PARAGON CAPITAL MANAGEMENT, LLC

July 2022

The Bear is out of Hibernation

The first half of 2022 has been historic for investors in many ways. In the newsletter this quarter, we will break down the first half of the year and help to understand how that affects different asset classes.

The S&P 500, a proxy for the U.S. stock market, had its worst start to the year since 1970. It was the 4th worst start since 1900. The Nasdaq Composite Index, a proxy for technology stocks, had its worst quarter since 2008. It was not just stocks, the iShares Core US Aggregate Bond exchange Traded Fund lost 11%, the worst start to a year in history! The 10-year Treasury hit a high of 3.48% during the quarter. As a reminder, when interest rates go up, bond prices go down, thus the increase in the yield on the 10-year Treasury has led to historically bad performance for fixed income funds.

Oil and Gasoline both rose throughout the quarter and the first half of the year after Russia invaded Ukraine. Russia is the 3rd largest oil producer in the world, and they have essentially been cut-off from most of their buyers. Average US gas prices hit $5/gallon, up $2/gallon from 12 months ago. Oil/gas and food make up about one-third of the inflation calculation, which rose to 9.1% in June.

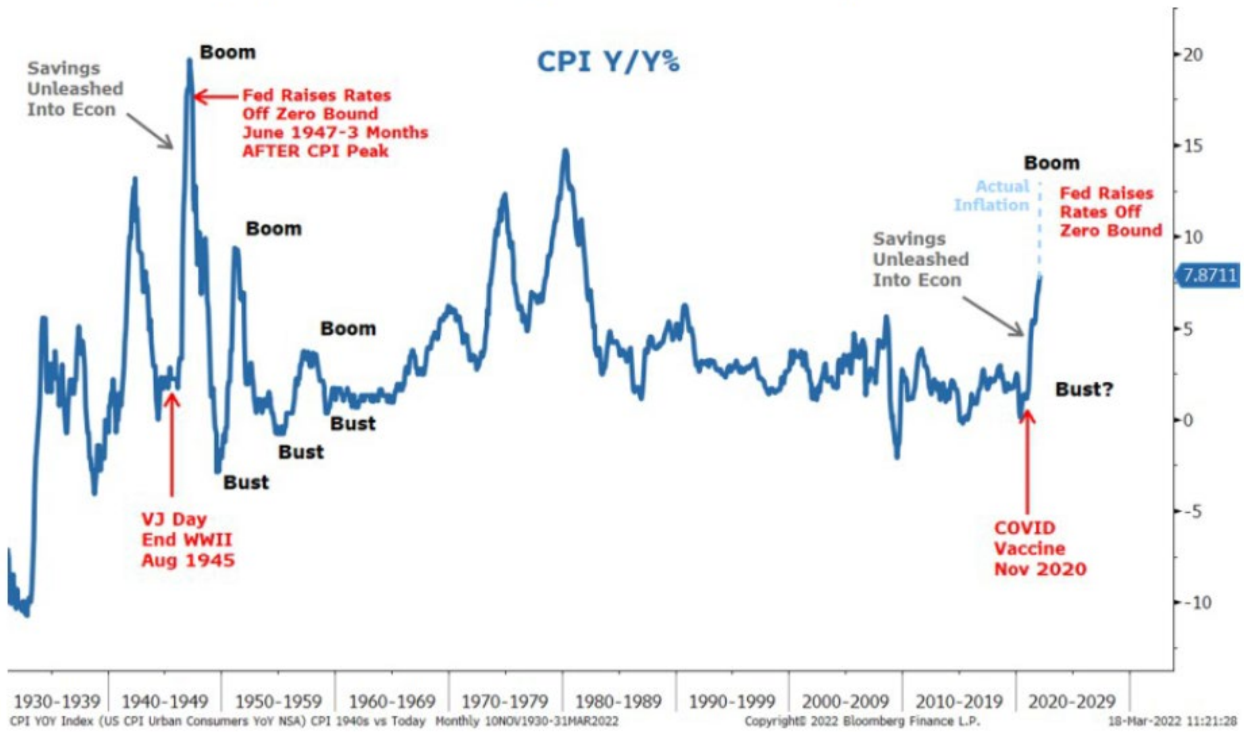
Going forward, the economy and the markets have a lot of issues to be concerned about. To list a few:

- Recession concerns
- Bear market in stocks
- Rising interest rates
- Inflation
- Mid-term elections
- Other- cryptocurrency, supply chain/inventory, etc.

Earlier this year, political experts believed the Republican party was in position to win both the House and Senate in the upcoming mid-term elections. In the past few weeks, the view has shifted, the composition of the next Senate is too hard to predict. Republicans are expected to win a smaller majority in the House. While not the most important issue for the market, large swings one way or the other can impact policy and views on sectors such as large technology companies and concerns around monopoly power, energy policy, taxes, and other legislation that my impact earnings.

We officially entered a bear market in stocks during the second quarter of this year with the S&P 500, Dow Jones Industrial Average, Russell 2000 and Nasdaq indices all dropping over 20% from their highs. While the markets (equity and fixed income) are a discounting mechanism, looking at the future and pricing in a collective view of the future, a recession is officially determined well after it has started. The common definition of a recession is two consecutive quarters of negative growth in GDP; however the official definition of a recession according to the National Bureau of Economic Research (NBER) is technically "a significant decline in economic activity that is spread across the economy and that lasts more than a few months." Importantly, the NBER does not limit itself to only looking at GDP for confirmation of a recession. Many past recessions have coincided with high levels of unemployment and a weak economy. Many think we are already in a recession, despite very low unemployment levels and a strong economy.

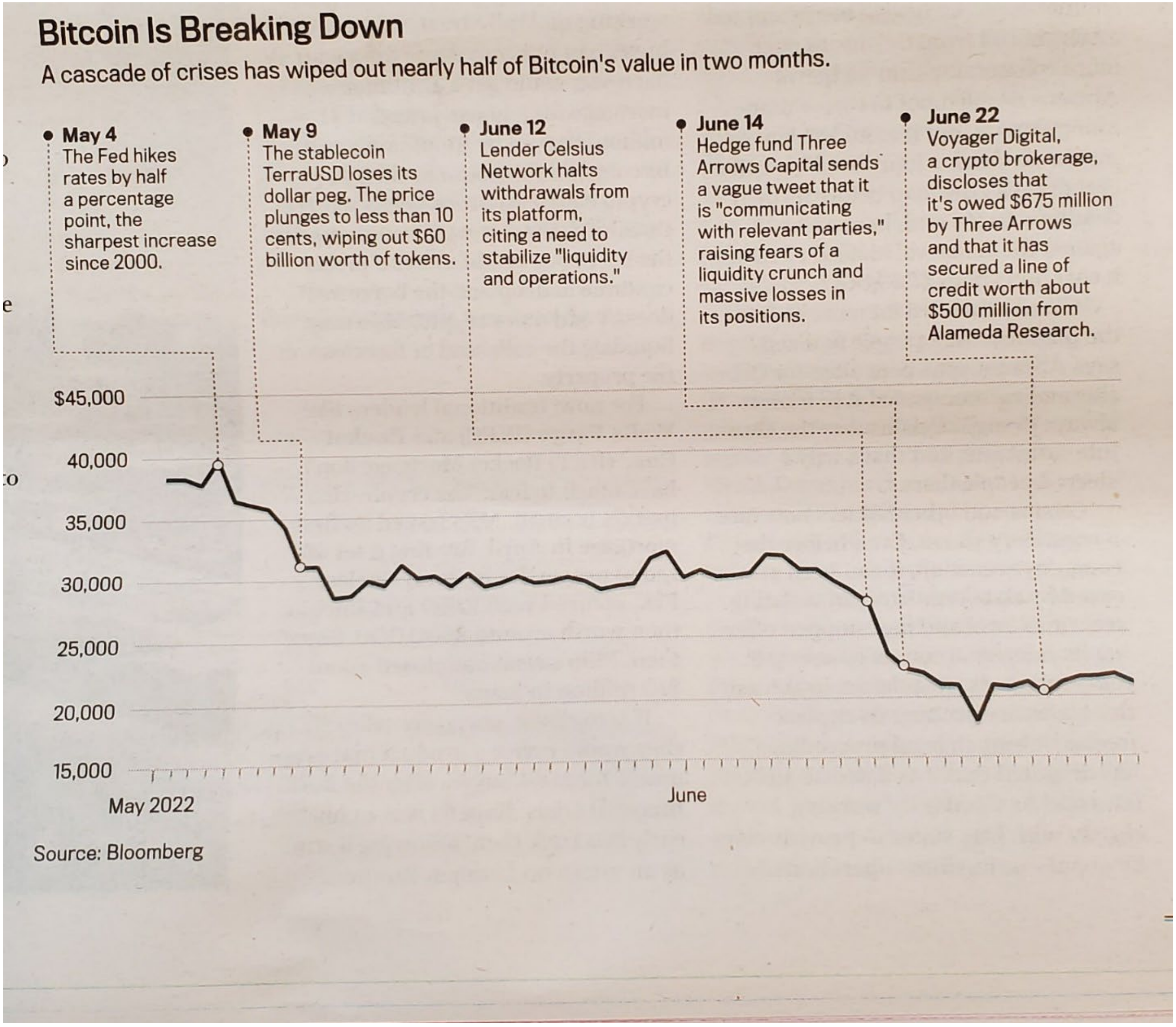
Rising interest rates and inflation have been two of the biggest stories of 2022. Inflation has soared to a high of 8.6% in May. See chart below:



Source: Bloomberg, Morgan Stanley Research

The Federal Reserve and Chair Jerome Powell are doing what they can to prevent a recession by raising interest rates to combat inflation. Inflation is high partly due to increased spending and partly due to steep cost increases in oil/gas and food prices due to Russia/Ukraine as mentioned above. The Fed cannot do anything about the war, but by raising rates they discourage borrowing and spending and encourage savings. If spending slows down, supply and demand changes and prices will start to come down, thus lowering inflation. The tricky part is not raising rates too high or too fast and causing the economy to move into a recession.

Under the category of Other, we can discuss a few items of note that have recently occurred. The first is the collapse of cryptocurrency. As we can see in the chart below:



Bitcoin, one type and probably the best know cryptocurrency, topped out at over $60,000/coin in November 2021. It dipped below $20,000/coin in June of 2022. The major story in the crypto market outside of the price movement in Bitcoin revolved around the stable coin TerraUSD, which lost its peg to the dollar. This wiped out over $60 billion in coins. A month later crypto lender Celsius Network halted withdrawals. Paragon maintains our position that there is still too much unknown risk in Crypto currencies to invest.

While supply chain in general is in a better position than prior times we commented in past newsletters, we are starting to see evidence of supply chain overcorrection. Retailers like Walmart and Target have both recently noted an abundance of outdoor items (patio sets, etc.) and household goods (TV's, kitchen equipment, etc.). Major retailers feared continued disruptions in their ability to order items at the same time delivery times improved and consumer demand for items popular during COVID declined. These retailers are left selling items at extreme discounts to either the public or discounters leading to lower earnings expectations than what they expected just a few months ago.

Paragon believes that the Fed will continue to raise the Fed Funds rate at the July meeting and subsequent meetings later this year until the Fed has inflation under control. In our April newsletter (can be found on our website at www.paragoncap.com/about-us/) we discussed the use investments such as structured products, private credit, private real estate, and private equity to help provide protection from the public markets and increasing interest rates. We welcome the opportunity to discuss these ideas and our views on the markets in our portfolio reviews, see more details on scheduling a meeting below.

Have you received notice of a class action lawsuit?

We realize that paperwork to file a claim can be daunting and the results sometimes not worth the time. We have recently partnered with Chicago Clearing Corp to file these claims on your behalf. They monitor all claims and cross reference those with our clients' accounts to automatically file the claims. Please let us know if you have any questions or concerns regarding this process.

Schedule a Meeting with Paragon!

We are receiving great feedback on the use of Calendly to book appointments for quarterly reviews. Kelly has been reaching out to schedule meetings with your wealth manager and will continue to proactively reach out throughout the year. Calendly provides updated access to your wealth manager's calendar and to a meeting time that is convenient for you! These meetings can be in person, video or by phone.

Paragon's Security Policy

We take your security very seriously. Our security protocols require verbal confirmation of all money movements. If you email or message us to move money from your account to your bank, we will be calling to verify. We understand this creates an additional step in the process and may be viewed as an inconvenience, but it is for your security!

How to stay informed

For up-to-date news and thoughts from Paragon, plus interesting articles on topics like saving and investing for children, taking care of elderly parents and their finances and other timely topics, we encourage you to follow us on LinkedIn and/or Facebook. We have company pages for both and appreciate your liking and/or following us.

- Paragon LinkedIn: https://www.linkedin.com/company/paragon-capitalmanagement-llc/?viewAsMember=true
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Also, please share your experiences with friends and family; we love the opportunity to help those you know with their financial success.

Even though Paragon's offices remain temporarily closed due to COVID-19, we are all working from home and staying in contact with each other daily. We are available to meet with clients at our office by appointment only and are also available to schedule account reviews via video or phone conference.

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Wealth Management with a Unique Focus {you}!