Inflation Tumbles, Driving Markets Higher

Declining Inflationary Pressures Fuel a Sustained Rally in Risk Assets

Despite tighter credit conditions and slower economic growth, investors focused primarily on one key variable: declining inflation. The Fed's success in reining in cost pressures enabled the central bank to skip a June increase in the Fed Funds rate, helping global risk assets record strong gains during the quarter.

Rockingstone Performance

We maintained a generally cautious view in 2Q23 on fears of a 2H earnings slowdown and recession risk. Yet we covered part of our short in June on better inflation and employment data. Despite an underweight in risk assets, effective stock-picking and improved market breadth helped to offset our conservative asset allocation, leading to a very solid quarter.

Earnings, Inflation and Possible Recession Are Likely Key For 2H 2023

Our primary concern remains decelerating earnings growth into 2H23 as demand slows; notably consensus forecasts for the S&P 500 continue to decline, and we remain more comfortable with our below-consensus earnings figures and price target than those of the Street. That said, there are selective opportunities in single name stocks that we find very attractive, but we remain cautious on large cap stocks.

Implications for Portfolios

We made relatively few portfolio changes in 2Q23, aside from reducing our hedges in June. Our asset forecast continues to support over-weights to small caps including APPN, CSTM, MKC, WSC. From a sector perspective, we are modestly under-weight tech while over-weight industrials, energy and defensives.

S&P500 Forecast & Other Key Indicators

We forecast: EPS (2023/2024: \$207/\$225), S&P500 (2023 year end = 4000), GDP (2023: +1.5%), Gold (\$1950), Oil (\$75), 10-yr US Bond Yield (3.7%), Inflation (3.5%), 5-yr expected CAGR (US Large Cap +1%, US Mid Cap +5%, US Small Cap +8%, Developed +2%, EM +6%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management and corporate advisory firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

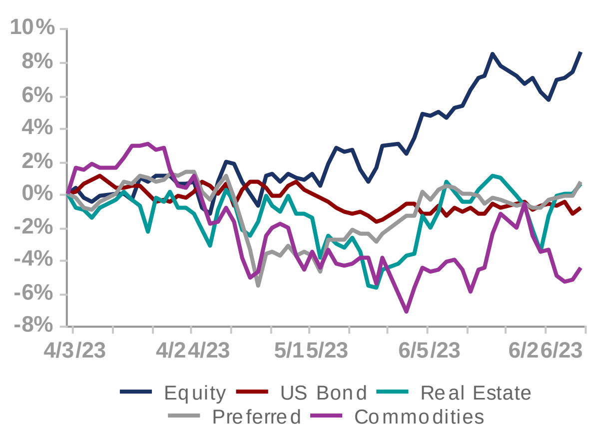
As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

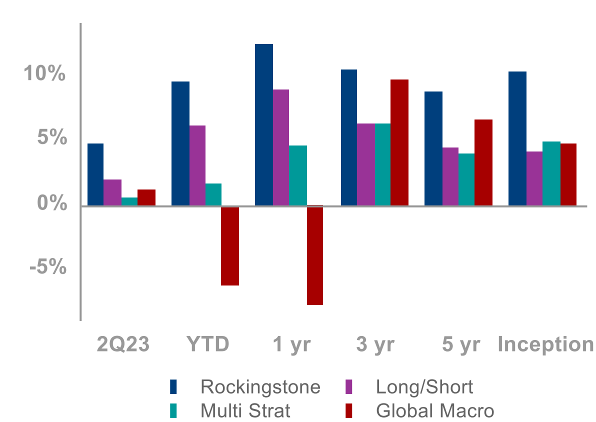
www.rockingstoneadvisors.com

Figure 1: 2Q23 Asset Class Performance[i]



Source: FactSet

Figure 2: Rockingstone: 2Q23 & Historical Annualized Returns[ii]



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices, Inception = 5/30/2009

Please see our End Notes and Disclosures (pages 27-28 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.

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ROCKINGSTONE ADVISORS LLC

Stock-Picking vs. Asset Allocation

Despite a cautious stance on equity markets, including an S&P 500 short, we posted decent performance across most of our portfolios due primarily to stock picking, rather than asset allocation. This is a good time to dig deeper into the various drivers of performance within any given portfolio.

Multiple forces at work in a portfolio

We wrote last quarter about how a cautious view can be expressed in a portfolio. If we are concerned about the risk-reward scenario (our current view), we will look to reduce exposure. As a reminder, Rockingstone uses a combination of diversified ETFs and complementary individual stocks in client portfolios. We can mitigate risk either by trimming current positions or by adding a short, which is effectively the same thing, albeit the latter being generally more tax effective.

We highlighted last quarter that these actions are typically taken at the margin—meaning that we express bearishness (or bullishness) on only a modest part of the entire portfolio. We are not a hedge fund, the reality is that stocks generally rise over time, and our approach is to manage for the long-term. But our clients want us to run the "active" piece of their portfolio, so asset allocation is the primary means of managing the risk of a portfolio. Indeed, asset allocation (i.e. the percentage of cash, stocks and bonds in any given portfolio) has been statistically proven to be the key determinant of long term returns.

Managing a sufficiently diversified portfolio is also a statistically accepted and important means of limiting risk while increasing return potential. Modern portfolio theory supports the view that holding 25 diversified stocks vs. a concentrated portfolio of 10 stocks will lead to better long-term risk adjusted returns. ETFs, which hold a basket of stocks or other assets, are inherently diversified. We subscribe to the advantages of diversification, which is an additional tool we use in portfolio management (on top of the hedging / short positions described above).

Asset allocation, combined with diversification, are two risk mitigation tools among many. Unfortunately, there seems to be a lot of confusion about how a narrowly-led rising equity market (as we have witnessed so far in 2023), coupled with an underweight in equity allocation does not-- by definition-- lead to "underperformance" in a client portfolio.

In point of fact, under this scenario, our client portfolios would underperform only under two conditions: first, the equities that we hold have risk levels in line or lower than the S&P 500 (beta), or second, the equities we hold perform in line or worse than the S&P 500 (alpha). They are incredibly important concepts for portfolio construction and performance.

Beta: How much risk is there in a given portfolio?

Let us discuss the first scenario. If the stocks we hold have higher risk (i.e. volatility) than the broader index, then by definition we could offset a lower equity exposure with higher risk *within* equities. Risk is a measure of the volatility of a specific security vs. the S&P 500, which has a beta of 1.00. For example, in an all equity-portfolio benchmarked against the S&P 500, we could express a cautious view by reducing our equity asset allocation by 20%, so we are 80% long equity and 20% cash. The portfolio theoretically has a beta of 0.80. If the S&P 500 rises by 10% in the year, our portfolio should rise by only 8%, all other things equal. But if the equities in our portfolio have a beta of 1.25 vs the S&P 500, or 25% more risk than the S&P 500, then a 10% rise in the S&P 500 should lead to a 10% (or very close) rise in our portfolio, matching the S&P 500. In this case, the higher beta of our equities counteracts the lower equity allocation in the portfolio.

An astute reader might ask, "But if you are cautious on the market, why would your equity allocation have a beta greater than the market? Ideally, wouldn't you want to make sure your equity beta is at most 1.0 or lower, otherwise you're offsetting your conservative allocation call with an aggressive equity positioning?"

While the above is true, we build our portfolios from the bottom up through individual stocks and ETFs (to express sector views). Sometimes the shares or sectors we like have more risk than the broader market (i.e. higher betas). For example, this is true of cyclicals and smaller cap stocks. As value-oriented investors, we are comfortable with this higher risk when constructive on markets, but not comfortable with high betas when cautious. Because we track the betas of client portfolios (which typically run about 0.9), we know how much risk exists in any given equity allocation.

Alpha: Is a portfolio manager adding value?

This brings up the second way a more conservative portfolio can outperform in a rising market: through excess risk-adjusted returns, better known as alpha generation. It is a combination of the benefit of picking a diversified basket of companies that have differentiated products and large addressable markets and whose stocks outperform the benchmarks over several years.

It can be helped by being over-weight the right sectors, which both this year and over more than the last decade includes large cap technology. It can also include timely shorts, such as the one we deployed in front of the early 2020 pandemic. Not only is the above hard to do in general given markets rise over time and the bulk of total stock market gains are attributable to only a small handful of stocks, but it is hard to do consistently.

Markets go through periods where certain investment styles—growth vs. value, small vs. large cap, US vs. International—perform differently over many years and bubbles can form in favored stocks or sectors. But in any one quarter, stock picking can make a big difference, and it did for us in 2Q23, namely due to significant ownership in Nvidia, and a few other names (such as Appian and Microsoft) that materially outperformed. Despite a short position of close to 20-25% in 2Q23 (i.e. taking beta down to about 0.65), we were in line with most benchmarks due to such stock picking.

Of course, the opposite can occur—a very favorable asset allocation can be offset by poor individual stock performance. In our decade-plus of managing individual portfolios, we have experienced quarters where this is the case, and you will have seen us refer to this phenomenon as "alpha de-generation."

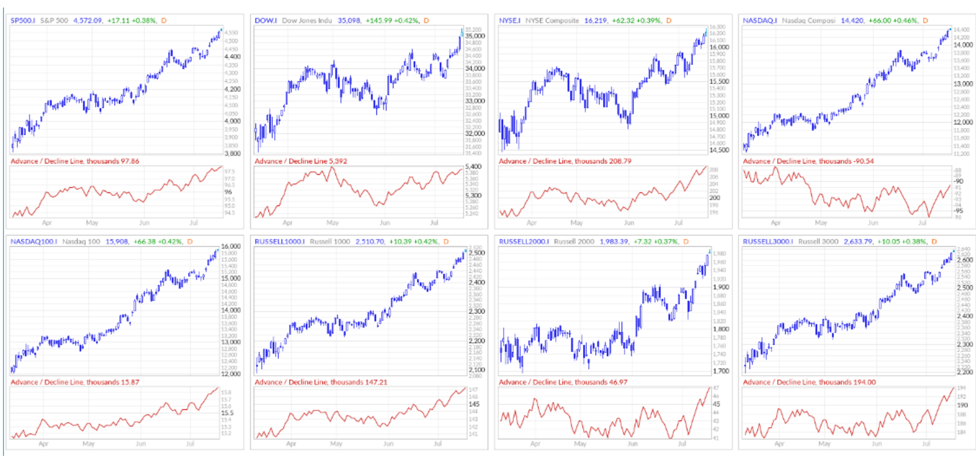
Update on Market View

Some of the data underlying our cautious view have improved, specifically breadth of the equity markets, inflation and employment data; other data points remain mixed to negative. We raised our risk exposure in June on the improved data, but stretched valuations amid downward earnings revisions are currently keeping us from adding more risk. We revisit the key factors we are tracking that help guide our marginal investment decisions.

Equity breadth

Equity markets (we are using the S&P 500 as a proxy) recorded a very solid run from the October 2022 lows, rising about 25% to the end of June 2023, and subsequently, another percent or two so far in July. But for most of the market's rally— really until June 1— the "breadth" of the market, which is a measure of the number of stocks participating in the rally, was declining (the red lines in Figure 3). However, that changed dramatically on June 1, 2023, with breadth improving steadily, meaning many more stocks are now participating in the up-trend; a bullish signal.

Figure 3: Market Breadth of Major Indices



Source: Factset

Downward S&P 500 earnings revisions

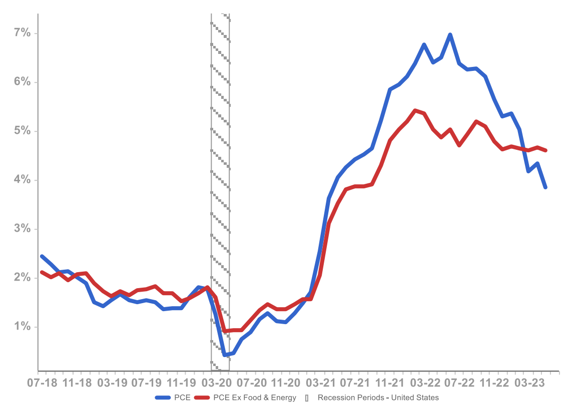
While asset prices were rising, earnings estimates for the S&P 500 were declining. In September 2022, the consensus earnings estimate for the S&P 500 was $238, down from $249 in June last year. By the end of December 2022, the estimate had been revised downward again to $226. At the end of March 2023, it was lowered to $218 and at the end of June to $216 (where it stands today). We noted in February that the combination of rising stock prices and falling earnings estimates is generally not a good one. This view has not changed; a bearish signal.

Inflation

Inflation figures have improved dramatically, and this is perhaps the most significant change to the outlook. A bullish signal. We have long argued the third of three stimulus packages (the $411 billion American Rescue Plan, which followed on the heels of the $292 billion

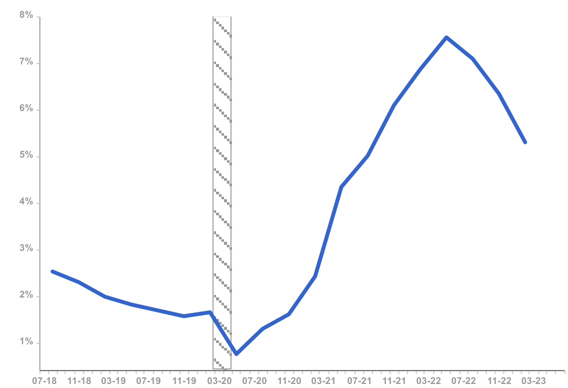
CARES Act and the $164 billion second stimulus package) was both unnecessary and likely over stimulative, particularly given the Federal Reserve's very accommodative policy positioning at the time. Moreover, with supply chains snarled and consumer spending shifting from services to goods when the law was passed, the potential risk of igniting inflation was especially high.

Figure 4: Personal Consumption Expenditure (PCE: % Chg Yr/YR)



Source: FactSet

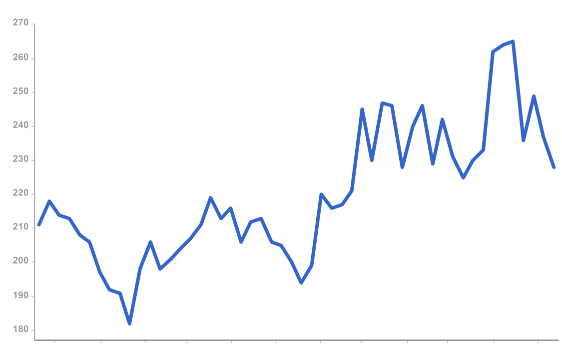
Figure 5: GDP Price Index (% Chg Yr/Yr)



Source: FactSet

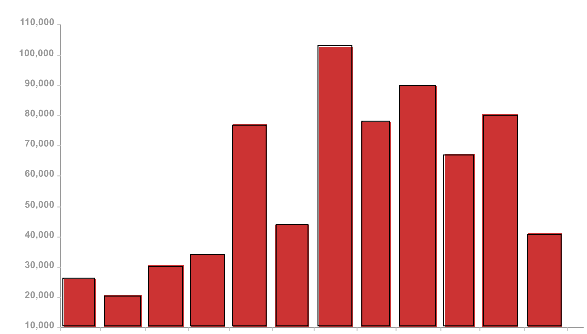
As Figures 4 and 5 indicate, the Fed has made substantial progress, with inflation trending down, especially the more volatile component that includes food and energy. Despite OPEC's production cuts, the ongoing war in Ukraine (and lack of renewal of the grain export agreement) price increases associated with food and energy continue to slow. China's lackluster re-opening may be helping to limit price increases as well. Either way, the trend on inflation appears positive, though too much of a good thing too quickly could also be a harbinger of trouble.

Figure 6: Weekly Initial Unemployment Claims (in '000s)



Source: FactSet

Figure 7: Challenger, Gray Job Cuts



Source: FactSet

There is an argument to be made the easy work (from 7% to 4%) has been done, and it will be significantly harder to get price levels down from 4% to 2%, particularly as core inflation is not declining at the same rate as the non-core, and the rate of change (or second derivative) has started to slow. Moreover, there is some evidence too that we could be witnessing the early signs of disinflationary or deflationary pressures that will accelerate over time. Presently, we are inclined to believe that the trend in declining price pressures is a positive for the economy and investor sentiment.

The labor market

Interestingly, the labor market, which had been showing signs of accelerating erosion in weekly unemployment claims and the Challenger and Gray data during the first quarter and initially into the second quarter, is now showing some signs of stabilization.

As Figures 6 and 7 indicate (on the prior page), weekly unemployment claims dropped following a spike in the spring, and that trend has been echoed in the Challenger, Gray and Christmas Job Cuts data. We had been concerned that the labor market was deteriorating rapidly, and that the extent of the softness may be masked by the fact that to date many of the job losses have occurred in knowledge-based companies (e.g. technology and finance) with more generous severance packages. In light of June and July's data, that may not be the case: a bullish signal.

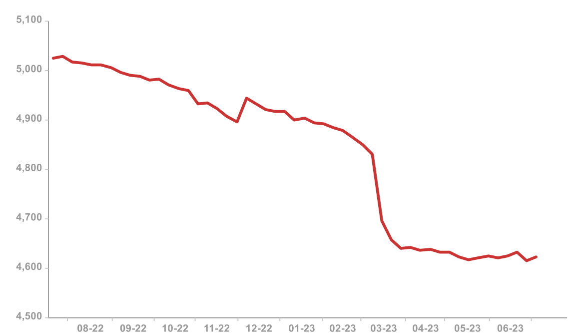
Regional banks and lending liquidity

The final source of concern was the impact of the regional bank crisis on liquidity and lending to businesses, as well as concern over the growing CMBS (commercial mortgage backed) market. Here the evidence points to a turn-around; how sustainable that may be is difficult to say. Regional banks have clearly rallied off their lows, while deposits at small, chartered commercial banks have stabilized.

Figure 8: S&P 500 (Red) vs. Regional Bank Index (Blue)

Source: FactSet

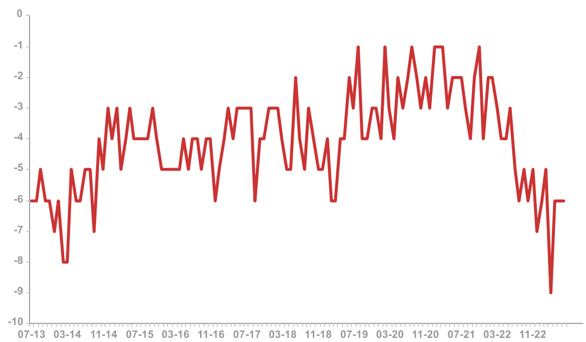
Figure 9: Deposits, Small Chartered Commercial Banks



Source: FactSet

The combination of higher interest rates, exacerbated by the prospect of lower loan growth, has substantially reduced the availability of loans to small businesses, leading to tighter overall credit conditions. But in the last month, this figure has rebounded dramatically from its low. A bullish signal. Rising delinquency rates, however, have not improved, and are also leading to tightening credit conditions. A bearish signal.

Figure 10: NFIB: Availability of Loans to Small Businesses



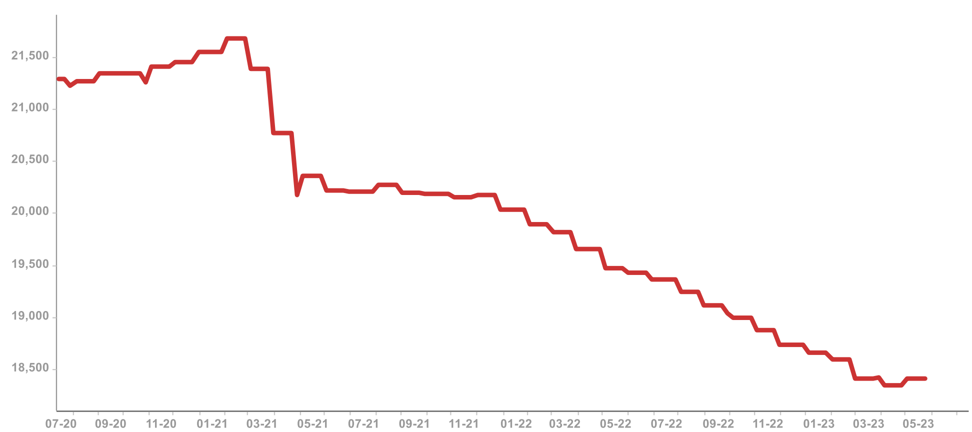
Source: FactSet

Figure 11: Loan Delinquency Rates

Source: FactSet

The combination of higher rates, reduced liquidity, and lower loan issuance continues to drive money supply (M2) lower (Figure 11), although there appears to be some stabilization.

Figure 12: M2 ($ in billions)



Source: Factset

Summary

There have clearly been favorable macroeconomic developments that provide some underpinning for the recent rally in stocks. We cite improved breadth in the equity markets that began June 1 and has accelerated through the first two weeks of July; declining inflation rates; stabilization in the labor markets and a rebound in lending amid an improved outlook for the regional banks and the small businesses to which they lend.

However, these favorable developments are partially offset by ongoing downward revisions to S&P 500 earnings for 2023 and 2024; the sense that bringing inflation down from 4% to 2% will be harder for the Fed to achieve than from 7% to 4%; and traditional economic indicators—such as the inverted yield curve, declining PMIs, weak retail sales and a declining dollar— that all indicate elevated recession risk ahead.

ROCKINGSTONE ADVISORS LLC

Forecast: 2023 & 2024

Rockingstone Advisors: Our Latest Forecasts

We use the discipline of quarterly reviews to analyze the macroeconomic environment and update our estimates. As we have noted for the last year or so, there continues to be a material difference between real and nominal figures (which hasn't been the case for the last few decades). In the case of GDP, we forecast real growth. Alternatively, other assets, such as the 10-Yr US Treasury, for example, we predict in nominal terms.

Figure 13: Key Metric Forecast

	Year End December	
Metric	Band	Point
US Real GDP (2023)	-0.5% to +2.0%	1.5%
S&P 500 2023 EPS (RSA/Street)	NA	$207 / $216
S&P 500 2024 EPS (RSA/Street)	NA	$225 / $242
S&P 500 2023 Index	3700-4160	4000
10-Yr US Treasury Yield	3.5% - 3.9%	3.7%
Oil (WTI-2023 End)	$60 - $90	$75
Gold (2023 End)	$1,850 - $2,050	$1,950
Inflation (PCE - NTM)	+3.0% to +4.0%	3.5%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

Select analysis on key forecasts:

1. <u>S&P 500 2023 & 2024 EPS</u>. Final Operating EPS in 2022 were $196. Although the S&P index has jumped, the consensus EPS forecast for the S&P 500 has been trending lower. Since 1Q23 the consensus EPS has dropped another $2 to $216 for this year. That implies 10% growth, which seems too aggressive given a likely economic slowdown in the 2H23, coupled with recent data from Golub Asset Management that sees only a 4% YoY increase in earnings in their portfolio companies. We maintain our earnings forecast of $207 for this year, suggesting almost 6% growth. Looking to 2024, we think the 1H will be a challenge but 2H could show signs of an earnings recovery. Thus, we estimate 9% growth is a reasonable early take. We note consensus still assumes robust 12% growth in 2024. This seems too optimistic to us.

2. <u>S&P500 2023 Index</u>. We are modestly raising our 2023 S&P target to 4000, which is about 10% below the index's value (as this newsletter is set to publish). Assuming our $225 EPS estimate for 2024 is reasonable and applying a 17.5x P/E supports our target. The 17.5x multiple is one turn higher than our 1Q23 forecast owing to improved inflation data and the concomitant stabilization in the 10-year Treasury.

3. <u>Inflation</u>. We see inflation, as measured by the PCE, which is the US Federal Reserve's preferred inflation gauge (given the substitution effects), as declining to about 3.5% over the next year. Clearly the Fed hawkishness is having an impact but to get to a 2% level (the Fed target) may require more aggressive rate moves. On the one hand wage, healthcare and other service pressures are unlikely to ebb soon, although employment cuts could act as a partial offset. Another offset could be rents and used cars while OPEC+ seems ready to cut production to try and maintain energy prices at current levels.

ROCKINGSTONE ADVISORS LLC

Five Year Asset Value Forecast[iii]

Muted expected large cap returns vs. attractive small / mid cap outlook

Our thesis regarding capital markets is that asset values mean-revert (with respect to margins and P/E multiples) over time. We see no reason to question this axiom, regardless of whether investors are enamored with crypto-currency, AI or tulip bulbs. Indeed, financial markets / asset returns are one of the only things in life that are more predictable the longer the period forecasted!

We analyze equities using four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields, and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Currently our outlook for total returns points to the “give” of sales growth and dividends to be partly offset by the “take” of mean-reverting margins. Valuation is dependent on the index. We expect sales growth to be relatively close to long-term average performance, although how a potential recession vs. pass-through pricing impacts top line results is unclear. Profit margins are back above historical levels, so they are now dilutive to expected returns.

Presently, US Large Cap and Non-US Developed Market stocks appear to offer the lowest long-term return potential over the next five years from current levels. For the former, it is a combination of margin and valuation pressure; for the latter, it is poor sales and margins that may likely result in lackluster returns. Similar to last quarter’s forecast, the remaining equity indices we forecast offer more attractive returns. Across market cap and geographies, profit margins appear set to be a drag across returns, sales are broadly incremental as are yields, although valuation is a mixed picture.

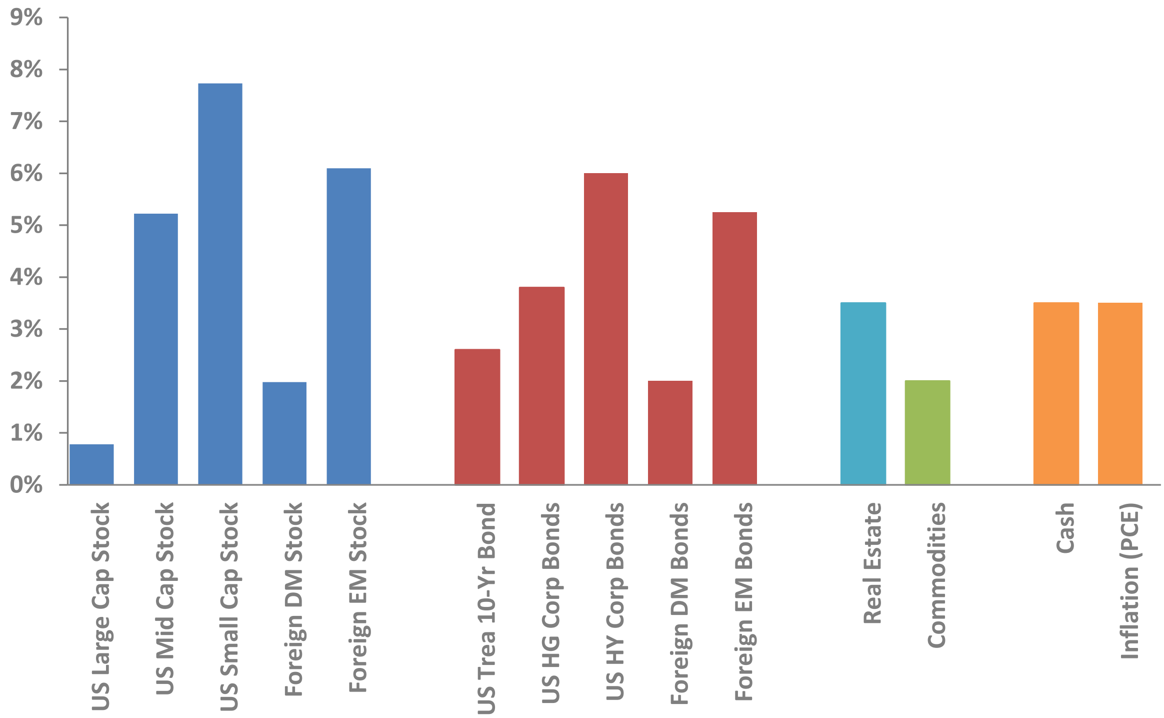
Figure 14: Five-Year Total Equity Return Calculations (Incremental Contribution)

Asset	Index	LT Exp. Return		Sales		Profit Margin		Div.Yield		Valuation
US Large Cap Stock	S&P500	0.8%	=	5.4%	-	1.9%	+	1.6%	-	4.3%
US Mid Cap Stock	S&P400	5.2%	=	5.0%	-	3.6%	+	1.7%	+	2.1%
US Small Cap Stock	S&P600	7.7%	=	6.8%	-	2.4%	+	2.2%	+	1.2%
Foreign DM Stock	MSCI-EAFE	2.0%	=	0.8%	-	3.4%	+	3.5%	+	1.1%
Foreign EM Stock	MSCI-EM	6.1%	=	4.7%	-	0.0%	+	2.9%	-	1.5%

Source: Rockingstone Advisors

In fixed income (see the next page for various assumptions), we expect the “give” of coupons will be exceeded by the “take” of mean-reverting inflation and real rates. Although we are wary of recession in late 2023 and into early 2024, we see some upward pressure on interest rates near to intermediate term. If correct, higher yields drive bond prices lower and thus reduce returns. Hence our assumption that most fixed income instruments deliver a lower return vs. what is implied in the current 30-day SEC yield.

Figure 15: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance Review

Stocks Rally Sharply on Declining Inflation

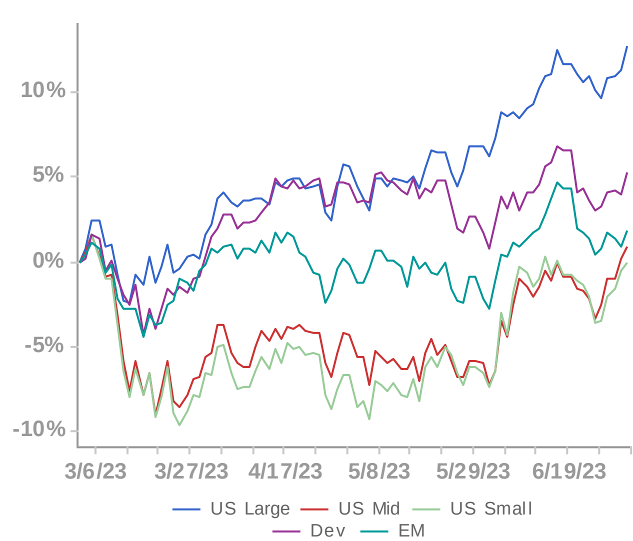
After the S&P 500 recorded an -18.1% decline last year, US equity markets rebounded +8.7% in the second quarter of 2023, bringing the S&P 500's YTD return to 16.9%. The one clear catalyst to the rally was declining inflation: PCE (the Fed's preferred inflation measure) declined steadily from a high of 30% in April of 2021 (% change vs the prior year, seasonally adjusted) to 6% in May of 2023. Declining inflation rates allowed the Fed to "pause" a rate hike in its Fed Funds that would normally have taken place in June. Interestingly, the S&P 500 was the strongest performing major index in the quarter, driven by mega cap technology stocks: Microsoft, Apple, Google, Nvidia and Amazon. US mid and small-cap stocks trailed large caps, as well as International Developed and Emerging Markets.

International Developed markets posted a solid quarter, rising 3.2%, as Europe's economy benefited from strong tourism, while the trade-weighted dollar declined as well. US small and mid-caps lagged their larger cap brethren, posting gains of 5.3% and 4.8%, respectively. Recall that small caps were pummeled at the end of March due to the regional bank crisis, as a large component of the Russell 2K (the small cap index) is comprised of bank stocks, so while the 4.8% gain in the quarter was respectable, small caps remain materially below their highs. Emerging market stocks posted gains of just 1.3% as China's re-opening stalled.

Across sectors, Technology was the standout winner, rising 15.4% followed by Consumer Discretionary, up 13.8% and Communications, up 12.5%. Energy and Utilities declined during the quarter.

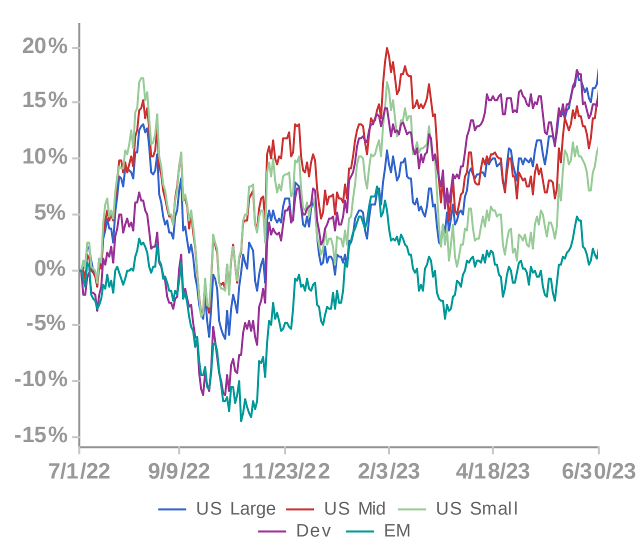
We note the following performance regarding 2Q23 and 12M23, respectively, results: US large-cap (+8.7% and +18.0%), US mid-cap (+4.8% and +12.1%), US small-cap (+5.3% and +10.9%), Developed (+3.2% and +15.9%), Emerging (+1.3% and +1.7%).

Figure 16: 2Q23 Equity Performance [iv]



Source: FactSet

Figure 17: 12M23 Equity Performance



Source: FactSet

ROCKINGSTONE ADVISORS LLC

Fixed Income Performance Review

Bonds Post Gains Following 2022 Trouncing

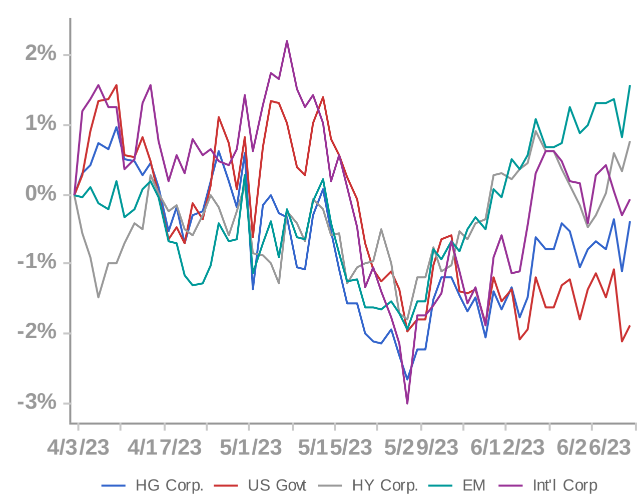
Bond investors, accustomed to a generational bull market that saw interest rates decline steadily for almost 50 years, witnessed a massive change in fortune as the Fed ramped up rates in 2022.

Fortunately, like stocks, bonds rebounded in the first quarter, but unlike stocks the rally ran out of steam in the second quarter. Most fixed income posted flattish to slightly negative returns on rising rates. The 10-year Treas yield rose from 3.5% to 3.8% in the quarter.

Corporates saw slight declines of 0.4% in the quarter, which were bested by high yield corporates, which posted gains of 0.7%. The returns were fueled by a combination of lower interest rates (the 10-year declined from 3.9% to 3.5%) while BBB and CCC spreads narrowed slightly during the quarter. After Corporates, Treasuries declined 1.9% while mortgage-backed bonds posted losses of of 0.7% and Preferreds had gains of 0.7%. Outside of the US, European bonds returned 0.3%. Emerging markets bonds rose 1.5%.

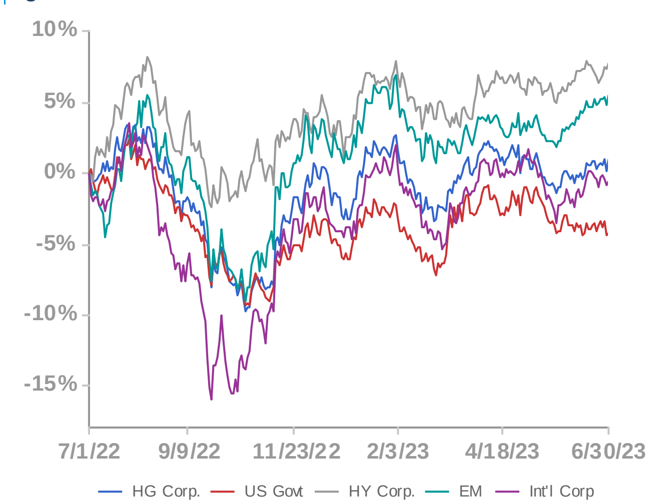
We note the following performance numbers for 2Q23 and 12M23, respectively: US High Grades (-0.4% and 0.6%), US Governments (-1.9% and -4.3%), US High Yield (+0.7% and +7.1%), International Developed (+0.4% and -0.2%), Emerging Markets (+1.5% and +4.9%).

Figure 18: 2Q23 Fixed Income Performance[v]



Source: FactSet

Figure 19: 12M23 Fixed Income Performance



Source: FactSet

Commodity Performance Review

Mixed Performance Across the Commodity Complex

The commodity complex continues to be influenced by a variety of macroeconomic and geopolitical forces. While 2022 witnessed massive swings in agriculture and energy commodities, the second quarter of 2023 witnessed declines across most of the commodity complex with the exception of agriculture.

The entire commodity complex declined 4.4% during the second quarter mainly due to a drop in base metals, precious metals and a decline in energy prices, from WTI to Brent to Natural Gas.

Agriculture prices were up modestly, rising 3.1%, due mainly to a large rise in sugar prices. Other Ag commodities, such as wheat and corn posted declines. Poor weather conditions and the ongoing conflict in the Ukraine also contributed to the rise in agricultural prices.

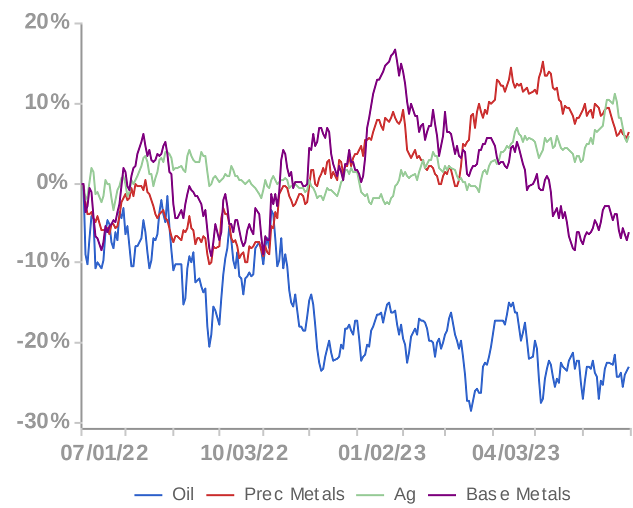
Examining the metal complex, precious metals posted losses in the quarter, as the regional banking crisis ebbed. Precious metals fell 3.3%, with gold down 2.7% while silver was down 5.6%. Base metals recorded double-digit losses, declining 11.1% in the second quarter.

Rockingstone typically invests in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We highlight the following returns during the 2Q23 and 12M23, respectively: Oil (-3.1% and -23.1%), Precious Metals (-3.3% and +6.5%), Agriculture (+3.1% and +5.9%), Base Metals (-11.1% and -6.0%).

Figure 20: 2Q23 Commodity Performance[vi]

Source: FactSet

Figure 21: 12M23 Commodity Performance



Source: FactSet

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Digital Asset Performance Review

After a challenging 2022, digital assets continued to rise in 2Q23

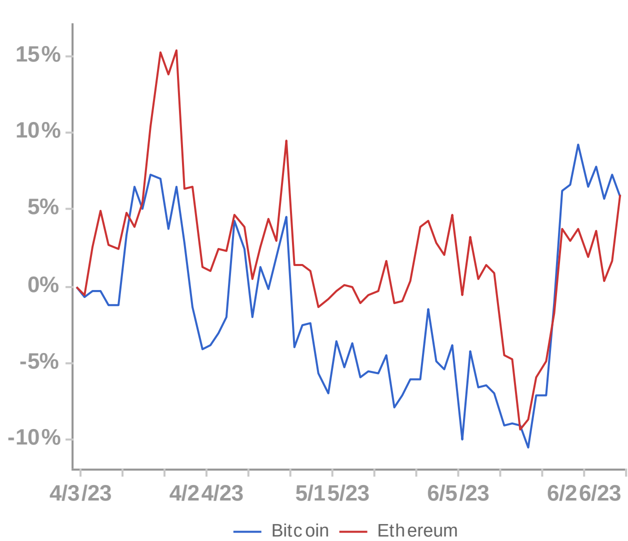
We have decided to add digital assets to our quarterly performance review beginning this year. Many of our clients hold these and other digital assets at Gemini, while others remain highly skeptical as to whether this is even an investable asset class.

We do not believe digital assets are a substitute for equities or bonds or other cash flow-driven securities. On the contrary, there is no cash flow associated with them, and as value investors, we generally like to acquire a stream of free cash flow. That said, there are many assets that do not generate cash flows but that are widely recognized as being stores of value: precious metals are probably the most similar and share many of the same characteristics as digital assets, but so too do all collectibles, such as artwork, manuscripts, rare coins, baseball cards, professional sports teams and other assets. All of these non-cash flowing assets trade with intermittent price discovery, albeit through Dutch or private auctions.

Digital assets were absolutely crushed in 2022, posting declines of 60-70%. As a relatively new asset, such volatility is to be expected. While these assets have seen similar declines in years past, investors have been hoping that at some point these assets no longer correlate with traditional assets such as debt and equities. Whether that time will come, it is too soon to say; presently this group continues to trade like a leveraged technology bet.

Returns during the second quarter were solid, aided in part by speculation of ETF-oriented products that might contain digital assets. We note the following performance regarding 2Q23 and 12M23, respectively, results: Bitcoin (+6.9% and +56.7%) and Ethereum (+6.0% and +85.4%).

Figure 22: 2Q23 Digital Asset Performance [vii]



Source: FactSet

Figure 23: 12M23 Digital Asset Performance

Source: FactSet

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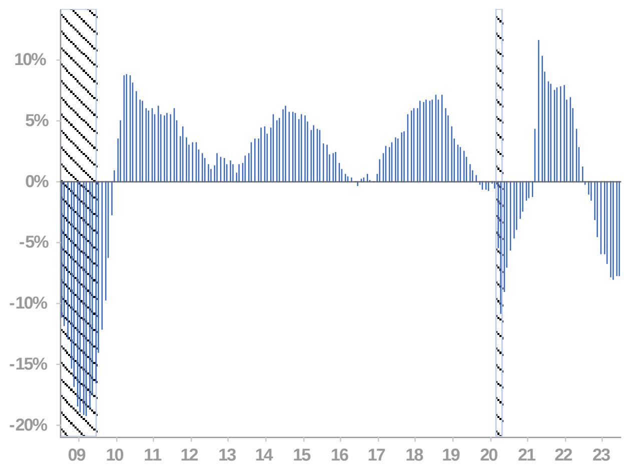
Chart Book

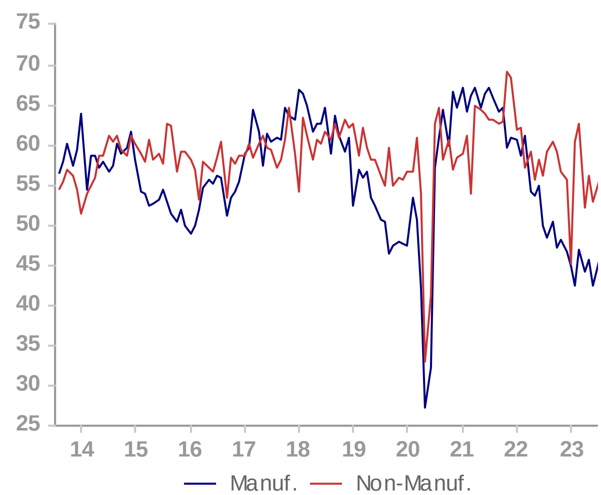
Leading Indicators

Figure 24: Index of Leading Economic Indicators



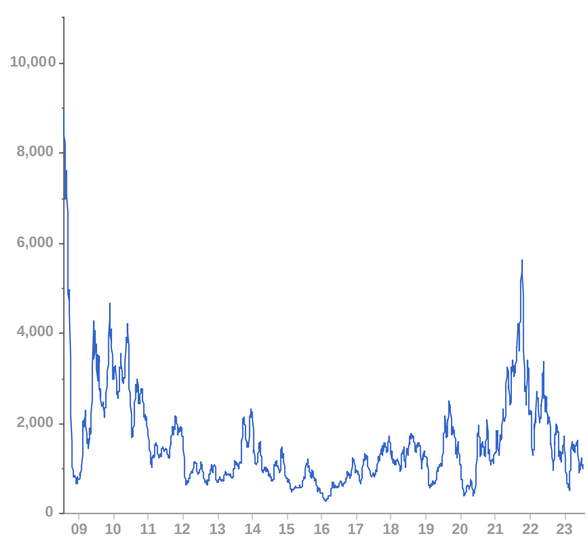
Source: FactSet

Figure 25: ISM New Orders



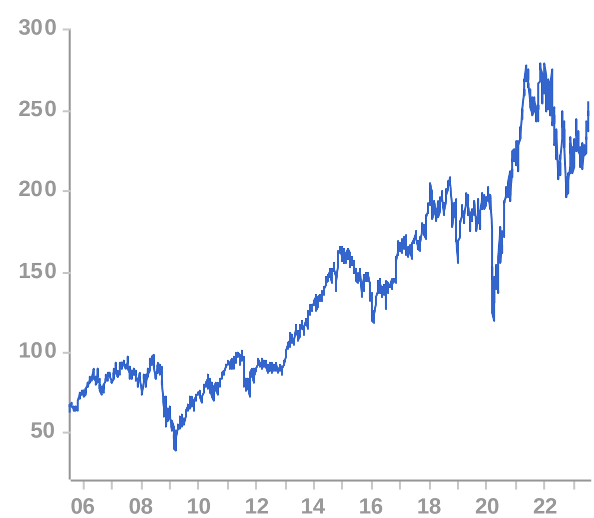
Source: St. Louis Federal Reserve, FRED Database

Figure 26: Baltic Freight Index



Source: FactSet

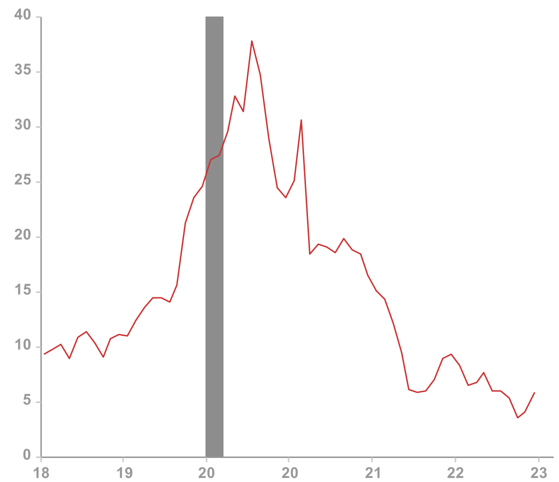
Figure 27: DJ Transports



Source: FactSet

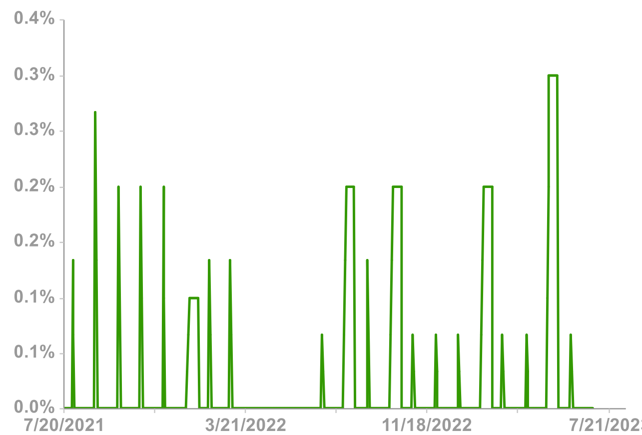
Real-time Recession Risk Indicators

Figure 28: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 29: Sahm Real-time Recession Predictor

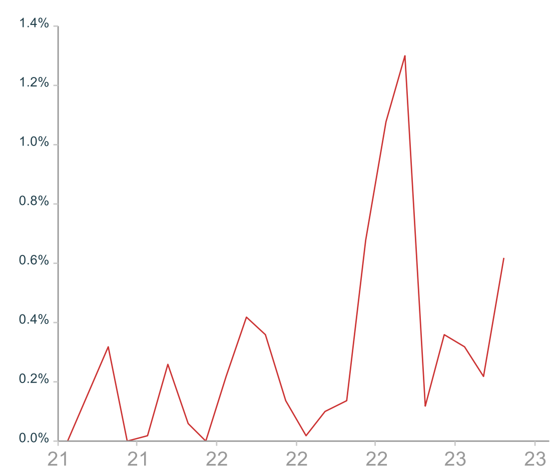


Source: St. Louis Federal Reserve, FRED Database

Figure 30: GDP Now (Atlanta Fed)

Source: FactSet; FRED Database

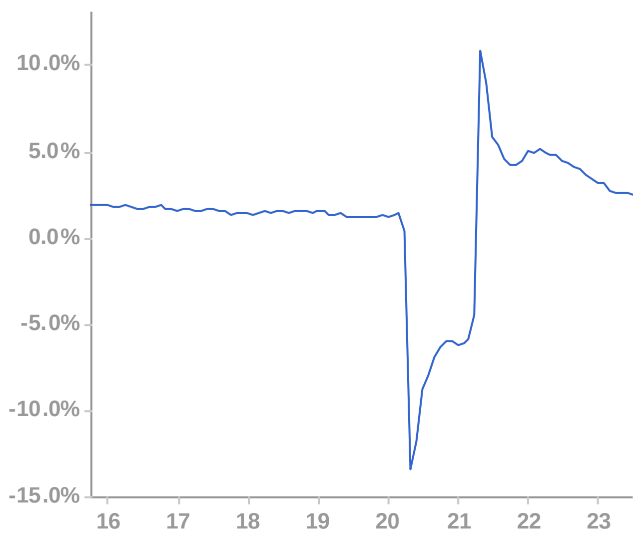
Figure 31: Smoothed US Recession Probabilities



Source: FactSet; FRED Database

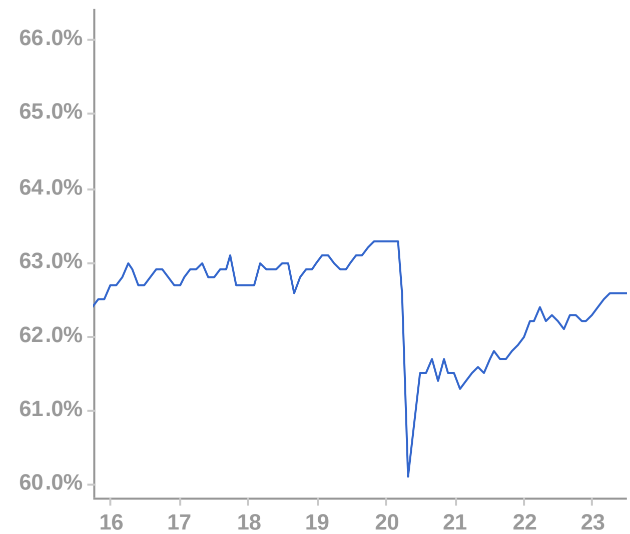
Labor Market Indicators

Figure 32: Payroll Growth (Establishment Survey, % Chg YoY)



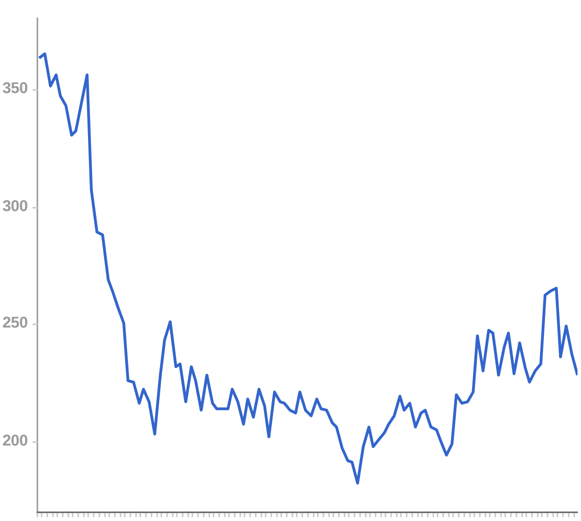
Source: FactSet

Figure 33: Labor Participation Rate (% of Workforce)



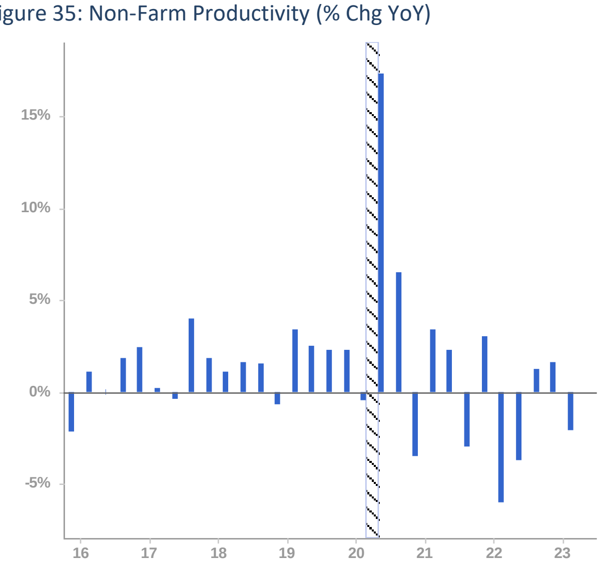
Source: FactSet

Figure 34: Initial Unemployment Claims



Source: FactSet

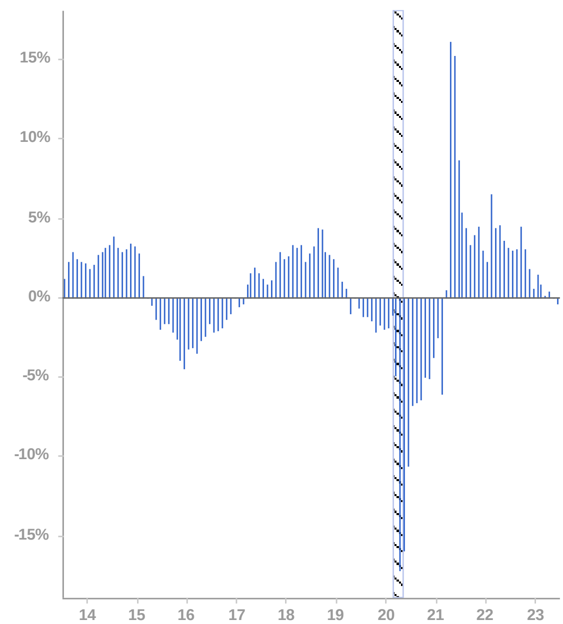
Figure 35: Non-Farm Productivity (% Chg YoY)



Source: FactSet

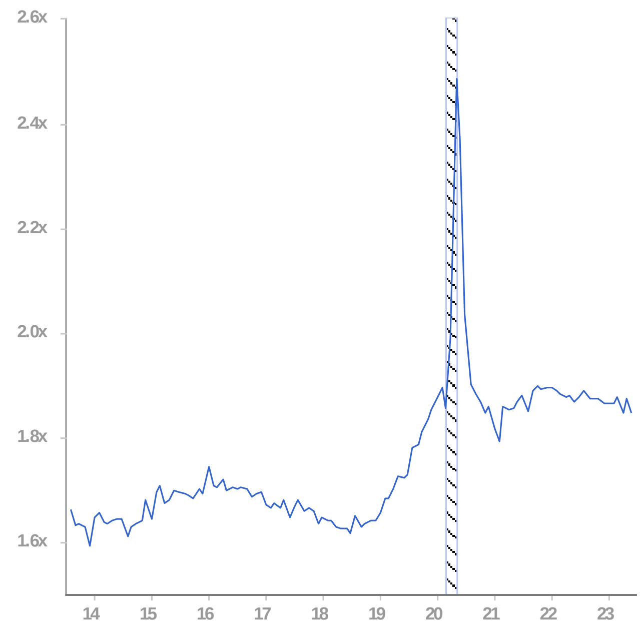
Production and Business Activity Indicators

Figure 36: Industrial Production (% Chg YoY)



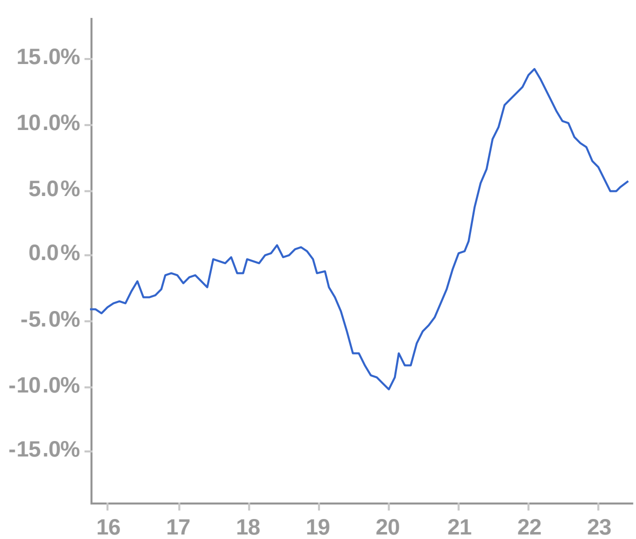
Source: FactSet

Figure 37: US Inventory to Shipment Ratio



Source: FactSet

Figure 38: Unfilled Orders (% Chg. YoY)



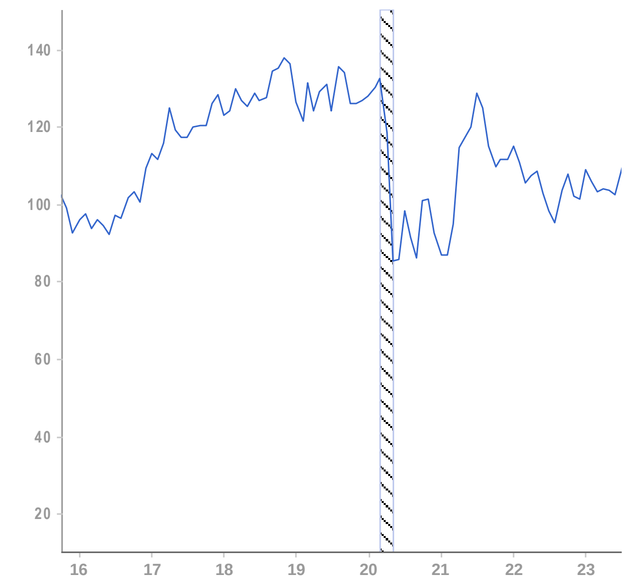
Source: FactSet

Figure 39: Business Sales (% Chg. YoY)

Source: FactSet

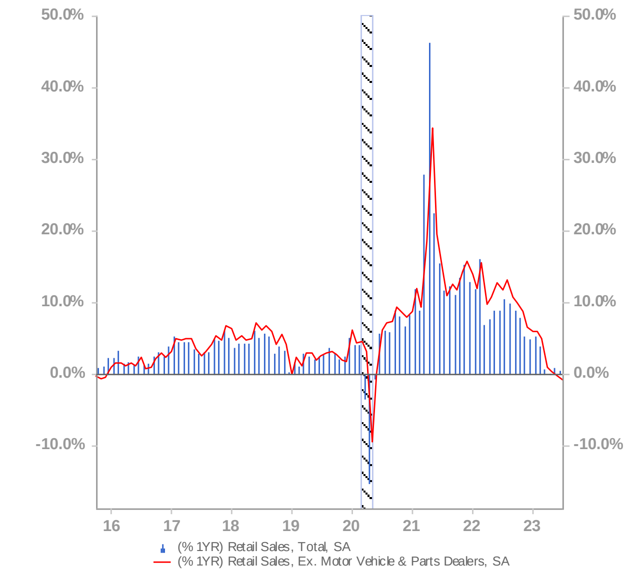
Consumer and Household Activity Indicators

Figure 40: University of Michigan Consumer Sentiment



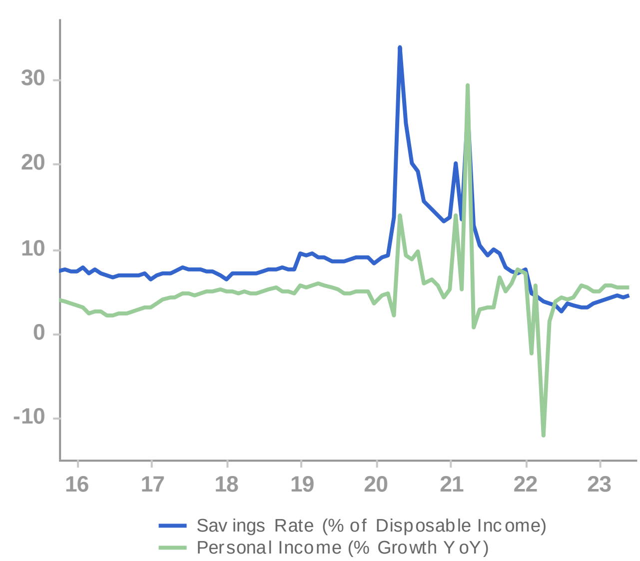
Source: FactSet

Figure 41: Retail Sales



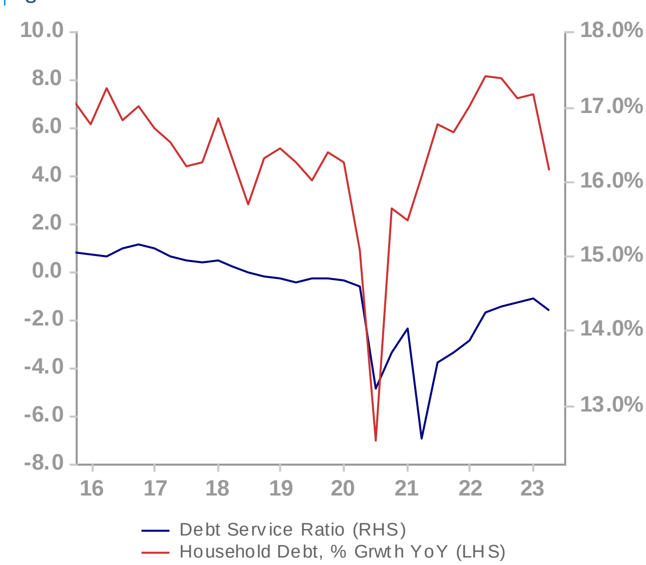
Source: FactSet

Figure 43: Personal Income and Savings Rate



Source: FactSet

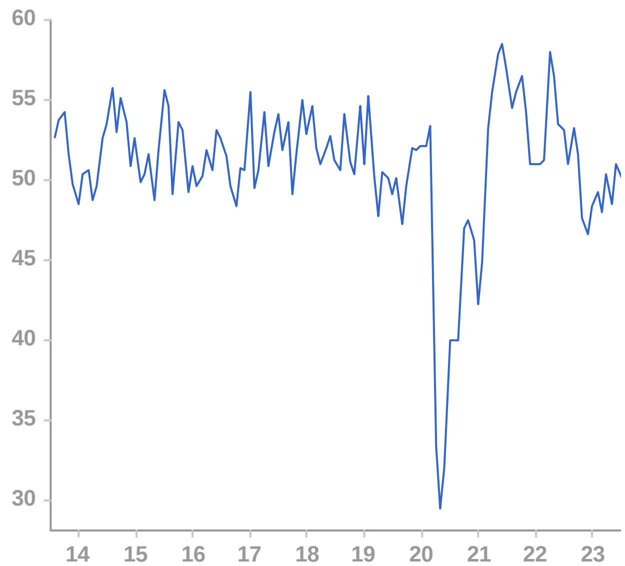
Figure 43: Household Debt



Source: FactSet

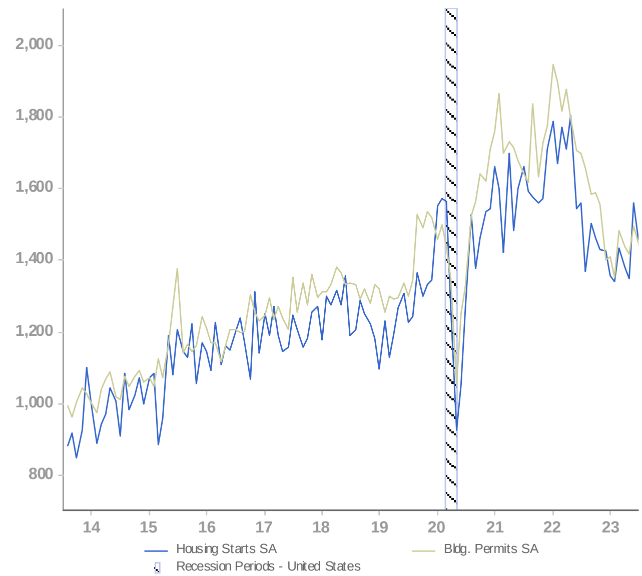
Housing and Construction Indicators

Figure 44: Architecture Billings Index



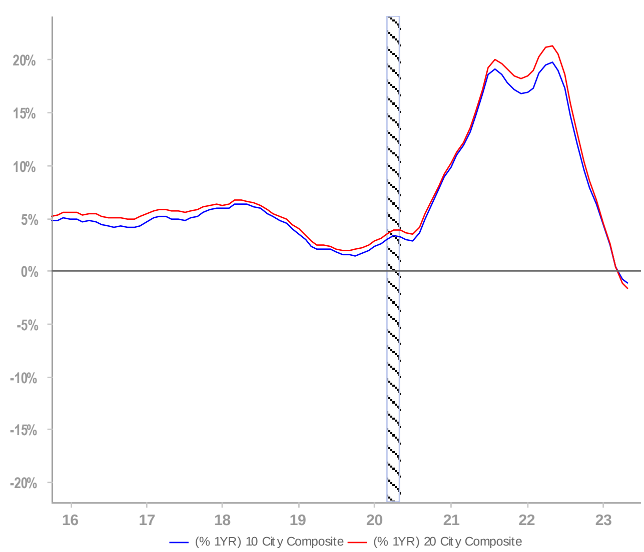
Source: FactSet

Figure 45: Housing Starts and Building Permits



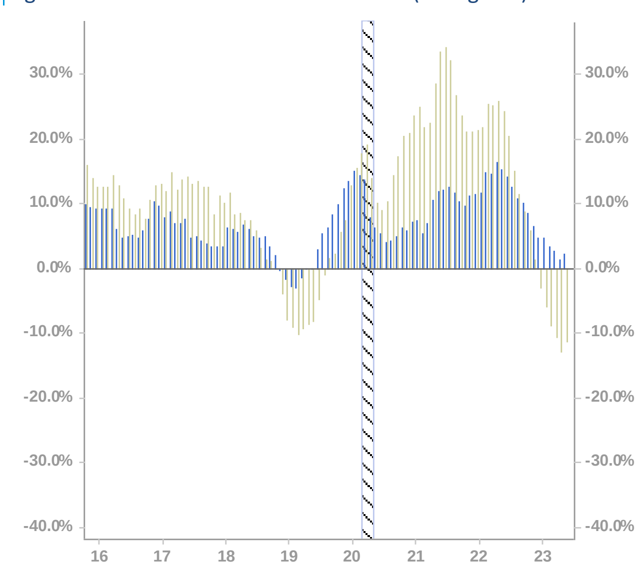
Source: FactSet

Figure 46: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

Figure 47: Private and Total Construction (% Chg YoY)



Source: FactSet

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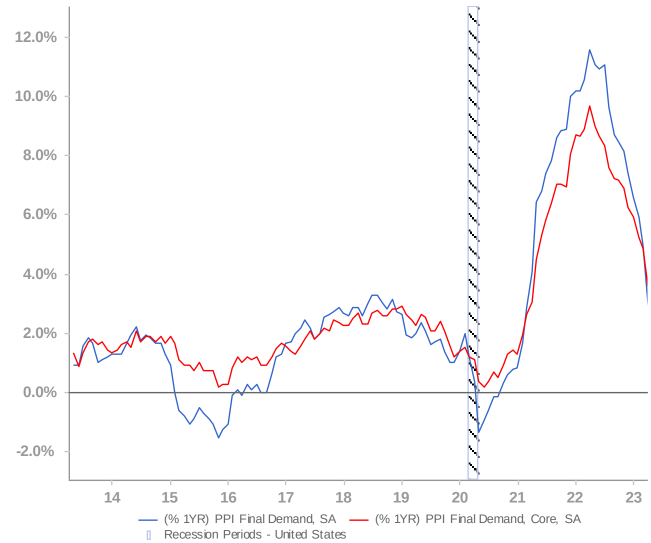
Price Indicators

Figure 48: Consumer Price Index

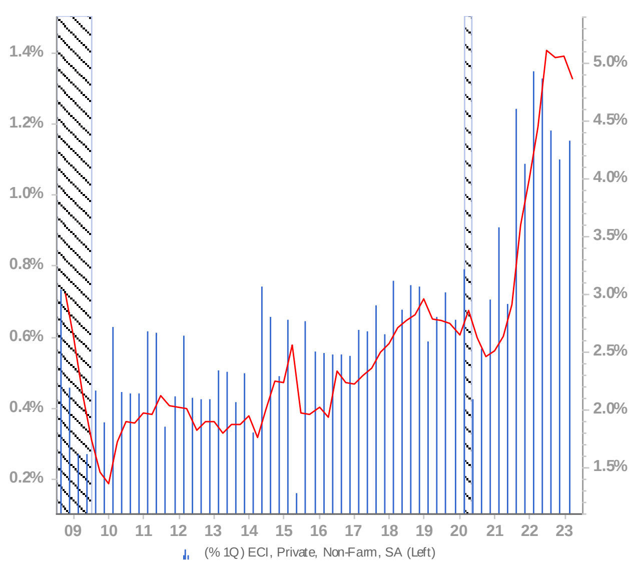
Source: FactSet

Figure 49: Producer Price Index



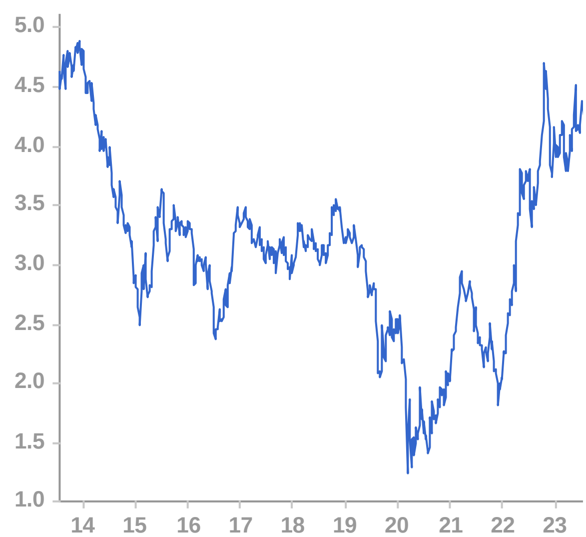
Source: FactSet

Figure 50: Employment Cost Index



Source: FactSet

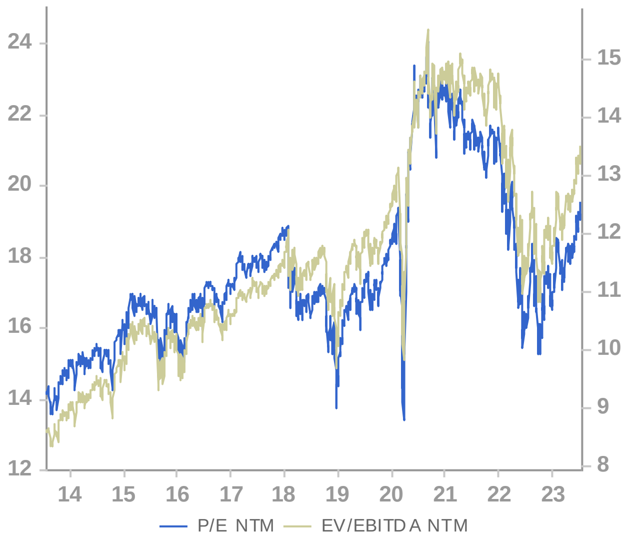
Figure 51: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

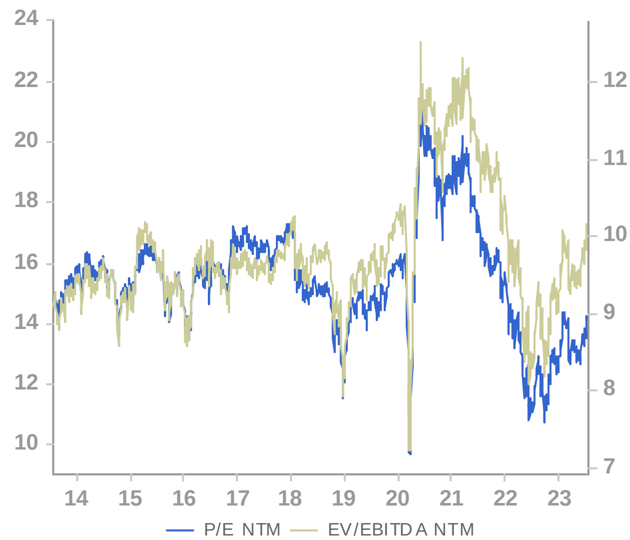
Valuation Indicators

Figure 52: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



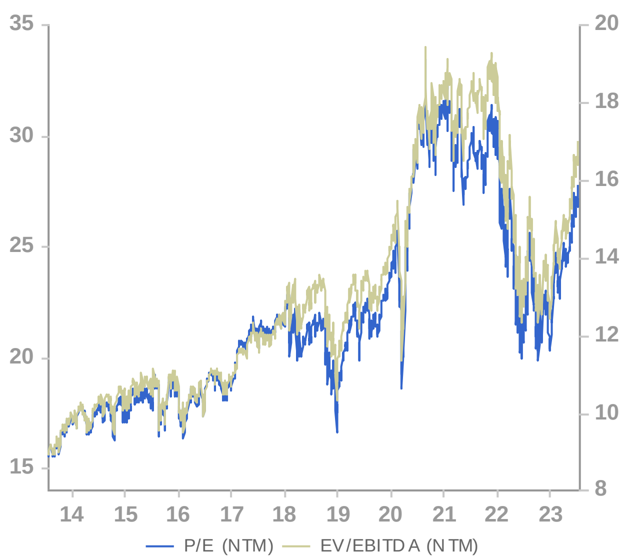
Source: FactSet

Figure 53: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



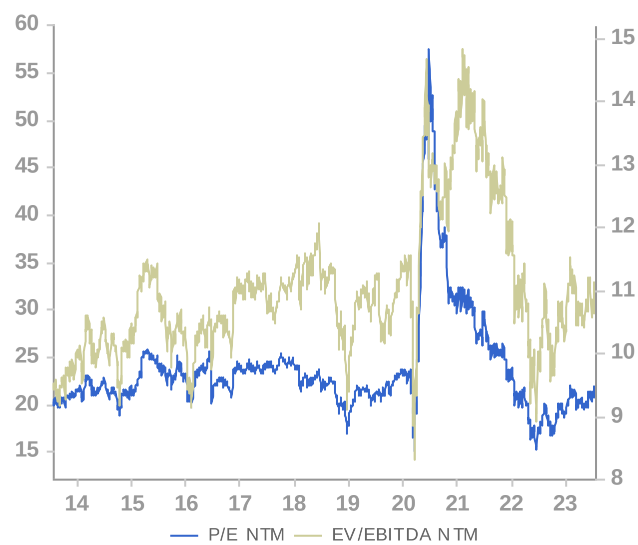
Source: FactSet

Figure 54: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

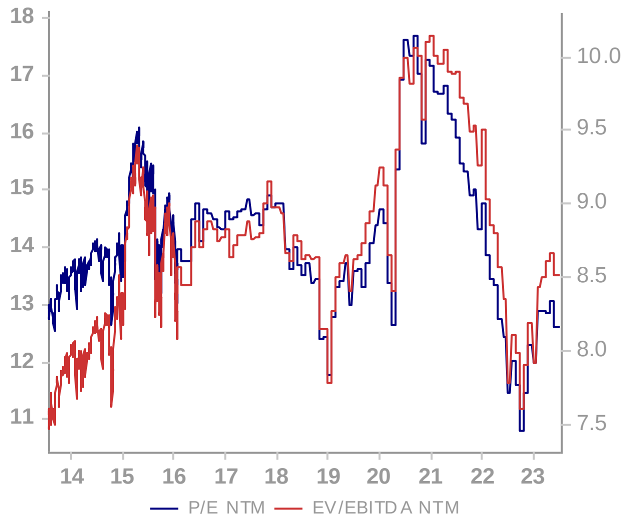
Figure 55: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

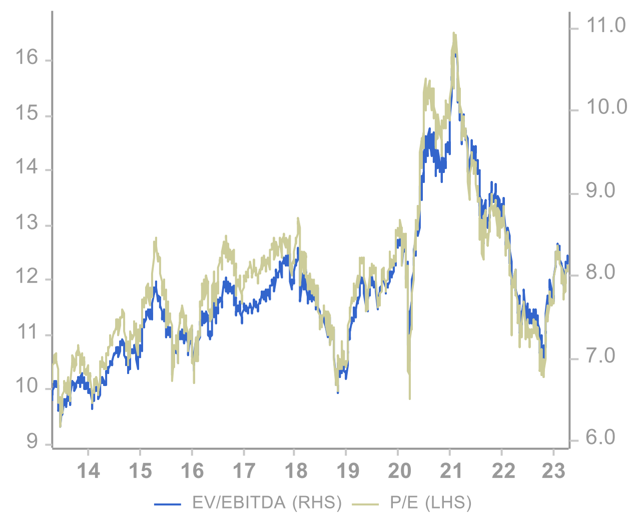
Valuation and Volatility Indicators

Figure 56: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



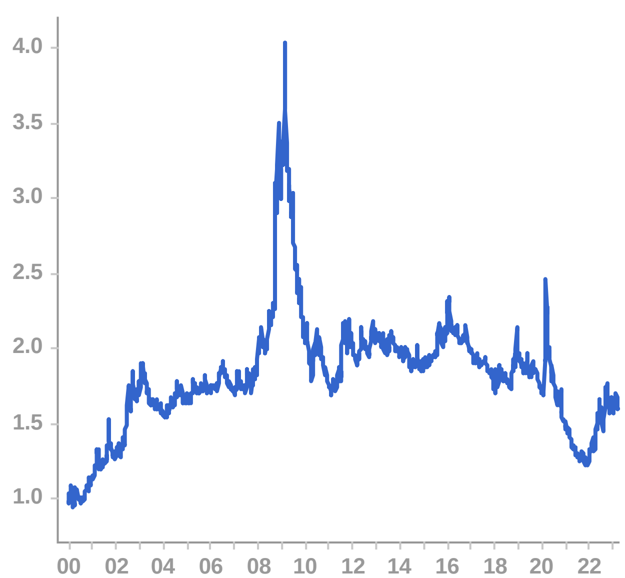
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 57: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



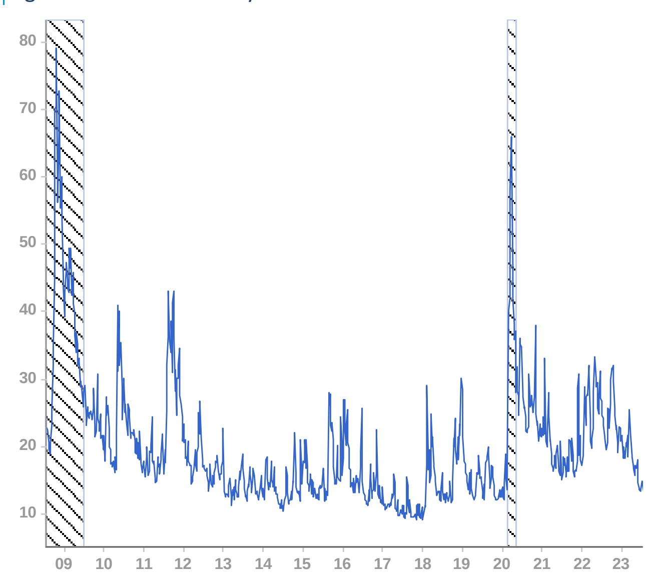
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 58: S&P 500 Dividend Yield



Source: FactSet

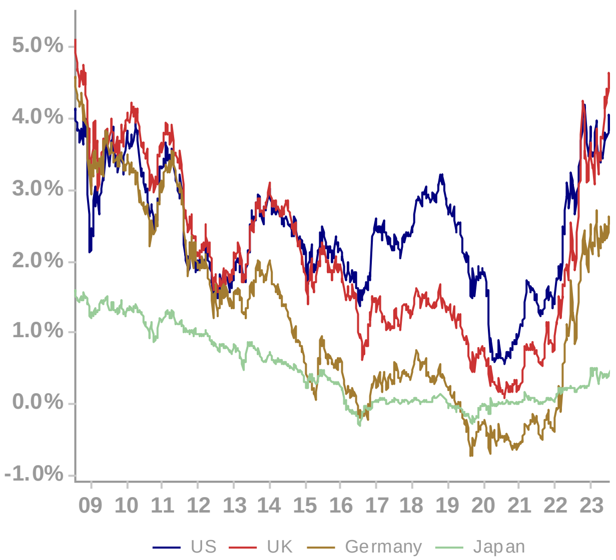
Figure 59: CBOE Volatility Index



Source: FactSet

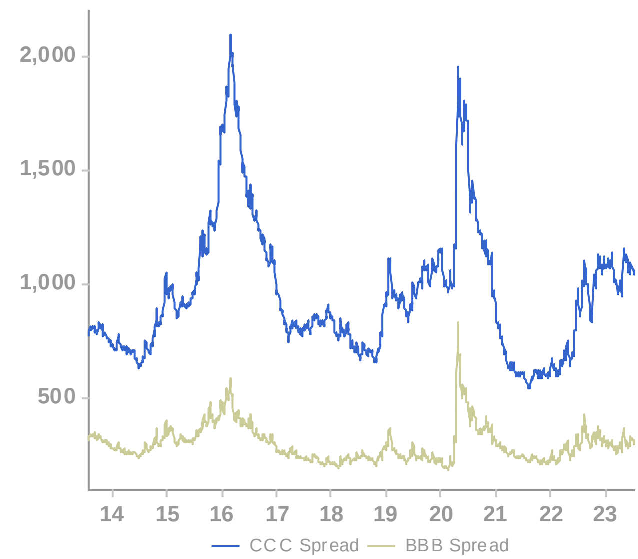
Bond Market Indicators

Figure 60: 10-Year Global Bond Yields



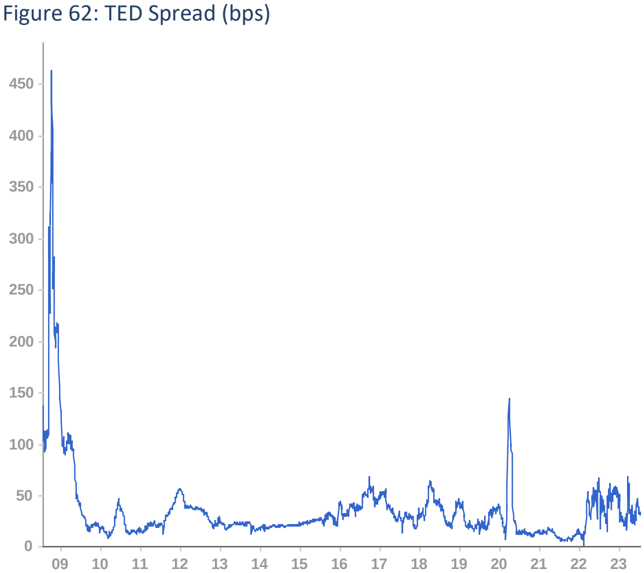
Source: FactSet

Figure 61: CCC and BBB Spreads (Option Adjusted)



Source: FactSet

Figure 62: TED Spread (bps)



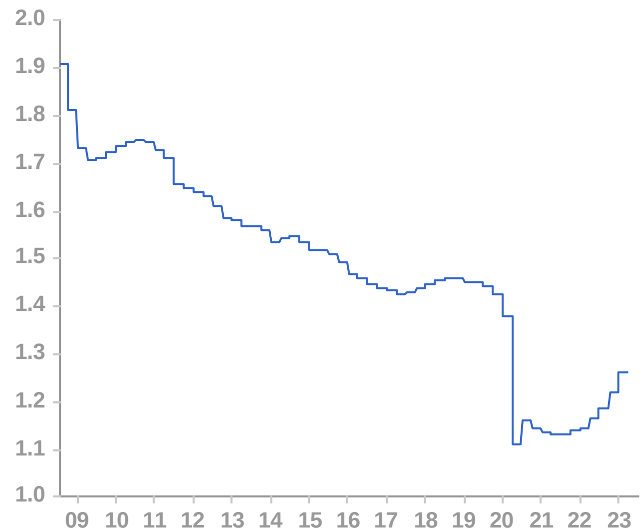
Source: FactSet

Figure 63: 10-Year Minus 2-Year Treasury

Source: FactSet

Liquidity and Other Indicators

Figure 64: Velocity of M2 Money Stock

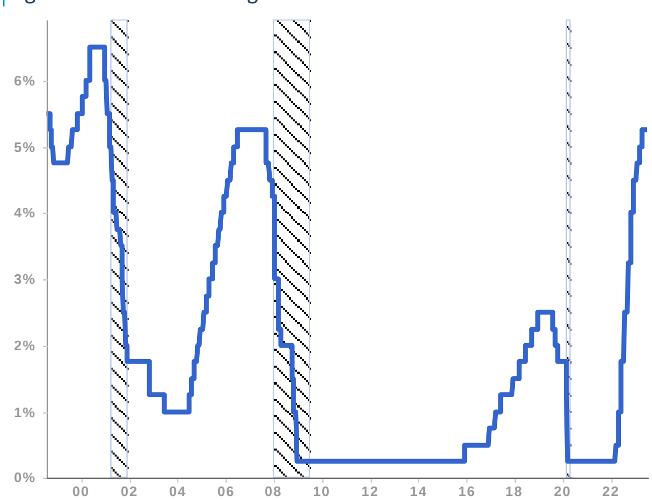


Source: FactSet

Figure 65: Loan Growth (Non-Financial, Private Sector)

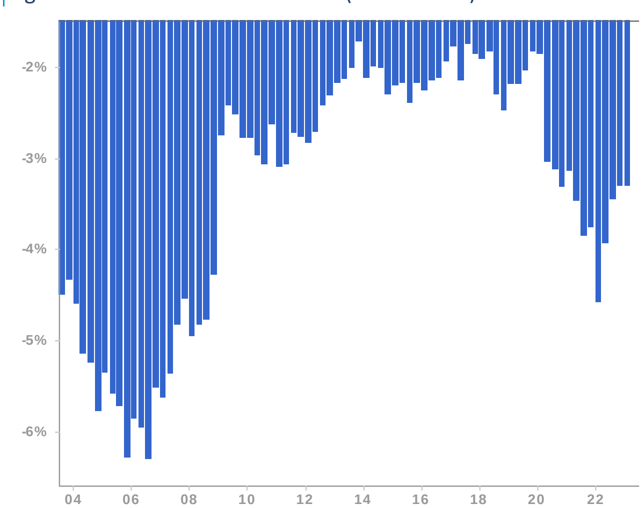
Source: FactSet

Figure 66: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 67: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

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Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of June 30, 2023; most other prices and yields are as of July 21, 2023.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

Our contact information:

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212-430-2240

brandt@rockingstoneadvisors.com
eric@rockingstoneadvisors.com

[i] Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

[ii] Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Such returns may be delayed in their reporting. Alternative investment returns custodied at Charles Schwab in tax deferred accounts may be subject to erroneous reporting. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

[iii] Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

[iv] Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO's valuation and total return was inflated as of the end of the first quarter.

[v] Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

[vi] Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

[vii] Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.