MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT *CHARLOTTE, NORTH CAROLINA*

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

On behalf of your team at Gaskin Asset Management, I bring you greetings and well wishes. Thank you for taking a moment to read our newsletter. With these updates, we prefer to share positive news of the previous quarter followed by an encouraging outlook going forward. Sometimes recent history and the prevailing outlook will simply not allow such a report. Then at other times, we get a mixed bag.

These days you can find whatever news you prefer, especially if you enjoy rolling around in the negative stuff. As the comedian Tracy Morgan once said, "Bad news travels at the speed of light; good news travels like molasses".[i] It would seem we have no supply chain disruptions when it comes to negative news. It's always in abundant supply. But I love molasses cookies and I love good news even more. So, let's start with something encouraging. Okay?

In a recent piece in The Wall Street Journal, John Keilman heralds a "made-in-the-USA" rebound.[ii] We are not only making more products in the U.S., but we're building more factories. Construction spending last year for manufacturing facilities reached $108 billion which is the highest ever on record. We spent more on building manufacturing facilities than on schools, healthcare buildings and office buildings combined. The factories being built cover all sorts of industries ranging from semiconductors to batteries, bicycles, eyeglasses, bodybuilding supplements, food and animal safety products, paper and wood products, automobiles, airplanes, rockets and even socks. Yep. We still make socks in the U.S. But hey, these aren't your granddads socks that sagged at the ankles. And as you would expect, employment is up with over 800,000 manufacturing jobs added in the last two years. Manufacturing employment represents 10% of all private sector employment and the industry is hurting for workers with an estimated 800,000 jobs still unfilled. And just imagine, many of these workers in manufacturing are running high-tech machines and robots that can produce at rates that were unimaginable even a few years ago.

I recently read a fascinating article about Ford Motor Company's Willow Run assembly plant in southeast Michigan. It told the colorful story of how the Willow Run assembly plant produced 8,645 B-24 Liberators to help win World War II[iii]. In May of 1940, President Roosevelt challenged the nation to produce 50,000 combat aircraft to meet the "approaching storm" of global war. At the time, we had less than 3,000 military aircraft in the U.S. arsenal with most obsolete. Edsel Ford and Ford production chief Charles Sorensen answered the challenge and built a building that was deemed "the most enormous room in human history" with a floor space that exceeded the Empire State Building by 20%. In less than a year from the start on a patch of raw dirt, the Willow Run plant was producing parts for the B-24 Liberator. When the plant hit full steam, it was producing one B-24 Liberator every hour. That's 4,200 square feet of bonded aluminum and four 1,200 hp Pratt & Whitney R-1830 Twin Wasp engines rolling out the door every hour headed to every theater of the war and in use by 15 Allied air forces. It's an amazing American story of ingenuity, creativity, pioneering, strength, and perseverance. Oh, and it's a story of uniquely American diversity. Do you remember Rosemary Will from Pulaski County, Kentucky? Surely you remember "Rosie the Riveter". Rosemary Will was one of about 200,000 southerners who flocked to southeastern Michigan to find work during the war. She was among more than 12,000 women who worked at the Willow Run plant with others building aircraft, tanks and

jeeps elsewhere. And like her male counterparts, Rosie was paid 85 cents on hour for her work. And she worked alongside people of all colors and ages. Because that's what we did when it truly mattered; when there was no time to waste.

We still make stuff here, but in my humble opinion, only the best, if that still matters. If there is anything good that came from the Covid pandemic, it may be this. We got a few wake-up calls. One was the recognition that we may have become a bit too reliant on other countries, including potential adversaries, for the goods that we require to function as a society. We also learned that the global marketplace is not quite as fluid, fair and efficient as we once thought. Building more factories in the U.S. is a good thing today and for the long-term. After all, we believe prudent investing requires a long-term outlook.

Today, there is no shortage of economic concerns such as inflation, recession, the dollar, U.S. banks and the markets. As we have cautioned many times over the last two years, inflation was inevitable given the excess liquidity in our system due to exceedingly low interest rates and a 40% increase in the money supply following the pandemic. We have all felt inflation's impact. For those of us who lived thru the 70's and 80's, it's a reminder while for the younger crowd, it's something new. Put simply, inflation is a tax that spares no one. Left unchecked, inflation will completely destabilize an economy and a country. Over the last year, the Fed has been actively taking steps to reduce inflation by raising the Fed funds target rate from about 0.08% to a range of 4.75% to 5% with an expectation of further hikes. It may not feel like it yet, but inflation is coming down but not enough.

Banking system turmoil was reflected in the bond market as investors saw big rate swings – the two-year Treasury traded in a range between 3.77% and 5.07% and the 10-year between 3.68% and 4.06%. By the end of the month, confidence had seemingly returned, but fed funds futures are trading as if the Fed will reverse direction and cut interest rates by July. The Fed itself has given no such indication.

You may find this a bit unsettling, but it is likely that the Fed wants to see unemployment rates go up. You see, inflation isn't going to truly come down until we stop spending at the rate we've been spending. And that isn't going to happen until we have less dollars to spend. This is why we have also cautioned that a recession is likely. In fact, most market strategists are now calling for a recession this year. With an expectation of declining corporate earnings this quarter, Eric Gordon, head of equities at Brown Advisory, recently stated, "from a corporate earnings perspective, we're already in a recession."[iv]

But what about the dollar? There are some who will say the dollar's time as the world's reserve currency is passing. They believe the dollar is on the verge of being replaced by the yuan, some other currency or digital currency. If left unchecked, there is no doubt that loose monetary policy will weaken the dollar. But we believe the dollar's reserve status is secure at least for the foreseeable future. In a recent copy of Barron's magazine, Marc Chandler writes that the yuan's share of international reserves was only 2.2% as of February 2023[v]. The Bank for International Settlements estimates that the global trade for all last year was about $32 trillion. The U.S. dollar was on one side of 88% of those trades compared to 90% in 1989. Chandler concludes that there are only two ways the U.S. dollar could lose its place in the world economy. First, encroachment – where another currency replaces the dollar. That doesn't appear likely anytime soon. Second, abdication – where the U.S. pursues policies that shrink back from our post-war global role. Many reasons are given for the strength and attractiveness of the dollar on the world stage. From a financial standpoint, Chandler cites the core reasons for the dollar's strength being the "U.S. capital market's depth, breadth and transparency" overlaid with our military dominance and legal system.

So, what should we do now? Again, let's start with a little big picture perspective. We've been here before. Just as thunderstorms are a natural part of summer, recessions are an uncomfortable but natural part of the economic cycle. We have experienced 12 recessions since 1945 if you include the two-month recession following the

pandemic shutdown in 2020 for an average of one about every 6 ½ years. It would be nice if they could be avoided but we won't let that happen. Whenever the economy and markets are performing really well, we tend to get carried away and overdo things a bit. That's where we are today.

This is not 2008. The financial system itself is not at risk in our judgment. U.S. banks are very well capitalized. The bank issues that hit the news last month were problems unique to those banks specifically and not a signal of systemic banking crisis. We remain very confident in the U.S. banking system today. The financial challenges of today are due to too much liquidity and will only be corrected by reducing that liquidity in the system which will ultimately slow things down. As Randall Forsyth notes in a recent edition of Barron's, the risks to banks today are mostly centered in small and regional banks that have increased their commercial real estate lending since the beginning of the pandemic.[vi] These banks are likely to become more cautious about lending and tighten credit requirements which will also have a dampening effect on the economy.

We believe it could take the Fed a year or more to calm inflation. In the interim, we believe there are opportunities in short-term higher yielding investments and an opportunity to increase portfolio income by carefully extending bond maturities and increasing dividend income. Market timing has never worked over the long-term. So, we still do not advocate for trying to guess when the big market moves will happen. After all, an investor must be right twice for a market-timing decision to work. But there is at least one exception to the rule.

If you have an anticipated expense coming up in the next year or so, then it would make sense to escrow those funds in a short-term more conservative investment strategy. Then again, that's not really market timing since those funds will be spent within the next year or so and not returned to a long-term investment strategy.

The scale of the complications wrought by COVID-19 and governments' response to it is hard to oversell. We've known the return to a normal economy would be bumpy with confusing data along the way. Investor uncertainty is high and swings in sentiment are bound to occur. There will be excited periods during which stocks rally and disappointed periods when they pull back.

Through this, we will continue to put your best interests first by following our disciplined, measured approach to long-term investing in service of your greater goals. Thank you for your continued trust in our team. If you would like to discuss specific investment strategies with us, please give us a call or shoot us an email. We look forward to speaking with you. And as a closing reminder, we will keep you posted on our progress in moving back into our office on Colony Road which we expect by the end of May.

Best wishes,

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[i] https://www.azquotes.com/quote/1186506
[ii] Keilman, John. "America's Back in the Factory Business", The Wall Street Journal. April 8-9, 2023, p. B1
[iii] https://www.assemblymag.com/articles/94614-how-fords-willow-run-assembly-plant-helped-win-world-war-ii
[iv] Miao, Hannah, Earnings Season Presents Next Test of Stocks, The Wall Street Journal. April 10, 2023. P. A1
[v] Chandler, Marc. "The Dollar Rules the World. China Can't Change That". Barron's. April 3, 2023. p.62
[vi] Forsyth, Randall. "Is It Bear Stearns II, Or Just a Bear Market? The Fed Is Watching", Barron's. March 20, 2023. P.6