



**SAPPHIRE**  
FIDUCIARY ADVISORS  
an Independent Community Bancorp, Inc. affiliate

July 5, 2022

Dear clients and friends of Sapphire,

We must agree with *Barron's*: “The first half of the year was terrible.” The price of oil in the United States increased 40% and headline inflation touched 8.6% in May. In response, the Fed increased interest rates aggressively, which resulted in negative returns for bond investors (bond prices and yields are inversely related). The year-to-date return of the 10-Year U.S. Treasury security was *negative* 11.7% as of June 30, 2022. War continued abroad, the prospect of a recession loomed, and stocks “officially” entered a bear market as the S&P 500 Index fell 20% from its most recent high. These are the facts, they reflect market prices, and they make for powerful headlines.

But, market prices may not reflect intrinsic value. As Warren Buffett is famously quoted, “Price is what you pay. Value is what you get.” With this in mind, it is worth taking a look beyond the headlines. In the fixed income market, investment grade corporate bonds currently yield 4.7% in aggregate, which compares favorably to a median yield of 3.1% during the past ten years. After having contracted 23% on a year-to-date basis, the forward P/E (price-to-earnings ratio) of the S&P 500 Index was 16x as of June 30, 2022 – slightly below its 25-year average. Excluding the top ten (by market capitalization) constituents of the Index, the remaining 494 stocks have a forward P/E ratio of 14x, which is some 11% lower than the long-term average. Despite expectations of a recession, consensus analyst estimates for S&P 500 Index annual operating earnings are solidly positive through 2024. Today, these facts suggest relatively attractive values as compared to recent history.

That said, the Fed is likely to continue to reduce accommodative policies that buoyed the prices of financial assets for more than a decade. Given the recent performance and price volatility of both stocks and bonds, it appears to us that financial markets are in the process of adjusting to the possibility of a continued, rising trend in interest rates.

As we wrote earlier this year, we view price volatility opportunistically and do not equate it with *risk*. Volatility can produce disparities between market prices and intrinsic value that provide opportunities to



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capitalize on mispriced securities. We continue to believe that investors will be well served by owning actively managed portfolios of high-quality, marketable securities over the long-term.

## *Sapphire News*

During the second quarter of 2022, Sapphire announced its affiliation with Independent Community Bancorp, Inc. (ICBI). In connection with the transaction, Derek Hetherington, President & CEO of ICBI, Bill Chandler, and I began service as Directors and we welcomed Greg Watkins who has joined Sapphire as Partner. Greg's commitment to serving clients as a fiduciary is evident in his daily work and in his decision to join us. We are delighted to have Greg on board.

Please contact Sapphire at any time if you would like to discuss your portfolio or to learn more about how we can be of service to you.

Respectfully,

Paul Stropkay, CFA

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## Sources

- *The Barron's Daily* 07/01/22
- *Barron's Review & Preview* 06/30/22
- J.P. Morgan Asset Management *Guide to the Markets*® 3Q 2022 as of 06/30/22

## Disclosures

*Past performance is no guarantee of future results. No guarantees are implied. The views in this letter are intended to assist investors in understanding the firm's present investment methodology and do not constitute investment advice. For more information including additional disclosures, please visit our website.*



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