ORCAS ISLAND COMMUNITY FOUNDATION

Investment Committee Notes | Q1 2022

Fostering philanthropy to enhance and preserve the quality of life on Orcas Island

Markets & The Economy

The first quarter of 2022 reminds us of the cycles that markets go through, though not always aligned with a particular calendar. While the world continues to emerge from the battle with COVID-19, consumers have been shaken by the fastest pace of increase in inflation in over 40 years, which the Russian invasion of Ukraine has only exacerbated. These factors have cast a shadow on the markets in the first quarter of the year as both equity and bond markets succumbed to the pressures upon us, including the expectations for central banks to begin unwinding their emergency interest rate policies and balance sheets. We see this adjustment as a healthy check on prices, which had gotten quite lofty in parts of the market. However, looking below the surface, seeing value stocks outperform growth was a welcome sight. Credit spreads remained stable despite rising rates which is a good sign that the economy is rotating rather than collapsing.

Looking at things from a different perspective, despite Covid limiting a return to "normal" in terms of economic activity, unemployment levels continue to decline as there are millions more job opportunities than there are job seekers, wages have seen meaningful increases, and corporate profit margins are still sitting near all-time highs. Moreover, consumer demand for homes, cars, and travel remains robust while households maintain strong balance sheets with very low levels of debt service. Yes, we hear the growing choir of economists calling for a recession as uncertainty has grown, but our Market Cycle Dashboards remind us that the economic ship takes time to turn and that the rowers need to all be pulling in the same direction for a recession to occur. Indeed, a cooling of demand might be required to ease inflationary pressures, but a situation where consumers need to tighten the purse strings dramatically does not appear imminent.

There are several crosswinds at play in the economy today. We are addressing that by maintaining diversity across asset classes, mitigating against the greatest perceived risks. We are pleased with the positioning of portfolios relative to the risks and opportunities in the markets today and will manage steadfastly and thoughtfully as the economy evolves from here. We are pleased to partner with you on this journey and happy to share further insight on any topics highlighted here and how they impact your long-term investment plans.

Portfolio Overview (Approximate Funds; Year-to-Date Returns as of March 31, 2022, Net of Advisory Fees)

Mid- to Long-Term Fund ($14.4 million; -2.8%) – Most of OICF's corpus is invested in this diversified global strategic approach featuring a blend of active, passive and private investment funds.

Short-Term Funds ($2.7 million; -1.0%) – OICF holds two short-term accounts invested in a short-term bond fund managed by PIMCO, currently yielding between 1.0-2.0% annually.

Blue Marble Fund ($3.0 million; -7.4%) – A lower cost strategy comprised of ETFs and Mutual Funds focused on companies with best practices among environmental, social and governance attributes. This portfolio option incepted during the second-half of 2018 features a 60% stock, 40% fixed-income allocation.

OICF Index Fund ($0.43 million; -5.6%) – OICF provides this low internal-fund cost option for those who espouse the 'John C. Bogle' (founder of Vanguard) indexing approach to investing, characterized again by a 60% stock, 40% bond and other diversified asset allocation.

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