

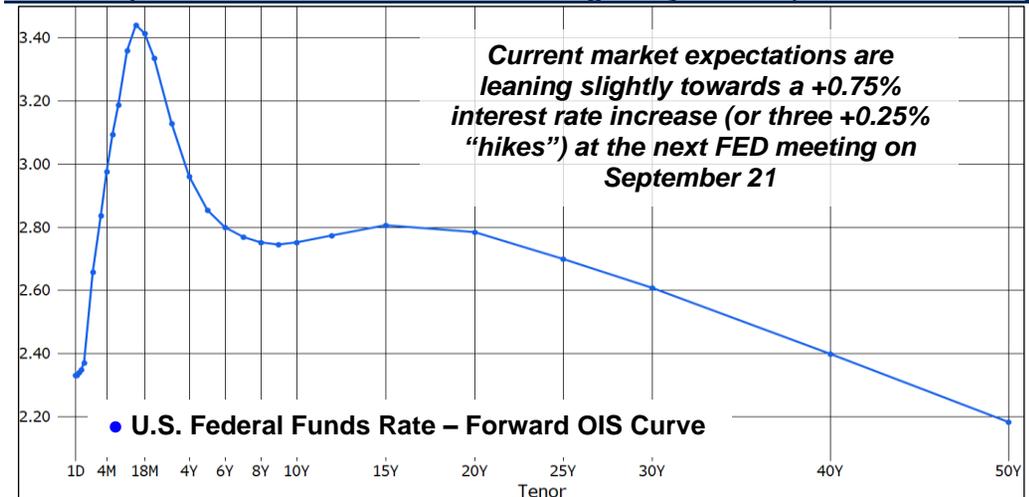
“The one way to get our otherwise harmless dog to bite you was to try & take something out of its mouth after it was already there” – Charlie Munger

The Federal Reserve (FED) Bank of Kansas City’s 46th annual Economic Symposium begins this Thursday in Jackson Hole, Wyoming. It is one of the longest-standing central banking conferences in the world. Every year a specific topic is chosen and invites are supposedly tailored to those with applicable expertise. This year the topic is, “Reassessing Constraints on the Economy and Policy,” and extensive discussion is expected on impact of recent rate hikes directly from global central bankers. Expect the bulk of the headlines to come on Friday when FED Chairman Jerome Powell is scheduled to speak. Market expectations for U.S. monetary policy will either be reaffirmed or reset (see chart, top right). But guessing how markets will react to mere *discussions* of policy impacts is not a game that most investors should play. The more important lessons worth learning right now are surfacing within investor reactions to the continuing market turmoil.

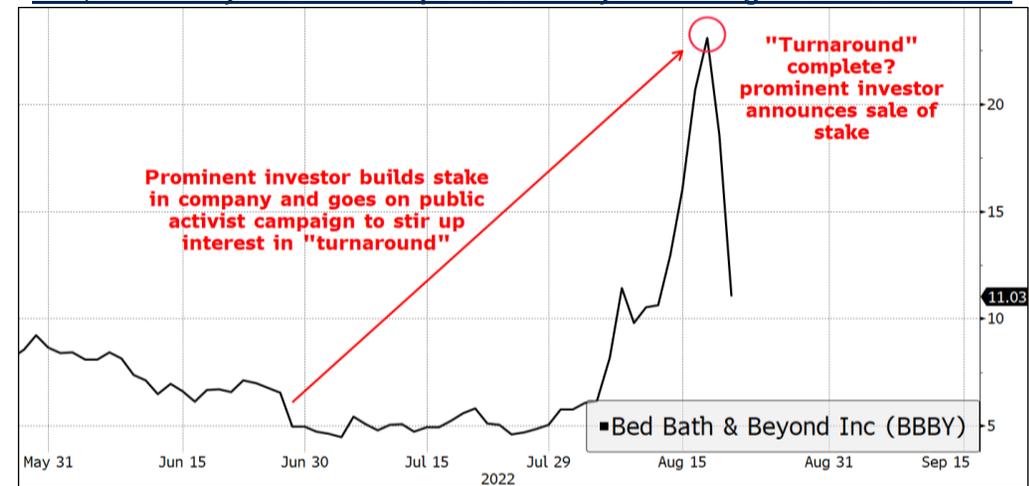
Companies that have gained seemingly random cult-like investor followings online, also known as “meme stocks,” are back in the news again. A notable activist investor who has helped fuel the “meme stock” roller coaster in GameStop (GME) and Bed, Bath, & Beyond (BBBY) is now facing the ire of the same community that helped him profit after he announced the (highly profitable) sale of his influential stake in BBBY last week, only months after buying nearly 10% of the company and calling for changes. It took just **two days(!)** following that announcement for BBBY’s stock price to plummet more than 50% (see chart, bottom right). The ghosts of Wall Street past might laugh at whatever a “meme stock” is, but the taking advantage of naïve investors is a tale as old as time. Some investors did bet their life savings on advice from a message board in trying to get rich. Famous people of influence have additional legal risks in promoting these types of risky investments.

The cryptocurrency community is beginning to feel that heat now. Famous investor Mark Cuban was recently named defendant in a class action lawsuit against Voyager Digital, a failed cryptocurrency exchange that was an official partner of Cuban’s Dallas Maverick’s NBA team. This doesn’t mean he did anything illegal, but he did call the cryptocurrency exchange “as close to risk free as you’re going to get in the crypto universe.” ***If*** Voyager really was the least risky way to access cryptocurrencies, then ***all*** cryptocurrency investments through ***any*** crypto exchange still belongs in the same (*cont.*)

Market Expects Interest Rates to Be ~1.25% Higher by YE 2022, Before Decreasing



Bed, Bath & Beyond Stock Drops ~50% in Days Following Investor Stock Sale



Sources: Top – Bloomberg LP; Bottom – Bloomberg LP

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WEEKLY MARKET INSIGHTS

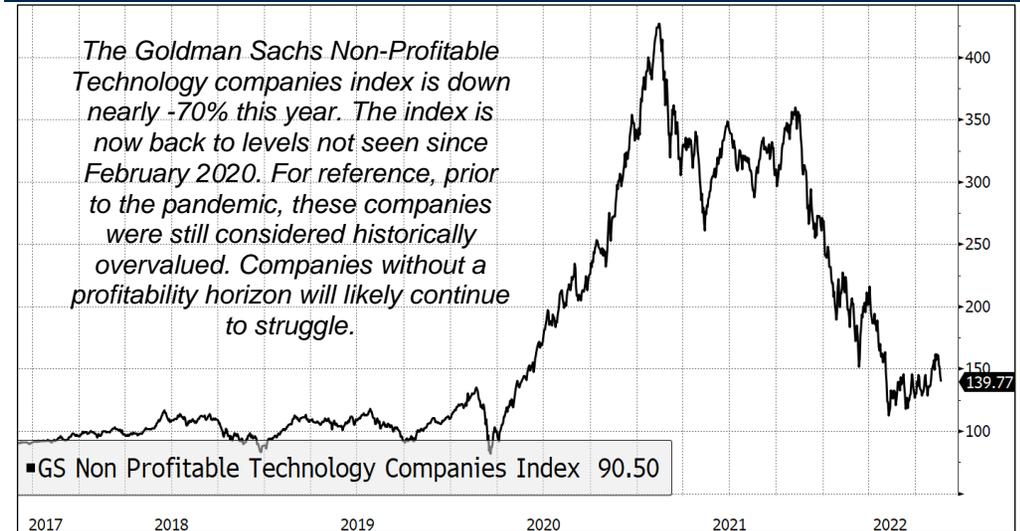
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bucket as casino/lottery money (i.e. 100% loss **should** be expected, even if not the outcome). Turns out that “as close to risk free as you’re going to get **in crypto**” means losing ~\$5 billion belonging to ~3.5 million Americans because the firm lent money to the wrong counterparty. New investment asset, same old familiar problem. When abnormal investment returns are made to look easy for too long, even normally savvy investors can get caught overlooking major risks.

Lastly, corporate profitability is beginning to matter again. Goldman Sachs’ Non-Profitable Technology Companies index is down nearly 70% this year, back to pre-pandemic levels (see chart, top right). Private equity investors have already started pulling back on their assumptions. Flimsy valuation metrics like total addressable market and revenue growth are no longer the focus. Debt servicing ability and real cash flow growth are now more in focus. This shifting valuation focus is not abnormal and happens with every economic cycle because investors, both professional and novice alike, have short-term memories. They forget that all booms necessarily end with a bust.

The last decade or so has been one of the best in U.S. stock market history. It was hard for investors to actively beat passive indexes that represents the entire market. Meme stocks, cryptocurrencies, and unprofitable technology companies were notable exceptions, providing some of the best (albeit volatile) returns in recent memory. It now seems likely that this cyclical boom in speculative investments has come to an end. The wheat is beginning to be separated from the chaff, and a receding tide market environment should bode well for active investment management. Regardless, an impending regime change beckons investors to revisit their financial plans with their advisor, even if no changes are made. Investors’ animal spirits have been dining on steak for so long that returning to kibble is a hard pill to swallow. Kibble isn’t as exciting, but it can still get the job done. Expectations matter.

Non-Profitable Technology Companies Have Fallen Back to Pre-Pandemic Levels



Source: Bloomberg LP

CURRENT ASSET CLASS OUTLOOK

Equities	Current
U.S. Equity	Neutral
Int'l Equity	Slightly Favorable
Emer. Mkts	Slightly Favorable

Real Assets	Current
Real Estate	Slightly Unfavorable
Infrastructure	Neutral
Commodities	Neutral

Fixed Income	Current
Invest. Grade Credit	Neutral
Treasury/Agency	Neutral
Mortgage (MBS)	Slightly Unfavorable
Commercial MBS	Slightly Favorable
Asset Backed (ABS)	Favorable
High Yield	Neutral
Emer. Mkts Debt	Slightly Unfavorable
Taxable Muni	Favorable
Tax-Exempt	Neutral
Tips	Neutral

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The Arvest Investment Management Group hosts a monthly Market Viewpoint webinar. To join us for our next meeting, please contact Charles Kurtz at ckurtz@arvest.com.



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Analyst Institute and the Kansas City Society of Chartered Financial Analysts.

WEEKLY MARKET INSIGHTS

August 22, 2022

Market Returns & Rates (as of 8/19/2022)

Asset Class	Sub-Asset Class	Index	YTD	1-Year	3-Year	5-Year	10-Year	2021
Equity	U.S. Large Cap Equities	S&P 500	-10.40%	-2.60%	14.93%	13.73%	13.72%	28.68%
Equity	U.S. Mid Cap Equities	S&P 400	-8.41%	-1.11%	12.52%	10.49%	11.92%	24.73%
Equity	U.S. Small Cap Equities	Russell 2000	-12.14%	-7.12%	10.38%	8.97%	10.59%	14.78%
Equity	Developed ex. U.S. Equities	MSCI ACWI ex U.S.	-15.36%	-13.65%	4.77%	3.10%	5.24%	8.32%
Equity	Emerging Markets Equities	MSCI Emerging Mkts	-16.74%	-16.05%	3.55%	1.54%	3.12%	-2.32%
Fixed Income	Broad Aggregate	BB Aggregate	-9.70%	-10.53%	-1.41%	0.82%	1.57%	-1.54%
Fixed Income	U.S. Treasury	BB U.S. Treasury	-9.24%	-10.25%	-1.78%	0.52%	1.03%	-2.32%
Fixed Income	U.S. Treasury Inflation Prot.	BB U.S. Inflation Linked	-6.91%	-5.01%	3.27%	3.62%	2.08%	6.00%
Fixed Income	U.S. Investment Grade	BB U.S. Invest. Grade	-12.73%	-13.44%	-1.26%	1.47%	2.67%	-1.04%
Fixed Income	U.S. High Yield	BB U.S. High Yield	-8.78%	-7.24%	2.26%	3.27%	4.85%	5.28%
Fixed Income	U.S. Leveraged Loans	CS Leveraged Loan	-0.90%	0.75%	3.16%	3.61%	4.11%	5.40%
Fixed Income	U.S. Municipals	BB Municipal Bond	-7.89%	-7.98%	-0.55%	1.49%	2.39%	1.52%
Fixed Income	Non-U.S. Gov't Bond	FTSE Non-U.S. WGBI	-20.02%	-23.87%	-7.52%	-3.67%	-1.89%	-9.68%
Fixed Income	Emerging Markets Debt	JPMorgan EMBI	-16.02%	-17.04%	-3.54%	-0.60%	2.01%	-1.51%
Real Assets	Real Estate	FTSE NAREIT	-12.47%	-1.13%	5.70%	7.32%	8.27%	43.24%
Real Assets	Master Limited Partnerships	Alerian MLP	29.26%	39.13%	7.42%	4.82%	1.68%	39.85%
Real Assets	Broad Commodities	Bloomberg Commodity	23.34%	33.08%	16.84%	8.06%	-1.62%	27.05%
Real Assets	Oil	WTI Crude	20.69%	42.52%	17.32%	13.35%	-0.56%	55.01%
Real Assets	Gold	Gold COMEX	-4.43%	-1.83%	5.22%	6.33%	0.78%	-3.51%

Key Market Interest Rates	Current Rate	1 Month Ago	2 Months Ago	3 Months Ago	4 Months Ago	6 Months Ago	1 Year Ago
Federal Funds Rate	2.33%	1.58%	1.58%	0.83%	0.33%	0.08%	0.09%
Secured Overnight Fin. Rate (SOFR)	2.28%	1.53%	1.45%	0.78%	0.26%	0.05%	0.05%
90-Day Treasury Rate	2.57%	2.32%	1.58%	0.98%	0.76%	0.31%	0.03%
2-Year Treasury Rate	3.23%	3.23%	3.18%	2.58%	2.68%	1.47%	0.22%
5-Year Treasury Rate	3.09%	3.16%	3.34%	2.80%	2.97%	1.84%	0.77%
10-Year Treasury Rate	2.97%	3.03%	3.23%	2.78%	2.91%	1.96%	1.24%
30-Year Treasury Rate	3.21%	3.16%	3.28%	2.99%	2.93%	2.29%	1.87%
3-Mon/10-Yr Treasury Spread	0.40%	0.71%	1.65%	1.80%	2.15%	1.65%	1.21%
2-Yr /10-Yr Treasury Spread	-0.26%	-0.20%	0.05%	0.20%	0.23%	0.50%	1.02%
6-Month CD Rate	0.91%	0.52%	0.42%	0.39%	0.17%	0.14%	0.15%
1-Year CD Rate	1.37%	0.96%	0.77%	0.78%	0.35%	0.28%	0.29%
2-Year CD Rate	1.58%	1.15%	0.98%	0.95%	0.39%	0.32%	0.33%

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