MARKET COMMENTARY

DERWOOD S. CHASE, JR.
FOUNDER & CHAIRMAN EMERITUS

December 30, 2022

Derwood S. Chase, Jr.
Founder & Chairman Emeritus

INTRODUCTION – Chase Investment Counsel Corporation uses a "bottom up" investment process combining fundamental analysis (the what) and technical indicators (the when) in making judgements about both market timing and stock selection. We focus on mitigating risk. In an effort to mitigate risk during a volatile stock market, we look at both the positive and negative factors influencing the stock market and attempt to help our investors continue to meet their long-term financial objectives without taking on too much risk.

January is the #1 S&P 500 Index and Nasdaq best performing month in preelection years. We are mindful that all Pre-Election years since 1949 have an average gain of 16.8%, the ones after a mid-term bear market like 2022 average 20.3%. That history suggests that the mid-term bear market bottom should be in. There are some encouraging signs. For instance, the November Purchasing Managers Index (PMI) for Manufacturing only shows a slight decline at 49% (anything above 50% means the economy is growing). The PMI for the Services sector actually rose to 56.5% from 54.4% in October, much better that expected. That's more like an environment for a sideways market than a recessionary one. Unlike 2008 consumer credit is still healthy with delinquency rates much lower and corporations seem to be better able to manage a credit contraction with a significant amount of cash and better staggered credit maturities and banks were more extended. A set up for a mild recession but not a steep serious one. However, it may last longer than most expect, especially if the Federal Reserve Bank continues to let $95 billion of their investments mature each month to reduce their $9 trillion way over extended balance sheet. At best, investors are faced with many years of contractionary monetary conditions instead of the excessively expansionary ones we've experienced during the last several years.

As Lowry's points out, we have yet to see a low with complete capitulation where investors sell almost everything and force prices down to significantly depressed levels. Instead, investors seem too eager to get back in with recent rallies led by fewer stocks. As Lowry reports, their core indicators have been less than favorable. In fact, there have been a few developments in recent weeks that have actually added to the cautious outlook they've held all year. One indicator that concerns me is the negative yield curve (see chart on reverse side) when short-term treasury bills have a higher yield than 10-Year Treasury Notes which often occurs prior to economic recession and just prior to significant declines in the stock market. The yield curve is more negative now than any time in the last 30 years. If the current situation ends similar to the three prior ones, we're still a few months away from the end of this bear market. In my view, the market is likely to make a new capitulation low or at least retest its October lows giving us a better opportunity to buy oversold

stocks. At least there is still enough uncertainty in both markets and the economy to continue a very conservative investment posture. That means focusing on high quality lower multiple equities and maintaining a substantial emphasis on cash equivalents such as treasury bills and short-term treasury notes as well as good quality short term 1-3 year corporate bonds in our balanced accounts.

Derwood S. Chase, Jr.
Founder & Chairman Emeritus

Chase Investment Counsel Corporation is the oldest independent investment counsel firm domiciled in Virginia. We're not in the brokerage business, but act as portfolio managers and purchasing agents for our clients. As Barron's described us in 1972, we're located "Far from the Madding Crowd" in Charlottesville, Va. Besides Derwood Chase, we have an excellent "next generation" group of officers that average 58 years of age and over 26 years of experience. Three of our officers have MBAs, one is a CFA and one is a CMT. We recognize that markets are driven by company fundamentals as well as technical factors which reflect investor sentiment.

In addition to our own research, and that from several brokerage firms, we utilize over 40 independent research sources selected with the benefit of over 50 years experience. Our investment process was developed over more than 60 years and is rather distinct in combining fundamental and technical analysis to mitigate risk and build diversified, high quality, reasonably priced growth oriented portfolios. We manage large, mid-cap, and all-cap equity oriented portfolios as well as balanced accounts for individuals and trust clients (minimum normally $500,000) in 11 states. We also indirectly serve about 1,700 investors through our mutual fund product. As a smaller firm, we have a particular advantage in managing portfolios since we don't need huge marketability to acquire or eliminate stock positions promptly without significantly affecting the market. We are not in the brokerage or banking business and do not have the conflicts of interest and the other priorities those businesses involve.

OUTSIDE DIRECTORS

Stuart F. Chase (1994), *Chairman, Chase Investment Counsel Corporation*
Edwin T. Burton (2004), *Visiting Professor of Economics at the University of Virginia.*
Robert J. King (2010), *Retired Investment Executive*
Luis Alvarez, Jr. (2013), *CEO, University of Virginia Law School Foundation*
Craig T. Redinger (2021), *Attorney*
