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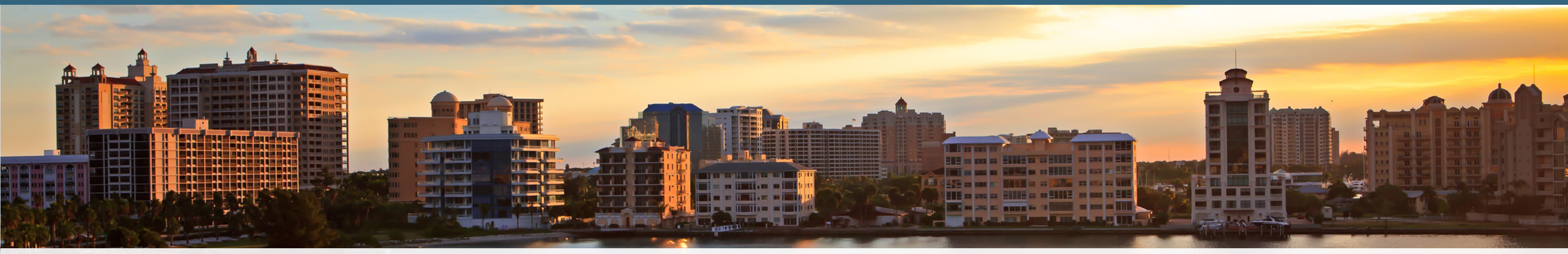

Q2 2022 Performance Report and Quarterly Considerations

June 30, 2022 Quarterly Economic Recap

As investors weighed the costs of continued inflation and the possibility of a fed-induced recession, the S&P 500 officially entered a bear market in the last quarter, dropping over 20% from its recent high. At its low, the S&P 500 was down (-23.6%) and the Nasdaq 100 (-32.7%) from the recent January peak before rebounding slightly. Excluding March 2020 (COVID-19), this hasn't happened since the Global Financial Crisis, where markets lost over half their value from 2007-2009.

In Q2 domestic markets were further impacted by central bank tightening and prospects of potential earnings decline, as the S&P 500 dropped (-16.4%), the Nasdaq 100 (-22.5%), and the Dow 30 (-11.3%). All S&P sectors finished negative for the quarter, with Consumer Discretionary leading the downtrend (-25.5%), as investors feared consumer wallets will be further squeezed. Consumer Staples drew down the least of all S&P sectors (-4.6%), as investors positioned portfolios more defensively in anticipation of an economic downturn.

Bonds continued to fall, with the U.S. Aggregate Bond index dropping (-5.1%) for the quarter alone and (-10.3%) YTD for 2022. This represents the worst start for investment grade bonds in the history of the index. As of June 30, a 1-year U.S. Treasury yielded 2.69%, while the 10-year U.S. Treasury yielded a slightly higher 3.01%. Increased yields were a byproduct of The Fed's recent series of rate hikes, including the most recent 75 basis point raise in June. The Fed is expected to raise rates another 1.75% by the end of the year.

Inflation made headlines in early 2021. The Fed suspected price increases were "transitory," and tightening monetary policy would only be enacted if necessary. Since then, of course, the landscape has changed dramatically, with the latest inflation reading + 9.1% for the 12 months ending in June. A print we've not seen in the US since the 1980's.

Entering Q3, investors will have a keen eye towards earnings reports, and the upcoming July Federal Open Market Committee (FOMC) meeting decision, where markets expect the Federal Reserve to raise interest rates by another 0.75%.

The Otto Group Quarterly Considerations

2022 has been a tough year for all investors, but more importantly, more so disappointing for the "traditional" investment portfolio. Bonds continue to be challenged alongside equity markets in the face of rising interest rates, crushing the traditional 60/40 portfolio utilized by more traditional investment managers.

At The Otto Group, we pride ourselves on taking a more active approach, often owning alternative asset classes outside of just stocks and bonds. These include, but aren't limited to, Real Estate, Real Assets (Farmland, Timberland, Infrastructure) and Middle Market Lending. Broadly speaking, these asset classes are typically less correlated to equity and fixed income markets, which we've been pleased to see Year-To-Date.

As we move into Q3, we expect volatility to continue as markets attempt to understand and digest the myriad of uncertainties we are facing today. Years like this remind us to be patient as investors and why we continue to remain diversified. We continue to find value in owning companies with strong balance sheets, high free cash flow, and business models less sensitive to weaker economic conditions.

We welcome any questions you may have about our outlook. We invite you to consider our complimentary Second Opinion Service as a review of your portfolio.

All our best,

The Otto Group at Hightower Advisors