign exchange reserves, but in an unprecedented move, countries around the world confiscated these assets. Even Switzerland, traditionally a neutral haven in times of war, froze Russian financial assets, including those of Vladimir Putin, Prime Minister Mikhail Mishustin, and Foreign Minister Sergey Lavrov. Notably, Russia had already sold the majority of its U.S. Treasury holdings in 2018 and retained only approximately $5 billion in total exposure.

Russia's invasion also added insult to injury in terms of inflation concerns. In February, the Consumer Price Index was up 7.9% on a year-over-year basis, reaching an almost 40-year high, and this reading did not yet include the effects of the Russian invasion. The March reading, which did incorporate the effects of the invasion, hit 8.5%, its highest since 1981. Before the war in Ukraine, markets were anticipating six interest rate hikes from the Federal Reserve in 2022. By the end of March, markets were anticipating ten hikes, signaling an expectation that inflation would persist.

The Federal Reserve, which was already falling far behind the tightening curve before Russia's invasion, found itself in an uncomfortable predicament. Minneapolis Federal Reserve President, Neil Kashkari, summed up the environment well in a recent piece: "We do know that the wealth effect is a real phenomenon, and both the stock market and house prices are up roughly 30% relative to pre-pandemic levels, even households who don't own stocks or homes have on average stronger balance sheets than before the pandemic. Perhaps this is leading people to be more confident and simply spend more. Either way, the FOMC must act to bring the economy back into balance."

Because it can do little to improve the supply-side side constraints on commodity markets and global supply chains, the Federal Reserve seems focused instead on reducing demand by engineering an economic slowdown, a move that is justified by more than just inflation metrics. The most recent jobs report showed an unemployment rate of 3.6%, an unambiguously strong number and a dramatic improvement from the depths of the COVID-19 crisis two years ago. However, real GDP growth is already expected to slow substantially. The Atlanta Fed's GDPNow model is estimating first quarter GDP growth to be 1%.

If we could read the minds of Vladimir Putin and Fed Chairman Jerome Powell, it would be significantly easier to allocate capital for the rest of 2022, but we cannot. Inflation remains the critical determinant for both economic growth and asset prices, and its trajectory remains uncertain. Although inflation is expected to gradually and organically decline during the year, the Federal Reserve may be able to slow it even more quickly via a demand shock, but Putin could thwart its efforts by extending the war. Further, with interest rates rising so rapidly, the risks of the Federal Reserve doing too little may outweigh the risks of it doing too much.

As profoundly uncertain as the future is, such turmoil can provide opportunities, and we remain focused on analyzing incoming data to find avenues to deploy capital more efficiently and productively.

Planning Ahead?... Clifford P. Ryan, CLU®, ChFC®

Data from a 2021 Retirement Risk Survey by the Society of Actuaries found that 22% of pre-retirees (i.e., Americans still in the workforce) and 21% of retirees surveyed in June 2021 updated their estate planning documents since the pandemic began in the 1st quarter 2020. Among other planning actions (such as creating a will, healthcare and financial powers of attorney, and planning for a major illness), the survey found that another action more likely to be taken by retirees (23%) over pre-retirees (14%) was providing financial account information to their children.[1]

A separate survey of millennials conducted in October 2021 found that 48% those between the ages of 25 and 40 say they are living paycheck to paycheck and unable to handle an unexpected financial expense. The Georgetown University survey found that only 30% of those surveyed are taking steps to save for retirement. The survey also highlighted that "Very few young adults said they talked with their parents about money and had very little understanding of what their parents' financial situation was."[2]

Personal Finance a Hit on Social Media…

Videos tagged #moneytok have had **10.6 billion** views on TikTok—more than #tacotuesday, #gossip and #cookingtiktok. With inflation on the rise and financial confidence declining among millennials and Gen Z's (those 18 to 24), many have sought financial advice from online investment communities. **YouTube** is the top source for investing information for young investors, but others include TikTok, Instagram, Twitter, Facebook groups and Reddit according to a survey conducted last year by Magnify Money.[3]

Housing Way Up…

Nationwide single family home prices rose **18.2 percent** for the 12-month period ending January 2022. Double digit appreciation has only been recorded in just 4 of the last 30 years (1992-2021). Those double-digit years are 2004, 2005, 2020 and 2021. How did Maine fare? Maine's home values rose **20.2%** over that same period.[4]

1. Society of Actuaries Research Institute, 2021 Retirement Risk Survey - Report of Findings, published February 2022
2. Bloomberg.com, March 25, 2022
3. MagnifyMoney.com,, February 22, 2021
4. Federal Housing Finance Authority, House Price Indices (HPI) Monthly Report, January 2022

OPA NEWS & COMMUNITY EVENTS

THE OPA FAMILY – ***Code Cute Alert*** Our newest addition, Juliana Isabel Kenyon, was born to proud parents Jake Kenyon and Isabel Rodriguez on March 31st. Eager to make her entrance into the world, Juliana made her great escape a month early much to the delight of her excited first-time parents. Both Mom and baby are doing great; Dad is still on cloud nine and loving his new role as a parent!

COMMUNITY EVENTS - As we continue to emerge from the societal fog of covid over the last couple of years, so too have our community entities as they continue in their support and enrichment activities. This space is usually filled with the event calendars for a variety of the non-profit and cultural organizations that we as a firm, our employees, clients or colleagues are involved with. It's through these events, annual or otherwise, that they further their fundraising efforts and support the ongoing delivery of their missions. The organizations below are far from a complete listing of worthy entities, but you can celebrate the return to live events by supporting these, and other, organizations in any way you feel comfortable.

WAYFINDER SCHOOL'S "FINDING OUR WAY" – The return of the live moth-storytelling event will be held at The Camden Opera House on Thursday April 14th from 7:00 to 9:00 PM, and will feature notable Mainers and Wayfinder grads about how they found their way in life, art, business and other Maine adventures. More information and tickets can be found at: https://www.wayfinderschools.org/events/findingourway2022

MAINE HISTORY MAKERS - Join the Maine Historical Society for the 9th annual Maine History Maker event on Thursday, May 5th from 5:00 to 8:00 PM in USM Hannaford Hall. This year, MHS is proud to honor Severin Beliveau and Harold Pachios for their contribution and commitment to Maine, and the spirit of inclusivity that they have helped usher into Maine's civic leadership over the past 50 years. For more information go to: www.mainehistorymakers.org

BLUE WRAP PROJECT RUNWAY – Partners for World Health's fashion focused benefit will be at Merrill Auditorium May 19th starting at 5:00 PM. The Blue Wrap Project Runway is an exciting mix of a fashion extravaganza and entertainment. Local, national and international designers will work with 'Blue Wrap' to create fantastic, whimsical and unique fashion. Blue Wrap is a polypropylene material that is used in every hospital in the US to sterilize equipment and is discarded after one use. Designers face the challenge of working with a non-traditional material to create beauty from the discarded. Joining their fashion show from the world of entertainment and hosted by MC, Tory Ryden are Ron Raines - Man of La Mancha, Maeve Hoglund - Opera Star, Susie Pepper and Mixology, Henry Kramer - Classical Pianist, Portland Ballet, The International Girls Choir, and the Burundi Drummers. More information can be found at: https://www.partnersforworldhealth.org/blue-wrap-project-runway

BIG BROTHERS BIG SISTERS – Will celebrate the return to live events with two of their signature fund raisers this quarter:

> *Bids for Kids:* The auction will be Friday May 20th at Brick South on Thompson's Point
>
> *Fore The Kids Golf Classic:* Will be held at The Woodlands Club in Falmouth on Monday June 13th.

Both gatherings are focal points in their efforts to raise money for children and youth in Cumberland and York Counties. More information and tickets can be found at: https://www.somebigs.org/

MS SOCIETY'S "WALK MS" – Their annual event, which supports steps to fuel breakthroughs, solutions and a cure for MS, will be in South Portland at the SoPo High School on Sunday May 15th beginning at 9:00 AM. Details and registration can be found at: https://mssociety.donordrive.com/index.cfm?fuseaction=donorDrive.event&eventID=827

DREAM FACTORY OF MAINE'S 26TH ANNUAL GOLF TOURNAMENT – The return of their "It'a All About The Kids" benefit will be on Monday morning June 20th at Val Halla in Cumberland. The Dream Factory of Maine is an all-volunteer 501c3 organization that grants the very special dreams of Maine kids ages 3-18 who suffer with serious or chronic illnesses. They have been fulfilling these dreams for the last 35 years in Maine and have been awarded a 4-star rating by Charity Navigator for 15 years in a row. They raise all of our own funds and over 90% of every dollar raised goes towards making dreams come true. Additional information can be found at www.dreamfactoryinc.org/portlandmaine

CENTER FOR MAINE CONTEMPORARY ART "ART PARTY" – CMCA's annual gala will be help July 7th at the gallery, 21 Winter Street in Rockland. For more information and tickets please refer to their web site: https://cmcanow.org/annual-events/