QUARTERLY MARKET REVIEW

FOURTH QUARTER 2021

SARGENT

INVESTMENT GROUP

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Dear Investors,

Considering the volatility we have experienced in the markets the first few weeks of 2022, talking about 2021 may seem like ancient history. Although, it is important as 2021's price action is likely contributing to the current market environment. Managing diversified portfolios was more challenging in 2021 than in previous years. This was primarily due to the extreme divergence in performance in asset classes and market capitalizations, essentially making any diversification away from the largest U.S. market capitalized companies a drag on one's performance. Last year the S&P was up a remarkable 28.71%, posting a third consecutive year of strong performance. Looking under the hood tells a different story. Almost 50% of that return came from just 10 names, the average market capitalization of which was approximately $1.678 trillion. These are primarily the technology names one would expect, including Apple, Microsoft, Google, NVIDIA, Facebook and Tesla (if TSLA can be classified as a tech company). The other 50% of the S&P's performance was distributed among the remaining 490 names in the index, many of which were negative for the year.[1] This divergence between the largest companies and the rest of the market can also be seen by comparing the Russell 1000 growth index (the largest companies), which was up 27.6% for the year, compared to the Russell 2000 growth index (small companies), which produced a very unimpressive 2.83% return for the year. [1] As our mandate includes the maintenance of a level of diversification that any prudent long-term investor would expect, these divergences presented a challenge benchmarking to the major indices. Nevertheless, we believe this diversification will benefit our portfolios over the long-term, from both a total return, and more importantly, a risk-adjusted basis. The following chart illustrates how the performance of different asset classes and styles historically vary significantly from year to year:

J.P. Morgan Asset Management. “Guide to the Markets: U.S. 1Q 2022”. P. 61.

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In the previous chart, one can see that from 2007 – 2021 the average annual divergence between asset classes was 13.2%, compared to 2021 where we saw a 43.5% divergence.[3] The broader market drivers began to shift dramatically in the middle of last year, which has continued in an exacerbated manor these first few weeks of 2022. The most notable macro tailwinds for the markets beginning 2021, continuing from 2020, were Covid vaccinations, continued expansion of central bank balance sheets, fiscal stimulus, record earnings beats, and resilient margins. Other bullish talking points revolved around deeply negative real yields and their influence on a void of available alternatives for returns aside from equities and the fear of missing out as equities continued their run. Very robust consumer and corporate balance sheets, corporate buybacks, and a heightened retail impulse were also popular themes encouraging equities.[4] These factors led to growth equites finishing the year trading at multiples close to 50% higher than their average over the last 25 years. This compares to value names finishing the year just under 12% above their average 25 year multiple.[5]

As noted, this growth trend began to revert last year primarily instigated by the emergence and virulent spreading of Omicron, dampening the excitement of progress we have made with vaccinations and therapies to treat Covid. It has also reemphasized supply chain constraints and more persistent inflation pressures. This in turn has motivated the Federal Reserve to begin telegraphing a policy pivot. These factors, combined with the stretched valuations and crowded positioning highlighted above, has led to dramatic reversals of some of the high-flying names as well as broader market volatility. [4] Although sometimes challenging to adhere to, like last year, the market's recent volatility exemplifies why we continue to believe the most appropriate positioning for long –term investors is balanced diversification, while taking tactical risk where appropriate.

Regarding the potential future of the markets, the primary focus of market pundits is interest rates. As we displayed in detail in our 1Q 2021 letter, interest rates moving higher, as long as the 10-year Treasury remains below 2.5-3%, is typically a tailwind for equities.[6] Particularly as we expect a backdrop of good earnings growth and a firm economy. As long as higher interest rates are not perceived as an indication that the Fed is too far behind in its control of inflation, causing it to possibly over-react, we anticipate this relationship to remain: i.e. moderate and consistent rate increases should not be an overbearing concern for the short/intermediate term. Below is a reminder of where current interest rates are for context.

NOMINAL AND REAL U.S. 10-YEAR TREASURY YIELDS

J.P. Morgan Asset Management. "Guide to the Markets: U.S. 1Q 2022". P. 33.

As the markets continue to re-price the technology complex, there will likely be continued volatility. January has been an extremely volatile month as the market makes a transition from the excessive concentration noted at the beginning of this letter, navigates through upcoming changes in interest rates, government spending and the expected slowing of GDP closer to trend growth, and deals with Covid uncertainties and geopolitical issues. That said, it is worth noting that the volatility we saw in January, as measured by purely technical quantitative measures, is similar to what we saw at the bottom of the March 2020 sell-off, which preceded a historic market recovery. Also, the stunning intra-day recoveries we've seen recently have only been observed once before, in October 2008, which was followed by an approximate 20% recovery twelve-months later. Finally, bullish sentiment for stocks (a contrary indicator) as measured by the American Association of Individual Investors reached its lowest level since July 2020, which again was followed by an almost 30% twelve-month recovery. [7]

As we consider all these factors, we will remain focused on our long-term strategies and will monitor our clients' portfolios for any changes needed to meet their objectives. As always, we appreciate your trust and confidence in our team, especially during markets like these.

Warm regards,

Chris	Ricardo	Brian
CHRISTOPHER SARGENT	**RICARDO ROSENBERG**	**BRIAN McGREGOR**
Principal	Principal	Principal

P.S. Enclosed in your package you will find our annual ADV update summary.

Important Considerations:
The views and opinions expressed are for informational purposes only as of the date of writing and may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations to buy or sell securities. The information provided is taken from sources we believe to be reliable but it has not been independently verified. Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal.

[1] *Source: Orion Advisor Solutions*
[2] *Source: FactSet.*
[3] *J.P. Morgan Asset Management. "Guide to the Markets: U.S. 1Q 2022". P. 61.*
[4] *Factset. StreetAccount Summary – US Yearly (2021) Recap.*
[5] *J.P. Morgan Asset Management. "Guide to the Markets: U.S. 1Q 2022". P. 10.*
[6] *Factset. 10-Year Treasury Rate and S&P500 Performance."*
[7] *Garliss, Scott. Stansberry Research. "Morning Market Preview." Edition: January 26, 2022.*

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