BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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Financial Market Overview

The three-year run and well-above average returns in the U.S. stock market might be in jeopardy if the first quarter 2022 performance is any indication. By the end of the first week in March, the S&P 500 stock index was down 13%, but rallied back the final 3 weeks to end the quarter down 4.6%. The overall stock market finished the **first quarter** down approximately 5%, but the mid-size and small company stock indexes were down over 10%.

Large-company ***growth*** stocks had the best performance last year advancing 27%, but fell 9% during the first quarter of 2022. However, large-company ***value*** stocks (older and established companies) declined by less than 1%. Small and mid-size ***growth*** stocks were hammered during the first quarter – falling over 12%. Small and mid-size ***value*** stocks only lost about 2% during the first quarter. During a declining stock market, it doesn't take much time to see the movement away from growth stocks to safer and higher quality stocks.

Although the technology stock index was up over 30% during the 2021 calendar year, the same index was down over 9% during the first quarter of 2022. International stocks fell 6.5% during the first quarter compared to a 12% gain in 2021.

Emerging markets (smaller-country international stock indexes) continued to post the worst equity (stock) performance both last year - down 3.5% and this year - down 7.5% during the first quarter 2022. Again, emerging markets are down over five quarters in a row due primarily to the poor performance of the Chinese stock market.

Even investment real estate prices fell over 6% during the first quarter after posting a 40% return for the 2021 calendar year.

Water utility stocks were up over 25% during the 2021 calendar year, however water stocks were down over 11% during the first quarter of 2022.

Energy stocks were up more than 50% during the 2021 calendar year and jumped another 38% during the first quarter of 2022. Other than energy stocks, the only other two asset classes that posted a positive return during the first quarter of 2022 was the price of Gold – up 6.21% and *gold-mining stocks* - up nearly 20%. The second asset class, commodities (which includes many items from livestock, rare minerals to gold) climbed 29% during the first quarter.

Fixed income or bond prices for short-term maturities were down slightly during the 2021 calendar year. Short-term Treasuries were down 0.72% last year, and intermediate-term Treasuries posted a negative 3.33% return during the 2021 calendar year as interest rates started rising during the 4th quarter.

During the 1st quarter of 2022, short-term Treasuries lost another 2.5% and after intermediate-term Treasuries lost 3.44% last year, the losses continued during the first quarter 2022 – down another 6.38%! As interest rates rise, bond values fall. We are reminding conservative investors again: Interest rates will continue to rise as the recovery advances, supply chain problems persist and the inflation rate continues to rise. Expect negative returns for fixed income/bonds in the foreseeable future.

The following chart displays sample returns of various asset categories during the first quarter of 2022:

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Yr-To-Date 2022	1st Qtr. 2022	Index Return (*includes dividends reinvested*)
- 4.57%	- 4.57%	**Dow Jones Industrial Average (^DJI)**
- 4.52%	- 4.52%	**Standard & Poor's 500 Index (^GSPC)**
- 5.34%	- 5.34%	**DJ U.S. Total Stock Market (VTI)**
- 9.10%	- 9.10%	**Large-company stock-Growth (IWF)**
- 0.71%	- 0.71%	**Large-company stock-Value (IWD)**
- 12.59%	- 12.59%	**Mid-Size Stocks – Growth (IWP)**
- 1.89%	- 1.89%	**Mid-Size Stocks – Value (IWS)**
- 12.53%	- 12.53%	**Small-company stock- Growth (IWO)**
- 2.55%	- 2.55%	**Small-company stock- Value (IWN)**
- 6.49%	- 6.49%	**International (EFA)**
- 7.51%	- 7.51%	**Emerging Markets (EEM)**
- 6.08%	- 6.08%	**Real Estate Investment Trusts (VNQ)**
		Fixed Income (includes appreciation)
- 2.50%	- 2.50%	**Short-term U.S. Treasury (SHY)**
- 6.38%	- 6.38%	**Intermediate U.S. Treasury (IEF)**
		Alternative Investment Category
+ 6.21%	+ 6.21%	**Gold (GLD)**

All returns calculated using adjusted historical quotes from finance.yahoo.com

FINANCIAL MARKET OUTLOOK

Three significant variables adversely impacted the financial markets during the first quarter of 2022 and another potentially big threat may arise during the second quarter. Rising *inflation,* rising *interest rates*, and the Russian military *invasion* in Ukraine took center stage during the 1st quarter. And now, a potential repeat threat is the new COVID variant (BA.2) that is spreading across Europe and has been identified as the cause of about one-third of the new cases in the U.S.

Rising Inflation. Elevated inflation began during the 2020 COVID pandemic and has been driven by supply chain disruptions and pent-up consumer demand for goods following the reopening of the economy in 2021. During the partially shutdown economy, manufacturing slowed, deliveries were reduced, less worker hours were required to maintain the lower output, and both the Federal and State governments increased their debt to fund cash payments to individuals and families to help them thru the difficult times.

As the economy reopened in 2021, pent up consumer demand was bursting open to purchase the same everyday products and services we were accustomed to receiving before the pandemic shutdown. All businesses were scrambling to get "back to normal" and at the same time, it costs more time and money to acquire a limited supply of materials. Costs are rising at an 8% annualized rate. The inflation ball is now rolling down the hill and inflation does not simply stop, reverse, or "go back to normal" through the passage of time alone.

Higher prices due to shortages of materials and labor along with delays in shipping will now result in *higher wage demands* from all Americans just to keep up with higher costs. The inflation snowball rolling down the hill is getting larger.

Now, add the sudden and massive increase in the price of oil, a primary input for businesses to operate and for individuals to carry on their normal work week to the picture and …… to make matters worse, it comes at a time when we are in conflict with and imposing economic (oil) sanctions to a major energy producer (Russia). The cost of gasoline is up 40% over the past 12 months.

Inflation is not going away by itself through the passage of time. We need policy adjustments and changes to reverse the problems. If change does not occur, inflation will continue to rise. This is the inflation path we are on today and no meaningful policy changes are yet in place to reverse course. One economic tool used to reverse the impact from rising inflation is to raise interest rates.

Interest rates. The Federal Reserve Board finally arrived late to the party and announced that it had started to raise interest rates by ¼% earlier in March and admitted more rate increases will come during 2022. The fixed income or Bond market had anticipated higher interest rates and had already raised rates on all fixed income assets significantly more than the ¼% Federal Funds rate increase. Three weeks after the Federal Reserve raised rates by ¼%, the interest rate on the 2-year Treasury Note jumped from 1.32% at year-end to 2.44% my March 31st – a 1.12% rate increase. Nearly everyone knew interest rates would rise – the only question was how fast will interest rates rise and over what time period can we expect the initial jump plus further increases.

Home mortgage rates on a standard conventional loan jumped over 1.5% higher from a 3% rate at year-end to over 4.8% today – again much higher increase compared to the ¼% rate increase by the Federal Reserve. Although a 4.8% home mortgage rate is a relatively moderate rate compared to rates over the past 20 years, the rate or speed of increase from the end 2021 to March 31, 2022 is the most rapid run-up in rates since 1994. You can expect a slowdown in the number of real estate purchases or closings as interest rates continue to rise. Each interest rate increase prevents more buyers from affording the already elevated price of personal residence residences, but now the monthly cost of the home mortgage is increasing quickly.

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During the 1st quarter of 2022, the performance of the investment grade bond index fell 5.8% - a larger loss than the negative 4.6% return on Standard and Poor's 500 stock index since January 1st. Why did bonds post a negative 6% return over the first quarter? Because when interest rates rise, the *value* of bonds fall. Even after receiving and considering interest income, the loss in bond values greatly exceed the interest income.

Russia's Military Invasion of Ukraine. With interest rates and inflation rates already on the move upward, the military invasion and subsequent U.S. economic restrictions on importing oil/gasoline from Russia makes fighting higher inflation and interest rates even more difficult. First, we had the supply chain problem due to lockdown conditions to combat COVID and now we have import/export and currency restrictions due to the military conflict instigated by Russia. The timing couldn't be more unfortunate with regard to combating rising interest and inflation rates.

The primary point being made here is not to assign blame or responsibility for the current conditions. It is what it is. Restricting imports and the natural flow of economic commerce interrupts supply chains, causes continual price increases (inflation) and rising interest rates.

Continuous deficit spending by our Government (spending more than we are earning and increasing our national debt) also puts pressure on rising interest rates. The interest payments / costs to continue servicing our growing debt load also puts additional pressure to increase interest rates. Restricting oil production/drilling in the U.S. increases our costs (inflation) and transfers the economic growth (energy production) to other countries. It doesn't matter who extracts the oil, the condition of the planet has not changed.

In conclusion, rising inflation and interest rates are here to stay and forecasts of when this scenario might change is not clear at all. The Russian invasion could go on much longer as neither side is interested in giving in to the other. As a consequence, economic sanctions and supply chain problems related to energy and natural resources for farming, manufacturing, solar production, batteries, chips, and the list goes on will continue.

New COVID BA.2 Variant. If the above predicament regarding interest and inflation rates plus the conflict in Ukraine isn't enough, now there is the potential for a repeat disruption due to the COVID BA.2 variant sweeping across Europe. This variant has already been identified in about one-third of all new COVID related cases in the U.S. It's too early to make any kind of assessment other than this variant appears to be less severe than COVID 19 and Omicron. On the other hand, it could spread faster than expected due to decreased willingness to first find and then get booster shots every six months.

Confidence and a clear vision of progress are necessary to achieve economic improvement and stock market support as the current economic and global environment is highly uncertain.

As stated in our previous newsletter, we suggested that investors will find out during the 1st quarter of 2022 whether the financial markets will continue advancing or adjust downward to better reflect reality. The transition necessary to advance through our current conditions will take time and then the likelihood of implementing new policy changes to work our way out of the current situation appears unlikely in the near term. We don't have a unified vision at this time, therefore do not expect conditions to change in the near-term. Be prepared for increased volatility in 2022 – especially on the downside.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

Rising interest and inflation rates are no longer speculation. This trend is in place and will not suddenly reverse. The Russian Invasion into Ukraine is a reality and is exacerbating the rate of inflation, but how long and when this conflict will end is unknown. Our willingness to cope and adjust our lives with COVID 19 and Omicron has improved, but now a new variant BA.2 is sweeping the globe.

The good news is the worker participation rate and the unemployment rate are improving and have reached acceptable levels. Workers are coming back to work, some retirees are returning to work as savings have diminished over the past 2 years, working remote is not as important as it used to be, and others are returning to the workplace as the number of family members caring for elderly COVID family members is declining.

Transitioning out of and away from the current economic environment characterized by rising inflation and interest rates, conflict in Ukraine, economic sanctions, continued supply chain bottlenecks and new COVID variants will unfortunately require a longer time horizon. Expect continued volatility and waves of selling in both the stock and bond market throughout this year.

The bottom line is we already adjusted our managed accounts by eliminating clients' exposure to international and emerging markets as well as reducing exposure to U.S

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stocks in February and early March. We also established or increased client allocations into Treasury Inflation Protected Securities and gold before 2022.

Presently, we are not making significant changes to the investment holdings in our client accounts. We have already made meaningful changes throughout 2021 and early 2022. It is more likely that we will implement any additional changes gradually if necessary. Please understand, we may decide to execute additional purchases of defensive positions such as gold or Treasury Inflation Protected Securities if economic conditions worsen or we may elect to make purchases of additional stocks and real estate if economic conditions improve. ***Therefore, we are not including our regular BLUE RECOMMENDATION SHEETS*** *in this quarter-end reporting period. We will maintain our current asset allocation (proportional exposure to stocks, fixed income, etc.) for most client portfolios for now.*

Over the short-term, we expect to maintain our current mix of equities (stocks), Treasury Inflation Protected Securities (fixed income), and gold. ***We are now focused on preparing a mix of BUY recommendations – primarily value-oriented and income-paying stocks and metals as well as preparing for additional SELLING depending upon progress toward economic improvement. It can go either way at this point in time.***

It's simply a matter of time before investors' confidence is restored through progress and accomplishments or further weakened to the point where more investors begin to make changes to their portfolios. If progress is **not** restored, yes, the financial markets will continue to be subject to *waves of selling*.

ANNOUNCEMENTS

Congratulations to Mike and Rebecca for passing the Chartered Financial Analyst exam. Rebecca earned her CFA designation in 2021 and Mike earned his CFA designation in 2022.

And Congratulations to Rebecca (Ludford) Dodge! Rebecca and Tyler Dodge were married on March 19, 2022 at the Mission Bay Yacht Club.

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Best Regards,

Brian | Mike | Rebecca | | PAM

Brian Lowder | Michael Kinnear | Rebecca Ludford | Jennifer Finley | Pam Priest