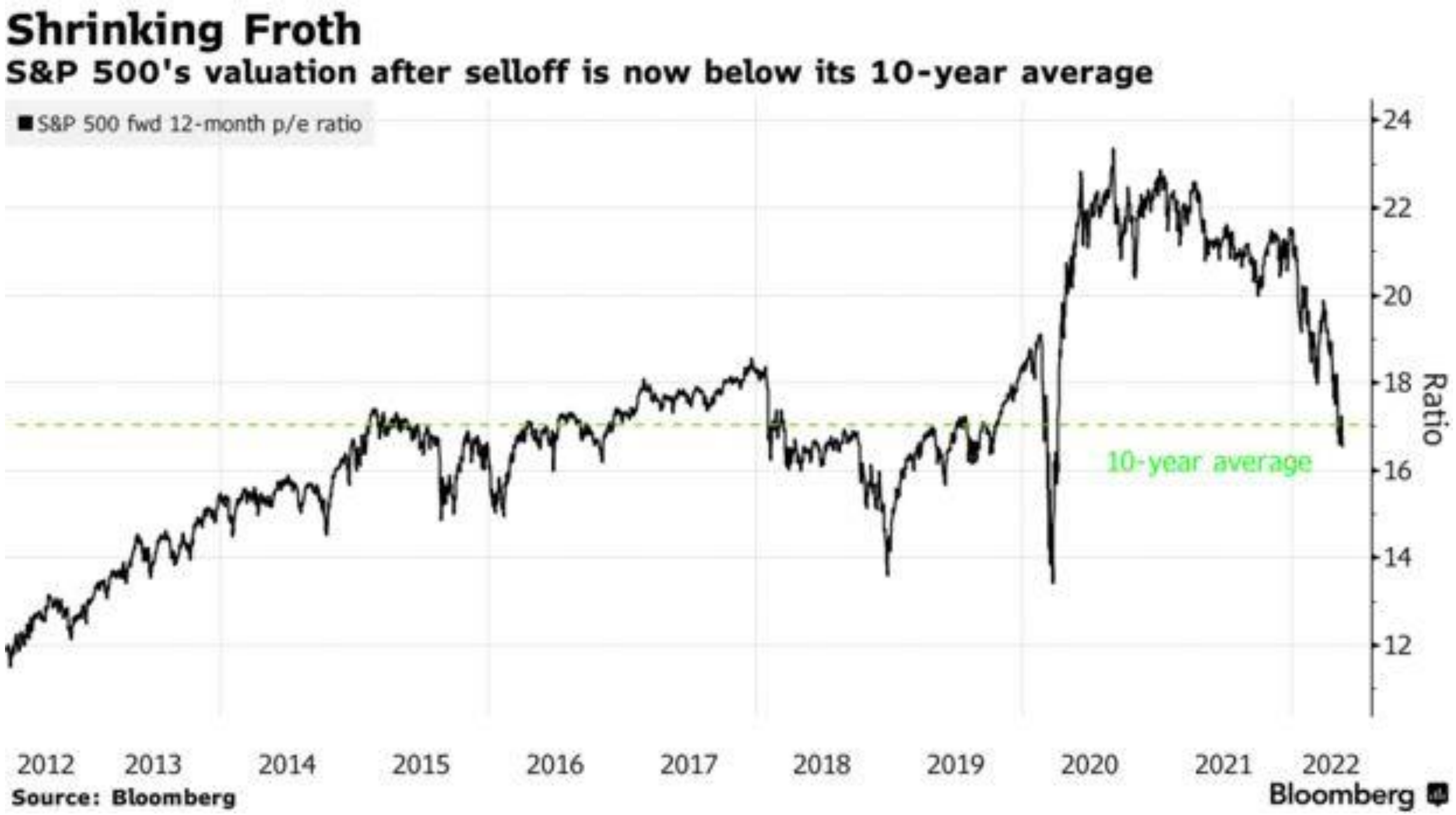
CASTLESTONE MANAGEMENT

THE EQUITY MARKET NOW LOOKS OVERSOLD

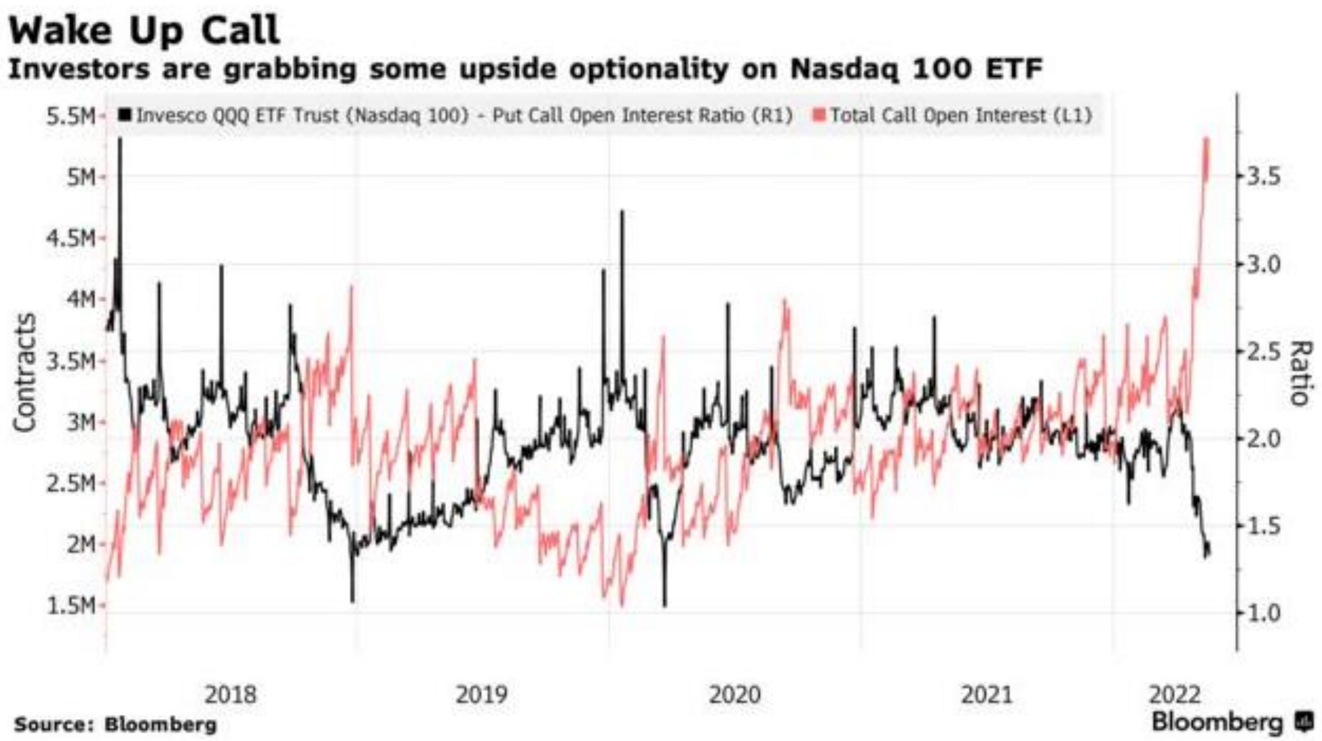
MISSING OUT ON ONLY A FEW OF THE BEST PERFORMING DAYS WOULD HAVE A DRASTIC EFFECT ON COMPOUND RETURNS

S&P 500'S VALUATION AFTER THIS SELLOFF IS NOW BELOW ITS 10-YEAR AVERAGE



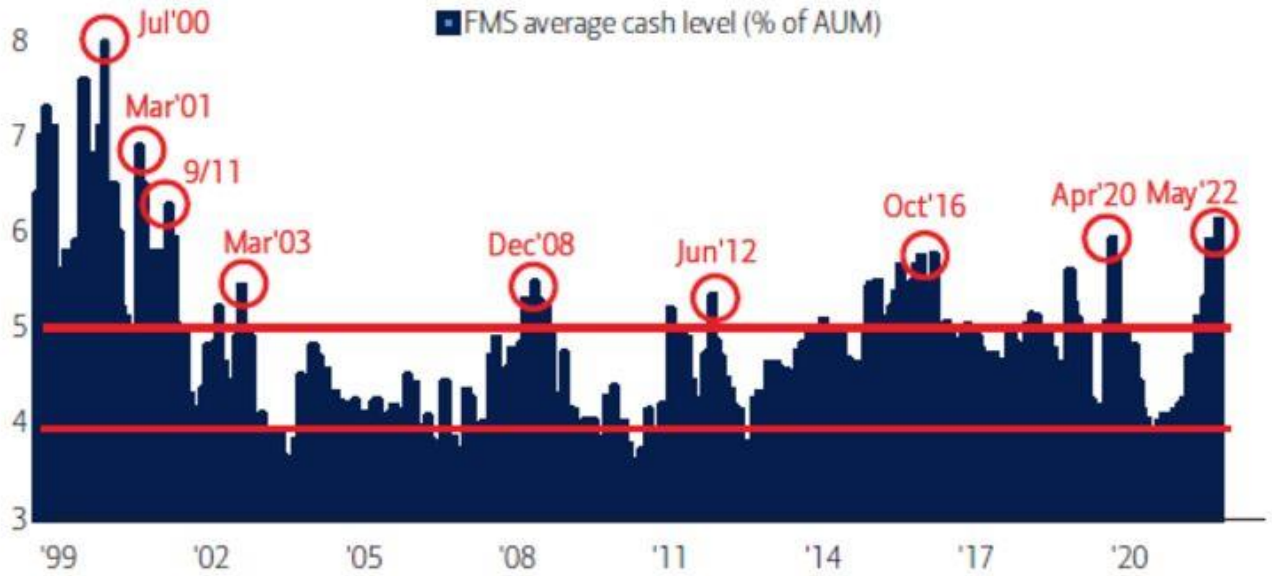
NASDAQ 100 BREADTH IS NEAR PREVIOUS BOTTOM, EXCLUDING FOR 2008

OUTSTANDING CALLS ON NASDAQ ARE AT THEIR HIGHEST SINCE 2008



CASH LEVELS AMONG INVESTORS HIT THEIR HIGHEST LEVEL SINCE SEPTEMBER 2001

Chart 1: FMS cash levels rise to highest since 9/11
FMS average cash balance, %



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

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Stocks may now be oversold

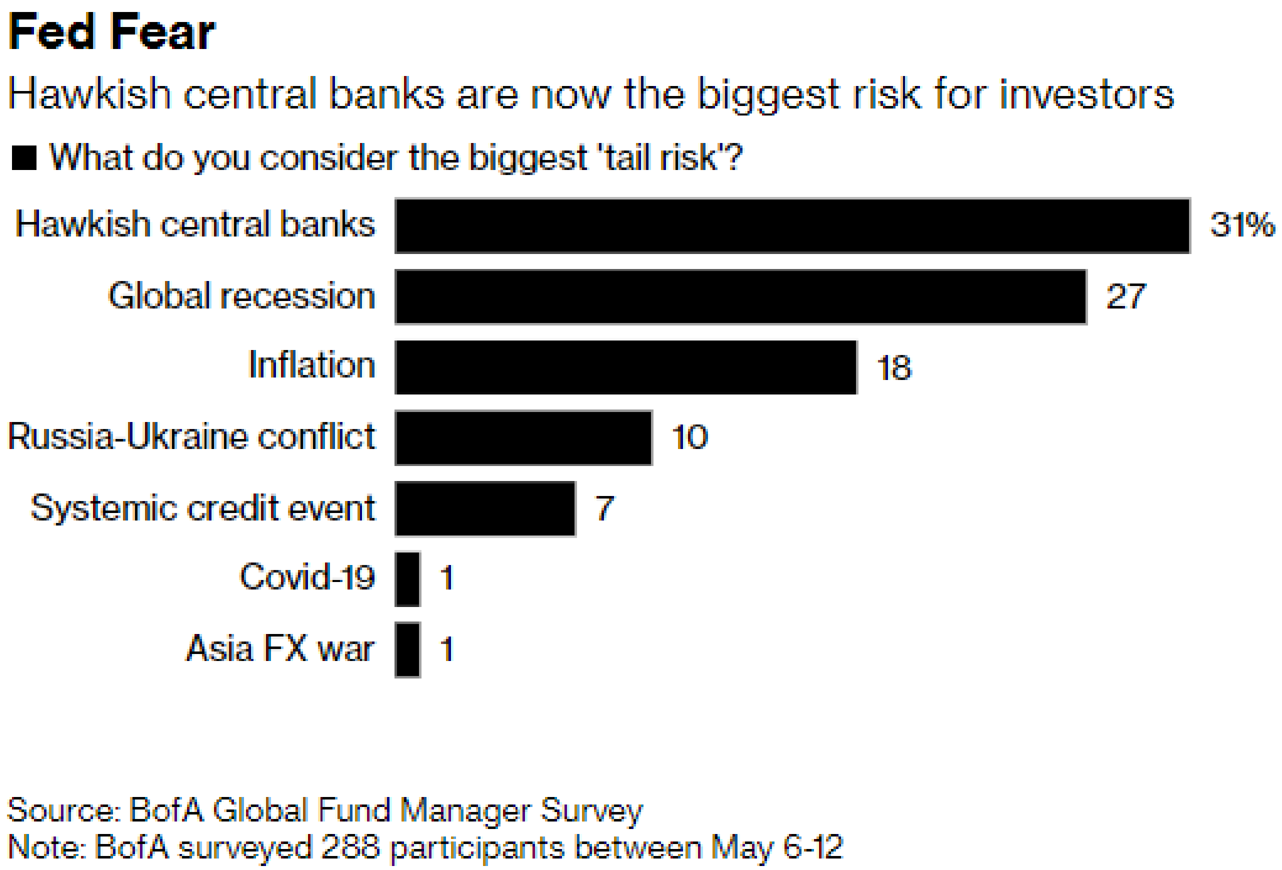
% of S&P 500 stocks trading above their 50-day moving average

Past performance is no guarantee of future results. Indexes are unmanaged. It is not possible to invest directly in an index. Source: FMRCo, Bloomberg.

IFA'S CAN ONLY MAKE A POSITIVE RETURN, AFTER ACCOUNTING FOR INFLATION

There are two broad catalysts. One is the growing fear that the Fed won't be able to tighten as much as it wants, and will instead have to reverse course. **If that is true, then bonds yielding about 3% begin to look attractive.** The second catalyst is corporate earnings. Generally good announcements in April helped buoy the stock market (although punishment for the likes of Netflix Inc. and Amazon.com Inc. showed minimal tolerance for risks). But in the last week retailers have been announcing, and investors hate what they've heard. If retailers, and manufacturers like Deere, are finding it harder to make a profit, that takes away the remaining prop for share valuations. **In the event that the Fed pivots, and inflation is rising and making it easier for companies to make profits, then buy stocks and sell bonds; but if the economy is slowing and profits are shrinking, do the opposite.**

HAWKISH CENTRAL BANKS ARE NOW THE BIGGEST RISK FOR INVESTORS (WHICH MEANS THE CENTRAL BANKS ARE STARTING TO CONTROL INFLATION)



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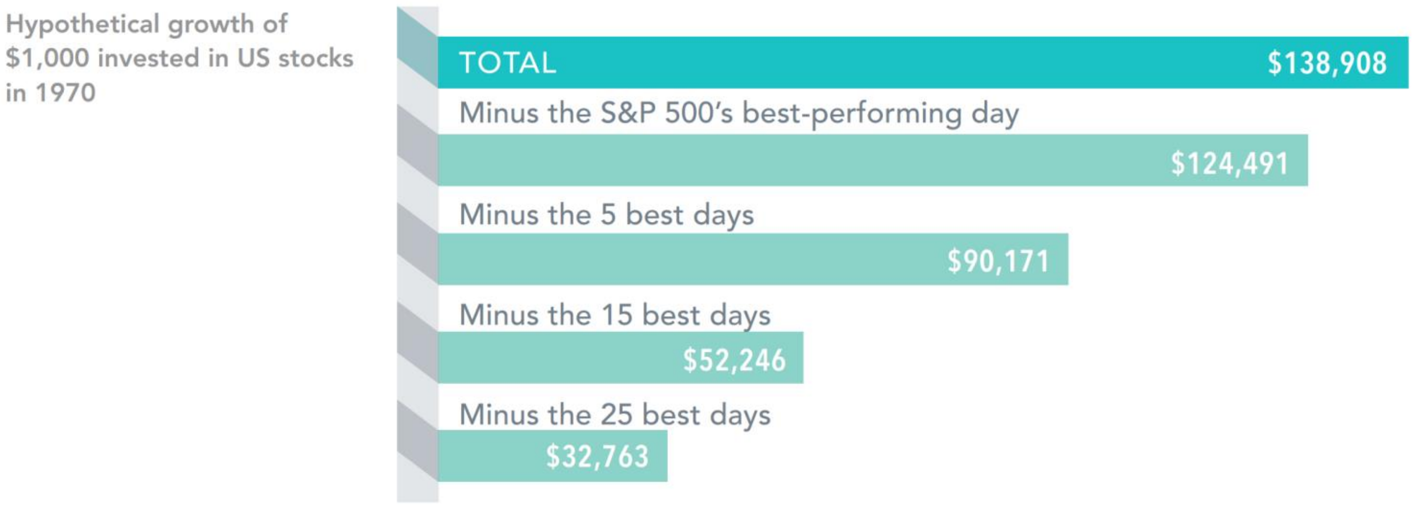
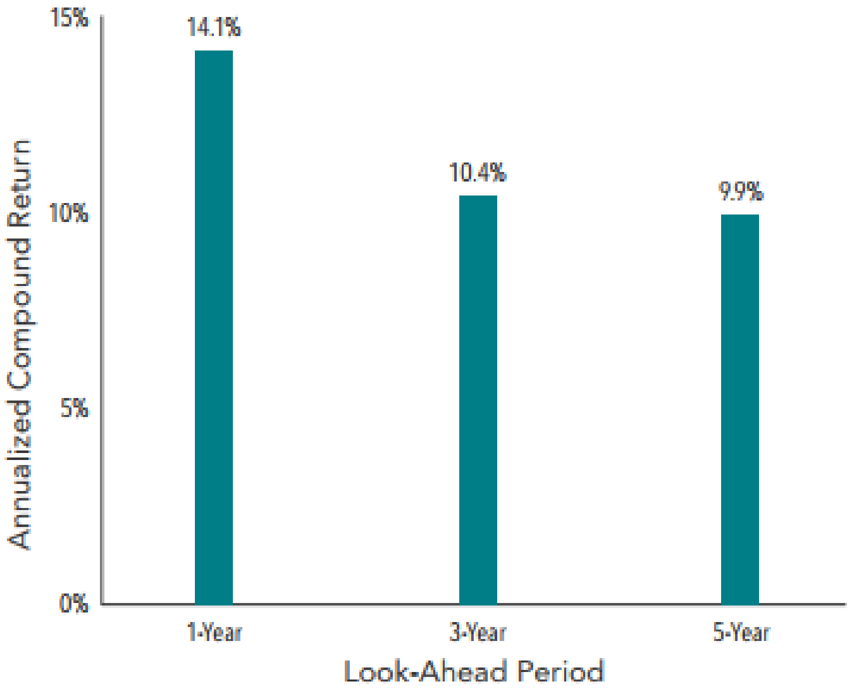


Note: Based on the total return of the S&P 500 from Jan. 1, 1970, to Aug. 31, 2019.
The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero. Performance data for January 1970–August 2008 provided by CRSP; performance data for September 2008–August 2019 provided by Bloomberg. S&P data provided by Standard & Poor's Index Services Group. Indices are not available for direct investment. Past performance is no guarantee of future results.

BUYING AT AN ALL-TIME HIGH STILL LEADS TO PERFECTLY GOOD RETURNS OVER THE NEXT FEW YEARS

Exhibit 1: Average Annualized Returns After New Market Highs

S&P 500, January 1926–December 2018



In US dollars. Past performance is no guarantee of future results. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market high observations. There were 1,115 observation months in the sample. January 1990–present: S&P 500 Total Returns Index. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™*, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.*

DRAWDOWNS OF ABOUT 20% DON'T NECESSARILY LEAD TO A RECESSION

Bear Markets Are Better Without A Recession

S&P 500 Index Bear (And Near Bear) Markets (WWII - Current)

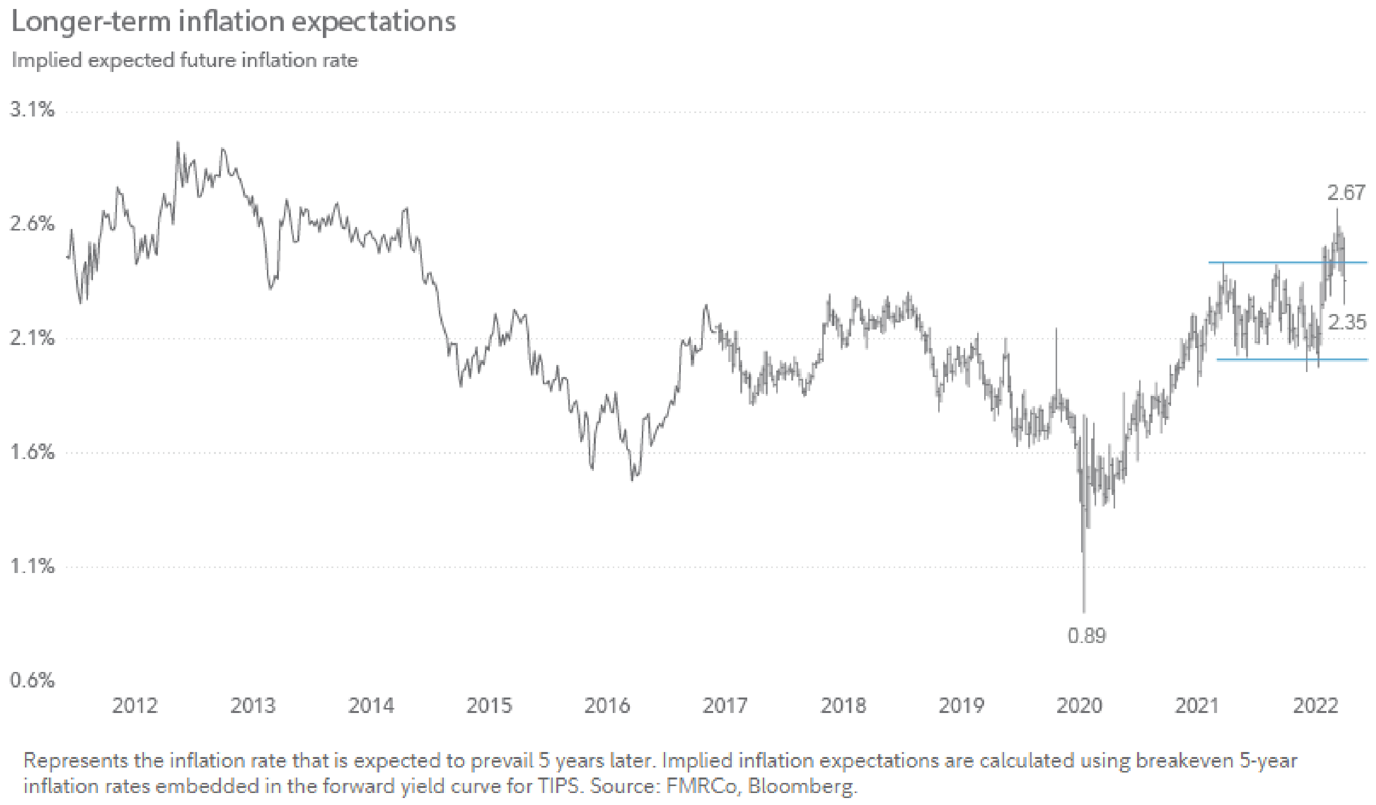
Start Date	End Date	S&P 500 Change	Months	Recession?
5/29/1946	5/19/1947	(28.5%)	11.7	No
12/12/1961	6/26/1962	(28.0%)	6.4	No
2/9/1966	10/7/1966	(22.2%)	7.9	No
9/21/1976	3/6/1978	(19.4%)	17.5	No
8/25/1987	12/4/1987	(33.5%)	3.3	No
7/17/1998	8/31/1998	(19.3%)	1.5	No
4/29/2011	10/3/2011	(19.4%)	5.2	No
9/20/2018	12/24/2018	(19.8%)	3.1	No
Average		(23.8%)	7.1	
Median		(21.0%)	5.8	

Source: LPL Research, FactSet 05/13/2022

THE FEDERAL RESERVE NEEDS TO INFLUENCE BEHAVIOR TO CONTROL INFLATION

Lower share prices make it more expensive for companies to raise equity, and have a wealth effect. People's portfolios shrink, they feel less well off, and they are less likely to buy stuff. That is exactly what the Fed wants. It needs share prices to fall enough to influence behaviour, which means that policymakers need this to turn into a true bear market, and not like one of the 20%-ish declines that were followed by rescues and resumed exuberance. It needs to avoid disorderly conditions that could create systemic problems, and a serious crash that would drive a recession.

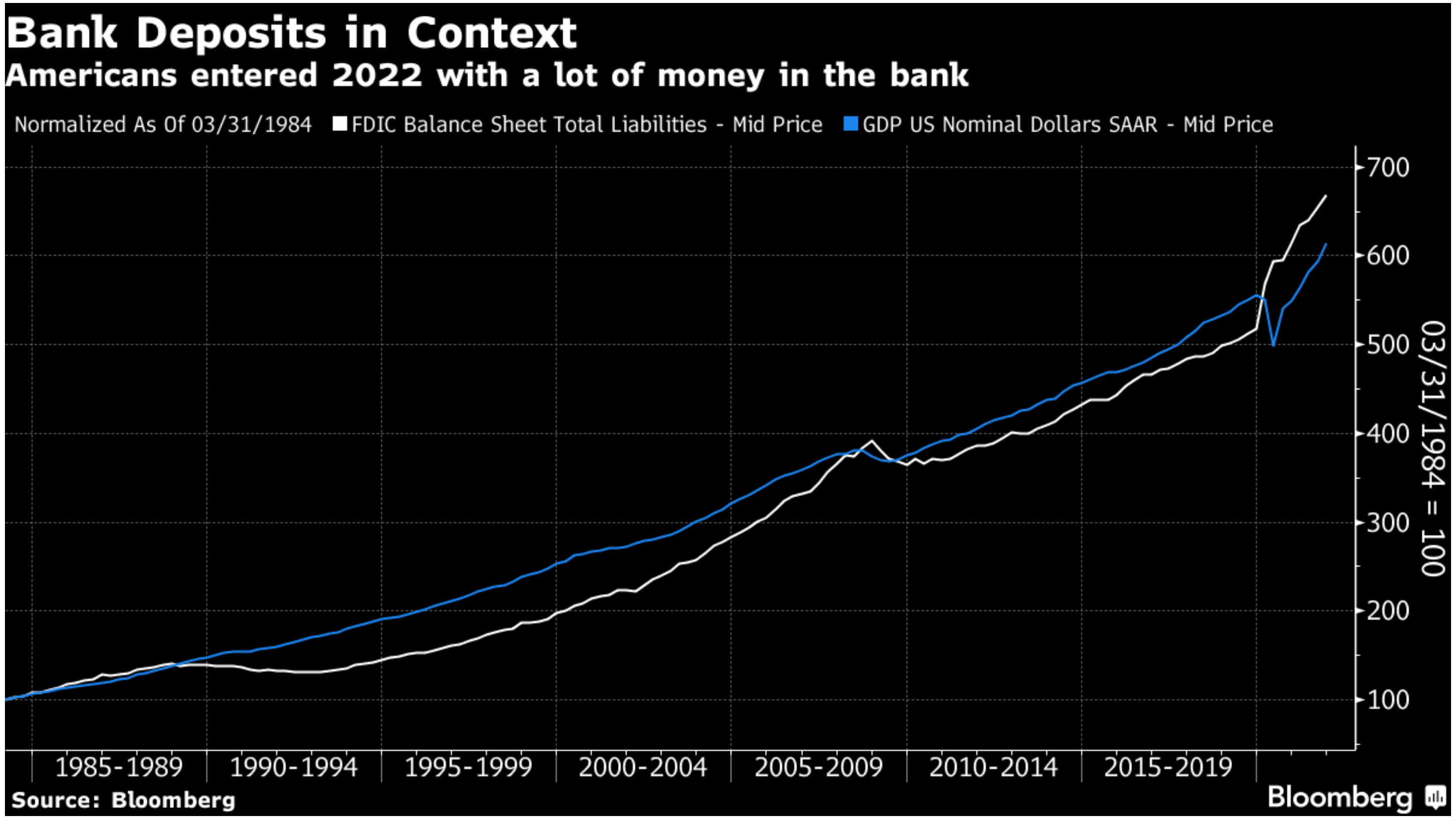
LONG TERM INFLATION EXPECTATIONS ARE DECLINING



INFLATION PREDICTIONS FOR THE NEXT 10 YEARS ARE BELOW THE APRIL PEAK

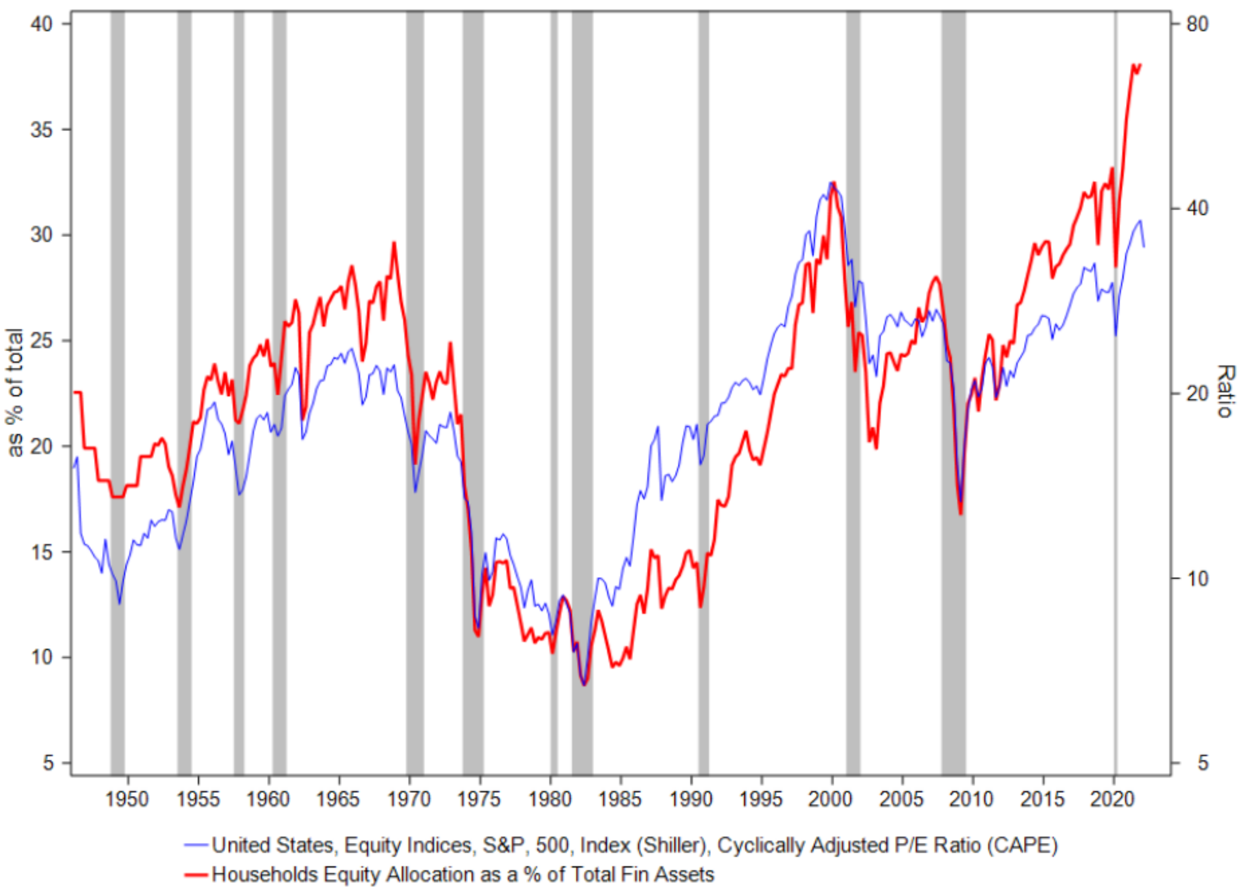
EXPECTATIONS ARE NOW THAT THE FED WON'T HIKE AS MANY TIMES AS IT HAD PLANNED

BANK DEPOSITS. AMERICANS STARTED 2022 WITH A LOT OF MONEY IN THE BANK



US HOUSEHOLDS HAVE PUT THEIR MONEY INTO EQUITIES. THEREFORE, THIS PULLBACK WILL HAVE A REVERSE WEALTH EFFECT, WHICH SHOULD SLOW INFLATION

FIG 11: US households' allocation to equities (as share of total financial assets) vs Shiller PER



Source: Longview Economics, Macrobond

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