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After a dismal first three quarters of the year, the U.S. stock market rebounded slightly in Q4 to finish down just over 18%. Stubbornly high inflation fueled by remaining pandemic supply chain issues and soaring commodity prices resulting from the Russian invasion of Ukraine lingered longer than most experts predicted. Big tech plummeted, with the six largest tech stocks losing nearly $4 trillion in market value, while energy stocks soared on the back of sharply higher oil prices. Growth stocks got crushed as a category, while value stocks on average avoided significant losses for the year. Bonds had their worst year in recorded history, as the Fed raised its fed-funds rate from 0% in January to 4.5% in December, the fastest pace ever. The longest U.S. bonds lost 39.2% as measured by an index that tracks long-term zero-coupon issues. To put this loss into perspective, according to investment historian Edward McQuarrie, that is the worst performance since records of Great Britain's bond trading in 1754, and you have to go back to the Napoleonic war era to find the second worst performance, which was only about half as bad. Even TIPS, a Treasury debt product designed to protect against inflation, ended the year with double-digit losses. Crypto also had an abysmal year, losing over $2 trillion in market value, as Bitcoin lost 64.7%, including a one-day loss of 24% on fears over the collapse of crypto exchange FTX and the crash of stablecoin Terra, which lost nearly all its value in a few weeks.

Our Kirwan Capital Strategy portfolios gained 3.73% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 7.57%, as our relative outperformance in the first quarter was mostly offset by our relative underperformance during Q4. The quarter's result leaves our average compound annual return after fees since Jan 1, 2013 at 11.22%, which would have turned a $10,000 investment into $28,982 in 10 years. Among our holdings, the worst performer and biggest drag on returns by far was Amazon, which after approximately doubling during the pandemic, has given the entirety of those gains back. The stock has been dually hit with fears of slowing cloud spending and slowing online retail sales after the company expanded capacity greatly during the past two years. Apple and Alphabet were also losers during the quarter as big tech took a hit after years of outperformance. Our biggest gainers were Starbucks, Berkshire Hathaway, and Equifax, which all gained in the mid-teens on a percentage basis. Our only activity during the quarter was an addition to our Kroger holdings made early in October.

Especially in light of the horrific performance of bonds during 2022, I find it peculiar that business schools continue to teach theories that place bonds in a lower volatility and risk category than stocks, and target-date funds, among many investment products, continue to use bonds in attempts to lower volatility in portfolios. Given the current, still historically low interest rates, chances that the bond portion of a portfolio will outperform the stock portion over the long term are minimal in my opinion, and last year's volatility brings even more into question whether bonds offer enough stability in the short term to outweigh the risk of material underperformance over time.

The last few years has been a case study in what happens when government injects very large sums of money into the economy in a short time. The M2 money supply increased over 40% from February 2020 to March 2022. Much of that increase clearly found its way into the stock market, and much of it got spent on consumer purchases, which inflated sales of companies across many industries and created shortages of goods as suppliers fell behind due to pandemic work stoppages. This all, quite predictably, resulted in an inflationary environment, which has been exacerbated by the war in Ukraine and zero-Covid policies in China continuing to hinder supply

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chain recovery. Now, the Fed is pulling money out of the economy in an attempt to reduce the inflation it created. All of this is being done at a scale that has never been previously attempted. Also quite predictably, this reversal has had a detrimental effect on asset prices. As the reversal of China's Covid policy returns production in that country closer to pre-pandemic levels and the world finds alternatives to Russia and Ukraine for goods, inflation should work its way lower. The questions now become how long this will take, and whether a soft landing is possible. In either case, I do not believe politicians have the will to avoid printing money again as soon as inflation seems tamed, which is when the next bull market in asset prices is likely to begin.

I again thank you for your trust, and wish all of you a healthy and prosperous 2023.

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.