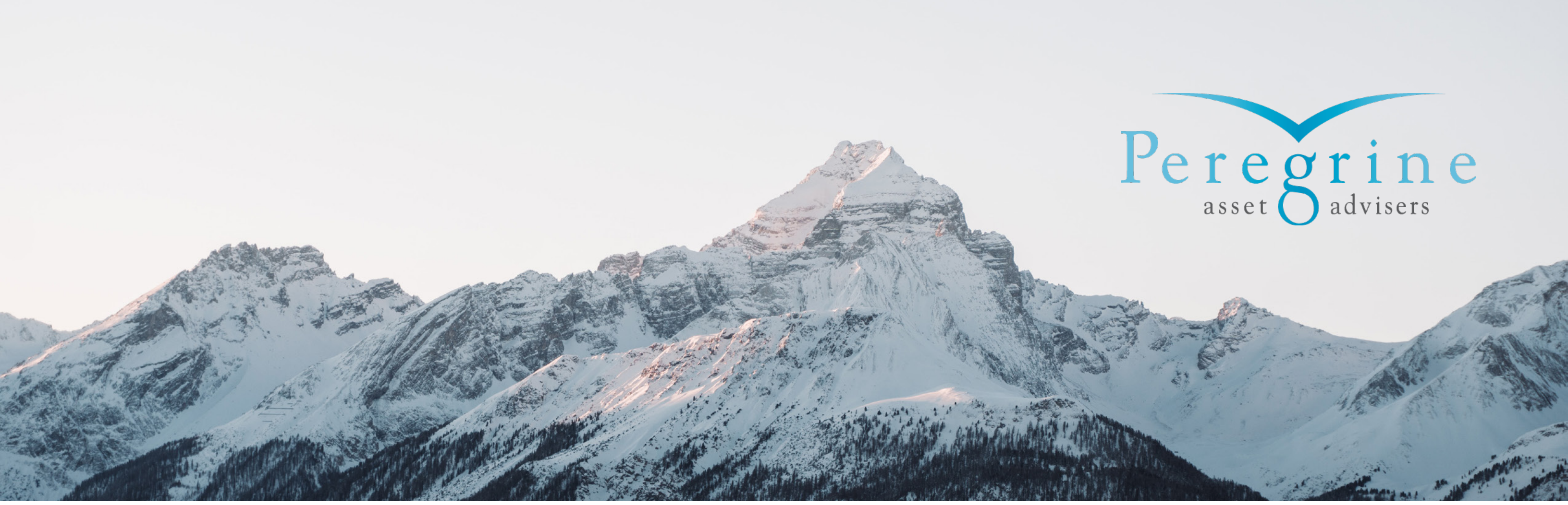

4TH QUARTER 2022 MARKET OVERVIEW

GOODBYE 2022

The fourth quarter brought a welcomed respite from the bumpy downtrend that plagued the markets, all year long. After the brutal month of September, in which the S&P 500 fell 9.3%, the index held on for a 7% gain for the fourth quarter, reversing three consecutive negative quarters. Maybe things are finally improving for investors.

Key areas of worry are lifting. Inflation gauges began to rollover and the latest figures show inflation running at 4% compared to 9% earlier in the year. While the Fed continues its dogmatic scheduled interest rate hikes, long term rates on things like mortgages, appear to have peaked in October. In addition, many economists predicting a recession in 2023 may have to reconsider their forecast after a 3% GDP gain for the third quarter.

The fourth quarter highlighted a fierce battle between the bulls and the bears. After the initial shock to the stock market in the first six months of 2022, investors are still trying to figure out where fair valuations for stocks should be. Are things getting better or are they getting worse? For now, on the heels of most recent gains, the bulls have the upper hand.

Turning to the stock market performance for 2022, the S&P 500 index fell 19.4%, its worst year since 2008. It is worth noting there was considerable differentiation throughout the market. The NASDAQ dropped 33% while the DOW fell only 7%. The formerly and long beleaguered energy sector gained of 64.17%, while the vaunted tech and communications sector declined 32%.

A broad index of the market, the Russell 1000, lost almost $11 trillion in market value. About $5 trillion of this loss came from the six largest companies, led by Apple, which lost $846 billion in market value. For years, these six companies were considered a “one way street to making money”. Now, this view is being challenged. As famed investor Howard Marks points out in his most recent memo, “Perceived quality (is not) synonymous with safety or with successful investment."

A BETTER TIME AHEAD

In substantive terms, the outlook for investors to make money in 2023 is far better than at the outset of 2022.

First of all, interest rates on safe, cash equivalent investments, like treasury bills earn over 4%. This rate was essentially zero at the beginning of 2022, all the way through May. Now, investors can earn a decent return on cash and short term investments and far above levels from recent years.

Secondly, stocks carry less risk since they have now pulled back to more reasonable historical price levels. This is, albeit, a simplified view. But, now that a chunk of the torrid appreciation from 2019-2021 is erased, stocks are cheaper today, in absolute terms.

...CONTINUED ON PAGE 2

...CONTINUED A BETTER TIME AHEAD

When investment accounts can earn a risk free return on cash and concurrently hold stocks with lower risk, the probability of making money and potentially earning a high return, increases.

For these reasons, we expect Peregrine accounts to make a good return in 2023.

Meanwhile, stock market forecasts from a camp of experts are almost unanimously muted for 2023. History teaches us to be skeptical of such forecasts, particularly when there is consensus.

In reviewing the predictions from 23 stock brokerage firms, Barrons summarized by predicting a down first half, followed by a rise in the second half. The mean forecast by these brokers, almost in unison, is for the S&P 500 to be 4100 by year end. This represents a paltry 6.4% gain from today's level. We might want to be on watch and appropriately positioned for an upside surprise.

Last year, this same group of esteemed analysts predicted a 4% gain before things unraveled to the downside. We know from experience this brethren of supposed experts usually miss their mark when they all have the same target.

Looking further, probable historical returns can also support a positive approach to stocks. Substantial excess that was in the market at the end of 2021, has now withered. Since 1928, the market has gained between 0% and 20% 38 times out of 94 years, or 40% of the time. There were 26 years the market gained over 20% and 6 years the market lost more than 20%(We narrowly avoided this dubious distinction in 2022!) Conservative wisdom holds that the stock market should gain between 0% and 20% for 2023 and more importantly, not suffer consecutive down years.

PEREGRINE STRATEGY

Peregrine accounts are conservatively positioned but queued to adopt a more aggressive investment stance when it appears more evident the market will stage an upside surprise.

Currently, we favor holdings in treasury bills and are weighted accordingly throughout managed accounts, but we are preparing for new investments in the stock market.

The overarching principle for Peregrine accounts has shifted from the third quarter and is more sanguine about the stock market, especially during the upcoming first quarter.

Many of the stocks in the industrial sector hold some of the brightest characteristics in the market. Caterpillar and Boeing stocks are examples that distinguish themselves. These types of companies did not capture the love from crowds of investors during the bull market, yet these companies might benefit most from a falling dollar, lower materials costs, and accelerating robust demand from industry.

DAN BOTTI
Investment Adviser
January 5, 2023

PEREGRINE ASSET ADVISERS

9755 SW BARNES ROAD, SUITE 610 • PORTLAND, OREGON 97225

503.459.4651
PEREGRINEAA.COM