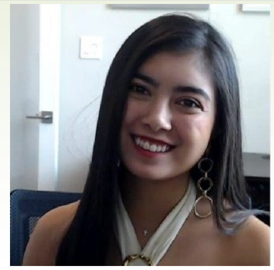
March 2023 | Alexis Investment Partners, LLC | 925-457-5258

Alexis Investment Partners, LLC

Practical ✧ Tactical


Summary

Following an exceptionally strong January, **stocks and bonds declined in February. We see this as a normal pullback within a bull market for stocks and expect the uptrend to resume** in the months ahead. We are more neutral with respect to bonds, other than short-term maturities, which are attractive.

The S&P500 index ETF (SPY) lost -2.51% in February but remains up 3.62% year-to-date. The All-country world index ETF (ACWI) lost -3.32% for the month. Bonds fell sharply, with **the iShares Bloomberg Aggregate Bond index ETF (AGG) down -2.67% in February**.

Our portfolios outpaced benchmarks in February. AIP Composite performance is shown with a chart and comments **on page 2** (see also disclosures on page 4 related to past performance and benchmarks).

This month marks the 3-year anniversary of the pre-COVID peak. Considering that **this 3-year time frame included a 30% market crash and last year's bear market,** it may be surprising to note that **the S&P500 gained a cumulative 40%, ACWI is up 30% and yet bonds are down almost -11%. Our portfolios outpaced benchmarks over this period,** being underweight bonds and selective about our holdings – but also **because we generally had more stock exposure in advances than declines.**

Rising interest rates continue to pressure economic growth, but also provide a nice alternative to savings accounts. Traded money market funds and **US Treasury bills yield between 4% and 5%** while providing daily liquidity. **Zero interest rate policy is not normal.** It is used to stimulate demand and support asset prices under extreme circumstances. **Current rates are no longer stimulative but are consistent with long-term growth and below average considering long-term inflation expectations.**

We encourage you to check in regularly to review performance, ask questions and update us with any changes to your goals or circumstances.

What to Expect in Portfolios

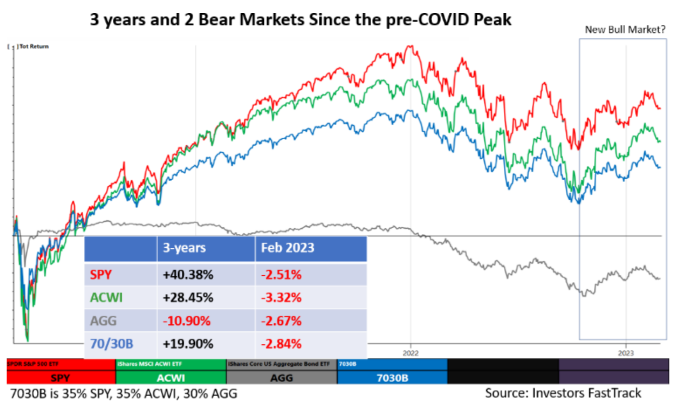
Last month we wrote: "**We remain tactically overweight stocks** and believe the bear market is over and a new bull market has started. Bull markets include pullbacks and corrections – so we continue to expect volatility…"

Stocks and Bonds fell in February. Like the pullback in December 2022, we view this as a normal pullback within a bull (rising) market and expect the uptrend to resume in the months ahead.

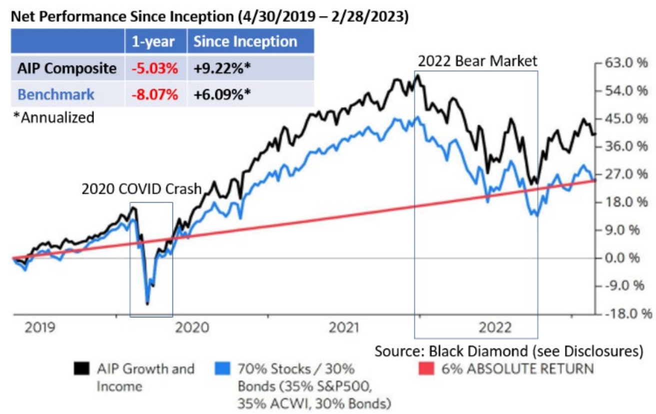
In bull markets, pullbacks and corrections represent buying opportunities. We did more buying than selling last month, **adding primarily to foreign stocks while modestly reducing exposure to mega cap tech.**

Contents

The last 3 years have been volatile and painful at times. **The stress caused by significant events and extreme market action leads investors to sell at inopportune times.** Many endured losses and remain under-invested. **We may not always understand market resilience.** It helps to maintain a long-term optimistic perspective.



The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4). Considering gloomy news and negative sentiment following the 2022 Bear Market, we find these results encouraging. **Our actions through full market cycles determine much of our long-term success.**



Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) summarized in the chart below:

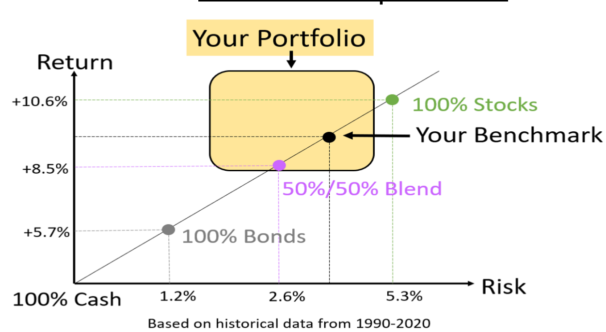
The Fed continues to raise interest rates, yet has slowed the pace of increases and we believe **we are close to the end of this tightening cycle.**

It will take time for businesses and consumers to get used to a more normal interest rate environment after years of excess stimulus, but so far, economic numbers are better than feared.

The recent pullback has pushed **investor sentiment** back to levels showing high fear and pessimism. The reason stocks tend to "climb a wall of worry" is that **excess pessimism indicates investors are holding cash** that can be deployed into stocks as conditions improve and have less to sell as they **have already embraced a negative outlook**.

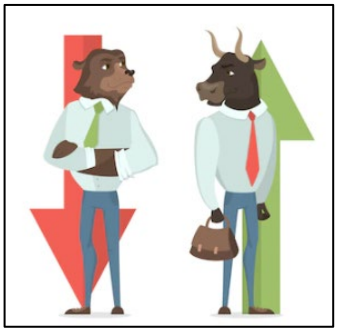
As workers adjust to the post-COVID economy, productivity remains weak – this is something we'll want to monitor in the months ahead. **Innovation and globalization have helped limit inflation pressure in past expansions** We expect productivity will be important to the sustainability of this bull market.

Risk/Return Expectations



We kept this graphic as an important reminder that our goal is to add value (generate higher risk-adjusted returns) through full market cycles by allowing our portfolios to deviate from benchmarks. **We base allocation decisions on an assessment of both risk and return potential.**

Portfolios are based on client needs, goals, and preferences.



Update, Observations, Indicators and Outlook:

We focus a lot on broad market trends - do we believe we are in a bull (rising) or bear (falling) market? This is more than just symantics to us. Markets are volatile in both bull and bear markets, but **the actions through up and down markets that add value in bear markets fail in bull markets and visa versa.**

In bear markets, overbought conditions stall and give way to fresh declines. **Pullbacks are more durable, more severe and lead to new lows.** Tactically, we are quicker to trim exposure and more cautious and selective when buying during bear markets.

In bull markets, overbought conditions are a sign of momentum and help identify leadership. **Pullbacks and corrections tend to be less frequent, less severe and shorter in duration. Tactically, we let winning trades run longer and buy into pullbacks more aggressively.**

Many **pundits disagree** regarding bull or bear market trends. Mistakes are common because **these experts create narratives to explain recent market action.** Markets react to surprises, **but once news is embraced by investors, the market learns to look past the narrative.**

To help us avoid the trap of being anchored to a narrative, we can benefit from models and indicators that allow us to measure trend strength and momentum for both individual stocks and indexes. We can use these models and indicators to evaluate risk and return potential based on history, and assign a statistical significance assuming sufficient data is available.

Currently, the narrative is focused on persistent inflation, rising interest rates and recession risks. **All of these are valid concerns but our models and indicators show that as these issues have become entrenched, markets have become more resilient.** Recognizing this change allows us to focus less on what can go wrong and more on what can go right. This relatively optimistic perspective guides us today.

The market is still in transition from Bear market to Bull market and our focus has mainly been on adjusting our level of market exposure and diversification. **As the bull market matures, we will benefit more by aligning with leaders**. Our bond investments remain focused on quality and very short duration.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We view the current pullback within the context of a bull market.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks. **It is possible that the February pullback will deepen to a correction, but our models suggest buying the dip.**

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from. **We believe the October lows marked the trough of the 2022 Bear Market**.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

As an Accredited Investment Fiduciary (AIF), Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

This material is for informational purposes only. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Jason Browne's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties.

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Mutual funds and other securities may distribute taxable dividends and capital gains to investors. Taxes on such items can affect the returns realized from such investment income received from certain investments may be subject to the Alternative Minimum Tax (AMT). Please consult with your tax advisor before making any investment and consider the effect that taxes may have on returns.

Rebalancing assets in a portfolio can have tax consequences. Selling assets in a taxable account may result in a taxable gain. Alexis Investment Partners, LLC. is neither a law firm nor a certified public accounting firm and no portion of this newsletter should be construed as legal or accounting advice.

AIP Composite Performance is calculated by Black Diamond based on the performance of all discretionary managed accounts with a Growth and Income objective that are assigned a 70/30 benchmark. Performance is net of all fees and expenses. From April 30, 2019, until Alexis Investment Partners, LLC registered with the SEC as an investment advisory firm in May 2021, Jason Browne offered advisory services using Alexis Investment Partners, LLC as a trade name through Sowell Management, LLC an SEC Registered Investment Adviser. Alexis Investment Partners, LLC and Sowell Management, LLC are independently owned and operated.

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