OUT OF THE BOX

INVESTMENT COMMITTEE UPDATE

2022 Q3

Faith | Trust | Excellence | Care

BOX FINANCIAL

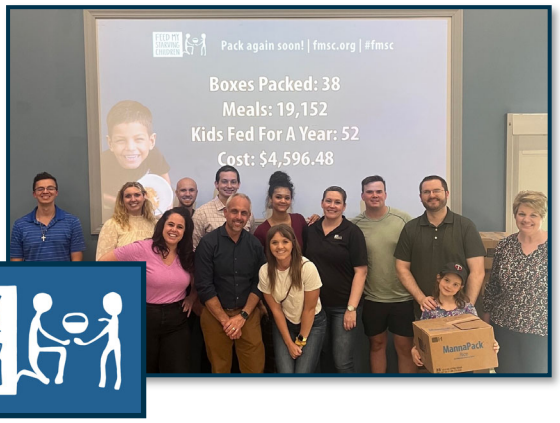
Our Mission is to help people with complex financial needs experience an **EXCEPTIONAL** life.

Our Investment Committee

Each quarter, our Investment Committee meets to review the markets and economy. At this meeting, three voting members review significant market data and hear from current advisors and appropriate support staff. When necessary the Committee adjusts the model portfolios managed by the firm. Our quarterly newsletter represents the Committee's general thoughts behind any adjustments.

Our Team

This quarter our team members came together to pack food at Feed My Starving Children (FMSC). At that packing session, 13,608 meals were packed, which is enough food to feed 37 kids for a year. FMSC is dedicated to providing nutritious meals to children worldwide. For more information about this organization, please visit www.fmsc.org.



FEED MY STARVING CHILDREN

Construction is Underway!

We're on the MOVE BOX FINANCIAL

Soon we will *Rewind into the Future* in our new space. We can't wait to move forward with you as we bring the best aspects of the past with us.

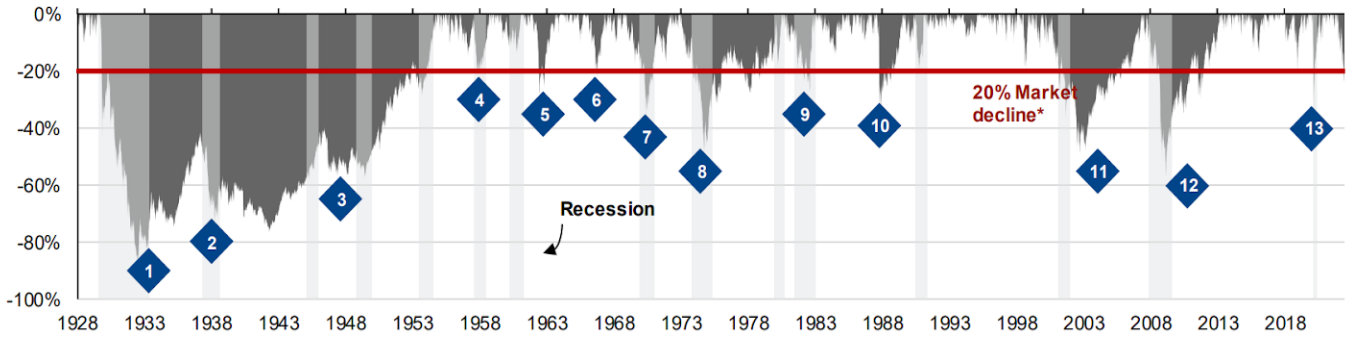
On our website find more information and a video from Doug Box about our move: boxfinancialadvisors.com/our-move.

Equities

Bear markets and subsequent bull runs

GTM | U.S. | OTB

U.S. recessions and S&P 500 composite declines from all-time highs



Characteristics of bull and bear markets

	Market correction	Bear Market: Market peak	Bear Market: Bear return*	Bear Market: Duration (months)*	Macro environment: Recession	Macro environment: Commodity Spike	Macro environment: Aggressive Fed	Macro environment: Extreme Valuation	Bull markets: Bull begin date	Bull markets: Bull return	Bull markets: Duration (months)
1	Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2	1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3	Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4	Eisenhower Recession - Worldwide recession	Aug 1956	-22%	14	◆		◆	◆	Jun 1949	267%	85
5	Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
6	1966 Financial Crisis - Credit crunch	Feb 1966	-22%	7			◆	◆	Oct 1962	76%	39
7	Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1966	48%	25
8	Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
9	Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
10	1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
11	Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
12	Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
13	Global Pandemic Recession	Feb 2020	-34%	1	◆				Mar 2009	401%	131
	Averages	-	**-41%**	**20**					-	**162%**	**51**

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
*A bear market is defined as a 20% or more decline from the previous market high. The related market return is the peak to trough return over the cycle. Periods of "Recession" are defined using NBER business cycle dates. "Commodity spikes" are defined as movement in oil prices of over 100% over an 18-month period. Periods of "Extreme Valuations" are those where S&P 500 last 12-months P/E levels were approximately two standard deviations above long-run averages, or time periods where equity market valuations appeared expensive given the broader macroeconomic environment. "Aggressive Fed Tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude. Bear and bull returns are price returns.
Guide to the Markets – U.S. Data are as of June 30, 2022.

J.P.Morgan ASSET MANAGEMENT

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Economic Commentary

In 1980, at a speech at Liberty State Park, amid a unique economic backdrop, Ronald Reagan said, "Recession is when your neighbor loses his job. Depression is when you lose yours. And recovery is when Jimmy Carter loses his." At the time, we were dealing with 18% inflation, record deficits, interest rates that reached as high as 20%, falling business productivity levels, and unemployment running at almost 8%, which created a lot of pain and uncertainty for the American consumer. It can be easy for people to compare the loss of hope we are experiencing today to the1980s. This paper will compare and contrast these periods to gain perspective on our current situation.

The 1980s gave us one of the many recessions we have experienced in the United States. In 1929, the Great Depression left investors feeling discouraged after stocks fell 86% in a 32-month bear market. In 2000, the bubbly exuberance around technology stocks popped and what followed was a 42% drop over the following 30 months. Lastly, the 2008 - 2009 housing bubble and subsequent financial crisis are what many Americans still think back to when the word recession rears its head. Liquidity crunch, commodity spike, and an aggressive Fed led to high unemployment and investor loss of 49% over 30 months. Each downturn has its unique fingerprint, and no two are the same. While many of them share characteristics, we must remember that our current situation has its uniqueness.

Headline inflation is currently reading 8.5%, which is still not near what we saw in 1980 when inflation got above 18%. Today, consumers feel the pain, especially at grocery stores and gas pumps,. If you remove food and energy from the equation, the core inflation is at 8.5%. This month represents the fifth month of no increase in core inflation prices, indicating that the source of inflation comes from food and energy, while other goods are beginning to correct.

Economic textbooks will tell you that inflation and interest rates are positively correlated. This means that when inflation rises, interest rates usually follow behind. Yes, the 1980s saw inflation of 18%, but interest rates at 20% helped to ease the pain and gave investors an option to keep their assets at pace with inflation. What we have seen in 2022 is inflation increasing much faster than interest rates have been able to keep up. Low-interest rates and rapidly growing inflation have caused pain in the investment markets and consumers' pockets. In response, the Federal Reserve began its march toward higher interest rates hoping to slow demand and reduce inflation.

Navigating rising costs and rising interest rates has been challenging for American businesses. However, so far, we have not seen a reduction in earnings. Business earnings have been steady, increasing to 5.6% YTD. (See the graphs on the next page for more information.) However, companies are beginning to temper expectations for future earnings from increasing commodity prices and wage pressures. The tempering or

slowing earnings expectations is not earnings loss. In a typical recession, when many businesses report a substantial loss of revenue and earnings for too long, the following action is corporate layoffs.

The good news for employees is that the unemployment rate is lower than at the beginning of the year and is currently sitting at 3.5%. In the ’80s, unemployment started just below 6% and topped 10% at its peak. The environment today is entirely different. Year over year, job openings have increased by 16.75% as companies look for quality employees who want to work. Consider the low unemployment rate, low levels of consumer debt, and many with the government stimulus still in consumer pockets. Looking at these factors, you begin to see that while we are feeling the pain of inflation, we are in a much better place than prior recessions tell us.

The purpose of this paper is not to prove that we are not dealing with painful economic changes. We are, but looking back, we can see that not all recessions are the same. Some recessions are mild, and others are much more severe. It is easy to anchor ourselves to the most recent traumatic recession (2008 - 2009) because that is imprinted in our minds. We must remember that context is critical. In 2008 -2009, we had a liquidity crunch that caused anxiety for financial institutions on how they would make obligations.

Today’s environment is like a toddler carrying a glass cup filled to the brim with water. The water is sloshing back and forth, spilling over the sides as they try to take a drink. The liquidity in our system is spilling over the sides, and the goal of the federal reserve is to reduce the amount of liquidity to a more appropriate level.

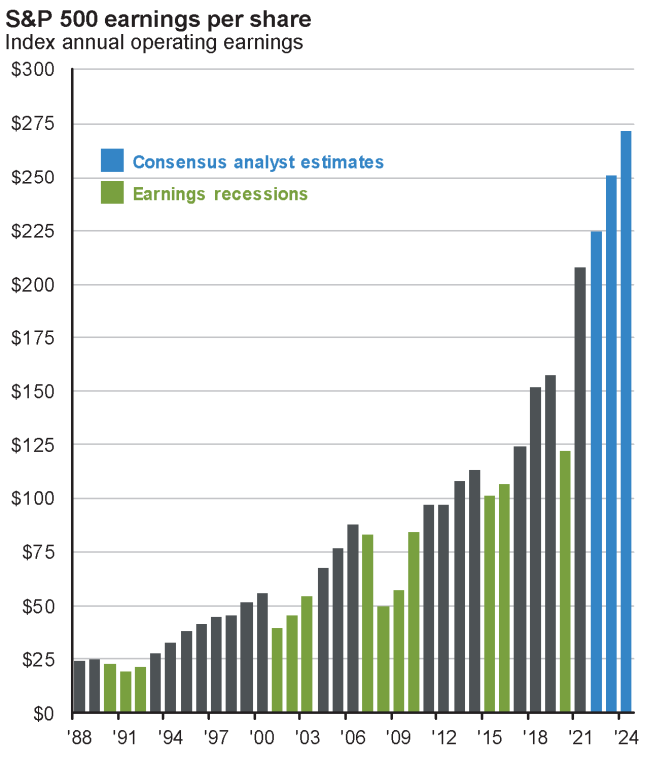
The good news is that we are starting to see some economic data showing that things may be nearing the bottom. In the last 60 years, consumer sentiment has dropped into the 50s four times, and the consumer sentiment, as of June 2022, is at 50. JP Morgan did a study that shows when consumer sentiment troughs, the following 12-month market returns averaged 24.9%. (See the graph on the next page for more information.) History certainly doesn’t repeat, but the rhyme is there. Timing the bottom is a losing game, but when indicators such as this begin to line up, it may be time to look up and see if the light is truly at the end of the tunnel.

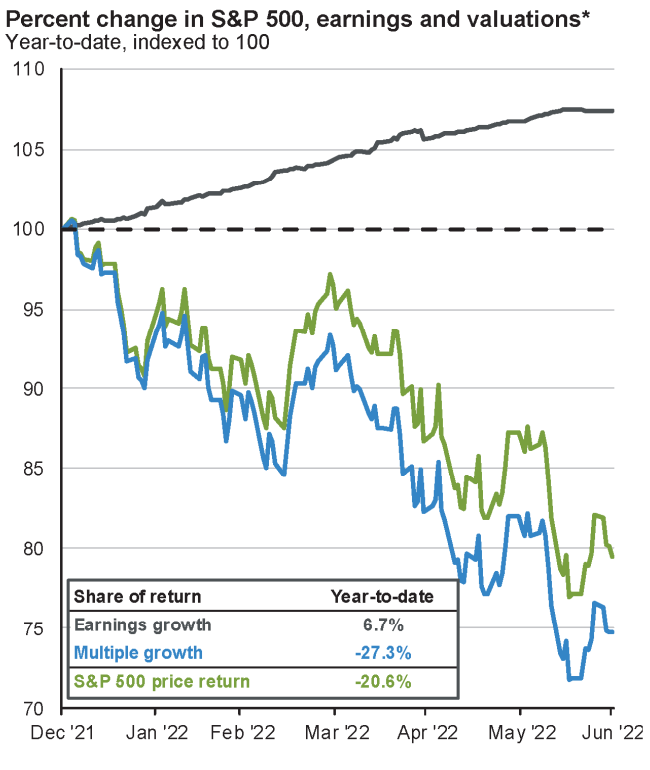
“Recession is when your neighbor loses his job. Depression is when you lose yours.” We started with this tongue-in-cheek quote because Reagan recognized that not all recessions are the same and the tools to deal with them differ. Still, most importantly, the proper perspective is critical in navigating these choppy waters. We aren’t in the 1980s, and we weren’t in 2008-2009. 2022 will go down as its own unique recession, and the light at the end of the tunnel appears to be getting closer and closer.

Equities

Corporate profits and sources of total return

GTM | U.S. | 7





Source: Compustat, FactSet, Standard & Poor’s, J.P. Morgan Asset Management.
Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from Standard & Poor’s and FactSet Market Aggregates. *Earnings and multiple growth are both year-to-date percent changes of next twelve-month estimates. Past performance is not indicative of future returns.
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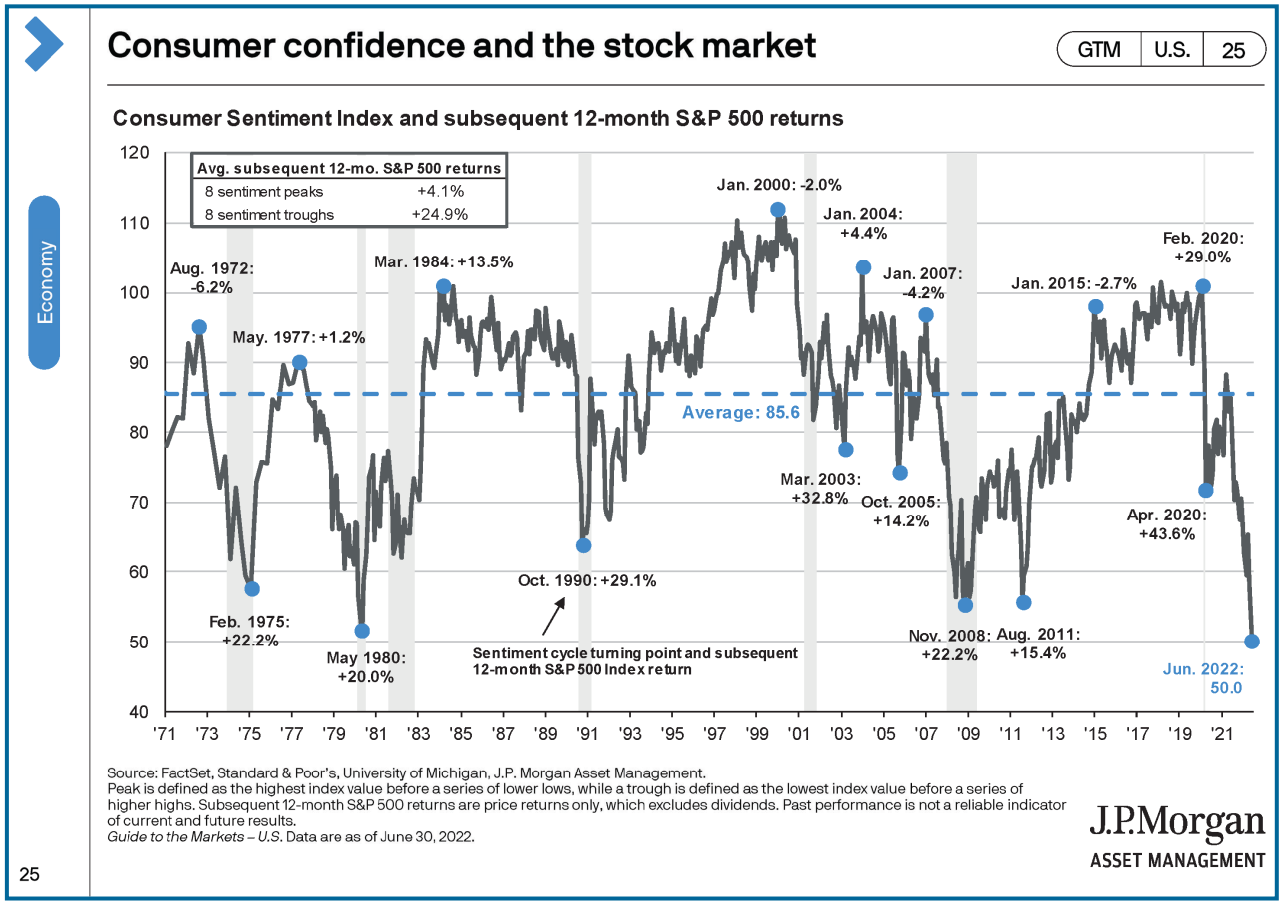
J.P.Morgan
ASSET MANAGEMENT



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