STOKES CAPITAL ADVISORS, LLC

Market Commentary
December 31, 2022

Quarterly Market Review

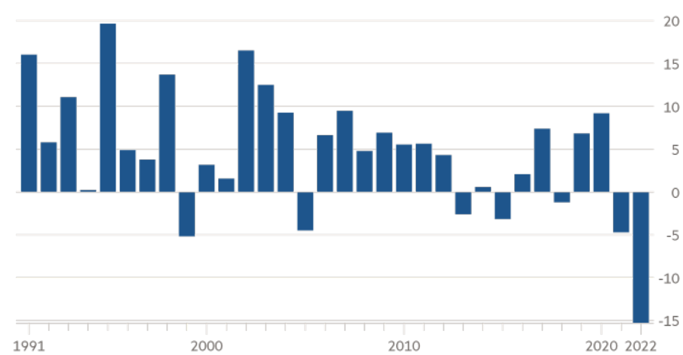
Global equity markets finished the year on a down note with the S&P 500 Index declining -5.7% for the month of December bringing the yearly decline to -18.1%, the worst performance for equities since the 2008 financial crisis. Rising interest rates, runaway inflation, geopolitical uncertainty, and global recession fears all added to the risk off sentiment.

As a result, Investors shunned risk assets during the year and piled into safe-haven assets such as short-term US Treasury securities, cash equivalents and gold.

Bonds, which have historically provided ballast to portfolios when equity markets decline, only made things worse with the Bloomberg Global Aggregate Bond Index declining -16% for year, the sharpest decline for the index on record.

A historic sell-off for bonds

Annual return of Bloomberg global aggregate index (%)



Source: Bloomberg
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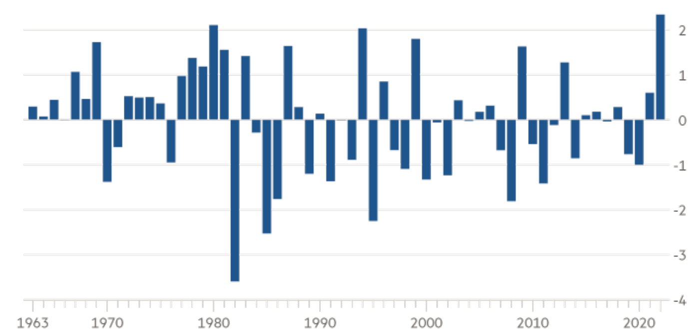
The historic rise in interest rates put downward pressure on bond prices as the Federal Reserve continues to take an aggressive policy stance on inflation. At last print, the core PCE was 4.7%, well above their 2.0% target.

Energy was the only sector of the equity market that managed to provide a positive return for investors in 2022. The war in Ukraine and global production declines combined with an increase in global demand put upward pressure on oil which traded as high (March) $127 per barrel but finished the year at (December) $85.

Global equity markets were mixed, but mostly lower for 2022 as investors across the globe price in the likelihood of a global recession. Rising interest rates, inverted US Treasury yield curve, declining oil prices, earnings growth in decline and slowing global growth are all raising the prospects of a global recession in 2023.

US bond yields in historic rise

Annual change in 10-year US Treasury yield (percentage points)



2022 is year to date
Source: Bloomberg
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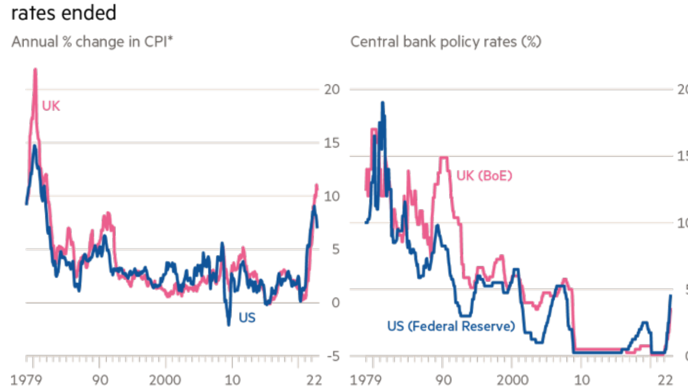
Investment Strategy & Outlook

It has been a long time since we have seen inflation rear its ugly head. Indeed, investors have become quite complacent with the concept of disinflation and ultra-low interest rates.

In 2022 a long period of subdued inflation and ultra-low interest rates ended



* UK RPI pre-1989
Source: Refinitiv
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We have discussed at length in prior commentaries our concern over ultra-accommodative monetary policy and the unintended consequences of such actions. A surge in inflation, negative bond yields, asset bubbles, and financial repression to mention a few. The historic rate increases of this cycle will take some time to move through the system as monetary policy is known to act with long and variable lags.

However, some of the froth is coming out of the financial system rapidly. Prior to this cycle, there was a bubble forming in the bond market with over $17 trillion of negative yielding debt around the globe. The current amount of negative yielding debt has now vanished.

Sub-zero yields vanish

Market value of negative-yielding bonds in Bloomberg Global Aggregate index ($tn)

Source: Bloomberg
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Bonds are now an investable asset class again. The two-year Treasury bond is currently yielding 4.43%, by comparison the two-year in December 2021 was 0.73%!

The inflation issue may prove to be more difficult to solve, specifically wage inflation which historically is much more stubborn and less likely to decline with an imbalanced labor market, i.e., more jobs than available workers.

In terms of the equity market, a decline in corporate earnings should be expected for 2023 as a contraction in economic growth becomes a reality. However, if we see a hard inflationary landing for the U.S. economy the decline in corporate earnings will be more severe and the U.S. economy slips into recession. While this is not our base case, investors should be prepared for such an outcome and should not discount the "pain" that we may have to endure given the Federal Reserve's resolve to normalize monetary policy and solve the inflation problem. Money is no longer "free", and valuations must come down.

The valuation issue is most prevalent among the beloved "FANGS" and/or growth stocks. Typically, this segment of the equity market does not pay dividends and trades at much higher valuations (Price/Earnings and Price/Sales) than the broader market. Holders of these stocks are essentially betting that above market earnings growth will continue and are willing to pay a significant premium for such growth. In addition, with no quarterly dividend payment, holders must figure out when to monetize their investment, i.e., do I sell shares now or wait for the price to recover? Lastly, when interest rates are on the rise equity valuations must decline and for stocks trading at nose bleed valuations....look out below!

Name	% off 52 wk high	Price/ Earnings	Price/ Sales	Price/ Book	Price/ Cash Flow
S&P 500	*-19.8%*	*17.5x*	*2.2x*	*3.7x*	*13.4x*
Tesla	-71.3%	34.1x	5.1x	8.7x	23.9x
Amazon	-51.3%	76.3x	1.7x	6.2x	21.6x
Netflix	-45.0%	27.7x	4.4x	6.7x	118.3x
Meta	-62.6%	12.1x	2.9x	2.7x	6.3x
Alphabet	-43.1%	17.3x	4.3x	4.4x	13.0x
NVIDIA	-50.7%	60.7x	12.5x	16.5x	55.5x
Advanced Mico	-56.0%	37.3x	4.4x	1.8x	26.5x

Finally, we were encouraged by the resilience of our dividend growth stocks during a difficult year for the capital markets. All the stocks we hold in the strategy increased their dividend for 2022 and the portfolio income growth was an impressive 17.3%.

Capital Markets Scorecard

Benchmark Description	Q4	1 Year	2 Year
U.S. Treasury 3 Month T-Bill	0.9%	1.51%	1.55%
Barclays Aggregate Bond Index	1.9%	-13.0%	-14.3%
Bloomberg US High Yield Bond	4.2%	-11.2%	-6.5%
S&P 500 Index Total Return	7.6%	-18.1%	5.4%
NASDAQ Composite TR	-0.8%	-32.5%	-17.6%
NASDAQ Dividend Achievers TR	13.5%	-9.8%	11.5%
Russell 2000 Index TR	6.2%	-20.4%	-8.7%
Alerian MLP Index TR	10.1%	30.9%	83.5%
MSCI Emerging Markets Index	6.7%	-15.2%	-15.1%
China SCI 300 Index LC	2.0%	-19.8%	-22.7%
U.K. FTSE 100 Index LC	8.7%	4.7%	24.0%
Japan Nikkei 225 Index LC	0.8%	-7.3%	-1.2%

Market Scorecard data as of 12/31/2022. 2-year return is a cumulative return. Stokes Capital Advisors, LLC is a Registered Investment Adviser. This market commentary is solely for informational purposes. Advisory services are only offered to clients or prospective clients where Stokes Capital Advisors, LLC and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stokes Capital Advisors, LLC unless a client service agreement is in place.