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After a brutal first half of the year, things seemed to be improving in the first part of the third quarter but took an ominous turn in mid-August to finish at its lowest level since 2020. Equities still managed to best bonds in general, with the average long-term government bond fund declining roughly twice as much as the S&P 500 Index. While inflation likely peaked during the third quarter, that positive was offset by a still-hawkish, inflation fighting Fed and Geopolitical risks borne by the continued conflict in the Ukraine. Despite high inflation and lingering supply chain issues, the majority of 2nd quarter earnings reports beat estimates, although with a heavy dose of cautionary boding for the future. After value performed better in the first half, growth returned to relatively outperform, foreign markets badly underperformed the U.S., and commodities dropped on a combination of a multi-decade high in the U.S. Dollar, growing fears of global recession, sharply rising real interest rates, and fading inflation expectations.

Our Kirwan Capital Strategy portfolios lost 4.25% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a loss of 4.93%. The quarter's performance leaves our average compound annual return after fees since Jan 1, 2013 at 11.11%, which would have turned a $10,000 investment into $27,940 in 9 ¾ years. Among our holdings, Amazon gained over 6%, while Google again contributed to underperformance, dropping 12%. The majority of our holdings simply tracked within single digits of the market averages, as the quarter was marked by a broad, but not particularly raucous selloff of financial assets.

Our activity during the quarter was minimal, as we sold the remainder of our Yum China stake and bought additional shares of beleaguered Hanesbrands due to its extremely low valuation and strong dividend yield.

We are now in a period where a lingering recession is a foregone conclusion, and the return of an accommodative Fed is not widely expected anytime in the near future. This is the kind of pessimistic outlook that is more likely to indicate a favorable entry point for stock investors than the type of enduring optimism we have had for the prior couple of years. Although we continue to fight the Fed, inflation, and arguably the worst Geopolitical landscape since the cold war, buying in the face of fear has always been more fruitful than jumping on the bandwagon amid an air of jubilation.

Sincerely,

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.