BARRETT CAPITAL

MANAGEMENT, LLC

Quarterly Investment Letter

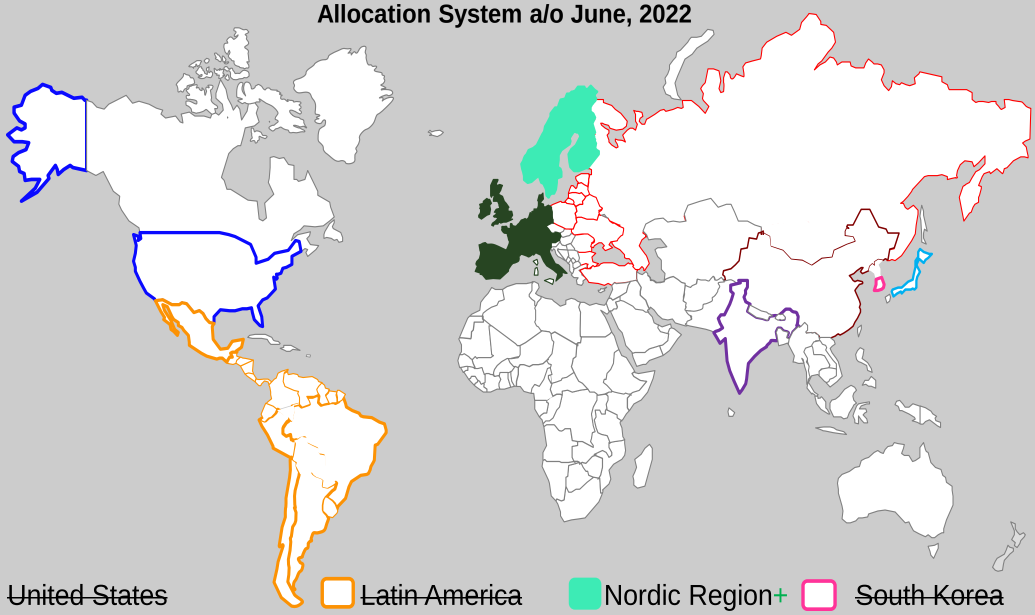
Second Quarter 2022 **Vol. XXI Issue 2**

Key Takeaways

- Ahistorical returns: Both stock and bond markets traded down sharply in 2Q22, an unprecedented development.
- Asset Protection: We have taken a defensive, risk averse posture in our portfolios, with a focus on protecting assets. Because of this, the cash positions in our portfolios are relatively high.
- Global AI signals indicate an extremely cautious posture. However, we are constantly monitoring markets for the potential emergence of investing opportunities. Our cash allocation positions us to potentially take advantage of such opportunities, when they indeed present themselves.
- We believe that the strong prospects for significant opportunities to profit in the aftermath of global equity markets corrections makes this a very good time to put additional money to work with Global AI.

GLOBAL AI®
ALLOCATION INTELLIGENCE

Regional Equity Exposure of Portfolios Using our Proprietary Global AI® Allocation System a/o June, 2022



~~United States~~ ~~Latin America~~ Nordic Region+ ~~South Korea~~
~~India~~ ~~Emerging Europe~~ ~~China~~ ~~Japan-~~ Western Europe

- Indicates position that was eliminated during the quarter + indicates position that was added during the quarter

GLOBAL AI®
ALLOCATION INTELLIGENCE

Country/Regional Outlook

= Positive Global AI signal (indicates a current position as of quarter end)

= Negative Global AI signal (indicates positions that were eliminated, or not owned during the quarter)

Rate of Return represents the rate of return of the fund(s) for the period during the quarter that the fund was held by a standard portfolio using our proprietary Global AI® program.

Country/Region	Outlook
South Korea	• No position held during the quarter
Developed Europe	• Initiated New position during the quarter • Rate of Return range down -11.9%
Emerging Europe	• No position held during the quarter
Latin America	• No position held during the quarter
U.S.	• Initiated & exited position during the quarter • Rate of Return range down -10.8%
China	• No position held during the quarter
India	• No position held during the quarter
Nordic Region	• Initiated New position during the quarter • Rate of Return range down -10.9%
Japan	• Exited position • Rate of Return range down -11.0%

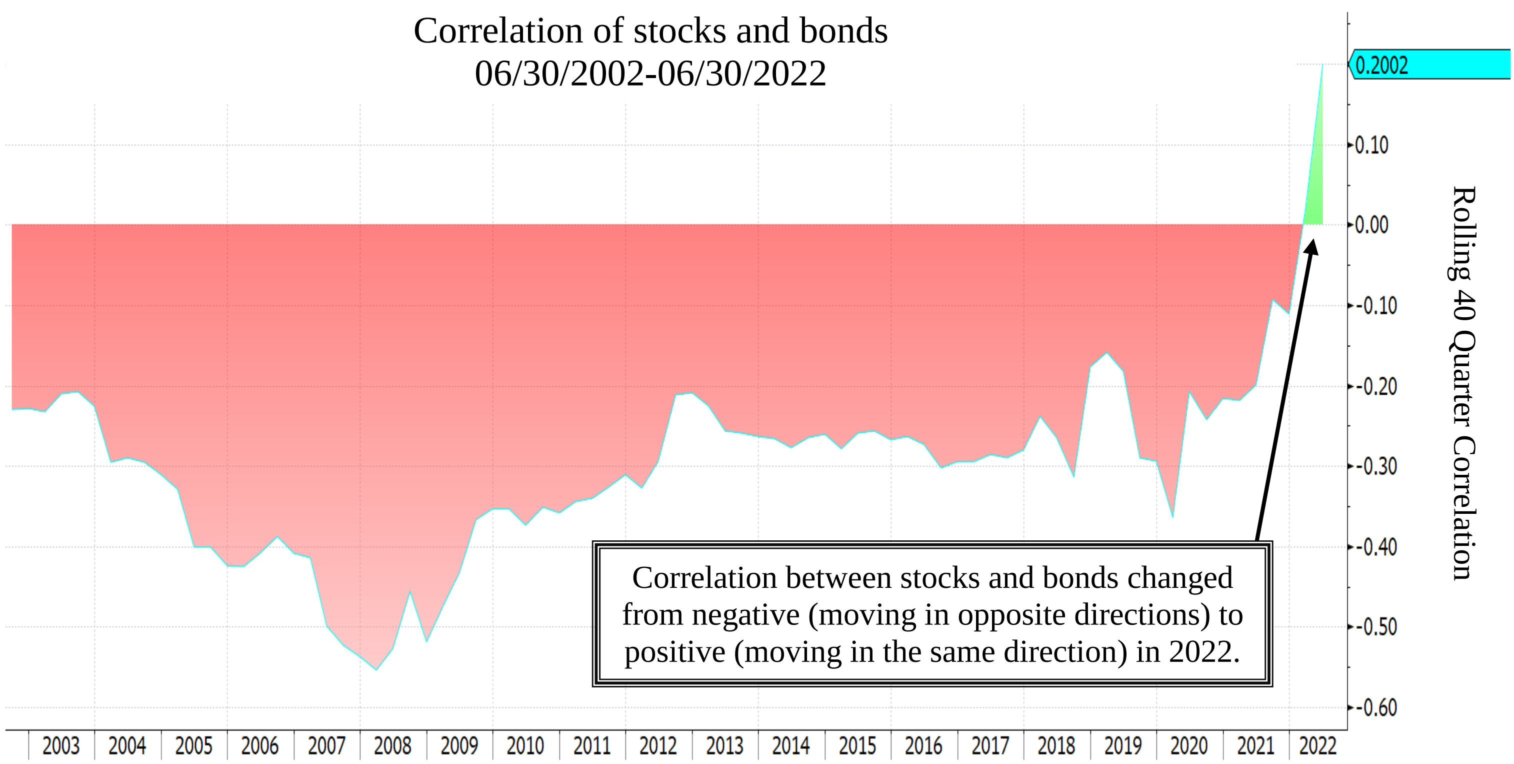
Second Quarter 2022 Investment Commentary

Anomalous Market Volatility:

The second quarter of 2022 was characterized by an extreme period of negative volatility. Stock markets around the world corrected sharply downward. In the United States, the S&P 500 fell 16.1%. Developed foreign markets fell 14.0%*, and emerging market equities declined 9.1%*.

The reasons for the correction were multiple. Russia's unprovoked, full-scale invasion of the Ukraine has increased geopolitical risk and contributed to higher energy prices; the Brent crude oil price has increased from $78/b at the start of 2022 to a high of more than $125/b in June. This energy price shock in turn has contributed to higher inflation; in June, the US inflation rate, as measured by the Consumer Price Index (CPI), showed prices increased 9.1% from the year earlier, its highest level in four decades. In response to higher inflation, the Federal Reserve and Central Banks around the world, have responded by hiking interest rates. This has led to investor concern of an economic slowdown, or even a recession, which would of course hurt expectations for corporate earnings. Taken together, it was a toxic combination for equity prices in the quarter.

More remarkable than the equity market correction itself, was that bond markets also traded down in the quarter. US Government bonds, as measured by the Bloomberg US Long Treasury Index fell 21.3% in the first half of 2022. This was, in a word, unprecedented. In our first graph, we show the correlation between US stock and bond prices. "Correlation" is a statistical measure that shows one asset's price moves relative to another asset's price. Historically, US stock and bond prices have had a *negative*, or inverse, correlation. In other words, when stock prices have fallen, bond prices normally rose. This has allowed for a historically effective asset allocation strategy of holding bonds to help offset negative equity market volatility. But as the graph shows, in 2022, US equity and bond prices had a *positive* correlation. In other words, they both *fell* at the same time. Truly, we faced extraordinary times. This change from historical norms negatively affected our portfolios. While Global AI helped us to avoid losses by signaling to exit many global equity markets, it also left us with an increased position in bonds, as we used some of the proceeds from those sales to buy bonds. While that would typically have been a positive contribution to returns (when correlation between stocks and bonds were negative) in this aberrant environment where stocks and bonds both declined, it was a drag to portfolio returns. Due to the atypical environment, we moved the majority of that bond exposure into cash to reduce any further fallout from bonds.



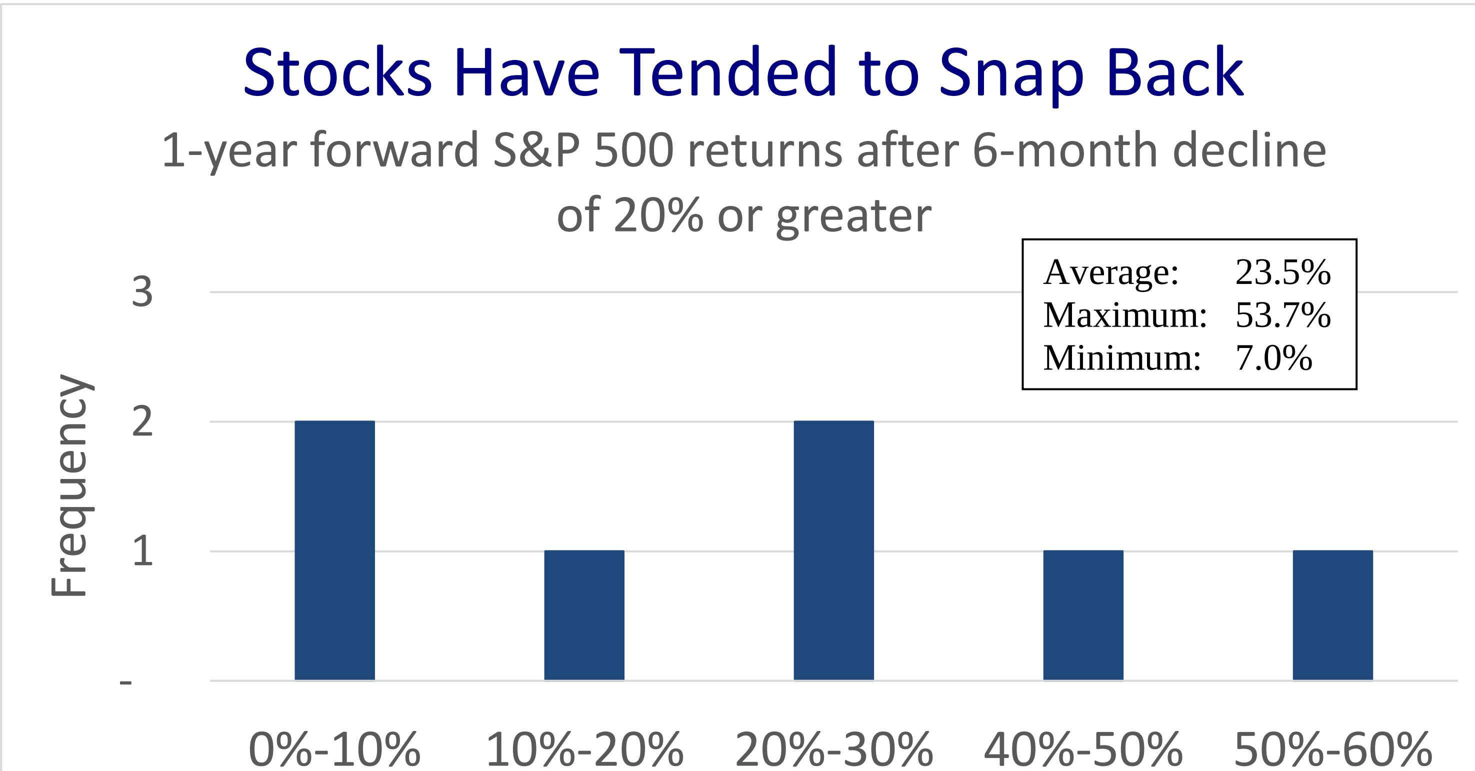
Source: Bloomberg LP. Stocks represented by S&P 500 Index, Bonds represented by Bloomberg US Aggregate Bond Index.

* - Emerging markets stocks represented by Vanguard FTSE Emerging markets ETF, Developed International stocks represented by Vanguard FTSE Developed Markets ETF, U.S. Stocks represented by S&P 500. Source: Bloomberg LP.

Potential to Position for a Rebound:

In the face of this volatility, our models continue to signal that we maintain low equity exposure. We are quite comfortable with this strategy, as we feel it is a good time to be risk averse, with a focus on protecting assets. We are convinced that the current bout of market volatility will eventually end and equity prices will offer the potential for capital appreciation. In fact, historically after equity markets go through significant corrections the returns during the bounce-back period have often been exceptional. In our second graph, we take a long-term look at how US equity prices have performed in the year following large negative corrections, of 20% or greater. From 1957 to 2022, on average, the S&P 500 has returned almost 24% in the year following such large negative corrections. Of course, future returns may not be the same as historical returns, yet such historical references provide some helpful long-term perspective in such complex and volatile times.

We also note that, because of our move towards a defensive strategy focused on asset protection, we now have a significant portion of our portfolios invested in cash. This represents "dry powder" that we can put to work, once our models indicate that the investment environment is again propitious for taking equity positions.



Source: Bloomberg LP. Stocks represented by S&P 500 Index, Based on monthly data from 2/28/1957-6/30/2022. Past performance is no guarantee of future results.

We want to remind our investors that, while we offer our opinion in our newsletters, subjective opinion does not have any bearing on our investment decisions. Our proprietary quantitative models and our discipline keep our investment decisions unbiased, objective, and unemotional. The current models have dictated that risk mitigation is of most importance at this time. Markets are constantly evolving, so while we will continue to limit risk exposure in our portfolios today, our models are always actively seeking to identify and invest in the best growth opportunities available across all market conditions.

Best Regards,

Russell E. Lundeberg Jr., CPA

Principal & Chief Investment Officer
Barrett Capital Management, LLC