LNWM Quarterly Commentary – Q4 2022

THE FED PUTS ON BOXING GLOVES

RONALD G. ALBAHARY, CFA®

Ron Albahary is Chief Investment Officer at Laird Norton Wealth Management. He determines the firm's investment strategy, directs the investment selection process, and works in tandem with LNWM's client services teams to deliver investment solutions structured to attain each client's unique goals.

> "…we're going to do all that we can at the Federal Reserve to avoid deep, deep pain."
>
> — Raphael Bostic,
> President & CEO, Federal Reserve Bank of Atlanta (Sept. 25, 2022)

Pain is usually the purview of doctors and heavyweight boxers. So, when the Federal Reserve starts to refer to "pain" routinely, as they have been recently, it's worth paying careful attention. If it was not clear before, it is now: The Fed is willing to inflict serious economic pain to slow economic activity by crushing consumer sentiment and asset prices – both here, and given the strength of the dollar, globally. Their intent is to keep raising interest rates (in later rounds likely this Fall) and keep them elevated until they are convinced that U.S. inflation is under control and headed toward their 2% target.

Through the 3rd quarter, the Fed's fight against inflation had eroded more wealth on paper than at any time in history: a total of $16 trillion (approximately $13 trillion in equity valuations and $3 trillion in investment-grade bonds). While still distant from the Covid and Great Financial Crisis declines in percentage terms, the absolute dollar amount is staggering[1]. Chairman Powell and his compatriots continue to cite *lagging* indicators (such as rising U.S. rising wages and low unemployment) to justify potentially barreling headfirst into a recession while disregarding the broad range of *leading* indicators signaling an economy that may be punch-drunk.

IN BRIEF

- The U.S. economy has slowed by many measures and may be on the verge of recession, if not in recession already.
- Both stock and bond prices could decline further as the Fed continues to raise interest rates to curb inflation while global growth is slowing.
- Now is the time to stay disciplined by focusing on the levers we can control (e.g. tax management, regular rebalancing) while adhering to strategic, long-term asset allocations.

[1] Source: "Crush the Economy: Mission Accomplished," Bespoke Investment Group, Sept. 30, 2022.

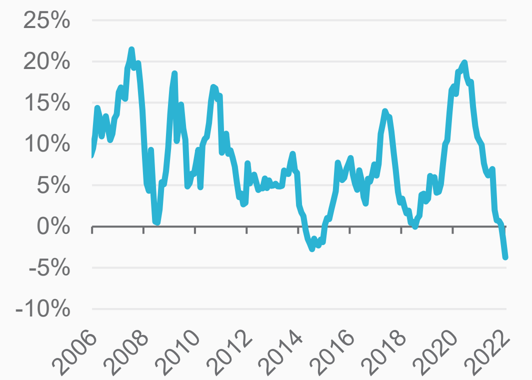
What's at Stake

While it is nice for the Fed to aim for less pain with "soft landing" happy talk, their ability to engineer a win over inflation without delivering a knock-out punch to the economy is specious to put it mildly. As we have pointed out for months now, the U.S. economy could already be in recession or possibly headed toward one, with GDP growth negative or flat so far this year. The Fed has all but conceded a recession as it has cut its growth forecast for U.S. real (inflation-adjusted) GDP to +0.2% for 2022, down from +1.7%.

Historically, markets drop going into an economic recession, and year-to-date performance presents the possibility that process could well be underway. Unfortunately, there could well be more downside coming, with low estimates for the S&P 500 ranging from 3300 to even 2500. Why not step aside? The reality is that any attempt to change risk posture by de-risking your portfolio, or put more succinctly "trying to time the markets," is fraught with decision risk (higher odds of making a bad decision), which in my experience is one of the greatest detractors to long-term wealth accumulation.

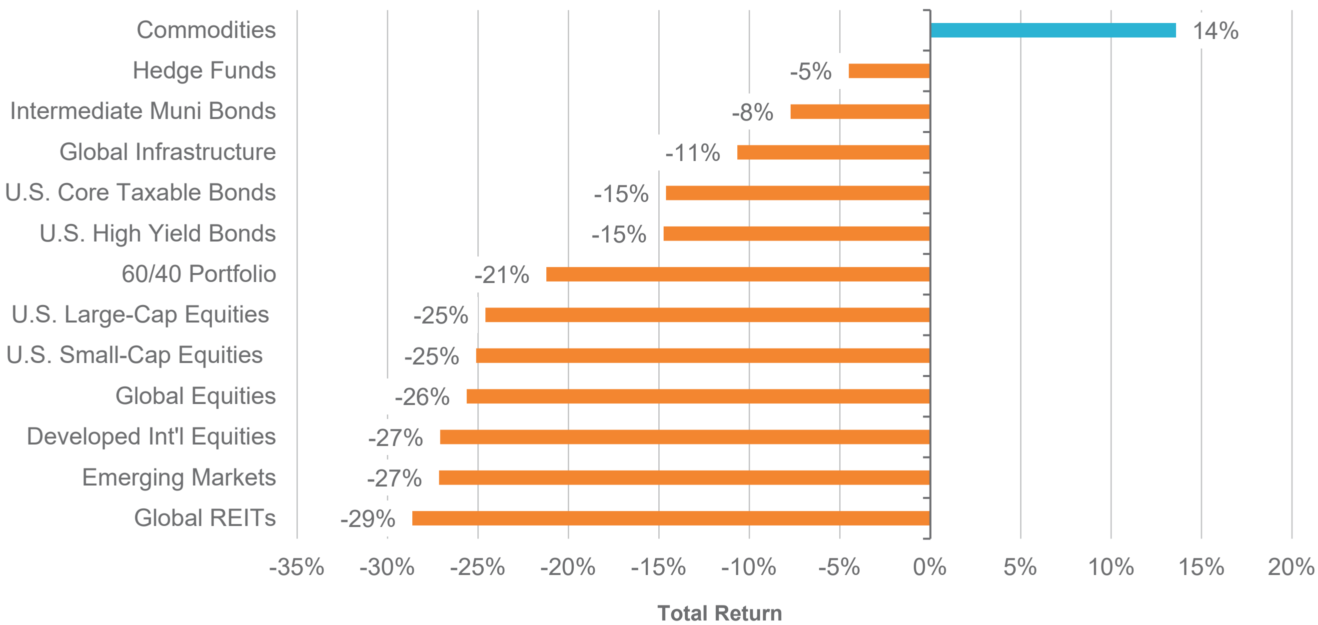
The most common measure of the global money supply (M2) is contracting, recently by 3.7%. Historically, a negative growth rate in the money supply is a dramatic headwind for the global economy and risk assets.

Global Money Supply
Annualized % change in M2*



*M2 money supply includes currency and coins (M1) plus on-demand deposits under $100,000 and shares in retail money market funds.
Source: Bloomberg as of 9/30/22.

Asset Class Returns Year-to-Date 2022
Through 9/30/22



*Note: Please see index disclosures at the end of this report for more detailed definitions of each asset class.
Source: Morningstar as of 9/30/22.

Dealing with Bear Markets

While recessions can result in significant and protracted stock market downturns, history tells us the stock market has always recovered fully. Since World War II, there have been 12 U.S. bear markets in stocks (not including this year's bear), which have lasted an average of 12 months, clocked in an average peak-to-trough decline of approximately 33%, and taken an average of 21 months to return to the previous peak. While challenging for more risk-sensitive investors or those in need of liquidity (margin calls, cash crunch, etc.), time pays off for those with a long-term investment horizon and a well-designed plan to weather market cycles.

As practitioners of behavioral finance, we realize that now and into next year there will be peak temptation to duck and take cover, meaning sell equities and bonds until the dust settles. That is especially the case in 2022. This year's bear market in both equities and bonds has dragged down annualized portfolio returns for the past one, three, five, 10 and 15-year periods.

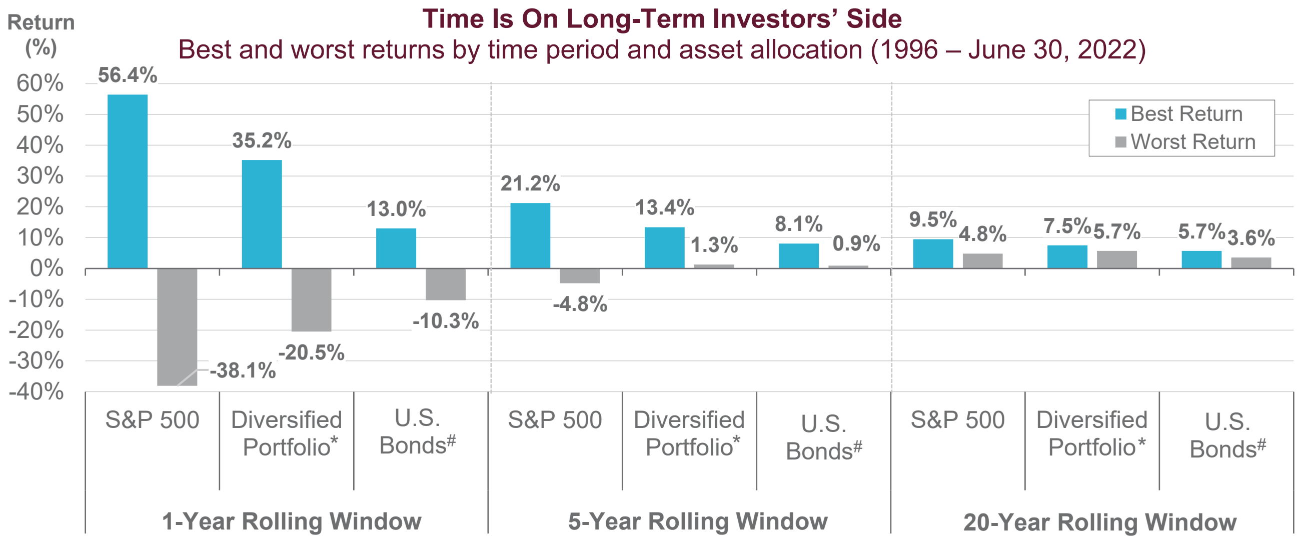
Growth reflects dividend reinvestment but not the impact of taxes.
Source: Bloomberg as of 6/30/22.

Selling and raising cash appears to be the course being followed by many investors, both professionals and laypeople, as net cash flows out of equity and bond funds are reaching levels not seen since the onset of the pandemic in 2020 and the Great Financial Crisis of 2008. People need to sell for a variety of reasons: their asset allocation models were based on bull market scenarios; they have too much debt; or their portfolios cannot sustain their near-term cash flow needs. Additionally, many professional asset managers and Wall Street strategists today have never experienced a period of rising interest rates and inflation and are trying to figure out how to adjust to the shift in market regime.

The above does not apply to our firm. We base our long-term portfolio allocations on models that include extensive data sets for both bull and bear markets; we conduct ongoing financial sustainability analyses for each client, to ascertain the level of confidence they can have in their portfolio's ability to fund needs and goals; and we advise on sustainable debt service levels as well as adequate cash reserves to support short- and intermediate-term needs. All these efforts combined are designed to act as a buffer, allowing growth assets in portfolios to undergo downside volatility without having to be sold at inopportune times to raise cash.

What all this means is that sound planning enables our clients to have the wherewithal to stay invested during bear markets and to benefit from the subsequent rebound whenever that occurs. Year-to-date and historical performance numbers can and do change quickly. Evaluating and potentially changing your risk-return profile should happen when markets are stable and only if your financial goals/needs change. Based on decades of experience managing portfolios, we firmly believe that it is counterproductive to de-risk portfolios when the markets are being driven by risk-aversion and unprepared investors are being forced to sell.

Sticking with a well-diversified portfolio through market cycles is a time-tested, proven strategy for accumulating wealth and minimizing variability in outcomes. While public equity markets are now dominated by downside volatility, our client portfolios contain exposures that can help dampen and/or benefit from volatility (cash, real assets, hedge funds) as well as exposures that can be opportunistic (e.g. private capital).



*Diversified Portfolio consists of 46% Equity, 50% Fixed Income, 4% Alternatives. Performance represents a rolling 1-, 5-, and 20-year window with a 1-year moving step. Start date for analysis is Dec. 29, 1995. The indices are unmanaged, are not available for investment, and do not incur expenses. #Bloomberg Aggregate Bond Index.
Source: FactSet as of 6/30/22.

Looking Ahead

How high the Fed will take interest rates from here remains to be seen, especially given the Fed's track record of misjudging how far, for how long in either direction. With that said, we can hope the Fed sees what many others are seeing: A global economy that appears to be slowing rapidly as evidenced by companies like FedEx, Nike, and Micron Semiconductor, all of which recently announced strong macroeconomic headwinds impacting sales volumes, and in the latter two cases, substantial increases in inventories that will hurt margins in subsequent quarters. The strong dollar, a result of rising U.S. rates, is fanning inflation overseas (40% of global transactions are in dollars), while exerting pressure on multinational corporate profits and putting emerging countries with dollar-denominated debt at risk.

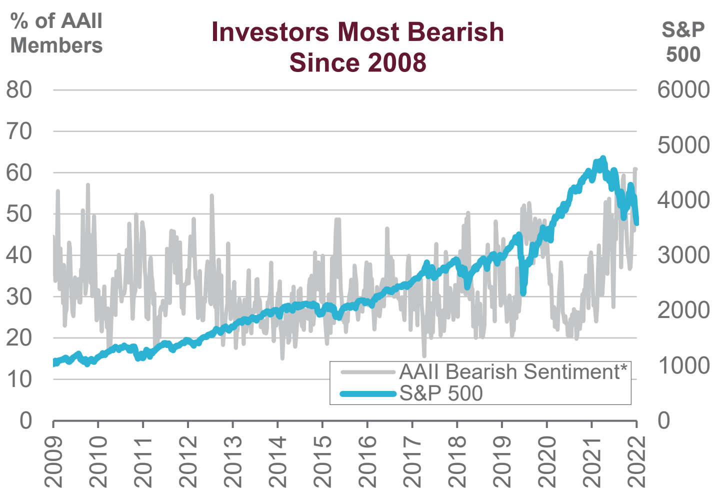
The silver lining in all this: Given the decline in a broad range of commodity prices and the accelerating slowdown in the real estate market, it is possible that inflation may have peaked. Long-term inflation expectations remain anchored generally in the range of the Fed's 2% target.

We have been here before, as the arc of economic and market cycles tends to be essentially the same, with peaks and troughs occurring before and after specific triggers. If events unfold as in most previous business cycles going back to World War II, stocks tend to bottom six to 10 months before the economy does. If we are already in recession or on the cusp of one, we are most likely not all that far from recovery.

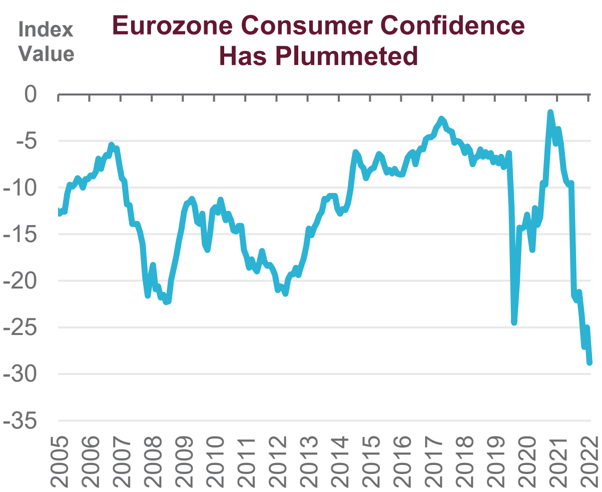
Investor, consumer and business pessimism are all near historic lows, both in the U.S. and globally, a trend that tends to presage a bottoming process. For example:

- Eurozone consumer confidence is currently the weakest in decades, as reported by the European Commission (see right chart below).

- The percentage of investors who think the stock market will be lower in the next six months (aka "bearish sentiment") has remained at a high 60% as of Sept. 28, 2022 according to the American Association of Individual Investors. The only other times bearish sentiment has exceeded 60% were March 2009, October 2008, and August, October 1990. Additionally, we had two weeks in a row that bearish sentiment remained above 60%; consecutive readings above 60% have not happened since 1987.[2]



Source: American Association of American Investors, Bloomberg as of 9/30/22.



Source: Bloomberg as of 9/30/22.

The wildcard in all of this is the horrendous war in Ukraine. The standoff between Russia and the West, with the threat of nuclear weapons higher than at any time since the Cuban Missile Crisis, continues to present risks of a broader and more serious global conflict that are impossible to model. We can only hope that the worst outcomes do not play out for the sake of all around the world.

Opportunities and Pitfalls

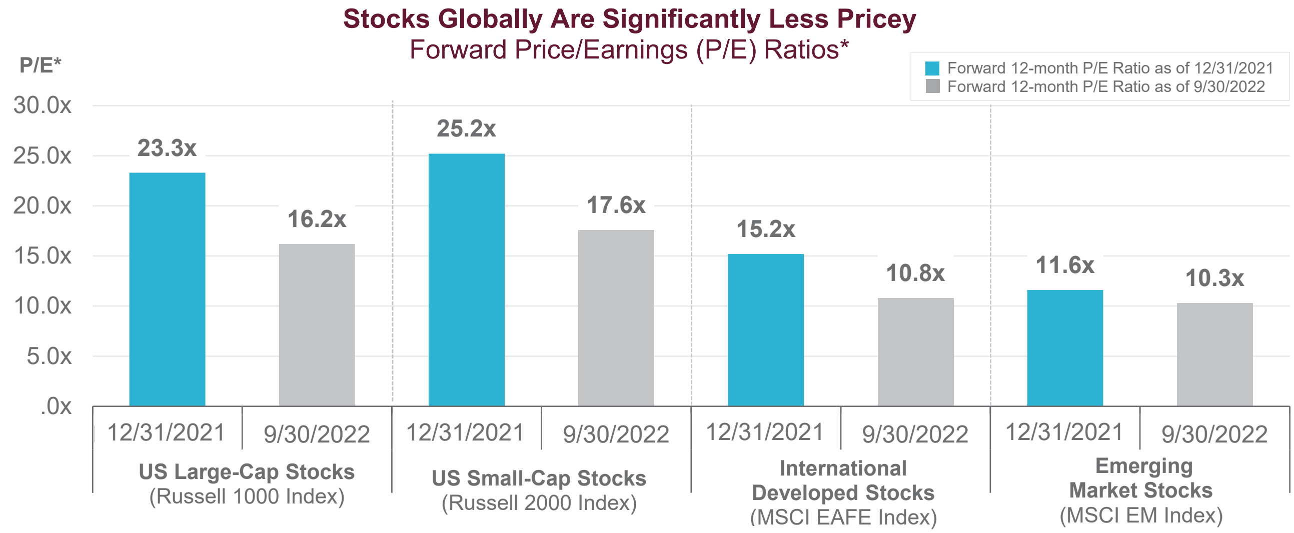
As we have noted before, market regime change is underway as we move away from a decades-long period of declining interest rates and declining/low inflation. Under-reported during that long period were the many downsides of loose and easy money that went unnoticed because, well, people could always borrow more to buy that more costly house and jobs were plentiful. At the same time, though, savers were faced with near 0% returns, inequality skyrocketed as the return on invested capital rose much faster than wages, and we had many signs of excessive risk-taking: meme stocks, sketchy SPACs, cryptocurrency wild rides.

---

[2] Source: "Crush the Economy: Mission Accomplished," Bespoke Premium, Sept. 30, 2022

Yes, the market regime change underway is causing high volatility and a bear market, but this painful transition within a long-term context is not necessarily bad for the following reasons:

- **More attractive equity valuations.** Entering 2022, most measures of U.S. and global equity valuations stood at elevated levels relative to historical averages. But that is no longer the case.

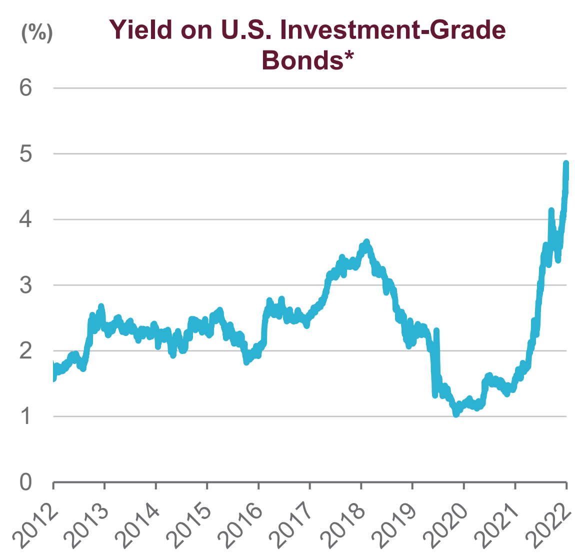


*Forward P/E is share price divided by earnings per share estimate for next 12-months.
Source: Bloomberg as of 9/30/22.

- **Savers are getting paid on cash balances** as fixed income has transitioned from being generally "fixed" back to "income" generating. While yields and interest rates began to rise in the summer of 2021, momentum has picked up over the course of 2022.

No corner of fixed income has been left untouched by the rate increases, with investment-grade corporate bonds yielding more than 5.5% and high-yield bonds at 9.7%. While municipal bonds have held up better than most segments of fixed income, they too offer substantially higher yields than they have in recent years, roughly 3.5% yield on intermediate issues.

Consequently, the opportunity set and income generation on core fixed income investments may be better than it has been in more than a decade. Worth noting is that interest rate increases have been more pronounced on shorter-maturity issues, resulting in an "inverted" yield curve (shorter-term bonds yielding more than long-term ones). For once in a long while, it is now possible to lock in elevated short-term yields for excess cash positions.



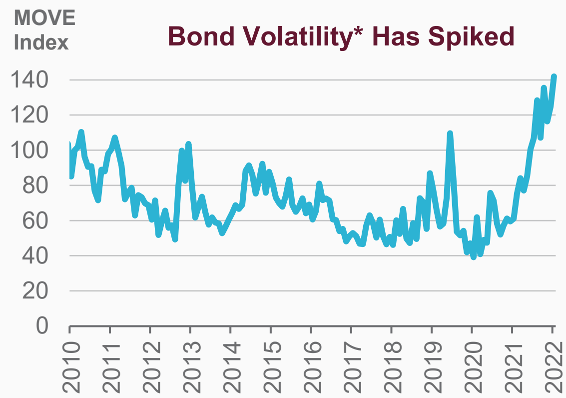
*Based on Bloomberg US Aggregate Index comprised of US investment-grade bonds (Treasuries, corporates and asset-backed securities).
Source: Bloomberg as of 9/30/22.

- **Volatility is creating more opportunities.** When markets are climbing most of the time and levitating risky assets of all types, it's a challenge to find investments priced at a discount to their fundamental value, and most investors are OK chasing performance. When volatility becomes unpleasant (i.e. downward), more investors are raising cash versus putting cash to work. It is these environments that favor those who can deploy capital as sellers become more numerous and willing to sell at a loss.

  A prime example of this has been our focus on private market secondaries (for clients who are qualified purchasers). In a variety of sectors, we're seeing private assets trading at 30%-50% discounts to estimated intrinsic value. More broadly, active managers across asset classes are in a better position today to reposition portfolios to take advantage of compelling valuations in equities or credit.

BONDS MORE VOLATILE THAN STOCKS

As some await a spike in equity market volatility to signal a market bottom, bond market volatility has soared to historic highs.



*Volatility as measured by MOVE Index, which measures price movement in Treasury bond options (yield-curve weighted) expiring in one month.
Source: ICE, Bloomberg as of 9/30/22.

- **Tax management is adding value.** We recently ran an analysis and found that consistent tax management (i.e. attempting to offset realized gains with realized losses) has generally been quite additive to annual after-tax performance for LNWM portfolios. Compounded over time, this has contributed materially to client wealth accumulation.[3]

In Closing

We are living in the very left tail of capital markets. What does this mean? It means we are in the midst of a macroeconomic and market environment with few comparisons throughout history. We continue to see data being cited as some of the worst in decades (or ever) – be it the speed of interest rate increases, the spike in inflation, returns on both stocks and bonds for the first nine months of the year, negative consumer and investor sentiment, just to name a few.

With asset prices down pretty much across the board, the classic 60/40 portfolio (60% stocks, 40% bonds) is having one of its worst years in history, off 20% this year through September. Heck, who would have thought that both the risky, technology laden Nasdaq 100 and "risk-free" 30-year U.S. Treasury bonds would both be down around 30% year-to-date!

With that said, what I call "bolts from the blue" or positive catalysts can, and at some point will, change the sentiment, the direction of markets and the economy: the Fed changing its hawkish narrative, arresting further rate hikes and eventually easing Fed policy once again; the end of China's zero-Covid policy; an end to the war in Ukraine (or some form of stalemate as in the case of

[3] Source: Parametric. Tax management impact varies by client portfolio constraints/objectives, time period and benchmark chosen.

North/South Korea); getting past the U.S. mid-term elections; and other scenarios that are not on our radar screen today.

As Steve Jobs was once quoted as saying: "You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust the dots will somehow connect in your future." We cannot predict the path of the economy or markets, nor is there a need to do so when you have the right plan in place and the plan continues to be executed. When you are in the middle of a market selloff, relying on that long-term plan is critical. Deviating from the plan in the middle of a broad market selloff is what gets investors in trouble.

TOTAL ASSET STRATEGIES

- **Volatile markets mean extra care is warranted if you want to invest new money or raise cash to fund new commitments.** Please consult with your LNWM advisory team in such situations.
- **Rising interest rates can impact certain trust and estate planning strategies.** Be sure to check in with your LNWM advisory team if you have a trust managed by LNWM or are contemplating setting up a trust.
- **Rates on intra-family loans remain relatively low compared to market rates.** A private loan to a family member(s) or other trusted person in seek of funding currently is worth exploring.

ABOUT THE AUTHOR

Ronald G. Albahary, CFA® is Chief Investment Officer at Laird Norton Wealth Management. As the head of LNWM's investment team (see below), Ron determines the firm's investment strategy, directs the investment selection process, and works in tandem with LNWM's client services teams to deliver investment solutions structured to attain each client's unique goals. Prior to joining LNWM, Ron served as CIO or CEO at regional investment firms focused on ultra-high-net-worth families and foundations. Earlier in his career, he held leadership positions in the private client business of major global financial institutions, including Merrill Lynch and Northern Trust Private Bank. Ron has a degree in economics from the Wharton School at the University of Pennsylvania and currently serves as advisor to the Center for High Impact Philanthropy at the University of Pennsylvania.

The investment team resulting from the combination of Laird Norton Wealth Management and Wetherby Asset Management is comprised of 12 analysts and strategists working together to design and implement investment solutions for client portfolios. Six analysts at the firm hold the Chartered Financial Analyst® designation, with expertise spanning macroeconomics, public and private asset classes across the global capital markets, and impact investing. Collaborating with each other and with client advisors, the investment team's overarching goal is to help clients and their families preserve and grow their wealth over many generations.

ABOUT LAIRD NORTON WEALTH MANAGEMENT

Laird Norton Wealth Management ("LNWM") has long partnered with its clients to help them achieve their greatest impact through their investments, legacy planning and philanthropy. Founded in 1967, LNWM is both an RIA (registered investment advisor) and trust company, providing comprehensive and integrated wealth planning to individuals, families, business leaders, private foundations and nonprofit organizations nationwide.

801 Second Avenue, Suite 1600, Seattle WA 98104   206.464.5100   800.426.5105   lairdnortonwm.com

Laird Norton Wealth Management is the business name of Laird Norton Trust Company, LLC, a State of Washington chartered trust company. The Trust Company and its wholly owned subsidiary, Laird Norton Wealth Management, LLC, an investment advisor registered with the Securities and Exchange Commission, together operate under that name. The Trust Company also owns Weatherby Asset Management, LLC, an investment advisor registered with the Securities and Exchange Commission. Such registrations do not imply any level of skill or expertise.

DISCLOSURE

All investments involve a level of risk, and past performance is not a guarantee of future investment results. The value of investments and the income derived from them can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur. All investment performance can be affected by general economic conditions and the extent and timing of investor participation in both the equity and fixed income markets. Asset allocation, due diligence, and diversification do not guarantee a profit or protect against a loss. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations.

This presentation is not intended as investment advice; we offer investment advice only on a personalized basis after understanding the client's individual needs, objectives, and circumstances. The information presented herein does not constitute and should not be construed as legal advice or as an offer to buy or sell any investment product or service. Any accounting, business or tax advice contained in this presentation is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. Any opinions or investment planning solutions herein described may not be suitable for all investors nor apply to all situations. All opinions expressed are those of Laird Norton Wealth Management and are current only as of the date appearing on this material.

A benchmark or index is an unmanaged statistical combination of securities designed to be representative of the performance of an asset class, sector or investment style. Indices are shown for informational purposes only and it is not possible to invest directly in an index. Indices are not subject to management fees. Comparisons between a composite or a portfolio and an index or benchmark are unreliable as performance indicators and should not be considered indicative of the performance that may be experienced in a particular managed portfolio.

Certain information herein has been obtained from public third-party data sources, outside funds and investment managers. All data presented is current only as of the date shown. Although we believe this information to be reliable, no representation or warranty, expressed or implied, is made, and no liability is accepted by Laird Norton Wealth Management or any of its officers, agents or affiliates as to the accuracy, completeness or correctness of the information herein contained.

INDEX DEFINITIONS

US BONDS: Bloomberg US Aggregate Bond Index – Covers the US Dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

COMMODITIES: Bloomberg Commodity Index - A broadly diversified index of futures contracts intended to be representative of the commodities market. It currently includes 19 commodity futures in seven sectors.

MUNICIPAL BONDS: Bloomberg Municipal 1-10 Year Index - Tracks the broad market performance of tax-exempt bonds with 1 to 12 years remaining to maturity.

10-YEAR US TREASURY BONDS: BofAML US Treasury Current 10 Year Index – The market value weighted index of public obligations of the US Treasury with maturities of 10 years.

INT'L DEVELOPED EQUITIES: MSCI EAFE Index - A free float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. Consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

EMERGING MARKETS EQUITIES: MSCI Emerging Markets Index - A free float-adjusted market-capitalization index that is designed to measure equity market performance in the global emerging markets. Consists of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

US LARGE CAP EQUITIES: Russell 1000 Index - Measures the performance of the large-cap segment of the US equity universe and represents approximately 92% of the US market.

US SMALL CAP EQUITIES: Russell 2000 Index - Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, representative of the US small-capitalization securities market.

LIQUID HEDGE FUNDS: HFRX Global Hedge Fund Index – A daily-valued index designed to be representative of the overall liquid hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

ILLIQUID HEDGE FUNDS: HFRI Fund Weighted Composite Index – A global, monthly-valued, equal-weighted index of over 2,000 single-manager funds that is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies. Constituent funds report monthly net of all fees performance in US dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

GLOBAL REITs: FTSE EPRA/NAREIT Global REITs Index - A measure that tracks the performance of listed real estate companies and REITs worldwide.

DIVERSIFIED PORTFOLIO: 10% US Municipal Bonds; 10% US Core Bonds; 25% US Large Cap Equities; 5% US Small-Cap Equities; 22% Int'l Developed Equities; 9% Emerging Markets Equities;4% Global Infrastructure; 13% Illiquid Hedge Funds; 2% Commodities.

Diversification does not assure better performance and cannot eliminate the risk of investment losses. There are no guarantees that a diversified portfolio will outperform a non-diversified portfolio. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations.

An index is an unmanaged statistical combination of securities designed to be representative of the performance of an asset class, sector or investment style. Indices are shown for informational purposes only and it is not possible to invest directly in an index. Indices are not subject to management fees. Comparisons between a composite or a portfolio and an index or benchmark are unreliable as performance indicators and should not be considered indicative of the performance that may be experienced in a particular managed portfolio.

Returns for investments in portfolios managed by Laird Norton Wealth Management will be reduced by the imposition of fees and any other expenses incurred in the management of the investment portfolio. The fees charged by Laird Norton Wealth Management are dependent upon the specific contractual or trust terms governing the portfolio and may change over time. Fees have a compounding effect on cumulative results; performance shown gross of fees will be reduced over time by the imposition of fees.

The index information has been obtained from public third party data sources, outside funds and investment managers. Although we believe this information to be reliable, no representation or warranty, expressed or implied, is made, and no liability is accepted by Laird Norton Wealth Management or any of its officers, employees, agents or affiliates as to the accuracy, completeness or correctness of this information. The information is subject to change after the date of this report.