TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

October 2022

Quarterly Insights

EXECUTIVE SUMMARY

Stocks And Bonds Down In Q3

In the Third Quarter, the domestic S&P 500 Index was down 4.88% and out-performed all major regions. There were no bright spots. China was hit very hard (down 22.50% in Q3 and down 31.23% year-to-date). Consumer Discretionary (+4.13%) and Energy (+1.16%) were the lone positive Q3 sectors. To combat high annual inflation (8.3% in September), the Fed raised its target rate by 0.75% on July 27 and a further 0.75% on September 21, bringing its current target rate to 3.00%. More rate hikes are expected. In Q3, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) fell 4.74%. Year-to-date, the index is down 14.61%.

How We Sidestepped The Largest Bond Decline In History

We have seen the largest bond decline in history. What caused bonds to fall so much? Rising interest rates. Remember that bond prices are inversely related to interest rates. As rates rise, bond prices fall. And through Q3, bond prices fell a lot.

At a time where the AGG was down almost 15%, the TriVant bond portfolio was down roughly 7%. We sidestepped half of the bond market decline. How did we do it? Key success factors included:

1. Our bonds had lower price sensitivity to rising interest rates than the AGG.
2. We had inflation protection: a 30% weighting to TIPS (inflation-protected bonds).
3. We avoided corporate bonds, the worst performing category in the bond market.

Third Quarter 2022

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Deliberate Investing

For Your

Peace Of Mind

Bonds Are Down Almost 15% Through Q3 - By Far The Largest Bond Decline In History

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, fell 4.74% in Q3, following a 4.69% fall in Q2. Year-to-date, the index is down 14.61%, by far the largest bond decline in history (annual AGG returns are positive in 43 of 47 years). What caused bonds to fall so much? Rising interest rates. As rates rise, bond prices fall (yields rise). Year-to-date, the Fed has raised its target rate from zero to 3.00% to combat high inflation. More rate hikes are expected.

Our Bond Portfolio Sidestepped Half Of The Bond Market Decline

For many investors, rising interest rates have wreaked havoc on their bond market exposure and overall portfolio performance. Fortunately this is not the case for TriVant clients - we have successfully navigated the bond market storm. Through active bond management, we made key adjustments that allowed us to sidestep half of the bond market decline. While the broad bond market is down almost 15%, the TriVant bond portfolio is down roughly 7%. This is the greatest bond out-performance we have ever achieved.

Our Key Success Factors: Lower Duration, Inflation Protection & No Corporate Bonds

"Bond duration" (measured in years) gauges bond price sensitivity to changes in interest rates. Remember that bond prices are inversely related to interest rates. Bonds pay interest (coupon payments) at regular stated intervals. The shorter the term to a bond's maturity (the lower the duration), the less the number of payments remaining and the less sensitive that bond's price is to interest rate movements. How sensitive have bonds been to rising interest rates? Very sensitive! This year the 10-Year Treasury bond yield rose 2.31% through Q3 and its bond price fell almost 17%!

10-Year Treasury Yield - 2022 Through Q3

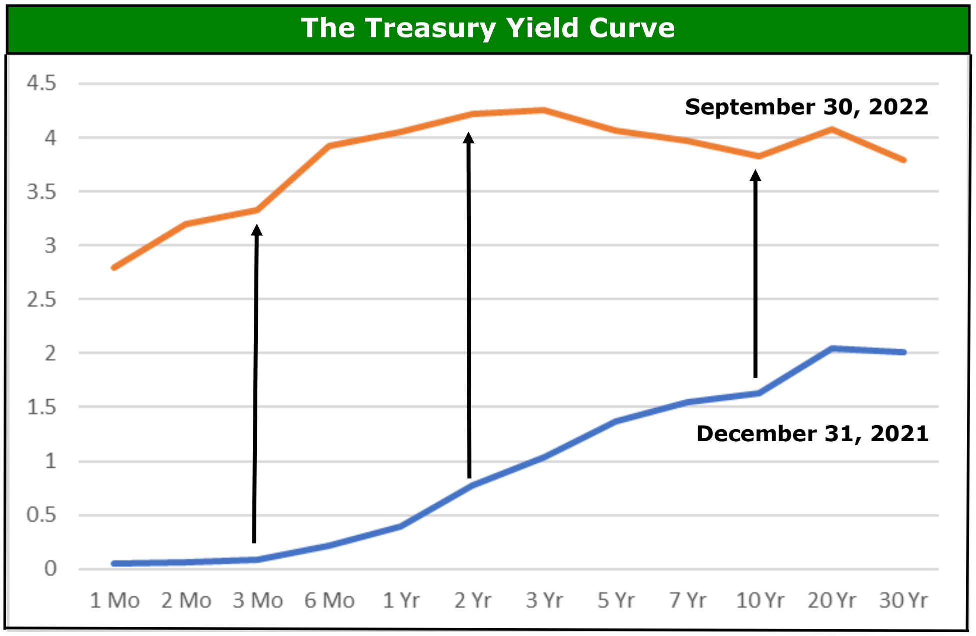
The TriVant bond portfolio had lower average duration than the AGG and was less sensitive to rising interest rates. We had inflation protection via Treasury Inflation Protected Securities (TIPS), interest rate protection via Floating Rate Securities, and we avoided corporate bonds. Most of our bonds were AAA (highest quality).

Summary of Key Success Factors: How We Out-Performed By 7.5% In Bonds Through Q3

CHARACTERISTICS	**AGG Bond Index**	**TriVant Bond Portfolio**	
Average Duration	7.0 years	4.5 years	
Bond Quality	High	Higher Than AGG	
PORTFOLIO COMPONENTS	**AGG Bond Index Weighting**	**TriVant Bond Portfolio Weighting**	**Component Performance YTD**
Treasurys	41% (longer avg. duration)	25% (shorter avg. duration)	- 15% (7-Year Treasurys)
Short-Term TIPS	0%	30%	- 3%
Floating Rate Securities	0%	10%	- 2%
Mortgage-Backed Securities	27%	35%	- 14%
Investment Grade Corporates	32%	0%	- 19%
	100%	**100%**	

Good News: Interest Rates Are Rising

The yield curve has considerably shifted upward year-to-date. We view higher interest rates as good news for investors. Higher rates allow for better portfolio positioning regarding disciplined asset allocation, risk control, and meeting income needs. As your portfolio manager, we seek safe and adequate income-producing assets. The lower the yield environment, the tougher they are to find. For the last two years, we have been in such a low interest rate environment that it was literally impossible to find attractive bond investment opportunities without assuming a bad risk/return tradeoff.



There Are Now Greater Investment Opportunities In Bonds

With higher interest rates, the risk in the bond market has declined considerably and there are greater investment opportunities. Investors can earn a relatively safe 4% return (not that long ago, a safe return was 1%). We are starting to see bond opportunities that exceed a 5% return with minimal investment risk. A balanced portfolio (a mix of stocks and bonds) now offers an increasingly attractive risk/return tradeoff.

Where Is Your Cash?

The Fed Funds Rate was zero from April 2020 to March 2022. For a long time, no one paid attention to the negligible rate of return for cash. With rate hikes totaling 3.00% year-to-date, yields on 10-Year Treasurys have more than doubled and 3-month certificates of deposit (CDs) have tripled. It is time to pay attention. If you have not yet done so, check to see if your cash holdings are earning adequate returns.

Charles Schwab offers a large secondary market for CDs as well as short term bonds. Right now Schwab is offering roughly 3% for CDs and 2% for money market funds. You do not have to hold cash at your bank. Rather, you can integrate cash holdings within your Schwab accounts. Perhaps the best rate of return is more advantageous through Schwab than your bank - contact us to find out.

All Major Regions Down In Q3

In the Third Quarter, the domestic S&P 500 Index was down 4.88% and out-performed all major regions. There were no bright spots. China was hit very hard (down 22.50% in Q3 and down 31.23% year to date). Consumer Discretionary (+4.13%) and Energy (+1.16%) were the lone positive Q3 sectors.

Equity Index Performance

Index	Q3 2022	2022 YTD
S&P 500 (Domestic)	**(4.88%)**	**(23.87%)**
MSCI EAFE (Foreign) *	**(9.36%)**	**(27.09%)**
MSCI Emerging Markets	**(11.57%)**	**(27.16%)**
MSCI EMU (European Monetary Union)	**(10.53%)**	**(33.11%)**
MSCI Japan	**(7.67%)**	**(26.38%)**

* Europe, Australia and the Far East

The US Dollar Is The Strongest It Has Been In 20 Years

The portfolio has benefited from having over 90% US stock exposure amidst a rising US Dollar. There are two main reasons why the US Dollar has appreciated so much:

1. Higher US interest rates have made the US Dollar relatively attractive as compared to other currencies.
2. The US Dollar is a "safe haven" in times of global economic challenges and political turmoil.

The US Dollar Index is a relative measure of US Dollar strength against a basket of influential foreign currencies. Created in 1973, the index is at its highest level in 20 years.

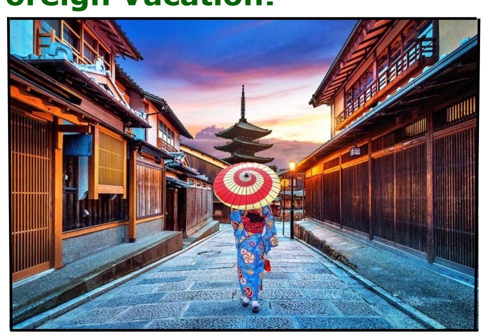
The Recent Appreciation Of The US Dollar

USD To Currency (as at Sept. 30)	90 Days	180 Days	360 Days
British Pound	8.99%	17.80%	21.97%
Canadian $	7.36%	10.55%	9.68%
Chinese Yuan	6.20%	12.21%	10.37%
Japanese Yen	6.53%	18.69%	30.53%
Euro	6.83%	12.86%	18.47%
Australian $	7.84%	17.07%	13.87%

Source: Telemet

The US Dollar Index (source: Telemet)

This Is A Great Time To Take A Foreign Vacation!



Bonds Fall Further In Q3

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, fell 4.74% in the Third Quarter, following a 4.69% fall in Q2. Year-to-date, the index is down 14.61%, the largest bond decline in history. To combat high inflation, the Fed further raised its target rate by 0.75% on July 27 and 0.75% on September 21. More rate hikes are expected.

Key US Interest Rates	June 30, 2022	Sept. 30, 2022	Change
Federal Reserve Board Funds Target Rate	1.50% - 1.75%	3.00% - 3.25%	+ 150 basis points
2-Year Treasury (Constant Maturity)	2.92%	4.22%	+ 130 basis points
5-Year Treasury (Constant Maturity)	3.01%	4.06%	+ 105 basis points
10-Year Treasury (Constant Maturity)	2.98%	3.83%	+ 85 basis points

Series I Bonds Revisited - A Screaming Deal

Exactly one year ago (Quarterly Insights October 2021) we suggested our clients purchase Series I Savings Bonds. Many did. Here is a recap of that discussion:

Series I Savings Bonds, issued and backed by the US government, present a unique opportunity to earn a meaningful risk-free rate of return. The bonds are issued with a base (fixed) interest rate and a semi-annual adjustment for inflation (based on the Consumer Price Index for Urban Consumers), which together give a composite rate of return. You have full protection. If inflation is zero or negative (deflation), the composite rate is set to a minimum of 0%.This is why the Series I Savings Bonds are risk-free - you are guaranteed not to lose money. There are also tax benefits.

The Series I Savings Bonds present an opportunity to earn risk free income at a significantly higher rate than Treasury Inflation Protected Securities (TIPs), certificates of deposit (CDs) or money market accounts. To purchase these bonds, you have to establish an account at TreasuryDirect.gov. The bonds get registered under each individual's social security number.

Maximum Purchase: $10,000 annually per individual

Given the high rate of annual inflation (8.3% as reported by the US Labor Department on September 13), the Series I bonds are even more of a "screaming deal" than one year ago! Here is the current offering:

CURRENT SCENARIO (bonds issued from May 2022 Through October 2022)

Base rate: 0%

Semi-Annual Adjusted Inflation Rate: 4.81% (annual rate of 9.62%)

Total Annual Return (Combined Rate): 9.62%

Frequency of Interest Payments: Monthly

If you purchased your maximum allowed bonds for 2022, you are "locked in" to the inflation adjustment.
If you have not purchased your maximum bonds for 2022, we suggest you do so before October 27.
If you have not purchased any bonds so far in 2022, we suggest you do so before October 27.

A new rate will be published on November 1 and we expect it to be lower (hence the October 27 cutoff).

There is also a "gifting strategy" for spouses where you can effectively exceed the annual purchase limit.

For assistance in establishing an account on TreasuryDirect.gov and/or further discussion regarding the gifting strategy, please contact us anytime for assistance.

In Times Like These, Patience Is A Virtue

In a perfect world, you would like to be in the market when it is good and out of the market when it is bad. We are not in a perfect world! There are numerous studies that show it is a low probability of success to try and time the market by jumping in and out. We are not saying that under certain conditions we would not make dramatic adjustments to your portfolio. We are saying that it is a highly risky proposition to be out of the market in cash. The best game plan is to be disciplined regarding your investment strategy. Be there for the gains when they occur.

We have faith in the market long-term. Returns become much more predictable the longer the investment time frame.

"The stock market is a device which transfers money from the impatient to the patient."

Warren Buffett
January 26, 2022

We made several portfolio adjustments in Q3 because the market has some good buying opportunities. The average length of a bear market is 9.5 months, roughly the time frame we are at right now. While we know our timing will not be perfect, we believe it is time to start raising the level of risk in the stock and bond portfolios in anticipation of a market bounce.

We bought the well-established Simon Property Group Inc (symbol: SPG; $29 billion market cap), the largest mall real estate investment trust (REIT) in the US. The stock price was beaten up to a point where we viewed SPG as having high upside potential. Its 8% dividend was also favorable. We also bought global financial services leader Citigroup Inc (symbol: C; $82 billion market cap) and microchip leader Advanced Micro Devices (symbol: AMD; $104 billion market cap).

In the bond portfolio, we bought iShares Investment Grade Corporate Bond Fund (symbol: USIG) because we wanted some high quality corporate bond exposure after not having any for the last few years. USIG has an attractive yield to maturity that exceeds 5%.

We sold Boston Beer (symbol: SAM), a "consumer defensive" company that is a leader in US high-end malt beverages, and Globus Medical Inc (symbol: GMED), a medical device company. Both companies did not perform to expectations and we wanted to realize the capital losses. Additionally the companies were in sectors (Consumer Staples and Health Care) that we want to under-weight going forward. Sector rotation (not stock performance) was also the reason we sold Procter & Gamble Co (symbol: PG), a "consumer defensive" company that is a world leader in consumer products.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

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