FEBRUARY 2023

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.

Greetings from your team at Gaskin Asset Management. We hope you enjoyed a nice holiday season with your family and friends. We sincerely hope 2023 will bring good health and happiness for you and those you hold dear.

We would like to begin this letter on a personal note. In our January 4th email we shared the news of our Gaskin Asset Management Christmas office "surprise." After what was surely one of the coldest Christmas Eves on record for the Charlotte region with temps in the single digits, the main sprinkler line above the second floor of our office building froze and then burst on Christmas Day. If our office were twenty or thirty years old with burnt orange carpet, lime walls and dingy ceiling tiles, we would surely be looking forward to a much-needed upgrade. Alas, our office is quite up to date, so we really do not need an upgrade. We just need our office back in its December 23rd condition.

So, what does this mean for you? Within less than 24 hours of the flood, we were fully operational from remote home offices. We can efficiently and effectively answer our main phone line, respond to emails, manage investment accounts, process check deposits, mail checks, open new accounts, initiate wire transfers and process every other financial task which we have historically conducted from our physical office space every business day for years. Your personal investment information is maintained securely on Raymond James servers which we access daily from our desktop PC's and laptops whether we be in our office on Colony Road or elsewhere. We can thank modern technology and the financial industry's experience with the COVID-19 response for this. Frankly, we expect you to hardly notice a difference during this interim time. That's our goal.

Our contractor is prepared to begin the work to return our office to its former condition immediately. With inspections, permits and the like, we cannot say with certainty when we will return to the office. In the meantime, we will continue to conduct our business of managing your investment accounts, monitoring your financial plans, and reporting to you routinely just as we always have. We will keep you informed as we have updates of interest. During the interim time, we have access to a Raymond James office on Morehead Road in Charlotte for face-to-face meetings, overnight packages, and anything else that might require a physical space. Additionally, all mail sent to our office address is being forwarded to a UPS Store mailbox for daily pickup by our team. Bottom line – This was an unfortunate event, but we were prepared. Everyone is fine. We were very fortunate in that almost all the losses were limited to floor coverings, drywall, and ceiling tiles. Our furniture and IT systems experienced minimal damages. Again, we are up and running just fine and we expect to return to our offices within a couple of months.

In the interest of brevity, I will limit my comments to a few items of economic and market interest from last year. After a 2021 which featured high economic growth rates, low unemployment, historically low interest rates, and high liquidity, the "party" finally ended with a mix of factors contributing to create the perfect market storm. Following the Winter Olympics and just before the end of the first quarter of 2022, Russia invaded Ukraine. The war

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led to human suffering and depravations at a level unseen in Europe in decades. Sadly, the war continues with no end in sight as Ukrainian soldiers and civilians fight for their country while Russia's Putin refuses to relent. War in Eastern Europe led to higher energy and food prices as already constrained supply chains became even tighter. Beyond those areas impacted by the war, the supply of workers, homes, many basic necessities and consumer cyclicals remained tight throughout most of 2022. With tight supplies and excess money supply as we highlighted nearly a year and one-half ago in August 2021, the Fed was forced to take drastic steps beginning in early 2022.

The Fed has two primary goals referred to as their "dual mandate" which are price stability and maximum sustainable employment.[i] There is much talk about what the Fed does or does not do but these are its most basic reasons for existence. In response to the COVID-19 pandemic, the Fed focused almost exclusively on the maximum employment goal with seemingly little regard for its equally important goal of price stability. Many will argue that the Fed's actions enabled the U.S. economy to accelerate through the pandemic thus avoiding a major economic recession. We will not question their early actions, but this narrow focus ultimately contributed to worker shortages and the highest rate of inflation since the early 1980's in our view.

In response to what came to be seen as rapidly increasing inflation, the Fed increased the federal funds interest rate by 425 basis points (4.25%) in 2022 and is widely expected to continue increasing rates this year. This form of tightening will hopefully reduce the rate of inflation over the coming months. Now, I'm not a physicist and would rarely even dare to quote laws of physics but Newton's Third Law may "sort of" apply here. Forgive me if I paraphrase but as you may remember from your high school science class, Newton found that for every action, there is an equal and opposite reaction. Economics is not nearly as precise as physics, but interest rates and bonds oftentimes have a similar inverse relationship. When interest rates rise, bond prices decline and vice versa. Please don't hold me to Newton's level of certainty here since there are so many variables in economic principles but maybe you get the point. When the Fed increases interest rates to fix one problem, it creates another.

So why does this matter to you if you aren't planning on borrowing for a new house or a car anytime soon? If you were invested in a balanced portfolio last year or had any exposure to traditional intermediate or long-term bonds, this interest rate/bond relationship matters to you. With the dramatic increase in interest rates last year, bonds posted their worst performance in decades with the Bloomberg US Aggregate Bond Index losing -13% and the Bloomberg US Government Long Bond Index down -29%. That's right. An index of long-term U.S. government bonds declined by almost a third of its value last year. Unfortunately, the S&P 500 stock index declined by more than -18% last year also. 2022 represented an unusual year in which both stocks and bonds lost ground. The typical 60/40 balanced portfolio experienced one of its worst years in history losing about -15% of its value according to Jason Zweig of the Wall Street Journal[ii]. Is the 60/40 or 50/50 strategy dead? Hang on a minute.

For decades the benefits of diversified investing through a combination of stocks and bonds have been seen as the "tried and true" approach to reducing portfolio volatility and increasing the odds of investment success over the long run. We strongly believe this remains an excellent fundamental investment strategy going forward. For example, Raymond James tracks the performance of various combinations of stocks and bonds as measured by the S&P500 index representing stocks and Ibbotson's Intermediate Government Based Index as the proxy for bonds. For instance, an aggressive portfolio might hold 90% in stocks and 10% in bonds while a very conservative portfolio might be reversed with only 10% in stocks. For illustration's sake, I'll highlight a blend near the middle with 60% in stocks and 40% in U.S. bonds. As tracked by Callan Associates, the average annual return over the 80 years beginning in 1942 and ending in 2021 has been 9.53%. The 40-year average beginning in 1982 has been 10.41% while the 20-year average beginning in 2002 was 7.53% and lastly, the 10-year average beginning in 2012 was 10.68%. In our judgment, the data remains quite compelling for the benefits of a well-diversified portfolio of stocks and bonds.

Last year was a tough year for the economy and the investment markets. This year will have its challenges and opportunities also. As we have stated in the past, inflation and recessions are parts of a normal economic cycle. We have been through these cycles and will make it through this one also. We recommend that investors stick with prudent "time-tested" investment strategies while resisting the natural urge to react to daily market volatility.

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. In the meantime, our temporary address for overnight deliveries and office meetings is 521 E. Morehead St Suite 150, Charlotte, NC 28202.

Best wishes,

Robert J. Gaskin, CIMA®
Managing Principal
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*S&P 500 Index – [a registered trademark of the McGraw Hill Companies] is an unmanaged index of common stocks representing 500 industrial, utility, transportation and financial companies of the US markets (mostly NYSE issues).

**Government bonds in this example are represented by the Bloomberg US Aggregate Bond Index and Bloomberg U.S. Long-Term (20-Year) Government Bond Index. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

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[i] https://www.chicagofed.org/research/dual-mandate/dual-mandate
[ii] Zweig, Jason. "It's Tim to Double Down on a Failed Strategy", The Wall Street Journal. January 7-8, 2023, p. B1