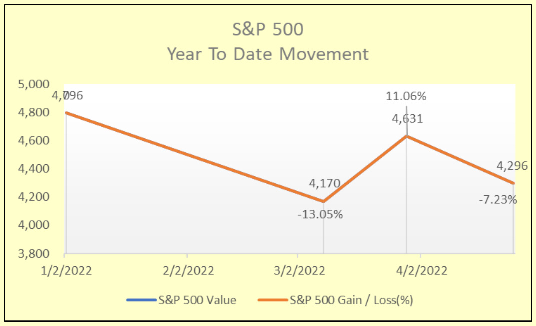
Our March-April 2022 Market Update concluded with the following inference:

"The combination of geo-political tensions between Russia and Ukraine, and the expectations of increase in US interest rates have wreaked havoc on the markets. No one can predict the outocme or the length of the Russia / Ukraine conflict, and / or the exact impact of interest rates increase by the Federal Reserve. However, we believe that a 7-10% correction in the markets after a 28% gain in 2021, is not unusual. Based on our belief that the US economy is on solid footing, we would be in the camp of gradually adding to existing investments especially in the area of Financials and Energy".

Market Correction…

Indices	Index Value (April 25th, 2022)	Today's Change (April 25th, 2022)	Index YTD High	Gain/Loss (%)
S&P 500	4,232.13	-39.65(-0.93%)	4,818.62	-12.17%
Dow Jones Industrial Average	33,576.07	-235.33(-0.70%)	36,952.65	-9.14%
NASDAQ	12,833.06	-6.24(-0.05%)	16,212.23	-20.84%
Russell 2000	1,930.12	-10.54(-0.54%)	2,458.86	-21.50%

- It can be observed in the table above that major market indexes have lost significant value since the beginning of the year. with some averages with a loss of over -20% year to date.
- It is also important to observe in the adjacent chart that the markets have had an initial correction of -13% followed by a recovery of +11%. It seems like the markets are now correcting to revisit the recent lows and are down -7-8%.



CGAM's Market Model

- Listed below is the equation developed by CGAM with an objective to understand the direction of the market in the near / intermediate term.
- The model uses 6 variables that explain approximately 90% of the historical movement of the S&P 500.

***S&P 500 (12 Month Estimate) =** 376.553+12.27 x (S&P Earnings) +25.68 x (S&P Price Earnings Ratio)-10.23 x (Treasury Bond Rate{10 yr})-38.51 x (Consumer Price Index)+9.68 x (VIX; Volatility Index)-58.19 x (Unemployment Rate)+St. Error.*

Regression Statistics	
Multiple R	0.950388068
R Square	0.90323748
Adjusted R Square	0.90 or 90%
Standard Error	139.44 (3-4%)

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

Office: 661-299-1920
Mobile: 661-312-2070

Earnings: Biggest attributable factor in S&P 500.

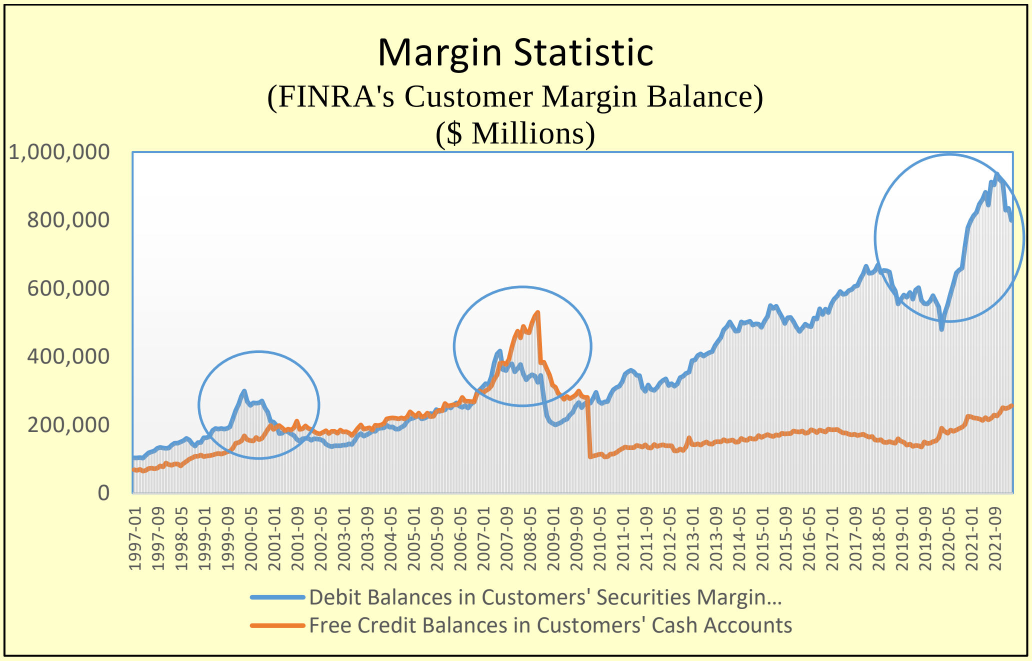
- The model infers that US Corporate Earnings are at the fore front of market returns.
- Over 65% of the S&P 500's movement can be attributed to corporate earnings exclusively.

Corporate earnings expectations.

- S&P 500 companies are expected to earn[1]:
  - FY 2022 = $240 / per share.
  - FY 2023 = $260 /per share.
  - According to these numbers, the S&P 500 trades at a Price / Earnings multiple of 17.9 and 16.5 for FY 2022 and 2023 respectively.
  - The average S&P 500 Price / Earnings ratio for the last 50 years has been in the range of 14-15. Historical data suggests that the S&P 500 valuation is a bit high relative to its 4-5 decade average. Therefore, it suggests that we are not in an overinflated market valuation stage.

Borrowed funds in brokerage account[2]…

Chart 1



- Investor psychology is as important as economic fundamentals to determine market valuation. In this regard, a major variable that can not be ignored is the amount of margin debt that investors currently have on an average in US brokerage acounts.
- The Chart 1 above shows that during last two major market corrections, margin debt levels had reached a high just like today.
- It can be observed that the margin levels reached their highs right before the two most severe market meltdowns; 2000-2003 (dot.com bust) and the 2008-2009 financial debacle. This indicator suggests that the overall market sentiment has been moving towards euphoria.

---

1 https://www.yardeni.com/pub/yriearningsforecast.pdf

2 https://www.federalreserve.gov/releases/h6/current/

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

Office: 661-299-1920
Mobile: 661-312-2070

Interest rates and market movement[3]…

HIGHER RATES ARE USUALLY BULLISH FOR STOCKS

S&P 500 Index Returns Under A Higher 10-Year Yield

Rising Rates Start Date	Rising Rates End Date	Duration (Months)	Change in 10-Year Treasury Yield	S&P 500 Gain/Loss
12/26/62	8/29/66	44.7	1.7%	18.3%
3/16/67	12/29/69	34.0	3.6%	1.3%
3/23/71	9/16/75	54.6	3.2%	-18.1%
12/30/76	9/30/81	57.8	9.0%	8.7%
5/4/83	5/30/84	13.1	3.9%	-7.9%
8/29/86	10/16/87	13.8	3.3%	11.8%
10/15/93	11/7/94	12.9	2.9%	-1.4%
1/19/96	7/8/96	5.7	1.5%	6.7%
10/5/98	1/21/00	15.8	2.6%	45.8%
6/13/03	6/28/06	37.0	2.1%	26.0%
12/30/08	4/5/10	15.4	1.9%	33.3%
7/24/12	12/31/13	17.5	1.6%	38.1%
7/8/16	10/5/18	27.3	1.9%	35.5%
3/9/20	2/25/21	11.8	1.0%	39.4%
	Average	25.8	2.9%	17.0%
	Median	16.6	2.4%	15.0%
	% Positive			78.6%

Source: LPL Research, FactSet 03/03/21

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

- The table above illustrates a correlation between interest rates and the performance of the S&P 500 index since the early 1960s (6 decades).
- The duration of rising rate cycles have averaged 26 months. It is also important to recognize that this duration has been relatively less since the 1980s. I attribute this to a greater involvement of the Federal Reserve with the capital markets.
- This chart also illustrates that the average market gain during these periods has been close to17%. In other words, markets have gained 78% of the times during rising interest rates.

Conclusion…

This seems like Déjà vu… we are in the exact postion as we were when we wrote the conclusion of the March-April 2022 Newsletter.

The expectation of the market is that the US Federal Reserve will continue to increase rates and may not be able to help the economy with a soft landing. The geo-political tensions between Russia and Ukraine are expected to stay with us for sometime. We believe that inflation is the key to the economic recovery. We also believe that once COVID and it's global impact, especially in China, diminishes, inflation should start to abate by default. This inturn will provide the Federal Reserve some breathing room in regards to interest rates.

Again, a 7-10% correction in the markets presents a good buying opportunity for investors who can withstand intermediate market volatility. We can continue to experience a period of high inflation and increasing interest rates but as long as the Feds communicate their intent and actions in a methodical manner, the markets will be able to accommodate an increasing rate environment. We would be selective buyers during current market correction.

PLEASE REMEMBER: Each investor is unique and should invest to complement their respective financial conditions and objectives.

[3] https://www.pswealth.com/wp-content/uploads/2021/03/higher-rates-bullish-for-stocks.png

Please review the following disclaimer

20419 Cheryl Ln
Santa Clarita, CA 91350

Manu Walia
Email: manuwalia@cgamadvisor.com
www.cgamadvisor.com

Office: 661-299-1920
Mobile: 661-312-2070