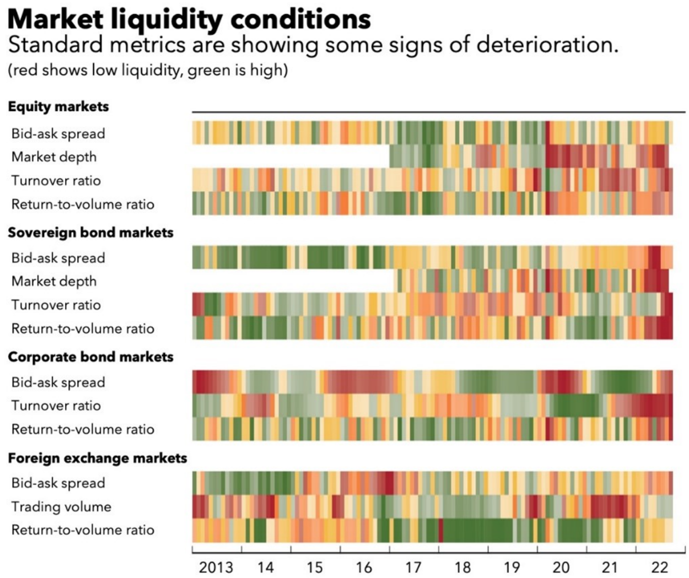
Seventy2 Capital **October 2022**

Monthly Market Commentary

The volatility we have seen in 2022 has resulted from a variety of causes: fears of a global growth slowdown, food and energy crises sparked by the invasion of Ukraine, and the Federal Reserve's rapid interest rate hikes. The next shoe to drop may be liquidity, and it may not be easy to pick back up.

The Federal Reserve has a problem – rampant inflation resulting from overstimulation of the economy over the last few years. Since we are at full employment, their only remaining mandate is to get this inflation under control. They accomplish this through interest rate increases and open market intervention or, put more simply, making money more expensive and removing it from the economy. These actions represent an abrupt shift from the times of "cheap and easy" money that we have all been used to over the last decade. We can see from recent IMF data shown to the right that, across asset classes, this train is already in motion.

Liquidity is a measure of how easily assets can be bought and sold, affecting almost every market worldwide.



Sources: Bloomberg Finance L.P.; Haver Analytics; Japan Bond Trading; JPMorgan Big Data and AI Strategies; MarketAxess; Reuters; Securities Industry and Financial Markets Association; and IMF staff calculations. Note: Indicators are based on the maximum z-score among regions. Regions are the euro area, Japan, and the US for equity markets and Germany, Italy, Japan, the UK, and the US for sovereign bond markets – except for market depth, which is for the US. IMF

The deterioration of liquidity conditions poses several risks that should not be overlooked:

- A more unstable financial system – low liquidity amplifies volatility and impairs market functionality.
- A direct tax on consumption – everything becomes more expensive and more difficult to afford. Money becomes scarce, so consumers have a reduced capacity to buy and finance goods, services, and homes. Demand, company profits, and stock prices decline.
- Innovation slows – funding ideas that are not immediately profitable becomes too expensive.
- Jobs are lost – companies must now pay more to fund salaries. Layoffs ensue.
- Credit events and defaults increase – higher-risk businesses and structures that rely on easy money start to fall apart and default on payments.

We believe one of the most important questions for investors in this market is how liquidity looks over the next ten years, rather than the last ten. Will the Fed quickly change pace and return to the times of easy money, lowering rates and turning on the printing press? Or will they continue their path in tightening financial conditions? The former suggests that the companies which have historically performed well under those conditions (technology, consumer discretionary, communication services) will continue to do so, while the latter favors more defensive allocations (consumer staples, energy, financials.) It's still too early to know, but for now, we stress staying defensive until there is a clearer path for investors.

As always, please reach out to your financial advisor with any questions or concerns.

-The Seventy2 Capital Team

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