MARKET COMMENTARY

DERWOOD S. CHASE, JR.
FOUNDER & CHAIRMAN EMERITUS

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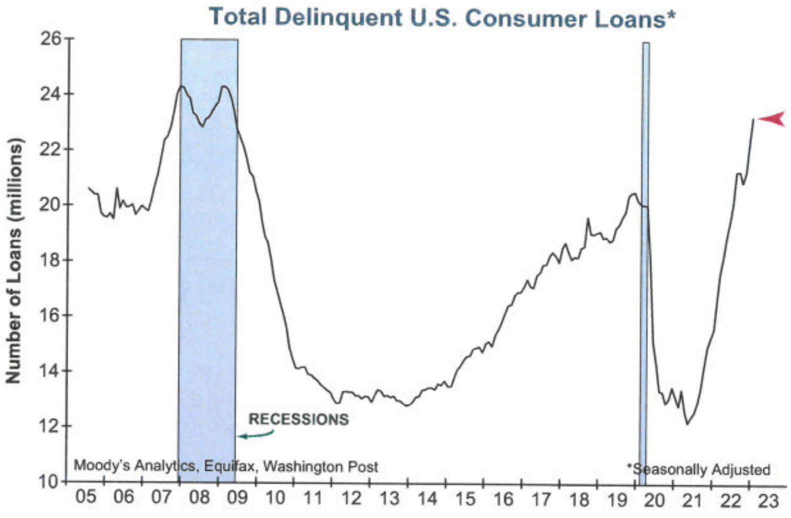
INTRODUCTION – Chase Investment Counsel Corporation uses a "bottom up" investment process combining fundamental analysis (the what) and technical indicators (the when) in making judgements about both market timing and stock selection. We focus on mitigating risk. In an effort to mitigate risk during 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.

Since WWII, the third year of the four-year presidential cycle has been the best for the stock market. The S& P 500 gained approximately 16% on average and in the third year of a first term president, almost 20% with an annual gain 92% of the time. History suggests that the mid-term bear market should bottom before the end of March, especially if the Federal Reserve stops or reduces its interest rate increases. In preelection years since 1950, April has been the S&P 500's second best month (+3.5%).

However, there are a number of troublesome factors that concern me. While consumer spending has been quite resilient, as InvesTech Research notes over 23 million consumer loans are now delinquent, close to the level reached during the 2008 recession (see chart). Recently, the Conference Board's Leading Economic Index (LEI) declined below its 18-month moving average. With the exception of 1995 every time since 1969 that has happened a recession has followed. Today 50% of U.S. Corporate debt, about $2.5 trillion is rated BBB (Source: Schroeders, Inc.), the lowest level considered Investment Grade. That compares with about $670 billion or 33% in 2008. When you realize that according to Bloomberg 40% of the corporations included in the Russell 2000 are unprofitable, it's understandable that many companies will have to refinance their debt at much higher interest rates which in many cases will be at a lower quality rating. That will trigger substantial selling by institutions that do not invest in any bonds below investment grade. As Lowry Research recently concluded, the deterioration by their core measures of



market health, increases the probabilities of an extended intermediate-term decline and an eventual test of the October lows.

While history suggests that the mid-term bear market bottom should be in. The Purchasing Managers Index (PMI) for Manufacturing was 47.7% in February down from 49% last November (anything below 50% means the economy is declining). While the February PMI for Services declined to 50.6% from 56.5% last November. That's beginning to look more like at least a mild recession.

We still have not seen a stock market low with complete capitulation where investors sell almost everything and force prices down to significantly depressed levels. Instead, investors seem too eager to reinvest but with recent rallies led by fewer stocks. We continue to have a negative yield curve with 3-month treasury bills yielding 4.65% while 10-Year Treasury Notes yield 3.59% which often occurs prior to economic recessions and often prior to significant declines in the stock market. There is still enough uncertainty in both markets and the economy to continue a conservative investment posture. That means focusing on high quality 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 1-2 year corporate bonds for our client balanced accounts.

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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*