FSA INVESTMENT GROUP

TANGLED UP IN BLUE

After seeing the worst combined performance of stocks and bonds through the first 3 quarters of 2022 since the 1920s, stocks have soared since October (exhibit 1). As we consider what has caused such a change in investor attitude, we believe it's important to understand what the narrative was in early October and how it has changed (exhibit 2).

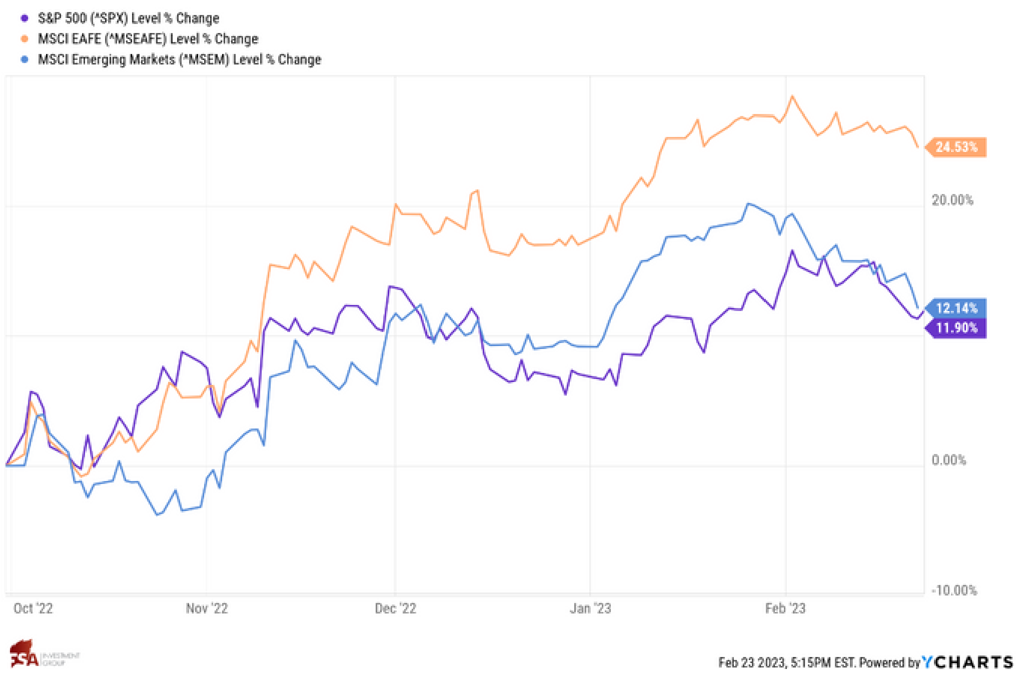

Exhibit 1

October Narrative	Current Narrative
Europe is going into a deep recession driven by an energy crisis.	Europe has endured a relatively warm winter while also doing a better-than-expected job of obtaining natural gas.
China is going to keep its zero Covid policy and be a drag on global growth in 2023. Supply chains will remain under pressure.	China ended its policy, downgraded Covid to the same level as the flu, and publicly stated its goal to get growth back on track. Demand coming out of the Lunar new year has been strong, almost to pre-pandemic levels.
U.S. is going into a recession in the first half of 2022 led by a sharp increase in unemployment and housing weakness. Inflation will remain a headwind, causing the Fed to raise interest rates too high.	While growth has slowed and some metrics show further weakness, economic growth has remained positive through February and the unemployment rate hit a 53-year low. Housing is showing signs of a bounce with housing starts and new home sales trending down less than expected.

Exhibit 2

INVESTMENT SERVICES
REPORTING SERVICES
CONSULTING SERVICES

ABOUT OUR FIRM

We are dedicated to providing investment management and strategic wealth planning to Indian tribes and high net worth individuals. Simply put, we strive to be our client's trusted advisor.

As a financial advisory firm, our primary focus is to provide unbiased opinions that are designed to achieve long term investment results. FSA Investment Group does this with the highest levels of trust, integrity and respect while always collaborating using a team approach. We are dedicated to professionally supporting, educating, and providing informed direction to each and every client.

At the end of September 2022, investors were fixated on the narrative of a global recession, driven by continued U.S. dollar strength and tightening financial conditions. During this time, we were also worried about these trends playing out and had many conversations about lowering our equity risk in investment portfolios. Ultimately with valuations cheaper and sentiment extremely negative, we decided to instead rebalance portfolios towards our neutral target weightings and increase cash in favor of fixed income.

While global growth has not been stellar, it has been better than expected. With investors pricing in worst-case scenarios late last year – and these scenarios not coming to fruition – we have seen a shift in investor sentiment towards a more favorable view of equities. Furthermore, inflows into bonds have been strong, as pensions have looked to increase their allocations to higher yielding bonds now that yields are attractive. According to pension consulting firm Milliman, the surplus at the largest 100 U.S. corporate pension funds is the highest in two decades. This should be a tailwind for bonds as investors look to lock in the higher rates.

Better than projected growth driving a more positive shift in investor sentiment can explain the narrative on why equities and bonds have been rallying the last few months, but none of that lends an answer to the bigger question around what happens next. We continue to have a data-driven approach to help inform our investment decisions. We are constantly challenging our preconceived notions and how they can influence our views of the market. With that in mind we have developed a new FSA Market Tracker that you will hear more about over time. The goal of the new Market Tracker is to develop a tool to help inform our decisions that incorporates more quick moving timely data to help us identify new trends faster.

While we are seeing softness in economic indicators, they are still holding up better than expected. This is more apparent in Europe where the Citi Eurozone Economic Surprise Index, which measures whether economic indicators are beating or missing consensus estimates, are back to 2021 levels. Additionally, the Citi U.S. Economic Surprise Index has begun trending higher on the back of the strong January jobs report, retail spending and the ISM services which showed a large jump in new orders. While inflation appears to have peaked and the Fed is certainly closer to the end of its tightening campaign, it's important to remember there are lags between the implementation of monetary policy and when it ultimately impacts the economy. Furthermore, earnings are being revised lower and the yield curve continues to be inverted (when short-term rates are higher than long-term rates).

Narratives can come and go, but our view is that we are close to an inflection point. We believe the risk of higher rates pushing the US into a recession, thereby denting corporate profits, is just as likely as the U.S. economy weathering this bout and continuing to see further growth, even if the rate of growth is slower. Taking all of this into consideration leads us to a more neutral view of the overall economic landscape. Within equities, we removed our overweight to U.S. equities which has been a good position the last 3 years and allocated those proceeds to global equities. In fixed income, we have maintained bond duration that is shorter than our neutral benchmark. In addition, we have added some diversified alternative strategies which are expected to have a low correlation to both equities and fixed income. We believe these strategies have our client portfolios well positioned in these uncertain times.

As we consider the landscape going forward, we will maintain our data driven approach. Today our interpretation of the data is that the best path forward for long-term investors is to maintain a position that reflects their long-term goals. As Bob Dylan wrote famously about different narratives, "We always did feel the same, We just saw it from a different point of view, Tangled up in blue."

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