New Frontier

Q1 2023 Performance Review

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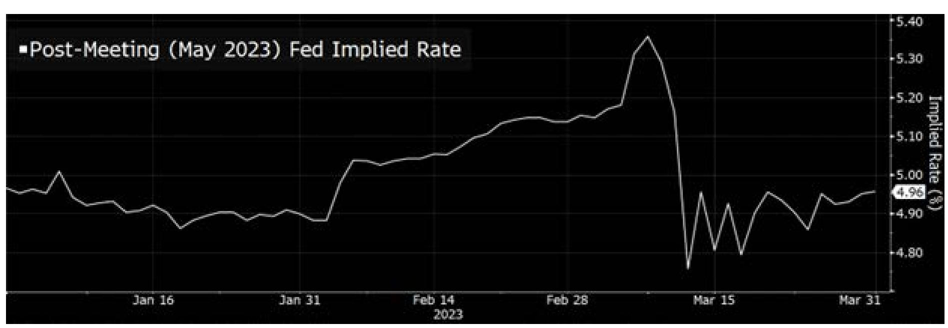
Joy Zheng joined New Frontier in 2018 as a Research Analyst after graduating from Boston University with a M.S. in Mathematical Finance. She is a member of the Investment Committee and her responsibilities include supporting the Investment and Research teams. Her interests include computational finance,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

Key Takeaways

- While the banking crisis was severe, it has directly slowed down the economy, with the impact of tightening credit conditions being equivalent to rate hikes.
- Despite the heightened volatility and reversals during the quarter, markets managed the crisis well, with long-duration bonds, large-cap growth stocks and gold leading the markets.
- All New Frontier ETF portfolios delivered positive returns in Q1, in line with broad markets. As stocks and bonds were both doing their jobs, 60/40 portfolios rebounded strongly from their worst-ever year in 2022. Diversification is and will be beneficial to investors.

Market Performance

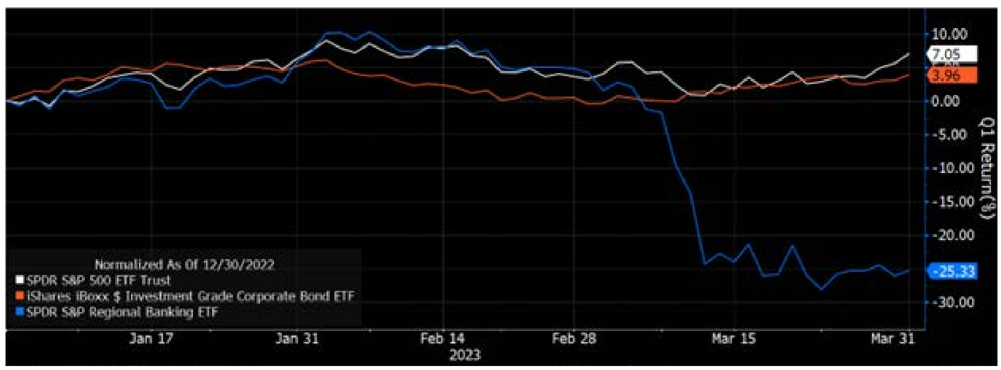
The first quarter was characterized by volatility and reversals in the financial markets, with the banking crisis raising a lot of uncertainty regarding the economic outlook and the future path for the Federal Reserve rate hikes. As shown below, market expectations for what the Fed is going to do at its upcoming May meeting fluctuated throughout the quarter, reaching a high point above 5.30% after stronger-than-expected economic data, but dropping significantly following the collapse of Silicon Valley Bank. By the end of the quarter, implied Fed rates were close to 5%, indicating that the market was roughly split between expecting a quarter-percentage point rate hike and expecting no change in policy.



Source: Bloomberg

What does that imply? Chair Powell commented that the impact of tightening credit conditions was equivalent to rate hikes. So, while the banking crisis was severe, it has directly slowed down the economy and appears to have reduced the need for more rate hikes. Despite the increasing uncertainty regarding future rate hikes and lending conditions, markets have shifted their focus to when the Fed will cut rates.

Overall, that's not bad news for stocks and bonds. Judging from the final numbers for this quarter's performance, markets managed the bank crisis well, with the S&P 500 ending the quarter with a 7% gain, and investment-grade corporate bonds up by 4%, as displayed below. Damage was largely limited to regional banking sector, with a 25% loss.



Source: Bloomberg

Asset Class Performance

Fixed Income:

Despite such an eventful and volatile quarter, nearly all asset classes performed well, including all fixed income ETFs we invest in. U.S. core bonds went up more than 3% in Q1. Due to a decline across the Treasury yield curve, long-duration bonds were the largest contributors to performance, with U.S. long-term Treasury bonds up more than 7%. Additionally, corporate bonds held up surprisingly well during the banking crisis, with a broad gain of over 4%., as previously mentioned. International Treasury bonds and Emerging Markets bonds also saw benefits due to a weaker dollar.

	Return (%)	
	Q1 2023	1 Year
U.S. Aggregate Bonds	3.23	-4.64
Treasury Floating Rate Bonds	1.08	2.93
Short Treasuries	1.61	0.18
Intermediate Treasuries	3.92	-5.83
Long Treasuries	7.38	-17.39
U.S. TIPS	3.58	-6.22
Mortgage-Backed	2.67	-4.71
Inv-Grade Corporates	4.65	-6.26
Long Corporates	6.02	-10.93
Short High Yield	3.30	0.06
High Yield	4.24	-2.71
Municipal Bonds	2.55	0.48
Intl. Treasuries	3.35	-10.03
Emerging Bonds	2.81	-7.36

Source: Bloomberg.

Equities

Stock markets also had a good quarter despite the turmoil. ACWI returned over 7%, but there was high return dispersion among equities.

Growth dramatically outperformed value, large-cap stocks outperformed small-cap stocks. Among equity holdings, large-cap growth was the best performing asset, with a gain of more than 14%, seeing a significant reversal from last year. However, like value stocks, dividend stocks lagged the broad markets.

International markets performed on par with the U.S., with an overall increase of 7%. However, there was dispersion among regions, with Europe performing the best at 10.3%, followed by Asia-Pacific at 5.4%, and Emerging Markets at 4.5%.

Lastly looking at alternatives, the concerns of credit tightening led to detracting performances from both U.S. and International REITs in our portfolios. Gold performed as a diversifying asset, increasing by 8% during the crisis and providing additional stability to our portfolios.

	Return (%)	
	Q1 2023	1 Year
Global Equity	7.40	-7.06
Global ex-U.S. Equity	7.19	-4.28
U.S. Large Cap Value	0.93	-6.19
U.S. Large Cap Growth	14.30	-11.19
U.S. Small Cap Value	-0.66	-13.16
U.S. Small Cap Growth	5.96	-10.54
U.S. Min Vol	1.35	-4.59
U.S. High Dividends	-1.95	-5.15
U.S. Real Estate	1.66	-20.17
Gold	8.01	1.42
Europe	10.27	1.05
Asia-Pacific	5.40	-4.59
EAFE Min Vol	6.39	-3.87
Emerging Markets	4.48	-9.90
Intl. Small Cap	6.25	-9.78
Intl. REITs	-1.86	-21.46

Source: Bloomberg

Portfolio Performance

All New Frontier's ETF portfolios delivered positive returns in Q1, in line with broad markets. The table below shows net-of-fees performance for our Global Core, Tax-Sensitive and Multi-Asset Income ETF portfolios over multiple time periods.

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Our Global Core and Tax-Sensitive portfolios have generated returns ranging from 3-6%, with each risk profile performing in line with what one would expect -- monotonically increasing returns for a positive quarter. As stocks and bonds were both doing their jobs, 60/40 portfolios rebounded strongly from their worst-ever year in 2022.

Due to the underperformance of dividend stocks, our Multi-Asset Income portfolios gained around 2%. The current yields provided by are up to 5%, as measured by 30-day SEC yields.

Global Core	Stock/Bond	QTD	1Y	3Y	5Y	10Y	Inception Date
Global Income	20/80	2.95	-4.27	1.77	2.13	2.46	10/31/2004
Global Balanced Income	40/60	3.84	-6.55	4.73	3.41	4.15	10/31/2004
Global Balanced	60/40	4.52	-7.69	7.98	4.41	5.53	10/31/2004
Global Balanced Growth	75/25	4.94	-8.10	10.54	5.06	6.36	10/31/2004
Global Growth	90/10	5.38	-8.32	13.19	5.54	7.09	10/31/2004
Global Equity	100/0	5.79	-8.80	14.37	5.71	7.37	10/31/2004
Global Tax-Sensitive	**Stock/Bond**	**QTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Global Income (TS)	20/80	2.52	-3.11	1.95	2.16	2.65	10/31/2004
Global Balanced Income (TS)	40/60	3.37	-5.24	5.25	3.38	4.36	10/31/2004
Global Balanced (TS)	60/40	4.19	-6.75	8.45	4.35	5.66	10/31/2004
Global Balanced Growth (TS)	75/25	4.79	-7.56	10.91	5.02	6.47	10/31/2004
Global Growth (TS)	90/10	5.39	-8.13	13.29	5.60	7.21	10/31/2004
Global Equity (TS)	100/0	5.97	-8.49	14.58	5.85	7.50	10/31/2004
Multi-Asset Income	**Stock/Bond**	**QTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Multi Asset Income Conservative	40/60	2.07	-6.54	5.56	3.08	4.05	6/30/2012
Multi Asset Income Balanced	60/40	2.00	-6.87	8.74	3.73	4.89	6/30/2012
Multi Asset Income Growth	75/25	1.72	-6.84	10.99	4.10	5.32	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

Through all the turmoil, markets have remained resilient. Equities saw a leadership shift in value and growth, while bonds are back with attractive yields. However, the ongoing economic tug-of-war surrounding inflation, recession, and the Federal Reserve policy means that volatility and uncertainty are likely to persist. 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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