Toroso Market Commentary July 2022

Authors:
David Dziekanski, Portfolio Manager
Michael Venuto, CIO

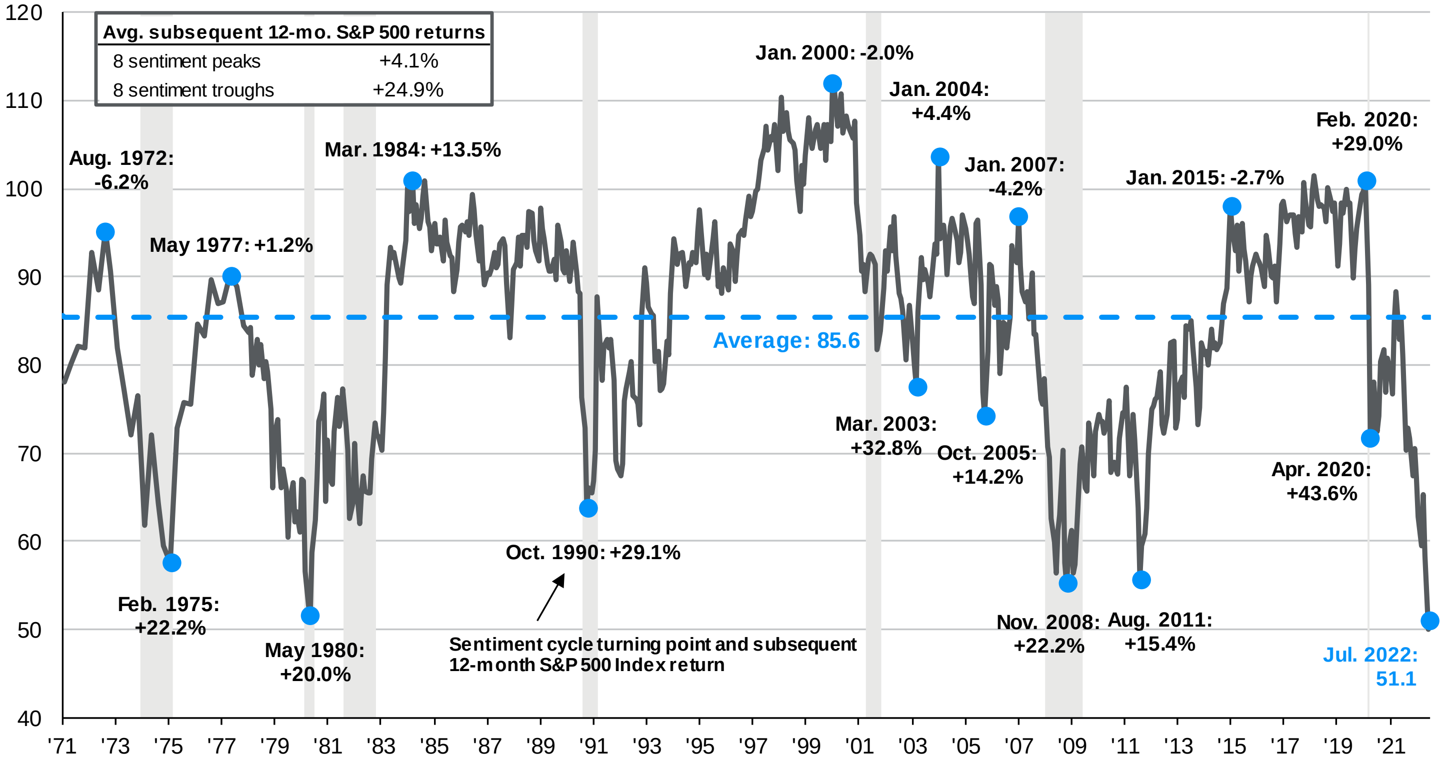
Guidance Systems Down

Central banks and companies around the globe are hesitant to provide guidance. With Q2 GDP estimates coming in at -0.9%, we have entered a technical recession, although not a political recession apparently. Many have wondered how the Fed expects to effect supply issues in both energy and food. The scary answer? They know they can't. The Fed's actions hope to make you think twice about spending. They cannot affect supply, but they can slow the velocity of money to the point where demand will come down and prices will balance out. The Fed is playing a game of chicken. On one side is the value of our collective assets; on the other is our demand for all things, especially food and energy. Central banks are fighting for their credibility, and reputation, which is a dangerous place to be making such decisions from.

It is quite an odd year. The 60/40 portfolio had its worst start to the year ever. Everyone but aggressive, primarily equity investors felt pain in terms of returns, not too dissimilar to 2008. Inflation actually hurts a greater portion of the population than just a traditional recession. In a traditional recession, unemployment may tick up to 8-10%, mostly affecting those who lose their jobs. Inflation effects everyone's purchasing power, which is a foreign concept to most market participants in America. This is white collar recession, not a blue collar one. Your bonds and cash aren't safe, but the US dollar is king. The dollar and the euro reached parity, exporting our inflation to economies around the globe. It's a confusing time to be an investor. Sentiment has never been lower, and while we are raising rates at the largest magnitude in over 15 years, how much worse can the market get if employment stays relatively high?

Consumer Confidence and the Stock Market

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.

Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – U.S. Data are as of July 27, 2022.

Two Global Economies

World trade has been fractured. There are now two almost independent trade channels that consist of NATO countries plus NATO friendly countries on one side, and Russia, China, India, Brazil, Saudi Arabia, etc on the other. This will have long term ramifications on many things. Specifically, metals or commodities within a supply chain, or partially dethroning the US as the global reserve currency. It could, and should, in theory, hurt productivity and therefore margins. This all comes at an interesting inflection point where consumers / market participants have seen their disposable income shrink due to inflation, while corporations still boast near record profit margins.

Inflation

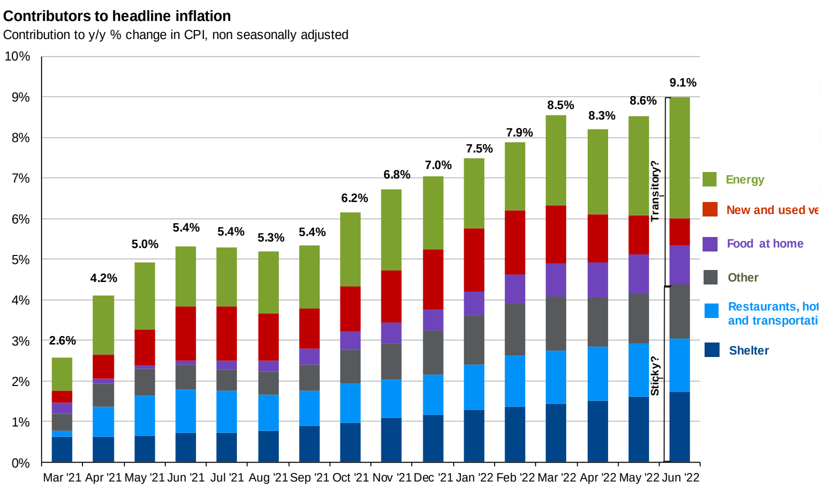
Housing prices are declining, and supply is drying up. Anyone lucky enough to lock in a sub 3% 30-year mortgage of any kind has a ceiling on most of their cost of shelter hedged, and are now prisoners to their mortgage. Your costs may be lower than a fresh mortgage, but you are also unable to move without significantly lowering your standard of living or increasing your interest payments by about 2x. The uniform advancement we saw in inflation numbers seems to be waning. Everything from used cars to Rolex watches seem to be softening in price. PCE was reported at the end of July coming in at 6.8%, surpassing March's number, and the highest point since the mid-80s. While we don't anticipate wages to keep up pace ala 1970s inflation, we do have a shortage of service workers and a lack of immigration where wage pressure for service jobs may continue for quite some time. There is likely to be continued demand for blue collar labor and stagnation for white collar wages. Jobless claims, especially in the rustic belt have begun to creep upwards. We're seeing some signs of softening in the housing markets as June numbers on median single-family houses were down 9.5% May to June and supply has tripled.

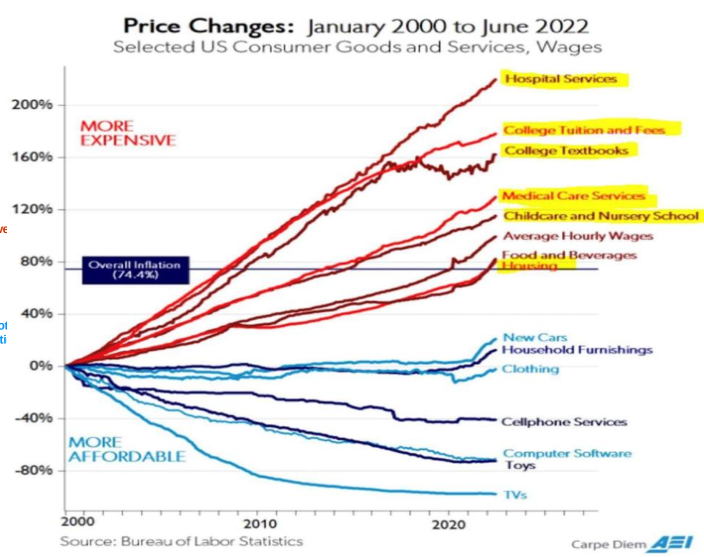
Lasting Inflation

- Shelter
- Blue collar Wages
- Innovation metals (although Elon Musk says declining)

Transitory Inflation

- Energy
- Food
- White collar Wages
- Semiconductor chips





The Fed Twist Part II

What many of the new post-Covid market participants are realizing is that expectations matter more than current results. So much so that oil futures went from being priced below zero in the thick of Covid, to the only thing that has slowed down large-cap growth's global dominance over a 15-year period. Markets are telling us the next meeting that is pricing less than a 100% chance of rate hikes is June 2023. Expectations are for year-end rates to stand around 3.25-3.5%, 100 basis points more than current rates. The yield curve is teetering on the infamous inverted position across many timelines, but not quite there yet. It will be interesting to see how much of the rate hike from here on out moves longer term rates.

MEETING PROBABILITIES

MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400
9/21/2022	0.0%	0.0%	0.0%	74.0%	26.0%	0.0%	0.0%	
11/2/2022	0.0%	0.0%	0.0%	0.0%	73.2%	26.5%	0.3%	0.0%
12/14/2022	0.0%	0.0%	0.0%	0.0%	41.8%	46.6%	11.5%	0.1%
2/1/2023	0.0%	0.0%	0.0%	0.0%	36.6%	46.0%	15.9%	1.5%
3/15/2023	0.0%	0.0%	0.0%	13.0%	39.9%	35.3%	10.8%	1.0%
5/3/2023	0.0%	0.0%	4.7%	22.8%	38.2%	26.4%	7.2%	0.6%
6/14/2023	0.0%	2.0%	12.5%	29.5%	33.1%	18.1%	4.4%	0.4%
7/26/2023	0.7%	5.4%	18.0%	30.6%	28.3%	13.7%	3.1%	0.2%

TOTAL PROBABILITIES

MEETING DATE	DAYS TO MEETING	EASE	NO CHANGE	HIKE
9/21/2022	54	0.00 %	0.00 %	100.00 %
11/2/2022	96	0.00 %	0.00 %	100.00 %
12/14/2022	138	0.00 %	0.00 %	100.00 %
2/1/2023	187	0.00 %	0.00 %	100.00 %
3/15/2023	229	0.00 %	0.00 %	100.00 %
5/3/2023	278	0.00 %	0.00 %	100.00 %
6/14/2023	320	0.00 %	2.05 %	97.95 %
7/26/2023	362	0.66 %	5.43 %	93.91 %

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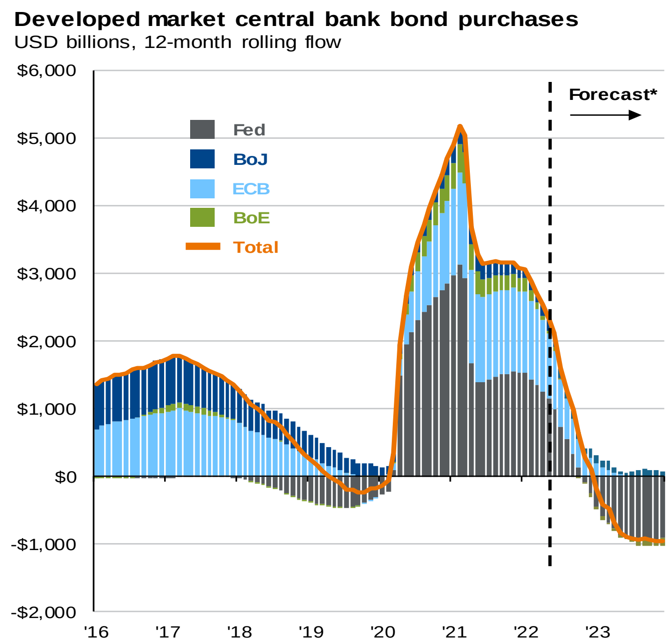


Source: BIS, Bloomberg, FactSet, J.P. Morgan Asset Management; (Left) Bank of England (BoE), Bank of Japan (BoJ), European Central Bank (ECB), Federal Reserve System (Fed), J.P. Morgan Global Economic Research. *DM bond purchase forecasts are internal assumptions based on government bond purchases as outlined in the most recent monetary policy announcements from the BoE, BoJ, ECB and Federal Reserve through December 2023. **Rate hikes shown are cumulative and reflect hikes delivered year-to-date. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and are not a reliable indicator of future performance. Given the inherent uncertainties and risks associated with forecast, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

Guide to the Markets – U.S. Data are as of July 27,

An Eye on Advertising for Guidance on the Economy

Smaller social media platforms are currently getting crushed in quarterly earnings, while bigger players such as Amazon and Alphabet are holding up much better. There was some concern when some of these smaller platforms started announcing results that overall advertising had taken a hit across the board. Stronger results from Amazon and Alphabet show that either a) companies continued to spend on their largest platforms, or b) investor protection actions taken by platforms such as Apple's app store have made it so those advertising dollars are not nearly as efficient unless spent on a closed-circuit ad to sale platform offered by Amazon or Alphabet. A wide spread drop in advertising spending would inevitably lead to further economic pain, but for now, it has been avoided. Alternatively, Meta's fall from grace has plunged it all the way out of growth category into value indexes.

Oil Explorers and Crypto Miners are not so Different

Almost all equities peaked in early June before this most recent rally in late July. Defensive / inflationary assets such as utilities and energy companies took the plunge as well. The devil is always in the details, and while energy may be front and center in both political and geopolitical conversations, the printing press is on and these companies are healthier than ever. Record low debt levels, in part to ESG mandates, and record high Free Cash Flow means oil does not need to rise for these companies to perform strongly - it only has to avoid a significant decline. Whether they are miners of precious metals, commodities, or crypto-currencies, miners are miners. Post drawdown, this area may be a great way to hedge further geopolitical risk.

Divergence Between Equity and Fixed Income Volatility

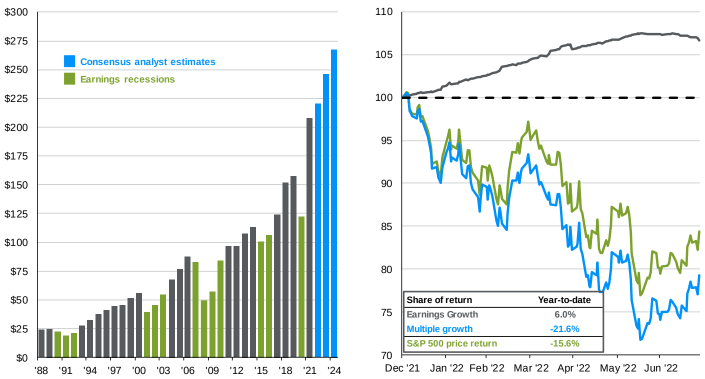
In comparing the MOVE Index to the VIX Index over the last 5 years, you can see how drastic the divergence is between volatility in the equities vs fixed income. Dislocations like this have happened in the past. The gap almost always closes, meaning volatility in fixed income would have to drop, or volatility in equities could skyrocket.

US Equities – Stock Picker's Paradise

iShares Core S&P Total US Stock Market ETF (ITOT) ended July -13.92% for the year, bouncing back from lows in early June. The fall of the megacap tech giants, measured by QQQ or MGK fared much worse, down over 20% for the year. Small caps, measured by the iShares Russell 2000 ETF (IWM) returned -15.48% % for the year, and value trounced growth by over 12% on the year. ARKK is down a staggering -52.28% Until early June, defensive sectors such as utilities and energy companies were very strong, but the most recent leg of market shakeout didn't leave anything in its wake. The technical recession has begun and GDP may be hit again, but analyst estimates and guidance seem to be moving very slowly. Revisions here could significantly hurt earnings that are near all-time margins. As we mentioned in the intro, our disposable income is under attack; it is hard to not see similar effects on companies' margins.

In the depths of the pandemic, we wrote about zombie companies that were going to be kept afloat with all of the stimulus. That is now over. From retailers like Bed Bath and Beyond to cruise ships, there will be companies and subsectors with significant earnings erosion. Once darlings of the tech world, companies in, for example, the streaming space, or buy now, pay later space have seen their market caps absolutely rocked. The prospect of fewer customers tomorrow than today is now a reality for many former unicorns. The right stock pickers in almost all areas of the US market can add value. Oil explorers are a great option, and also a nice potential geopolitical hedge.

Profit Margins and Input Costs



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from Standard & Poor's and FactSet Market Aggregates. *Earnings and multiple growth are both year-to-date percent changes of next twelve-month estimates. Past performance is not indicative of future returns.

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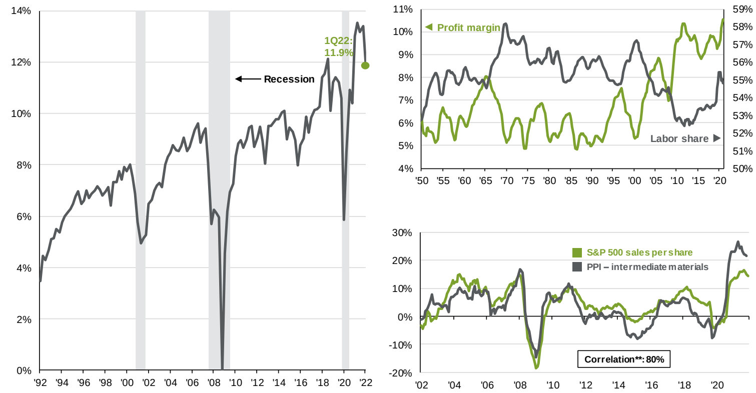

Source: BEA, Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not indicative of future returns. (Right)*Labor share of income and profit margins are shown on a 4-quarter moving average basis. Compensation and adjusted after-tax corporate profits are shown as a percentage of real GDP, SAAR. **Correlation is calculated using monthly y/y percent changes over the last 20 years between S&P 500 sales per share and PPI for intermediate materials.

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- Ballast Small/Mid Cap ETF (MGMT)
- Distillate U.S. Fundamental Stability and Value ETF (DSTL)
- Cambria Shareholder Yield (SYLD)
- Alpha Architect US Quantitative Val (QVAL)
- iShares US Oil & Gas Exploration & Production ETF (IEO)
- Amplify Inflation Fighters (IWIN)
- Sofi Gig Economy (GIGE)
- Amplify Transformation Data (BLOK)
- Franklin Disruptive Commerce (BUYZ)
- BlackRock Future Innovators (BFTR)
- Innovator Loup Frontier Tech (LOUP)
- ARK Genomic Revolution (ARKG)

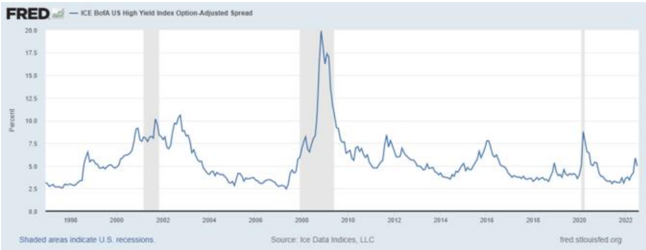
International Equities

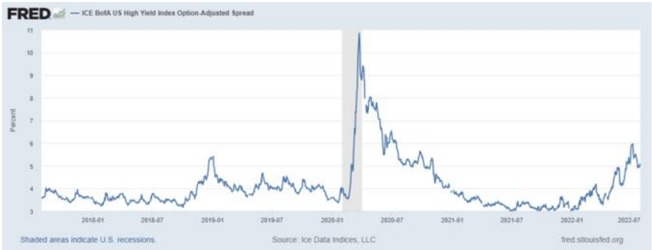
The US continues to be the best house in a bad neighborhood, even from a debt perspective. Many forget how much debt is held at the country level, which compares to states in the US. As a percentage of GDP, US states have much cleaner balance sheets than individual countries within the European Union. US banks don't hold municipal debt on their balance sheet, while European banks hold massive amounts of individual country debt. A shortage of commodities of all sorts, most notably natural gas, puts Europe in a tight spot heading into winter. From a fundamental perspective, Europe has never been cheaper. But similar to stocks in the US, Europe is a stock pickers paradise, only with significantly more zombies. Margins may erode, making discounted fundamentals look less discounted. The iShares MSCI EAFE ETF (EFA) returned -14.91% through July, while the iShares MSCI Emerging Markets ETF (EEM) returned -17.82%. Seeking deep value and high growth in the emerging market space makes sense, and very selective stock pickers for the broader developed - ex us world.

Broad	Narrow
• WisdomTree EM ex-SOE (XSOE) • FlexShares MS Dev Mkts ex US Factor Tilt (TLTD) • Distillate Int Fundamental Stability & Value (DSTX) • WisdomTree Emerging Market Small Cap Dividend ETF (DGS)	• Davis Select International (DINT) • Emerging Markets Internet & Ecommerce ETF (EMQQ) • India Internet & Ecommerce ETF (INQQ) • KraneShares Emerging Markets Consumer Technology ETF (KEMQ)

Fixed Income

iShares Barclays Aggregate Bond ETF (AGG) finished July down -8.09% on the year. Long term treasuries, measured by PIMCO 25+ year zero coupon US Treasury ETF (ZROZ) is down -27.16% on the year. High yield has held up relatively well, as much of its composition is focused in the energy sector. One of the biggest risks in this market continues to be the massive amount of issuance rated just above high yield in the BBB category. Vehicles meant to protect against rising interest rates offering negative duration saved some investors fixed income allocations, as FolioBeyond Rising Rates ETF (RISR) and Simplify Interest Rate Hedge ETF (PFIX) returned 23.59% and 33.69% respectively. This was one of the worst starts to the year for fixed income ever. While pain on the credit side of the table may not be behind us, we feel much of the movement on the downside to duration will subside, potentially moving the yield curve negative.





- PIMCO 25+ Year Zero Coupon US Treasury (ZROZ)
- SPDR DoubleLine Total ReturnTactical (TOTL)
- First Trust TCW Opportunistic (FIXD)
- Simplify Interest Rate Hedge (PFIX)
- FolioBeyond Rising Rates (RISR)
- Ionic Inflation Protection ETF (CPII)
- Saba Closed-End Funds ETF (CEFS)
- VanEck Vectors CEF Municipal Income ETF (XMPT)

Alternatives

Gold & Cryptocurrency assets have disappointed as alternatives in a year where both equities and fixed income were down substantially. The amount of leverage that has been shaken out of the Cryptocurrency market was substantial. There was way too much leverage in crypto and not enough diligence performed on supposed stable coins. But the ecosystem seems to have shaken out that leverage, at least for now, all without a Federal Reserve System to backstop it. At the end of the day, Real Estate is still a $700+ trillion-dollar global market, Equities are around $100 trillion, and crypto is less than $1 trillion. True market neutral strategies shined, led by the AGFIQ US Market Neutral Anti-Beta ETF (BTAL) up 12.9% through July. After years of underperformance, CTAs have finally shined, catching trends in commodity and agricultural futures, and very strong performance from the US dollar.

TOROSO
INVESTMENTS

A Hypothetical High-Active-Share Reconstruction of a Traditional 60/40

- 5% PIMCO 25+ Year Zero Coupon US Treasury Index ETF (ZROZ)
- 7.5% Saba Closed-End Funds ETF (CEFS)
- 2.5% AGFiQ US Market Neutral Anti-Beta (BTAL)
- 2.5% iShares US Oil & Gas Exploration & Production ETF (IEO)
- 2.5% Ionic Inflation Protection ETF (CPII)
- 2.5% FolioBeyond Rising Rates (RISR)
- 1.5% WisdomTree Enhanced Commodity Strategy (GCC)
- 1% Tecrium Agricultural Strategy No K-1 ETF (TILL)
- 4% SPDR Gold MiniShares Trust (GLDM)
- 4% Amplify Inflation Fighters (IWIN)
- 2% Sprott Uranium Miners ETF (URNM)
- 5% Amplify Transformational Data Sharing ETF (BLOK)
- 5% Sofi Gig Economy ETF (GIGE)
- 5% Franklin Disruptive Commerce (BUYZ)
- 5% BlackRock Future Innovators (BFTR)
- 4% Ark Genomic Revolution (ARKG)
- 4% Emerging Markets Internet & Ecommerce (EMQQ)
- 2% India Internet & Ecommerce ETF INQQ***
- 5% Ballast Small / Mid Cap ETF (MGMT)
- 5% VanEck Retail ETF (RTH)
- 5% ETF 6 Meridian Small Cap Equity (SIXS)
- 5% Alpha Architect US Quantitative Val (QVAL)
- 5% Cambria Shareholder Yield (SYLD)
- 5% Distillate International Fundamental Stability Value (DSTX)
- 5% Distillate US Fundamental Stability & Value ETF (DSTL)

898 N Broadway, Suite 2 Massapequa • NY 11758 • 1-844-9-toroso • www.torosoam.com