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There is no way of slowing down inflation that will not involve a transitory increase in unemployment and a transitory decrease in the rate of growth output. – Milton Friedman

In every corner of securities markets, volatility persisted during the second quarter. The S&P 500 fell into official bear market territory (down 20% or more). Normally, we count on bonds as the ballast in turbulent times, but bond prices continued to confound capital preservation minded investors with one of the worst six-month periods on record. One market commentator's weekly research piece dated June 14 read, "welcome to the worst summer environment for investors in many years"[1].

Milton Friedman's quote at the top if this page is worth considering because it suggests that recession is the necessary remedy to address inflation which is "the single most important indicator for investors at the moment," according to James Mackintosh of the Wall Street Journal. However, there are diverging opinions about where we go from here.

According to BCA Research's US Bond Strategy Service, "inflation is still more likely to fall than rise during the next 6-12 months."

> The big question for financial markets is whether the Fed will be forced to cause a recession to bring inflation down, or whether it will achieve what Jay Powell called a "softish" landing. (No Relief From High Inflation, Strategy Report June 14, 2022)

Duquesne Capital founder Stanley Druckenmiller, a frequent guest on CNBC, recently shared that "betting on a soft landing is a real long shot." He expanded:

> It's very hard for me to say that the probabilities favor soft landing. Indeed, I think they aggressively point to a hard landing. Anything's possible, as I said earlier, I've been wrong plenty of times in my career, but betting on a soft landing to me is a real long shot. The other statistical fact is once inflation's got above 5%, it's never been tamed without a recession. So, if you're predicting a soft landing you're going against decades of history. Anything [is] possible but I don't think it's probable.

FOMC Chairman Jerome Powell is navigating challenges that are many and known. Chief among them is the increased cost of everyday goods resulting from supply chain disruptions due to geopolitics and the long shadow of the Covid-19 pandemic. While many items appear to have reached their peak and are exhibiting a decline in prices, inflation increased in the latest reading largely based on two sectors – energy and food driven by the war in Ukraine. The Fed's challenge to achieving the optimal "softish" landing is complicated. Higher rates are decreasing demand for mortgages, but can these same rate increases deliver more energy or food?

While the headlines are overwhelmingly negative, investors may be too focused on challenges and missing opportunities to take advantage of market dislocations to position portfolios for the eventual recovery:

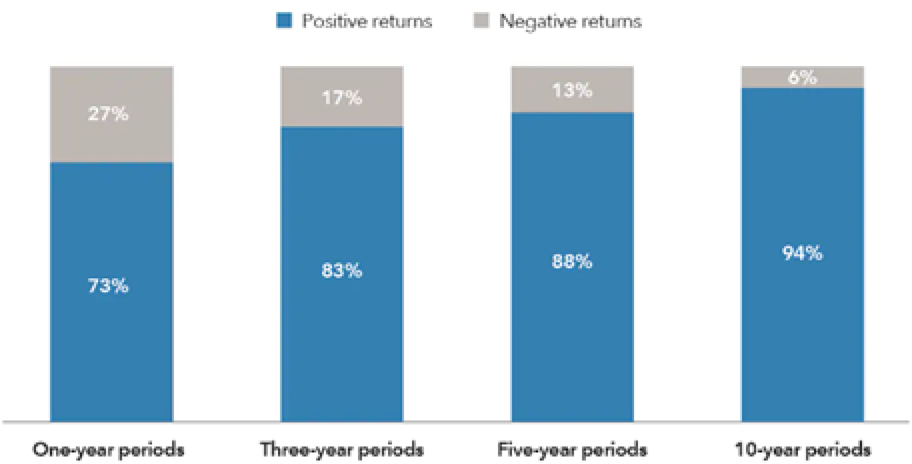
- **Turning losses into a positive**: capturing investment losses in taxable accounts enables us to offset near-term tax burdens and increase after-tax returns. The key to this strategy is to actively take losses while immediately reinvesting proceeds into investments that are well-positioned for the eventual recovery.
- **Recognize and invest in long-wave trends**: growth stocks significantly outperformed value stocks in the US for most of the time period since 2009. Blue Oak began tilting toward value in late 2019 and increased that tilt earlier this year when we introduced (cont.)

[1] Weekly Research Briefing, Blaine Rollins, CFA June 14, 2022

natural resources and clean energy strategies to portfolios. Value tends to outperform growth heading into recessions and slow growth periods. We believe this pattern will repeat and intend to further tilt portfolios to value in the US and internationally.

- **Diversification and patience matter**: Blue Oak portfolios are down and there has been very little to celebrate in 2022. But our portfolio strategy is not driven by fear and emotion. Instead, we remain focused on each client's unique long-term financial objectives. The benefits of staying invested are indisputable:

Benefits of staying invested



Sources: RIMES, Standard & Poor's, Refinitiv. Data based on rolling annual periods from 12/31/1927-12/31/2019.

Good markets do not last forever, and neither to bad markets. Right now, it feels like we are treading water in a soup of uncertainty. Historically, it takes several months to recover from the magnitude of downturn we have experienced. Given the current monetary and fiscal policy backdrop, we do not expect this time to be different. Please let us know if you need us to throw you a buoy. Thank you for the trust you place in us.