ASCEND
Investment Management, Inc.

# Quarterly Investment Report
# March 31, 2022

Dear Investor:

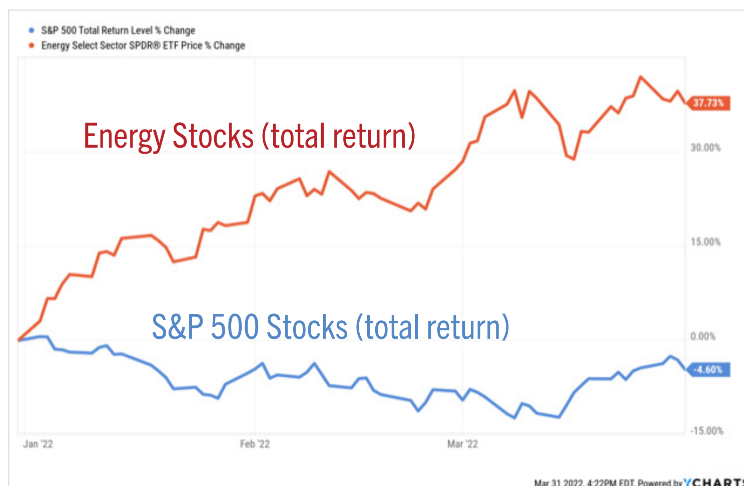
It's fascinating how life can change on a dime, or perhaps more accurately we should say on a ruble. On February 22nd of this year we were debating how entrenched inflation had become due to pandemic driven demand and supply disruptions. Our concerns were contained by the understanding that the worst of the pandemic challenges were behind us and that the Federal Reserve would begin to battle inflation at its March meeting, to finally set interest rates on a healthier course higher. And then on February 23rd a deadlier battle emerged as Russia began its horrifying invasion.

The war significantly impacts the global world order, and up until mid March the stock market did not take it in stride. Most weeks were choppy and at its lowest the market was down 12%. But as we close out the quarter the market appears to be stabilizing and stocks are only down 4.6%. The market is calmer now that the Fed raised the short-term rate by 25 basis points on March 16th, and the futures market implies that the Fed will increase the fed funds rate enough times to reach 2.50% by March 2023. The market is more hopeful given Ukraine's determination, robust Western countries support, and nascent Russia-Ukraine talks. That Ukraine will fall to Russia is far from a foregone conclusion.

Yet, we're not complacent about the direction of stocks in the near term. We believe that the market is likely experiencing a "bear-market trap", meaning that the recent lull is a trap and we aren't out of the woods as we may face further market declines. There is too much risk to corporate earnings over the next several quarters that small interest rate hikes can't quickly stanch, since there are significant inflation pressures in front of us from energy and food costs. Just as the pandemic's shock to supply chains finally began to improve, the war replaced it with the biggest commodity shocks since 1973.

Russia is one of the world's top three oil producers (along with the U.S. and Saudi Arabia), the world's second largest natural gas producer after the U.S., and the world's largest exporter of natural gas. The U.S. and the UK have sanctioned Russian oil and gas, and European nations are phasing in sanctions through to the end of 2022. Consumers will continue to face high energy costs for many months. And though the Biden administration decision to release a million barrels of oil a day from strategic reserves will alleviate some pain at the gas pump, it's a temporary salve with minimal effect on the structural imbalances between demand and supply. Opec won't release enough oil to change the game and there will be months of delays before U.S. shale producers can start producing again.

**Stocks so far in 2022...**

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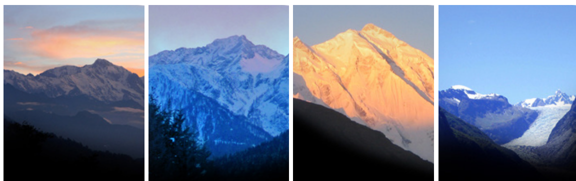

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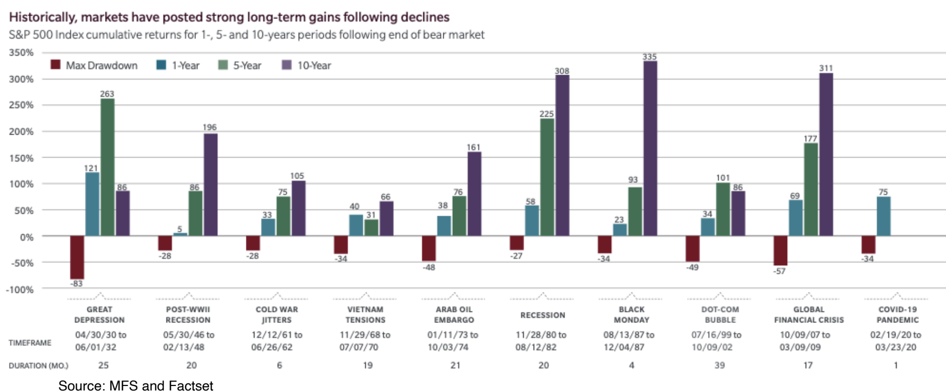
Energy isn't the only commodity shock to consider. A global food crises is lurking. The necessary inputs for soil fertilization are nitrogen, potassium, and phosphorus and those prices are at record highs. Russia and Belarus are the world's largest suppliers of potassium. Fertilizer prices are more than three times pre-pandemic prices. With less fertilizer available to farmers, crop yields in the coming season will be much lower around the globe. Layer on top of that the fact that Ukraine and Russia combined supply 26% of the world's exports of wheat, 30% of barley, and 16% of corn. All in all, farmers will be struggling with very high fertilizer, diesel, and equipment costs.

Our goal with these facts is not to frighten, but rather to heighten your awareness to the possibility that the tumult to our investments that this war has started is not yet over. In the investment community we often lean in to listen to what the bond market is telling us. When longer maturity treasury bonds yield less than shorter ones it is often, not always, a signal that the economy is heading towards a recession. The reason is that longer term bonds normally pay a higher interest rate than shorter bonds, which is logical since when investors lend for a longer time period they should get paid more for the higher risk. When the curve shifts, and certain sections of the yield curve invert, then the bond market tells us that investors are piling into longer term treasuries as a safe haven away from stocks. Remember that when demand is high for bonds, bond prices rise and their yields decline. Yet, the indicator is murky. Not only have there been more yield curve inversions than recessions, but recessions don't typically begin immediately following an inversion; history shows they begin anywhere from 6 to 36 months later.

Reading the tea leaves may be fun but it's rarely accurate. But what is accurate, is the fact that we've been in troubled times many times before. The shape and design of today's narrative may be unique but the story is the same. As this chart shows, markets recover with gusto after big declines and it is smart to stay invested.

## Stock Market Recovery after Declines



Source: MFS and Factset

How we stay invested is the key. With stock valuations near record levels and risks of lower earnings on the horizon, we consider many important metrics. We are steadfast about steering clear of speculative stocks that have no earnings and focusing on companies with sizable free cash flow and low balance sheet debt.

Wishing you all an upcoming happy and healthy Easter and Passover!

Sincerely,

Ellen P. Le, CFA
President