FLIPPIN, BRUCE & PORTER

A BUSINESS OF CANTOR FITZGERALD INVESTMENT ADVISORS

April 2022

In a tumultuous quarter rocked by the start of war in Europe, sky high inflation, and notable monetary policy action, the S&P 500 fell almost 5%. If not for a late March rally, it would have been worse. It was worse for the Nasdaq, which slipped into bear market territory before a rally brought its first quarter return to around negative 9%. Value and dividend focused stocks significantly outperformed in what was the poorest quarter for stocks since the Covid lockdowns in 2020 that plummeted the economy into recession. The "R" word is again at the forefront of investors' minds as a flattening yield curve has raised anxiety about what lies ahead.

It is now clear that even without the Ukraine invasion and subsequent energy price spikes, the Fed's Open Market Committee was playing catch up on inflation. With 40-year high levels of inflation hitting consumers' pocketbooks, the last thing anyone needed was further fuel on that fire. But that is what we got when Putin decided to invade Ukraine, causing oil, natural gas and other commodity prices to soar. It was a perfect storm of limited supplies, likely exacerbated by tightened drilling regulations designed to fight climate change. This supply situation deteriorated when sanctions were imposed on Russian oil and gas by western countries. The Biden Administration has few options as it seeks to mitigate the economic damage that can be wreaked by high energy prices. Furthermore, time is not a friend to the President, as virtually nothing can be done in the near term to fix the problem. If President Biden softens his stance on exploration and production, he risks losing his progressive base. If he maintains restrictive policies, he risks a voter backlash in the mid-term elections this fall. His recent announcement of a release of 180 million barrels of oil from the Strategic Petroleum Reserve is an attempt to find some middle ground on the issue. We believe that short of a ceasefire agreement between Moscow and Kyiv, high energy prices will persist and will be a significant headwind for economic growth.

Additional challenges lie ahead when we consider what the Fed must do to rein in inflation. Its policy has gone from "inflation is transitory" to "expect seven interest rate increases this year" in just a few months. FOMC tightening has begun, and additional increases are a near certainty. That alone is often enough to spook investors. We believe because the rate increases are coming from a level near zero, the impact is not likely to be as significant as it would be if rates were much higher, say 4 or 5% for example. But the short end has moved sharply higher while longer bonds have moved up more modestly, and we are now witnessing yield curve inversion. This occurs when yields on short-term bonds rise above those of longer-term bonds, which can be a signal of future economic slowdown. It's possible the inversion is temporary, caused by a wartime flight to quality keeping longer dated bond yields low, but that remains to be seen.

These factors, along with lingering supply chain pressures, imply slowing economic growth lies ahead. We believe the most likely outcome is a deceleration of the rate of growth, not negative GDP. Consumer spending remains robust and is still

reflective of pent-up demand from Covid lockdowns. The latest ISM survey results suggest continued strong economic growth. Inventory levels remain very low, which should lead to increased activity as manufacturers work to meet orders. Furthermore, interest rates, while moving higher, are still relatively low based on historical levels. Even given these favorable factors, we recognize that economic risks have increased this year, and we are building that risk into our thought process as we make adjustments to our portfolio.

Our Equity & Dividend Plus portfolio performed very well in the challenging equity market environment of the first quarter. The portfolio benefited from exposure across all economic sectors with especially strong results from stocks in the Energy and Industrials sectors. Dividend paying companies tend to be favored during periods of rising interest rates, as they are generally large, stable businesses; and the cash flow generated from dividends is welcomed by investors. Additionally, the option premium cash flow was well above our target for the quarter, setting up a good start for the year. Portfolio actions included the sale of First Horizon following a stock price spike accompanying news that the bank may be acquired. We also exited Archer Daniels Midland stock at a favorable gain, primarily through the exercise of call options. We added a new position in Hanesbrands, the clothing company which owns the Hanes, Playtex, Champion, Maidenform and Wonderbra brands, among others. The company is making good progress on a restructuring plan which should help drive its earnings higher in the coming quarters. In the meantime, the stock sports a generous 4% dividend yield.

We encourage you to contact us with any questions you may have. For additional firm wide information please visit our website at www.fbpinc.com or call us at 1-800-851-3804. As always, we appreciate your continued interest in our firm.