QUARTERLY 4Q22

TACTICAL ASSET ALLOCATION

- Central bank all in to fight inflation
- Markets signal inflation to fade
- Rates to push higher still
- Policymaker credibility key to fight
- Valuations more attractive

We remain cautious based on incoming data and enter the final quarter underweight risk assets. However, policy priorities seem to be having some positive effect on expected inflation, despite upsetting financial markets. This is a difficult and complex environment, and we continue to follow our tactical discipline in navigating a very unusual year. While we are not out of the woods yet, valuations are becoming better as are longer-run expectations for returns.

Taming the Inflation Beast

The key to ending inflation is for people to believe that policymakers are willing and able to stop it. Federal Reserve (Fed) Chairman Jerome Powell delivered a to-the-point address on the topic this summer at Jackson Hole, Wyoming. To all who heard the speech, it became evident that reducing inflation had become the overarching focus of the central bank, even if lowering it meant inducing a recession.

Inflation Everywhere

The consumer price index has been up over 8% in the past year, but we should look closer. The basics needed for living are up more (top chart). For example, milk is up 17%, bread is up 16%, and meat is up 11%, making it harder to feed a family. Keeping a family warm this winter will be harder, too, as electricity prices are up 16% and natural gas prices are up 33%. And it will even be hard to get away from home this year, as public transportation prices are up 21%.

Set to Fade?

When the United States drew up $5.3 trillion of extra spending to augment household and business incomes in 2020-2021, it turned out to be more than the economy could absorb. According to the IMF, the subsidies were so large they were more than the total of those handed out by all other G20 nations combined. Although well-intended, this extra $5.3 trillion drove inflation, first visible in asset prices and then in consumer prices.

Today, we see evidence that inflation may be set to fade. The money supply has stopped growing, and deficits are back to pre-pandemic levels. Typical inflation hedges like gold and silver are down 20-25% from highs. Bond markets see 2% inflation over the next year versus 6% last March (middle chart). The market is telling us it *believes* the Fed is *serious* about getting on top of inflation. Now the onus is on the central bank to deliver.

Not Without Pain

Of course, the inflation problem is not fixable without some pain. That pain is coming from higher interest rates and tighter policy. The Fed raised interest rates from 0.25% to 3.25% in just seven months. Markets expect this to continue, with interest rates moving into the 4.5-5.0% range within a year (bottom chart).

Thus, markets would suffer historic declines in the first three quarters of this year. Through September 30, intermediate U.S. Treasury bonds are down about 12%, the worst performance on record (the next worst performance was 1994 with a 5% full-year decline). At the same time, stock investors are also enduring a bear market, with global equity indices off 20-30%. For most investors, there are few places to hide this year.

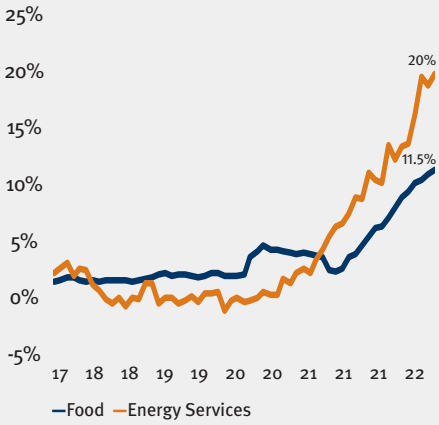
Conclusion

While inflation does seem to be everywhere, we see a silver lining. The pain of higher interest rates closes a chapter of exceptional asset and price inflation ushered in after the pandemic's start. We stress that valuations for most assets are far lower today than a year ago, improving long-run potential returns.

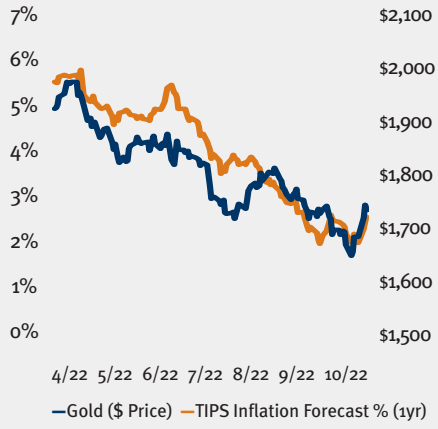
We also see that this year's pain may be starting to give way to some signs of relief on inflation. A return to slower overall money growth and lower deficits are leading some markets to price in lower future inflation. Further improvement depends critically on the belief that the Fed will deliver on promised actions to halt a further rise in inflation.

Should policymakers stick to their guns, we see no reason inflation trends will not reverse, unlocking the potential for positive surprises. In the meantime, we continue tactically managing your portfolio through a complex and challenging environment.

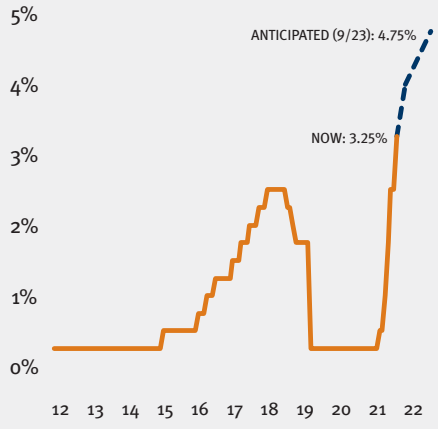
BASICS SQUEEZING HOUSEHOLDS (Yr/Yr Change)
Source: Bureau of Labor Statistics



INFLATION EXPECTATIONS FALL
Source: Bloomberg



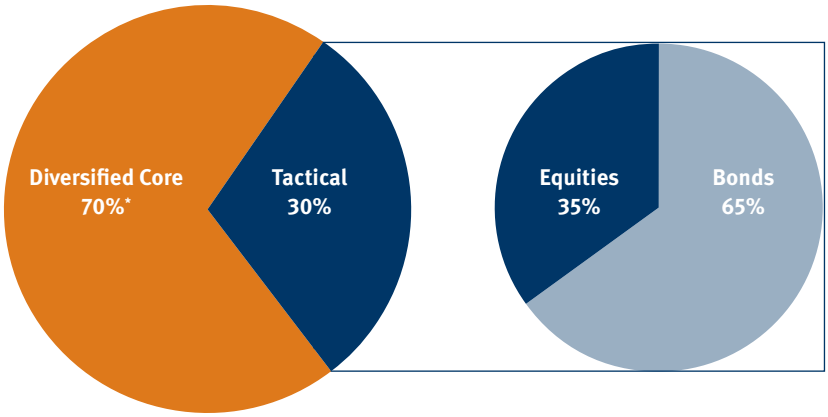
INTEREST RATES RISE SHARPLY (Federal Reserve)
Source: Bloomberg



PORTFOLIO STRUCTURE

DIVERSIFIED CORE
Longer-Term Focus

SATELLITE
Shorter-Term Focus



COMBINING LONGER- AND SHORTER-TERM PERSPECTIVES IN ONE ACCOUNT

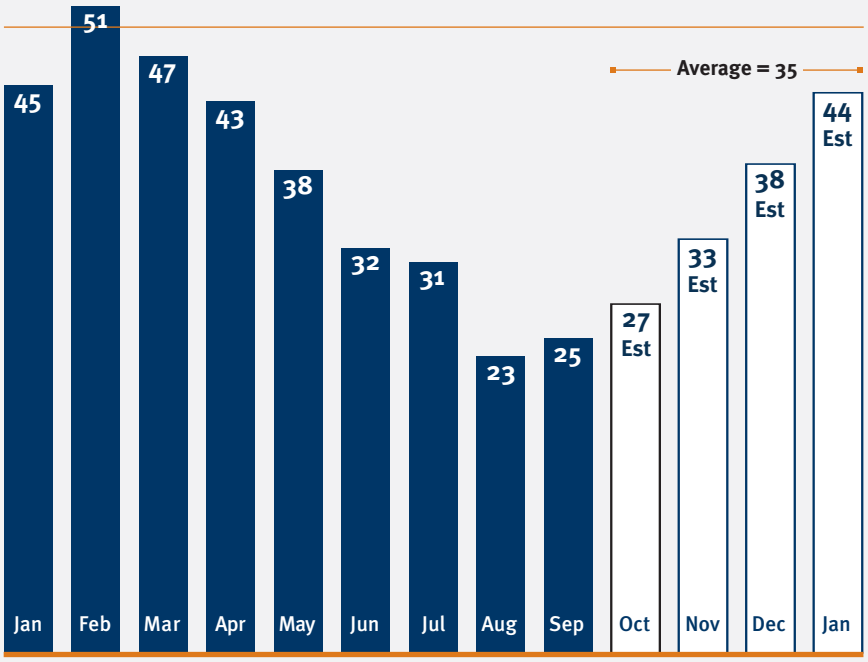
We think of portfolios as having two parts. At the "core" of the portfolio is a diversified equity and diversified bond allocation. The forecasts, valuations, and trends on page 4 guide these allocations. Because these factors are longer term, changes in the core tend to be slower than the satellite, reducing turnover.

The smaller 30% (blue circle) is the "satellite." As fundamental conditions change, shorter term "tactical" tilts between stocks and bonds are implemented here.

SATELLITE POSITIONING: SHORTER-TERM FOCUS

WCA FUNDAMENTAL CONDITIONS BAROMETER

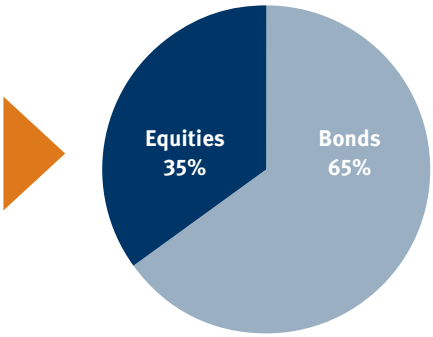
—Below 50 = Heightened Risk of Recession



We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

SATELLITE
Shorter-Term Tactical

The equity allocation is tactically adjusted to align with the forecast barometer (see chart left).



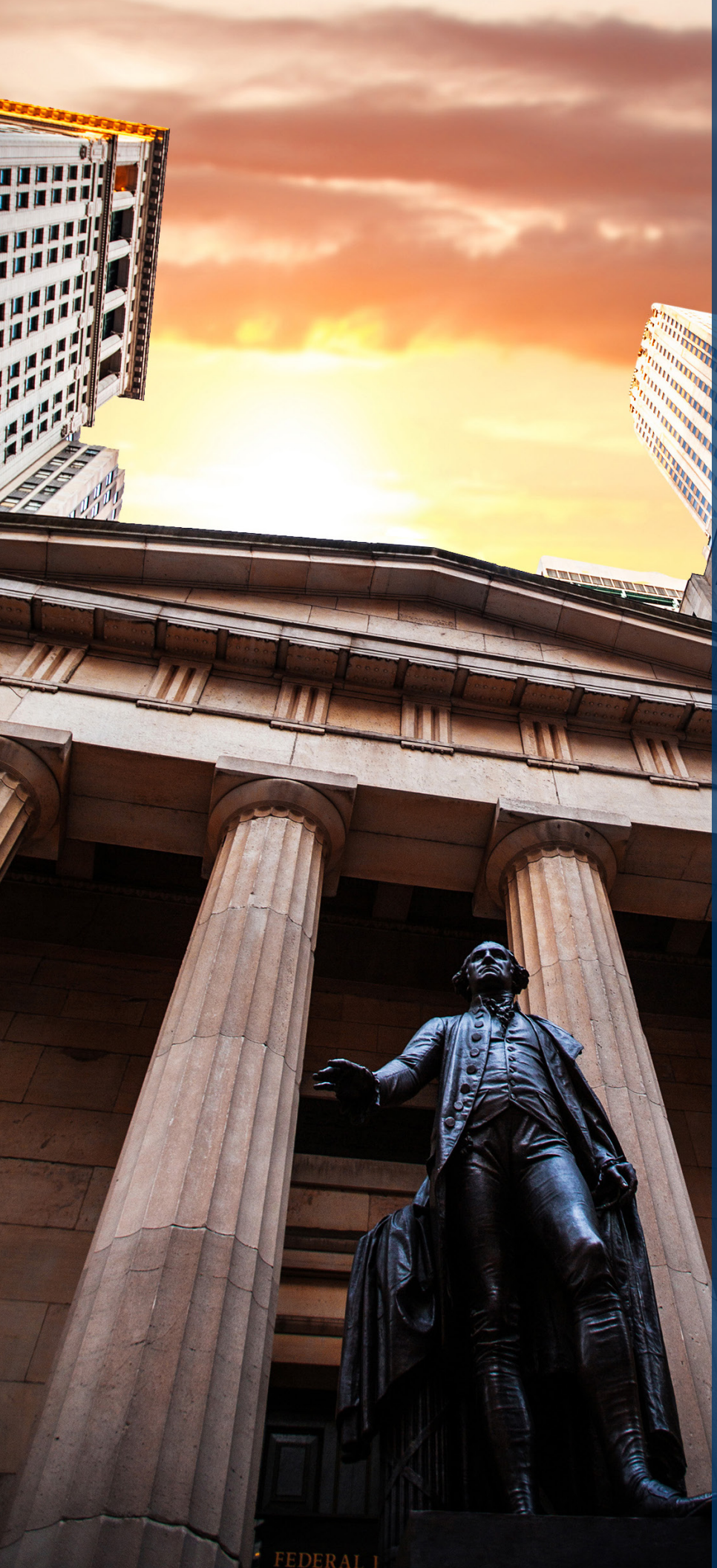
As of September 30, 2022.
* Including stocks, bonds, and other assets.

ASSET CLASS	10-YEAR VIEW RETURN	Y/Y CHANGE	RISK	RETURN/RISK	TACTICAL POSITION
BOND ASSUMPTIONS					
Core Bonds	3.6%	2.3%	3.9%	0.9	OVERWEIGHT
1-3 Year Treasury Bond	3.4%	2.1%	1.2%	3.0	OVERWEIGHT
Mortgage-Backed Securities	4.3%	2.6%	3.4%	1.3	NEUTRAL
Intermediate Government/Credit	3.6%	2.2%	2.7%	1.3	UNDERWEIGHT
20+ Year Treasury Bond	3.4%	2.4%	12.1%	0.3	NEUTRAL
Investment-Grade Corporate Bonds	4.4%	2.6%	6.9%	0.6	OVERWEIGHT
High-Yield Corporate Bonds	5.9%	2.1%	7.3%	0.8	UNDERWEIGHT
EQUITY ASSUMPTIONS					
Equity	5.7%	2.2%	14.8%	0.4	UNDERWEIGHT
Domestic Large Cap Value	7.0%	1.8%	14.5%	0.5	OVERWEIGHT
Domestic Large Cap Growth	4.5%	2.4%	16.0%	0.3	UNDERWEIGHT
Foreign Developed Equity Markets	11.7%	6.4%	14.4%	0.8	NEUTRAL
Foreign Emerging Equity Markets	13.8%	7.3%	15.9%	0.9	NEUTRAL
Gold	2.7%	0.8%	14.6%	0.2	OVERWEIGHT
REITs	7.8%	2.7%	16.2%	0.5	NEUTRAL

As of September 30, 2022. Past performance does not guarantee future results.

Core Satellite

CORE POSITIONING: DECISION TREE	
EQUITY vs. FIXED	Underweight stocks vs. bonds (low barometer)
FOREIGN vs. DOMESTIC	Increasing foreign exposure modestly (valuation)
EMERGING vs. DEVELOPED	Slight tilt toward developed over emerging
GROWTH vs. VALUE	Sticking with value over growth
CREDIT vs. SOVEREIGN	Keep focus on high quality over high yield
SHORT vs. LONG DURATION	Gradually increase duration as yields rise
NON-CORRELATED ASSETS	Gold over high-yield and REITs



About Washington Crossing Advisors

Washington Crossing Advisors, LLC ("WCA") is an SEC registered investment adviser and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $7 billion in assets under advisement for individuals and institutions.*

The team is managed by Kevin R. Caron, CFA, and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.

Washington Crossing Advisors' views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

Philosophy and Process

We believe that investments should be selected only after clear and quantified measures of value, risk, and potential reward have been made. Our investment approach combines top-down analysis of the macro economy with fundamentally rooted, bottom-up security analysis.

** Assets under advisement as of Sep 30, 2022.*

Description of Indices and Terms Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

Bloomberg Barclays Aggregate Bond Index: A composite of the Bloomberg Barclays Gov't/Corp Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are investment grade or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Dow Jones U.S. Select REIT: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

The ICE U.S. Treasury 1-3 Year Bond Index is a market value weighted index designed to measure the performance of U.S. dollar-denominated, fixed rate U.S. Treasury securities with minimum term to maturity greater than one year and less than or equal to three years.

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

Moody's Baa Corporate Bond Index—An index comprised of industrial bonds rated Baa by Moody's with a minimum maturity of 20 years.

Consumer Price Index—A measure of the average change in prices over time for a basket of consumer goods.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

The FTSE Developed All Cap ex U.S. Index is part of a range of indices designed to benchmark international investments. The index comprises large, mid and small cap stocks from developed markets excluding the U.S.

The FTSE Emerging Markets All Cap China A Inclusion Index is a market-capitalization weighted index representing the performance of large, mid and small cap stocks in Emerging markets. The index is comprised of approximately 3350 securities from 21 countries.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Opportunity Disclosure: The Washington Crossing Advisors, LLC Stifel Conquest and Conquest Alternatives Portfolios require a $25,000 minimum investment. More information on the Stifel Opportunity Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Opportunity Program and these strategies are appropriate for their needs.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index is a value-weighted average that seeks to measure the value of residential real estate in 20 major U.S. metropolitan areas. The index is a composite of single-family home price indices for the nine U.S. Census divisions.

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All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

Any projections, targets, or estimates in this report are forward looking statements and are based on WCA's research, analysis, and assumptions made by the Adviser. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this commentary. Registration with the SEC does not imply a certain level of skill or training.

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