New Frontier

# Q4 2022 Performance Review

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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.

### Key Takeaways

- Beyond a historic decline in global investment wealth, what's unusual for 2022 is that for the first time in history, both US large-cap stocks and long-term bonds had significant losses of more than 15% in the same calendar year.
- Despite a challenging year, all New Frontier ETF portfolios delivered positive returns in Q4, outperforming the broad global equities and bonds for both the quarter and the year.
- With 2022 closing as the worst-ever year for bonds, fixed income going forward, however, has become a more attractive risk-reward opportunity with intermediate- and long-term Treasurys offering positive real yields and a recession-risk hedge.
- International equities outperformed U.S. in 2022 and likely will continue to offer return potential and opportunities for risk diversification for the year ahead.

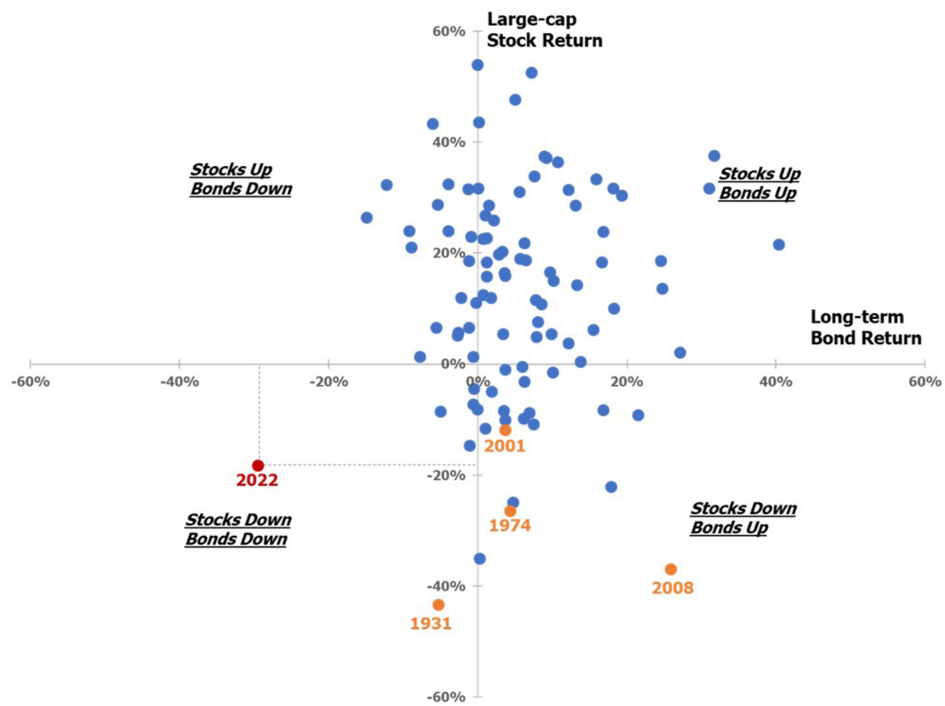
### Market Performance

A historic 2022 closed in a positive quarter with MSCI ACWI and global bonds rising by 9.9% and 4.6%, respectively, putting an end to a three-quarter losing streak. Still, 2022 will be remembered as a year characterized by elevated volatility and heavy losses across almost all asset classes, resulting from central banks fighting inflation – there was nowhere to hide.

Beyond a historic decline in global investment wealth, what's unusual for 2022 is that for the first time in almost a century both US large-cap stocks and long-term bonds had significant losses of more than 15% in the same calendar year, as depicted in the chart below. Compared to other historical recessionary years when bonds still provided recession-risk hedging to the portfolios, 2022 challenged the conventional wisdom of building a multi-asset portfolio.

### An Unusual Double Decline for Bonds and Stocks in 2022

Annual Return (%) from 1926-2022




*: Large-cap stock return represents Ibbotson® SBBI® US Large-Cap Stocks (Total Return). Long-term bond returns represent Ibbotson® SBBI® US Long-term (20-Year) Government Bonds (Total Return).

### Fixed Income

2022 ended with a positive quarter for fixed income, a major reversal from the first three quarters as shown in the table below.

After a more benign-than-expected inflation report in November, a more hawkish Fed in December signaled they're unlikely to cut rates in the near future but will slow the pace of future rate hikes. With the mixture of sentiments, the 10-year nominal yield barely changed from the previous quarter nonetheless was 225 bps higher than at the start of the year. As a result the duration risk was largely muted for the quarter; however, long-duration bonds remained as the biggest detractors for the year.

As rate hiking expectations have changed, the U.S. dollar retreated from its high at the end of September, falling sharply over the quarter but still was up 7.9% for the year.  Aided by the weakening dollar, international government bonds including Emerging and Developed countries went up 8%, but were still down more than 18% for the year.

High yield has been relatively resilient through 2022, less risky than generally anticipated. Investment-grade (IG) corporate bonds turned out to be riskier than high yield in a down year - 10+ year IG corporate bonds went down more than the S&P 500. This serves as a great reminder that the risk of an asset class is not static.

With 2022 closing as the worst year ever for bonds, fixed income has become a more attractive risk-reward opportunity with intermediate- and long-term Treasurys offering positive real yields and a recession-risk hedge. However, bond volatility will still be above historical norms before the contour of a Fed pivot becomes clearer.

| | Return (%) | |
|---|---|---|
| | Q4 2022 | 2022 |
| U.S. Aggregate Bonds | 1.58 | -13.02 |
| Short Treasuries | 0.70 | -3.86 |
| Intermediate Treasuries | 1.04 | -10.65 |
| Long Treasuries | -1.13 | -29.45 |
| U.S. TIPS | 1.92 | -12.24 |
| Municipal Bonds | 3.68 | -7.35 |
| Mortgage-Backed | 2.22 | -11.74 |
| Inv-Grade Corporates | 4.20 | -17.93 |
| Long Corporates | 4.80 | -25.39 |
| Short High Yield | 4.24 | -5.44 |
| High Yield | 4.87 | -11.19 |
| High Yield Muni | 2.57 | -15.98 |
| Intl. Treasuries | 8.18 | -19.72 |
| Emerging Bonds | 8.38 | -18.64 |

Source: Bloomberg.

**Equities**

International equities had a major rebound in Q4, especially European equities, up more than 20%, limiting their annual losses to about 15%, as shown in the table below. Despite the challenging political environment and strong dollar impact, overall international equities did better than U.S. equities in 2022. The added diversification benefits to the global portfolios are likely to continue for the year ahead. Modest overweight in international for more aggressive portfolios helped the relative performance.

With Value stocks continued to outpace growth stocks in Q4, leading nearly 30% for the year, the widest return gap on record. Having value tilts across most portfolios were beneficial to the relative performance. Large-cap growth stocks led by the tech sell-off were the worst performing equities for both the quarter and the year. Additionally, U.S. high-dividend stocks held up relatively well- being the only equity staying positive in 2022, supporting dividend-focused Multi-Asset Income portfolios. As a low-risk equity exposure for conservative portfolios, U.S. minimum volatility stocks did their job in a volatile environment.

Regarding alternatives, gold did what one might expect in a stressed market – down nearly 1%, adding stability to portfolios. Both U.S. and international REITs dragged down performance throughout the year as a result of rising rates.

| | Return (%) | |
|---|---|---|
| | Q4 2022 | 2022 |
| Global Equity | 9.89 | -18.37 |
| Global ex-U.S. Equity | 14.65 | -16.04 |
| U.S. Large Cap Value | 12.21 | -2.07 |
| U.S. Large Cap Growth | 2.08 | -33.15 |
| U.S. Small Cap Value | 8.26 | -9.36 |
| U.S. Small Cap Growth | 4.07 | -28.44 |
| U.S. Min Vol | 9.59 | -9.42 |
| U.S. High Dividends | 13.43 | 1.82 |
| U.S. Real Estate | 4.34 | -26.24 |
| Gold | 9.68 | -0.77 |
| Europe | 20.96 | -15.86 |
| Asia-Pacific | 13.02 | -13.68 |
| EAFE Min Vol | 12.39 | -15.10 |
| Emerging Markets | 10.16 | -19.97 |
| Intl. Small Cap | 12.76 | -21.47 |
| Intl. High Dividend | 22.17 | -6.31 |
| Intl. REITs | 8.95 | -22.94 |

Source: Bloomberg

**Portfolio Performance**

While 2022 has been a challenging year for all, the last quarter brought some good news. All New Frontier ETF portfolios delivered positive returns in Q4, outperforming the broad global equities and bonds for the quarter and the year. The table below shows net-of-fees performance for Global Core, Tax-Sensitive and Multi-Asset Income ETF portfolios over multiple time periods.

Each risk profile performed in line with what one would expect -- monotonically increasing returns for a positive quarter and decreasing returns for a down year. The one exception being the 1-year performance of Multi-Asset Income portfolios where high dividend stocks outperformed bonds in 2022.

For taxable investors, our Tax-Sensitive portfolios once again distributed zero capital gains, consistently achieving tax efficiency throughout their eighteen-year track record. Taxable losses were harvested for average investors from ETF replacements implemented over the year to improve portfolio efficiency.

For income-focused investors, while the trailing 12-month yields are 4-4.4% for our Multi-Asset Income portfolios, SEC 30-day yields, better reflecting the current yield increases, are about 5% to 5.2%, maintaining attractive yields relative to the

| Global Core | Stock/Bond | Q4 2022 | 1Y | 3Y | 5Y | 10Y | Inception Date |
|---|---|---|---|---|---|---|---|
| Global Income | 20/80 | 3.71 | -11.04 | -0.53 | 1.34 | 2.32 | 10/31/2004 |
| Global Balanced Income | 40/60 | 5.62 | -14.62 | 0.53 | 2.38 | 4.04 | 10/31/2004 |
| Global Balanced | 60/40 | 7.18 | -16.55 | 1.52 | 3.25 | 5.47 | 10/31/2004 |
| Global Balanced Growth | 75/25 | 8.17 | -17.23 | 2.31 | 3.84 | 6.36 | 10/31/2004 |
| Global Growth | 90/10 | 8.99 | -17.69 | 3.08 | 4.31 | 7.10 | 10/31/2004 |
| Global Equity | 100/0 | 9.21 | -18.69 | 3.24 | 4.41 | 7.40 | 10/31/2004 |
| **Global Tax-Sensitive** | **Stock/Bond** | **QTD** | **1Y** | **3Y** | **5Y** | **10Y** | **Inception Date** |
| Global Income (TS) | 20/80 | 4.16 | -10.37 | -0.27 | 1.48 | 2.59 | 10/31/2004 |
| Global Balanced Income (TS) | 40/60 | 5.78 | -13.45 | 0.80 | 2.52 | 4.33 | 10/31/2004 |
| Global Balanced (TS) | 60/40 | 7.12 | -15.58 | 1.67 | 3.35 | 5.68 | 10/31/2004 |
| Global Balanced Growth (TS) | 75/25 | 8.04 | -16.76 | 2.37 | 3.90 | 6.52 | 10/31/2004 |
| Global Growth (TS) | 90/10 | 8.91 | -17.71 | 3.00 | 4.39 | 7.29 | 10/31/2004 |
| Global Equity (TS) | 100/0 | 9.26 | -18.67 | 3.33 | 4.53 | 7.55 | 10/31/2004 |
| **Multi-Asset Income** | **Stock/Bond** | **QTD** | **1Y** | **3Y** | **5Y** | **10Y** | **Inception Date** |
| Multi Asset Income Conservative | 40/60 | 6.72 | -11.64 | 0.25 | 2.16 | 4.16 | 6/30/2012 |
| Multi Asset Income Balanced | 60/40 | 8.87 | -10.85 | 1.15 | 2.79 | 5.13 | 6/30/2012 |
| Multi Asset Income Growth | 75/25 | 10.39 | -9.54 | 1.85 | 3.20 | 5.68 | 6/30/2012 |

*New Frontier performance is net of platform and strategist fee as of 12/31/2022.

See disclosures for additional information. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

## Conclusion

Just as 2022 was not likely to be as positive for investors as 2020 and 2021, 2023 is unlikely to be as disappointing as 2022. Volatility and uncertainty will remain high as the economic tug-of-war continues around inflation, higher-for-longer rates and slowing growth. While risks are unavoidable and frequently unforecastable, using disciplined processes to maintain optimally risk-controlled diversified portfolios provides an effective way for investors to navigate the market.

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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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