PARKSIDE INVESTMENTS

**Market Commentary**

June 17, 2022

Dear Clients/Friends:

After stabilizing in May, equity and bond markets have declined in June due to fears of stubbornly high inflation forcing the Federal Reserve to tighten financial conditions further than previously anticipated. The S&P 500 has officially entered "Bear Market" territory, a greater than 20% decline from peak prices, which other than briefly occurring in early 2020 has not occurred since 2008's financial crisis.

Many equities began declining last Fall, initially due to a change in sentiment toward companies with sky high valuations and low (or no) profits. The initial deterioration in this segment was not visibly reflected in the broader market indices as the largest technology stocks continued to appreciate despite the turmoil beneath the surface. As 2022 has unfolded, selling pressure has trickled down to higher quality and low/moderately valued companies. It is interesting to note that markets are declining on relatively light volume – historically an indication of a "buyers strike" rather than an efficiently working market. At any time, a slight change in data – or investor sentiment – could lead to a meaningful reversal in the markets.

Current market concerns center on the Fed's ability to manage a soft landing and avoid an economic recession as they attempt to tame inflation by increasing interest rates. In particular, the market reacted swiftly to the inflation data for the month of May, which disappointedly did not demonstrate an easing of inflation as was widely hoped. Thereafter market observers expected a more aggressive stance by the Fed in the form of greater and faster rate hikes (in order to slow down the economy and inflation). The Fed delivered this on Wednesday afternoon with a 75 basis point (0.75%) rate hike. As a result, fears of an eventually sharper recession have risen, causing short-term oriented market participants to reduce risk in a "sell first, ask questions later" manner.

The 10-year U.S. Treasury yield has more than doubled from the beginning of the year, rising from 1.5% to nearly 3.5% earlier this week. Our view is that fixed-income markets will need to stabilize before the equity markets can be positioned for a sustained rally. We believe this is likely in the near term as both the Fed's aggressive stance and our expectation that the inflation data will soon improve should allow long-term interest rates to stabilize or ease back down slightly.

The equity market is now valued at about 15.5x expected forward earnings, historically an attractive entry point for long-term investors. Valuations are even more compelling when excluding a cohort of still highly valued technology companies. While one can debate about how much longer and further markets can decline, a number of factors will likely limit the depth of any recession. Unemployment is near all-time low levels and both consumer and company balance sheets are relatively strong. The financial system is stable, banks are well-capitalized, and there are no visible

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signs of broad stress in the credit markets. Perhaps most importantly (and hardest to predict), an eventual end to Russia's war in Ukraine would not only end the horrific bloodshed, it would also likely provide significant relief to worldwide inflation – most notably due to shortages of food and energy supplies.

Our equity investment approach remains to focus on each investment's capacity to appreciate through earnings and cash flow growth over the next 3-5 years, dividend increases, and opportunistic buy backs of undervalued shares. Importantly, companies/industries with strong earnings and seasoned management teams often benefit from market turmoil by using their advantages to increase market share, improve margins and make timely acquisitions. In our view, the current market price does not appropriately reflect the current and future strength of these businesses – these companies will continue to build intrinsic value until the market catches up to them.

As we have noted in prior periods of volatility, this too shall pass. Bear markets are typically followed by stronger investment returns over the subsequent 6-12 month periods, a direct result of exaggerated selling pressure in the prior period leading to greater opportunities. In time, as investor uncertainty subsides, the current "buyers strike" in the market will be replaced by participants refocused on longer-term fundamentals rather than short-term fears.

Should you have any questions, feel free to give us (or anyone on the Parkside Team) a call.

Sincerely,

| Alan Cole | Chris Engelman |
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| President | Managing Director |

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