INVESTMENT UPDATE

PRESENTED BY
INVESTMENT COMMITTEE
ALIGN WEALTH STRATEGIES LLC

What in the World

Did you know that car prices were recently responsible for **nearly half** of the inflation we've been experiencing? Recently, however, ***The Manheim Used Car Index*** dropped for two or more consecutive months, and in our assessment, so has some of the inflation. However, we expect to contend with inflation and a rising interest rate environment for a while. US bonds are off to their worst start of the year since 1973. Analysts are forecasting a series of aggressive interest rate hikes. And this against the backdrop of Russia's invasion of Ukraine. **Is there any reason for optimism?**

Over the last few months, business to business transactions were elevated. What does this mean? Businesses rely on revolving credit, which is a loan process that creates new money. This translates to inflation. When interest rates are low and expected to rise, businesses tend to **overstock inventories** as they "plan for the future." Like consumers, they want a good deal on interest rates. Moreover, the **UMich Consumer Sentiment Index** reached its lowest point since 2008-09, signaling low consumer demand. With businesses stocking their shelves and people not buying as much, we are beginning to see an inventory bubble. If that bubble busts, we might see prices come down as we approach the holiday spending season.

Inflation may have surprised some, but Align has viewed this as inevitable. Combined with rising rates, we may not get the strong economic recovery we all wanted, but as long term investors, we need not worry. Unlike the inflationary 1970s, we have an economy that is eager to disrupt and innovate led by the small tech companies who carried us through the "shutdown economy."

Our planning for the future extends far beyond these current events. Analysts are forecasting optimism once Ukraine crisis resolves. With the pandemic fears waning, developed nations are eager to get back to work. The markets always find a way.

"History provides a crucial insight regarding market crises: they are inevitable, painful and ultimately surmountable." ~ Shelby M.C. Davis

Portfolio Changes

2021 was a tough year for investors, particularly after the strong performance of 2020. Companies that developed new products and services to make life easier during the pandemic were hit hardest by highly unprecedented "macro-level" issues. With the new risks we are contending with now, we took pro-active measures to adjust our asset allocation model in response to both inflation and rising interest rates.

Last November , our concerns that markets and economies were not fully reflecting the deeper, lingering issues from pandemic responses grew. We began a deliberate, forward-looking evaluation of our portfolios intending to make adjustments to position clients for potential uncertainty. Adjustments were approved by the investment committee in April.

What are We Doing...

Our Portfolio Equity Sleeve

The new **US large cap value** fund adds covered call options on top of the existing strategy to increase returns. Covered call writing can be a conservative way to generate higher income, which we felt was appropriate during high inflation. This feature normally comes at a cost to capital appreciation and growth, which is why we will be watching this area of the market closely over the next year.*

We diversified into **US small cap** a little further, with a small-mid blend fund that is managed by a boutique firm out of Atlanta. This fund recently reopened to new investment, which means the manager feels confident with investing new capital in this environment. We liked how broadly diversified it was compared to similar funds, and together with low investment turnover and a lengthy management track record, we are confident in our selection.

Last, our **speculative growth** and innovation fund brings over twenty years of innovation investment experience. The maturity of this fund and lengthy term of its management team give us high conviction in its potential. While speculation is volatile, it is highly diversified. Innovative discoveries can happen on their own time, regardless of prevailing forecasts.

Our Portfolio Bond Sleeve

We added exposure to **floating rate bonds.** These bonds are less sensitive to rising rate risk because their interest rates adjust to meet market rates at frequent intervals. The downside is these bonds tend to have lower than average credit quality and can be more volatile. We elected to take a position significant enough to help mitigate risk and pay a bigger yield but small enough to maintain our discipline to manage long-term risk.

We incorporated a **multi-strategy alternative** fund, which is a new strategy for this year. Alternatives provide excellent diversification and potentially higher yields when traditional asset classes are held down by rising rates and inflation. Our preferred fund uses a three-pronged approach to diversifying risk which includes: private debt, long/short hedging, and a traditionally managed bond portfolio. Over time, this strategy has historically paid a strong yield compared to major bond indexes, and with less correlation to equities or fixed income.

Bringing It Together

Portfolio construction is as much of an art as it is a science. We increased diversification by adjusting the size of our positions based on their risk-reward contributions to the whole. We tested the model changes against the potential impact of a variety of simulated market events. These simulated events included a 10-year US Treasury Rate Increase, Inflation Expectation Increase, Junk Bonds Sell Off, US Large Cap Stocks Falling, Total Stock Market Volatility Rising, and the Market Crash of 2008.

While we anticipate a challenging period ahead, we believe we have taken steps to be responsive. We thank you for the opportunity to share an update of what we're doing "behind the scenes!"

Keep in Mind...

Although we aim to deliver excess returns in our client portfolios, Align is steadfast in our belief that risk management remains at the core of our asset management practices. Our drive to help you set and reach financial goals remains at the foundation of our investment practices and innovation.

We are committed to being tireless students of our markets and our economies while building indispensable partnerships with you, acting with integrity, compassion and wisdom. We aim to be the team you turn to in the best days, and the worst. Through investment aligned with intention we aim to build financial plans with you that endure life's twists and turns, so that you can look back with pride on the things we've accomplished together.

THANK YOU FOR THE GREAT PRIVILEGE OF SHARING THE FINANCIAL JOURNEY WITH YOU!

ALIGN
INVESTMENT AND INTENTION

*Selling (or writing) Covered calls: Selling covered calls is a strategy in which an investor writes or sells a call option contract while at the same time owning an equivalent number of shares of the underlying investment. Selling call options limits the opportunity to profit from an increase in the market value of the underlying investment. This strategy may underperform in a rising market and may not fully protect in market declines.

Options are not suitable for all investors. Typically, commissions are charged for options transactions. Transaction costs may be significant in multi-leg option strategies, including collars, as they involve multiple commission charges. Please contact your financial advisor for a copy of the Options Disclosure Document (ODD).

Past performance is not a guarantee nor a reliable indicator of future results. As with any investment, there are risks. There is no assurance that any portfolio will achieve its investment objective.

Investing in floating rate funds involve special risks such as high expense ratios, interest rate risks, additional redemption fees, credit and potential liquidity risks and may not be suitable for all investors.

Mutual funds involve risk, including possible loss of principal. Investors should carefully consider the investment objectives, risks, charges and expenses of the fund. This and other information is contained in the fund's prospectus, which can be obtained by contact (the advisor's contact information), and should be read carefully before investing

You're never alone with Align

480 NEW HOLLAND AVENUE | SUITE 6204
LANCASTER PA 17602
717.740.2630 | WWW.ALIGNFSG.COM