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Joy Zheng joined New Frontier in 2018 as a Research Analyst after graduating from Boston University with a M.S. in Mathematical Finance. She is a member of the Investment Committee and her responsibilities include supporting the Investment and Research teams. Her interests include computational finance, quantitative analysis and risk management.

Q3 2022 Performance Review

October 31, 2022

Key Takeaways

- Markets rose at the start of the quarter before dramatically reversing and ending down as a complex mixture of high inflation, aggressive central bank actions, and escalating geopolitical tensions affected performance.
- For the first time in modern history, both bonds and stocks experienced concurrent bear markets, leading to historical losses of total global wealth as the worst year ever for 60/40 investment portfolios.
- Though the economic outlook remains highly uncertain as the Fed calibrates the size of future hikes, positive real yields make US bonds a viable though highly volatile asset class on its own.

Market Performance

Markets rose at the start of the quarter before dramatically reversing and ending down. As shown below, MSCI ACWI regained 10.74% from the end of June through Aug. 16, then fell 15.9% from that high by the end of September, posting three quarterly declines in a row. Bond markets also experienced a similar reversal before closing the quarter down.

This bear market rally was largely driven by the sentiment that the worst may have been already priced in after a bad second quarter and that the Fed might soften its aggressive stance. These expectations were not met due to stubbornly high inflation, aggressive central bank actions, and escalating geopolitical tensions.

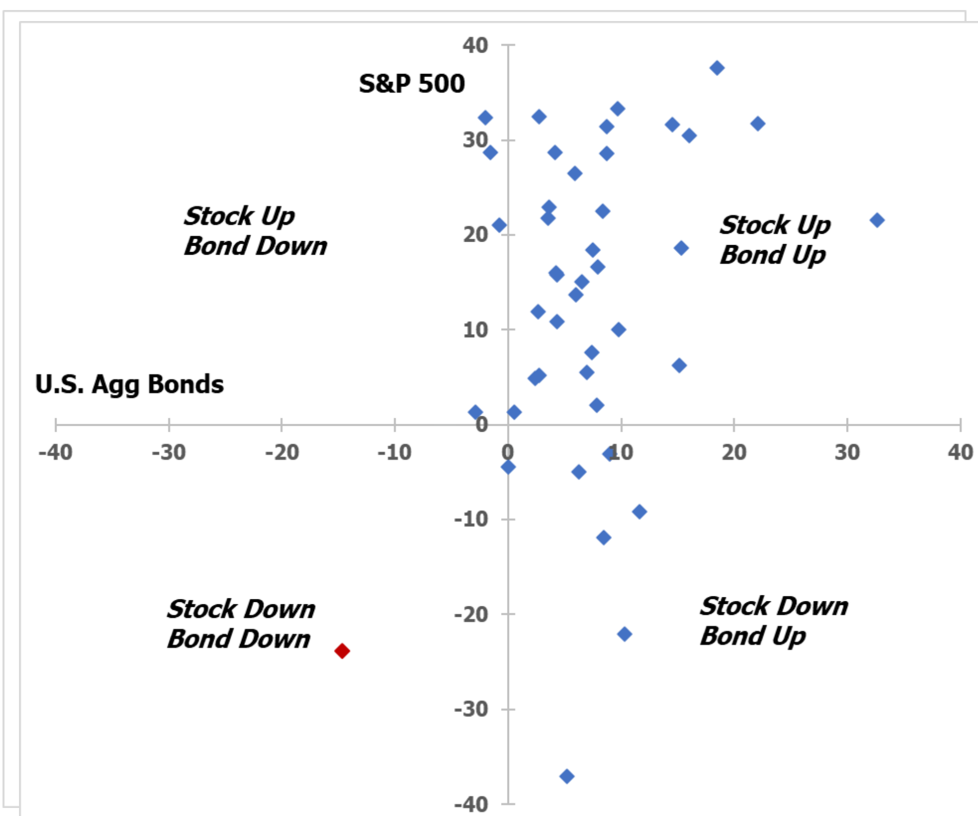
Markets Rose First Before Reversing Course

Source: Bloomberg

For the first time in the last forty years, both bond and stock markets are simultaneously in bear markets. The chart below plots the annual returns of S&P 500 and US AGG from 1980 to 2022, with the horizontal axis representing US AGG, the vertical axis representing S&P 500, and each interior point representing the stock and bond returns for a given year. For the majority of the years, we have both positive stock and bond annual returns. For some years of stock market downturn, like in 2008 when stocks lost 37 percent, bond returns were up, thereby - providing diversification benefits and mitigating equities losses for multi-asset portfolio investors.

As one can see from the chart, 2022 finds itself alone in the "double down" quadrant and global wealth is experiencing historical losses. With highly negative stock returns and the largest loss for bonds recorded, balanced portfolios such as 50/50 and 60/40 are having their worst year in modern market history.

An Unusual Decline for Stocks and Bonds in 2022
Annual Return (%) 1980-2022



Source: S&P 500 TR index return and Bloomberg US Agg Bond TR index return from Morningstar

Asset Class Performance

Fixed Income:

With markets hyper-focused on high inflation and aggressive Fed policy, fixed income continued to be under pressure. As shown in the table below, high yields remained resilient, with short high yields being the best performing bond category for the quarter. Municipal bonds held up relatively well compared to the taxable bonds. Returns for long-duration bonds and international Treasury bonds were hurt by the stronger US dollar.

Throughout 2022, exposure to long Treasurys has been its lowest in our 18-year history. The bond portion of our conservative portfolios have an approximate duration of 4.7 years. This is shorter than the duration of 6.5 years for U.S. aggregate bonds. The balanced and aggressive portfolios have lower overall exposure to duration due to their smaller allocation to bonds, but allocate proportionately more to duration according to their greater risk target.

Bond investing is experiencing a complex year, one that reflects dramatic changes in expectations, depending on the time period. At the end of 2021, bond markets were massively underpricing the impact of expected Fed rate hikes, with markets only anticipating two rate hikes in 2022. Now markets are expecting the Fed's implied rate to be above 4.5 percent by the end of this year. Higher interest rates have left bond markets with positive real yields for intermediate and long-term bonds. The real yield on the 10-year US Treasury rose to 1.68 percent on Sept. 30. The nominal yield rose to 3.83%. While the outlook remains highly uncertain about the size of future hikes, bond investing is getting attractive from the yield perspective, though with greater risk.

	Return(%)		
	Q1 2022	Q2 2022	Q3 2022
U.S. Aggregate Bonds	-5.85	-4.58	-4.70
Short Treasuries	-2.50	-0.50	-1.59
Intermediate Treasuries	-6.37	-4.47	-5.69
Long Treasuries	-10.63	-12.59	-10.29
U.S. TIPS	-3.07	-6.15	-5.34
Mortgage-Backed	-4.90	-3.87	-5.55
Municipal Bonds	-5.43	-2.54	-3.04
Inv-Grade Corporates	-8.38	-8.40	-6.15
Long Corporates	-11.19	-12.31	-8.58
Short High Yield	-2.37	-7.03	-0.05
High Yield	-4.84	-9.68	-1.46
Intl. Treasuries	-7.78	-10.80	-9.79
Emerging Bonds	-9.71	-11.70	-5.84

Source: Bloomberg

Equities

US equities managed a comeback from the second quarter's sell-off, down around 5 percent across the board and outperforming international equities. The table below shows quarterly returns of major equities for 2022. Value and high-dividend stocks still outpaced growth stocks for the year by almost 20 percent, but both trailed growth stocks slightly this quarter. US small cap growth stocks were the best performing stocks in the third quarter, whereas a recession in Europe and economic headwinds affecting China pushed international stocks further down – international REITs, emerging market equities, and European equities were among the worst-performing assets of the quarter.

	Return(%)		
	Q1 2022	Q2 2022	Q3 2022
Global Equity	-5.67	-15.12	-7.22
Global ex-U.S. Equity	-5.99	-12.39	-11.09
U.S. Large Cap Value	-0.74	-12.29	-5.56
U.S. Large Cap Growth	-9.02	-21.09	-3.53
U.S. Small Cap Value	-2.49	-15.32	-4.64
U.S. Small Cap Growth	-12.65	-19.24	0.45
U.S. Min Vol	-3.78	-9.21	-5.39
U.S. High Dividends	5.25	-7.53	-7.76
U.S. Real Estate	-6.07	-15.40	-11.04
Gold	5.67	-6.75	-8.19
Europe	-8.18	-13.86	-12.06
Pacific	-4.64	-13.14	-7.79
EAFE Min Vol	-6.03	-10.73	-9.95
Emerging Markets	-7.20	-10.64	-12.39
Intl. REITs	-3.71	-14.78	-13.80

Source: Bloomberg

Portfolio Performance

The table below shows net-of-fees performance for our Global Core, Tax-Sensitive, and Multi-Asset Income ETF portfolios over ten years.

For the third quarter, portfolios were down 4 percent to 7 percent, depending on the risk profile. This means that if a 60/40 investor, were to sell now and go to cash, they are locking in large losses with the risk of missing the upside.

Core investing is about looking beyond immediate-term volatility and trading short-term discomfort for expected long-term gain. In the long run, capital markets reward investors for taking risks through diversified exposure.

For tax-sensitive investors, our Tax-Sensitive portfolios haven't distributed any capital gains so far this year. The portfolios have consistently succeeded in minimizing capital gain distributions, regardless of market conditions, with close to zero distributions since their inception in 2004.

For income investors with a preference for sustainable income, our Multi-Asset Income portfolios are currently providing attractive yields up to 5 percent - about twice the dividend yields from global stock and bond markets.

Global Core	Stock/Bond	QTD	YTD	1Y	3Y	5Y	10Y	Inception Date
Global Income	20/80	-4.35	-14.23	-12.98	-1.2	0.85	2.02	10/31/2004
Global Balanced Income	40/60	-5.59	-19.16	-16.74	-0.27	1.79	3.65	10/31/2004
Global Balanced	60/40	-6.32	-22.14	-18.86	0.76	2.57	5.02	10/31/2004
Global Balanced Growth	75/25	-6.63	-23.48	-19.66	1.68	3.1	5.88	10/31/2004
Global Growth	90/10	-6.87	-24.48	-20.25	2.66	3.53	6.6	10/31/2004
Global Equity	100/0	-7.16	-25.55	-21.35	3.12	3.65	6.9	10/31/2004
Global Tax-Sensitive	**Stock/Bond**	**QTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Global Income (TS)	20/80	-4.15	-13.94	-12.58	-1.05	0.92	2.24	10/31/2004
Global Balanced Income (TS)	40/60	-5.17	-18.18	-15.74	-0.01	1.93	3.91	10/31/2004
Global Balanced (TS)	60/40	-5.92	-21.19	-17.94	0.99	2.71	5.21	10/31/2004
Global Balanced Growth (TS)	75/25	-6.34	-22.96	-19.17	1.82	3.2	6.02	10/31/2004
Global Growth (TS)	90/10	-6.67	-24.45	-20.18	2.6	3.63	6.75	10/31/2004
Global Equity (TS)	100/0	-6.94	-25.56	-21.36	3.18	3.77	7.01	10/31/2004
Multi-Asset Income	**Stock/Bond**	**QTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Multi Asset Income Conservative	40/60	-6.09	-17.21	-14.5	-1.06	1.26	3.64	6/30/2012
Multi Asset Income Balanced	60/40	-7.21	-18.12	-14.49	-0.45	1.61	4.46	6/30/2012
Multi Asset Income Growth	75/25	-7.91	-18.05	-13.85	0.05	1.82	4.93	6/30/2012

Source: *New Frontier performance is net of platform and strategist fee as of 09/30/2022.
See appendix for additional disclosures.
PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Conclusion

In a highly uncertain environment, no individual asset is a reliable safe haven on its own, but an optimized combination of assets minimizes risk over time. With unprecedented losses coming from both stocks and bonds, pulling out of the volatile market could lead to a poor long-term investment outcome. Staying invested – even through bad times – is still the best strategy for investors to maximize their potential for preserving and growing wealth.

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Disclosures

The performance of New Frontier indices is calculated by S&P Dow Jones Indices. Since these are not investable securities, the performance does not include trading costs or advisor fees.
The benchmark for the global indices blends the MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).

The benchmark for the U.S. indices is comprised of stock/bond ratio blend of S&P 500 NR USD (stocks) and FTSE Treasury Bill 3 Month USD (bonds). Index calculation is based on New Frontier's full transaction history beginning October 29, 2004 for the global indices and June 6, 2019 for the U.S. indices. †Yield information is provided by Morningstar for individual underlying assets. New Frontier Advisors, LLC ("New Frontier") is retained as a portfolio strategist ("Strategist") to provide model portfolios. Model portfolios are provided either (1) to registered investment advisors or broker-dealers ("Financial Advisors") through third-party asset management platforms ("Sponsors"), or (2) to individual clients where New Frontier acts as subadvisor to the client's Financial Advisor and accesses the client's account through a qualified custodian ("Custodian") to execute the model portfolio's transactions. New Frontier does not provide investment advisory services tailored to the individual needs and objectives of any investor. New Frontier acts solely as subadvisor, strategist, model provider, and/or model manager, and its relationship with any investor is limited to a subadvisory role working with the investor's Financial Advisor. Investors should consult with their Financial Advisor if they have any questions concerning the information provided here.

The performance shown here is the performance of New Frontier's model portfolios on Sponsors. Returns from inception of the taxed profiles on October 29, 2004 until July 1, 2009 (except for 20/80 which switched on October 1, 2010 and 40/60 which switched on January 1, 2010) and the inception of the MAI profiles on July 1, 2012 until October 1, 2012 for the 40/60 and 60/40 profiles or April 1, 2013 for the 75/25 profile do not reflect the actual investment results of any individual investor, as investor-level data is not available for those periods. Therefore, these returns represent the performance of a hypothetical investor's account whose assets were managed in line with the model portfolios during that period, assuming the model portfolio's signals were promptly implemented. Actual investors' performance results for those periods would have varied based upon the timing of contributions and withdrawals from individual accounts. Since the switching date when investor-level account data became available, performance results are a weighted average of actual investor returns in accounts following each model portfolio offered by New Frontier. Returns in excess of one year are annualized. New Frontier acquires gross of fees monthly composite performance data of the accounts invested in each model portfolio at each Sponsor and weights the returns according to each Sponsor's assets under management for that model. Some Sponsors provide insufficient performance information for New Frontier to include them in the weighted average. On the account level, each Sponsor sets the criteria for account exclusion and rules for return calculation. We consider our partner Sponsors to be reliable sources of information, but we are unable to warrant that the data will be complete or error-free as we do not have direct access to individual account data at any of our Sponsors. We also track our model portfolios using publicly available ETF prices as an outside check on Sponsor data.

The performance shown is net of underlying ETF fees and trading fees, and we deduct estimated Strategist and Sponsor fees from the historical data provided by our Sponsors at the highest fee rate reflected by an account in the composite for that Sponsor. Fees are subtracted on a quarterly basis, so performance for a period of less than one quarter may not show the full impact of fees. This includes reinvestment of income and deductions for transaction costs. It does not include advisory fees that may be charged by individual Financial Advisors, which may range as high as 2% per year, or custody fees. On one small platform, the custody fees are deducted since they are not separated from the Sponsor fee. Thus the reported performance does not reflect the compounding effect of any such fees.

The performance displayed here does not guarantee future results. As market conditions fluctuate, the investment return and principal value of any investment will change. Diversification may not protect against market risk. There are risks involved with investing, including possible loss of principal. Volatility represents the expected risk of the portfolio relative to major asset classes. Before investing in any investment portfolio, the investor and Financial Advisor should carefully consider the investor's investment objectives, time horizon, risk tolerance, and fees. The Financial Advisor assumes full responsibility for determining the suitability and fitness of each portfolio for their clients.

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