Warren Pies, ERP Founder

MARCH 3, 2022

MODEL UPDATE: MARCH 3, 2022

In markets, there are times to play offense and times to play defense. **Two months into 2022, defense dominates our models and mindset.** Recall, we came into the year with a bearish bias. Despite the consensus view that markets continue higher during initial tightening cycles, we argued that the current economic structure could not handle the hawkish path imagined by most Wall Street strategists. The Russia-Ukraine conflict has further muddied the outlook (to say the least). With the S&P 500 only about 10% off all-time highs, we feel no urgency to abandon our cautious posture. Our Real Asset Allocation Model (RAAM) is in agreeance. The RAAM entered March overweight fixed income (43%), underweight equities (21%) and overweight real assets (29%). **Drilling down, the Model raised cash to 7% and increased hedges (8.8%). Gold remains at a healthy 9.5% weight. Year-to-date, the RAAM is down 2.8%. In comparison, a 60/40 portfolio is down 7.3%.**

REAL ASSET ALLOCATION

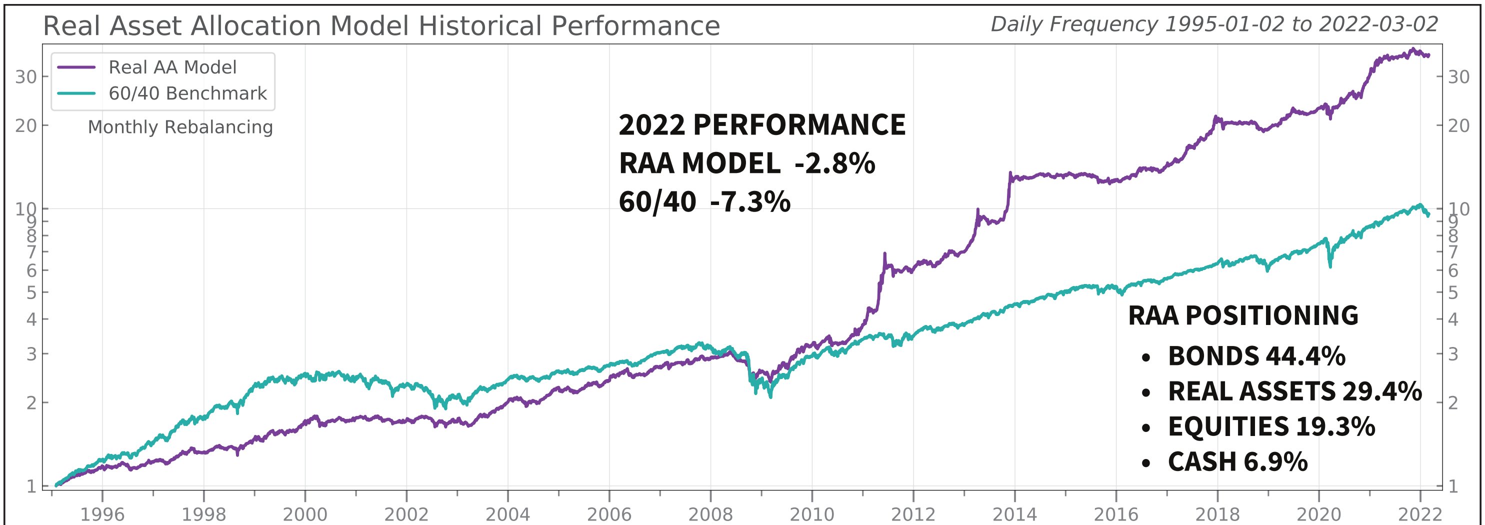
Bonds	44.4% ▲
Cash	6.9%
Equities	19.3% ▼
Real Assets	29.4% ▲

CRUDE: BUY

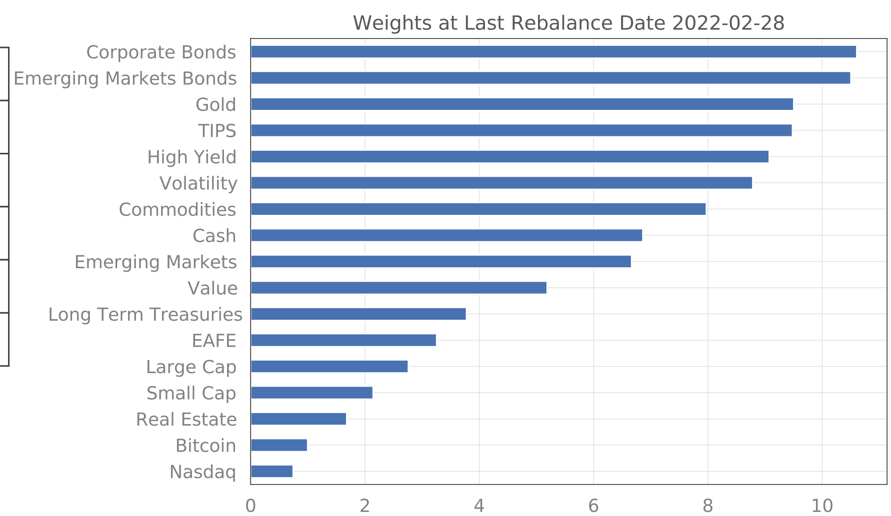
GOLD: STRONG BUY

S&P RISK: LOW RISK

BITCOIN: 50% LONG



Metric	Real AA Model	60/40 Benchmark
Annual Return	14.12%	8.70%
Sharpe Ratio	1.32	0.76
Ann Stdev	9.38%	10.71%
Max Drawdown	-22.50%	-36.66%
Longest Drawdown	914 Days	1565 Days



REAL ASSET ALLOCATION

MODEL UPDATE
MARCH 3, 2022

ASSET	TICKER	MAR 2, 2022	FEB 28, 2022	JAN 31, 2022	DEC 31, 2021
Bonds		**44.4%**	**43.4%**	**30.5%**	**42.5%**
Corporate Bonds	AGG	**10.6%**	10.6%	9.2%	12.8%
Emerging Markets Bonds	EMB	**10.5%**	10.5%	4.1%	5.2%
High Yield	JNK	**9.6%**	9.1%	5.8%	7.0%
Long Term Treasuries	TLT	**3.8%**	3.8%	2.8%	8.3%
TIPS	TIP	**10.0%**	9.5%	8.6%	9.2%
Cash		**6.9%**	**6.9%**	**5.9%**	**6.4%**
Cash	Cash	**6.9%**	6.9%	5.9%	6.4%
Equities		**19.3%**	**20.8%**	**36.9%**	**30.8%**
EAFE	EFA	**3.3%**	3.3%	6.4%	2.5%
Emerging Markets	VWO	**6.2%**	6.7%	6.9%	2.0%
Large Cap	SPY	**2.8%**	2.8%	5.9%	10.2%
Nasdaq	QQQ	**0.7%**	0.7%	4.0%	5.4%
Small Cap	IWM	**1.7%**	2.1%	3.7%	2.7%
Value	SDY	**4.7%**	5.2%	10.1%	8.0%
Real Assets		**29.4%**	**28.9%**	**26.7%**	**20.4%**
Bitcoin	GBTC	**2.0%**	1.0%	0.5%	0.5%
Commodities	GSG	**8.0%**	8.0%	8.5%	1.9%
Gold	GLD	**9.5%**	9.5%	9.9%	3.7%
Real Estate	USRT	**1.2%**	1.7%	6.4%	10.3%
Volatility	VXX	**8.8%**	8.8%	1.4%	4.0%

Allocation increase since last rebalance   Allocation decrease since last rebalance

YIELD OPTIMIZER

MODEL UPDATE

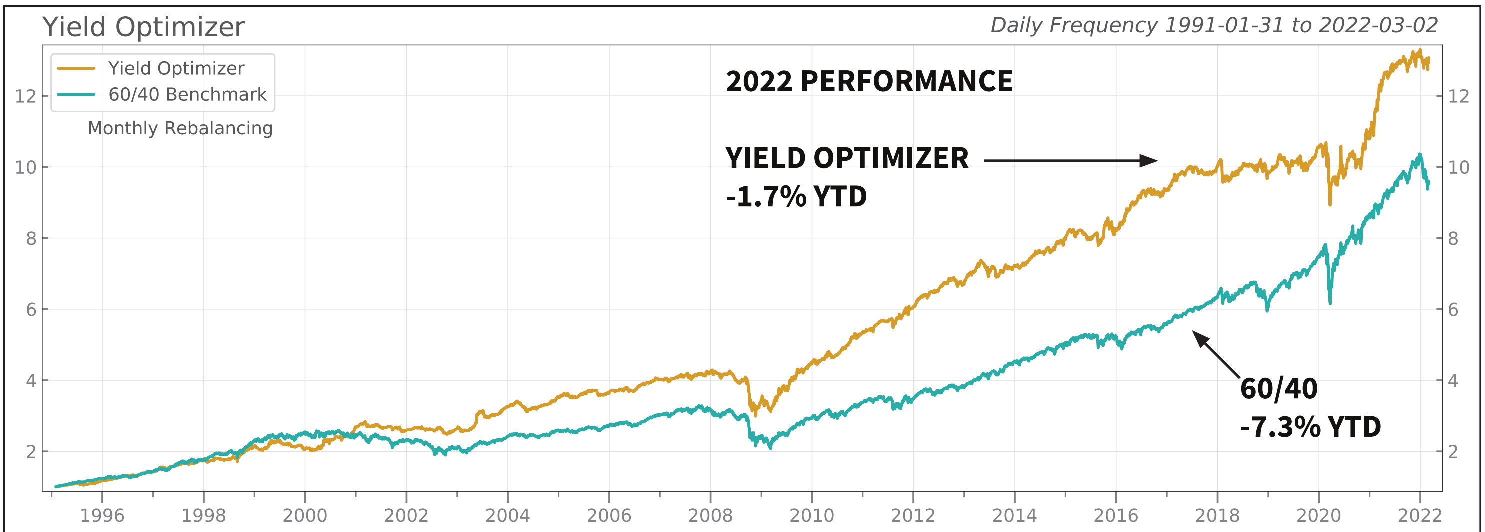
MARCH 3, 2022

In the past week, the collective risk premium for assets across the spectrum has increased. There are winners and losers. Traditional energy assets in stable jurisdictions are among the winners (see Chart of the Week section for more). **The Yield Optimizer Model continues to lean heavily on Energy in this environment (12% weight for March).**

To review, the Yield Optimizer aims to produce income by allocating between 13 different income-producing assets. Even in the current "risk-off" environment, fixed income has struggled. Year-to-date, the Bloomberg Long-Term Aggregate Bond Index has lost 3.6%. The Yield Optimizer has, comparatively, managed to preserve capital (down 1.7% YTD). More impressively, last year, it managed a 22% gain. At present, Tobacco equities (26%), Municipal Bonds (17%), cash (17%) and Energy (12%) make up a combined 72% of the Model's holdings. Interestingly, long-term government bonds remain near the bottom of the Model's holdings (1.1%).

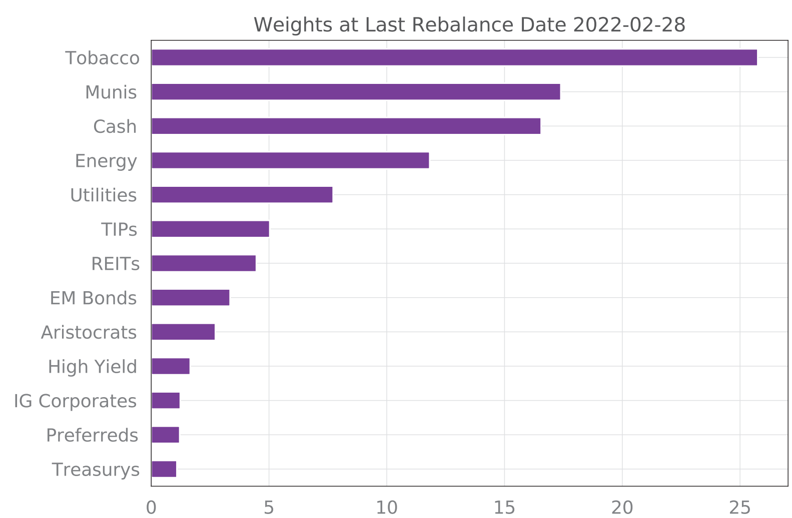
YIELD OPTIMIZER MAR 2

Tobacco	**25.8%**	--
Munis	**19.5%**	▲
Cash	**16.6%**	--
Energy	**12.9%**	▲



Metric	Yield Optimizer	60/40 Benchmark
Annual Return	9.95%	8.70%
Current Yield	3.13%	1.95%
Ann Stdev	8.66%	8.70%
Max Drawdown	-30.28%	-36.66%
Longest Drawdown	803 Days	1565 Days

3FOURTEEN RESEARCH
MANAGE RISK. EXPLOIT OPPORTUNITY.



YIELD OPTIMIZER

MODEL UPDATE

MARCH 3, 2022

ASSET	TICKER	2022-03-02	2022-02-28	2022-01-31	2021-12-31
Tobacco	MO/PM	**25.8%**	25.8%	26.8%	3.4%
Munis	MUB	**19.5%**	17.4%	4.9%	36.3%
Cash	Cash	**16.6%**	16.6%	10.7%	0.5%
Energy	XLE	**12.9%**	11.8%	18.6%	2.2%
Utilities	XLU	**7.7%**	7.7%	4.6%	11.9%
TIPs	TIP	**2.9%**	5.0%	13.4%	2.3%
REITs	USRT	**4.5%**	4.5%	2.9%	2.8%
EM Bonds	EMB	**2.3%**	3.3%	5.2%	1.3%
Aristocrats	NOBL	**2.7%**	2.7%	7.4%	4.6%
High Yield	HYG	**1.7%**	1.7%	2.2%	7.9%
IG Corporates	LQD	**1.2%**	1.2%	1.4%	0.6%
Preferreds	PFF	**1.2%**	1.2%	1.3%	1.1%
Treasurys	TLT	**1.1%**	1.1%	0.6%	25.2%

Allocation increase since last rebalance   Allocation decrease since last rebalance

SECTOR ROTATION

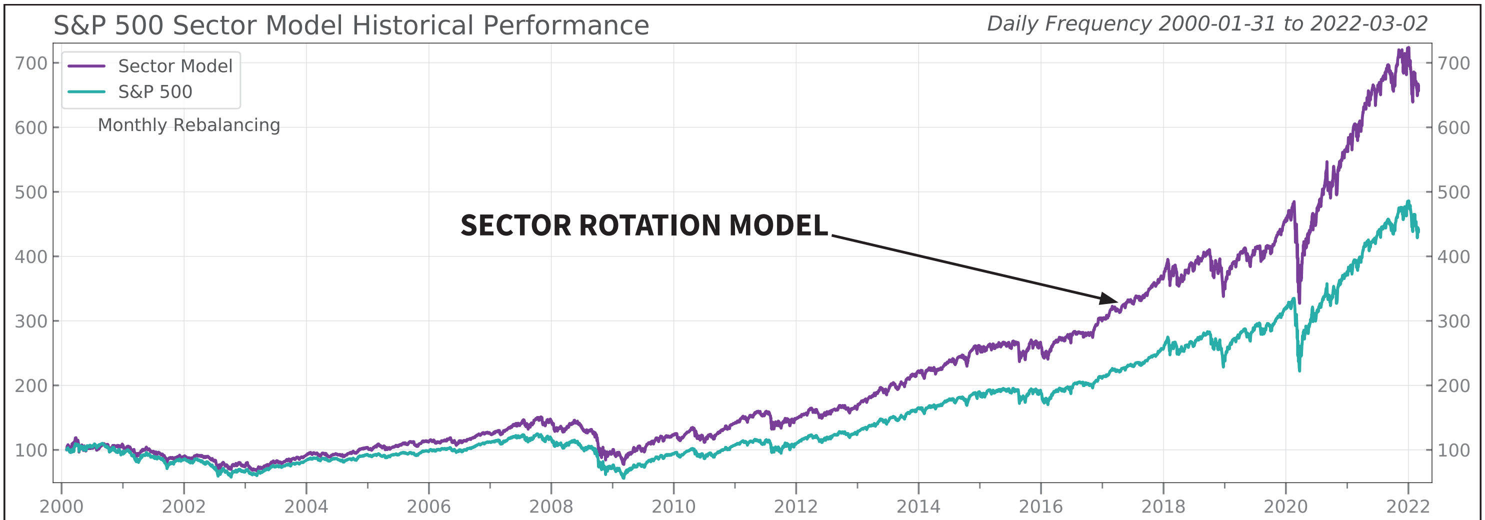
MODEL UPDATE

MARCH 3, 2022

From a Sector perspective, the story of 2022 is simple: Energy is up 31%. Every other major sector is negative for the year (between -2% and -15%). In February, our Sector Rotation Model did well by overweighting Consumer Staples (flat) and Energy (+10%). For the month, it beat the S&P 500 by 165 basis points. Heading into March, the Model is now pairing a Technology and Energy overweight. Health Care and Consumer Discretionary remain underweights.

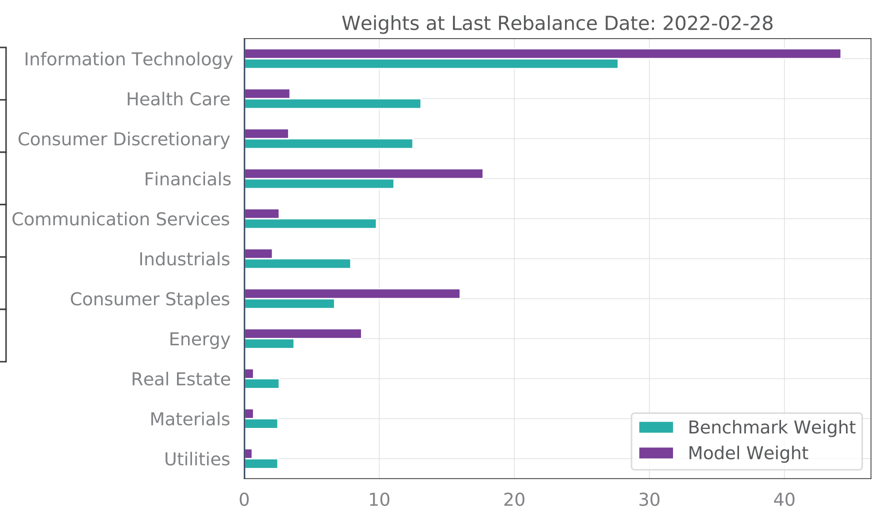
SECTOR	TREND (TB)	FLOWS	TACTICAL ML	TOTAL	BENCHMARK WGT	MODEL WGT	ACTIVE WGT
Tech	1	0	1	2	27.7%	44.2%	16.5%
Staples	3	1	0	4	6.7%	16%	9.3%
Financials	2	0	0	2	11.1%	17.7%	6.6%
Energy	4	1	1	6	3.7%	8.7%	5%
Materials	0	1	0	1	2.5%	0.7%	-1.8%
Utilities	0	0	0	0	2.5%	0.6%	-1.9%
Real Estate	1	0	0	1	2.6%	0.7%	-1.9%
Industrials	0	0	0	0	7.9%	2.1%	-5.8%
Communication	0	0	0	0	9.8%	2.6%	-7.2%
Discretionary	0	0	1	1	12.5%	3.3%	-9.2%
Health Care	0	0	0	0	13.1%	3.4%	-9.7%

Sector Overweight   Sector Underweight



Metric	Sector Model	S&P 500
Annual Return	8.95%	6.96%
Sharpe Ratio	0.54	0.44
Ann Stdev	19.38%	19.57%
Max Drawdown	-48.86%	-55.32%
Longest Drawdown	2367 Days	2263 Days

3FOURTEEN RESEARCH MANAGE RISK. EXPLOIT OPPORTUNITY.



CRUDE MODEL

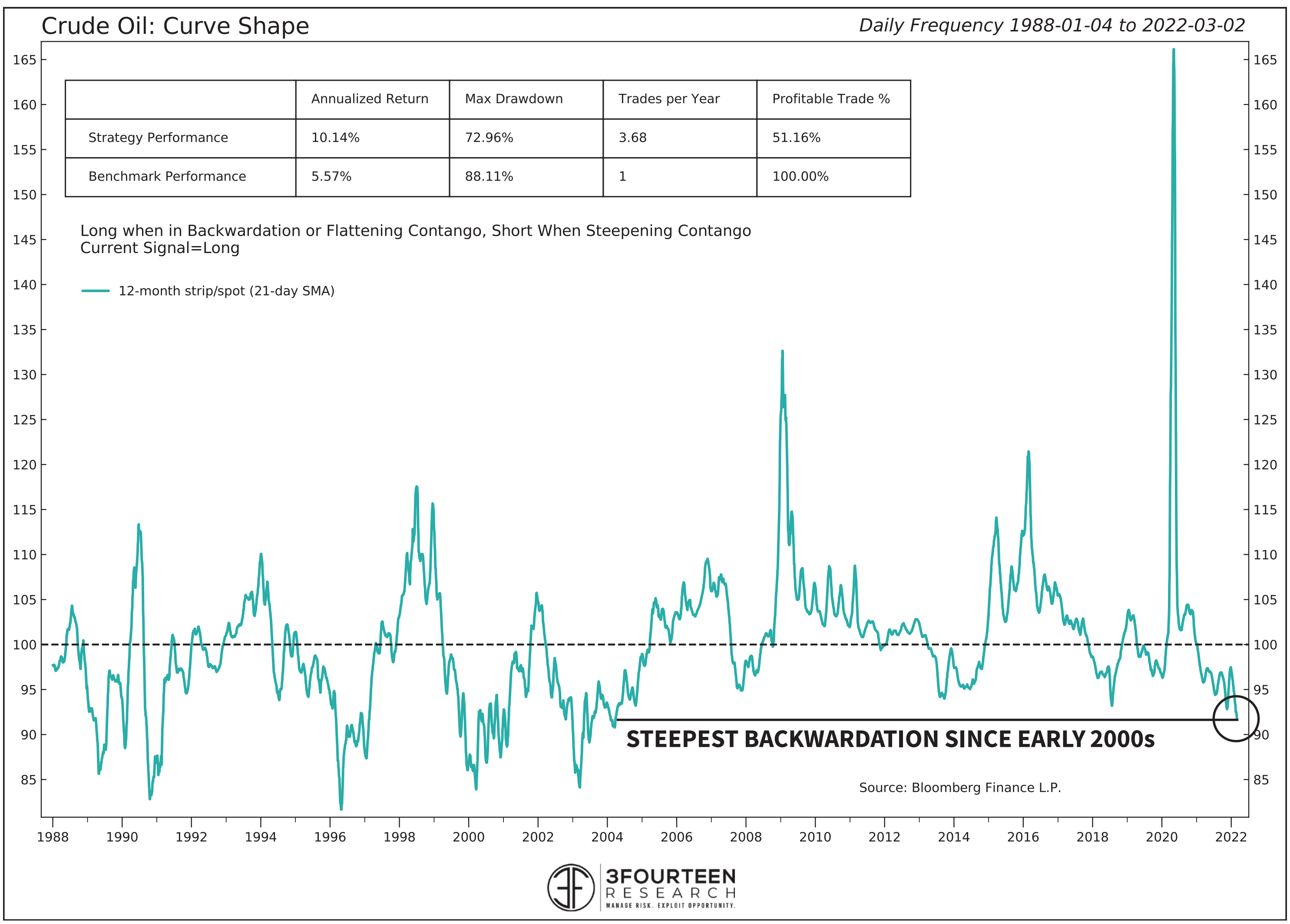
MODEL UPDATE

MARCH 3, 2022

At present, Brent Crude Oil is trading at $120/bbl. **If full energy sanctions are applied to Russian energy exports, a massive gap will open between global oil supply and demand. The only real balancing factor would be demand destruction. Put simply, oil prices will go where they have to immediately kill off demand. Under this scenario, there is no real near-term ceiling for oil prices. $150? $180? Both are possible.** Remember March of 2020 when oil prices went negative? This risks turning into the mirror image on the upside. On the next page, we restate our "back-of-the-envelope" calculations for the oil market should energy sanctions come into play (see our email from Tuesday).

Our Core Crude Oil Model remains on a buy. However, the current geopolitical crisis has, for the moment, rendered many traditional oil indicators moot. Below, we plot our measure of term structure. By our calculation, oil futures are undergoing the steepest backwardation going back to the early 2000s. However, we slow our indicator down (i.e. smooth it by 21 days). In the coming days, we expect this measure to challenge the steepest periods of backwardation on record. **As available inventories drain (and empty), the signal from the futures market can only mean so much.**

See last week's report discussing why oil will either be a [wrecking ball or a relief valve] for markets.



CRUDE MODEL

MODEL UPDATE

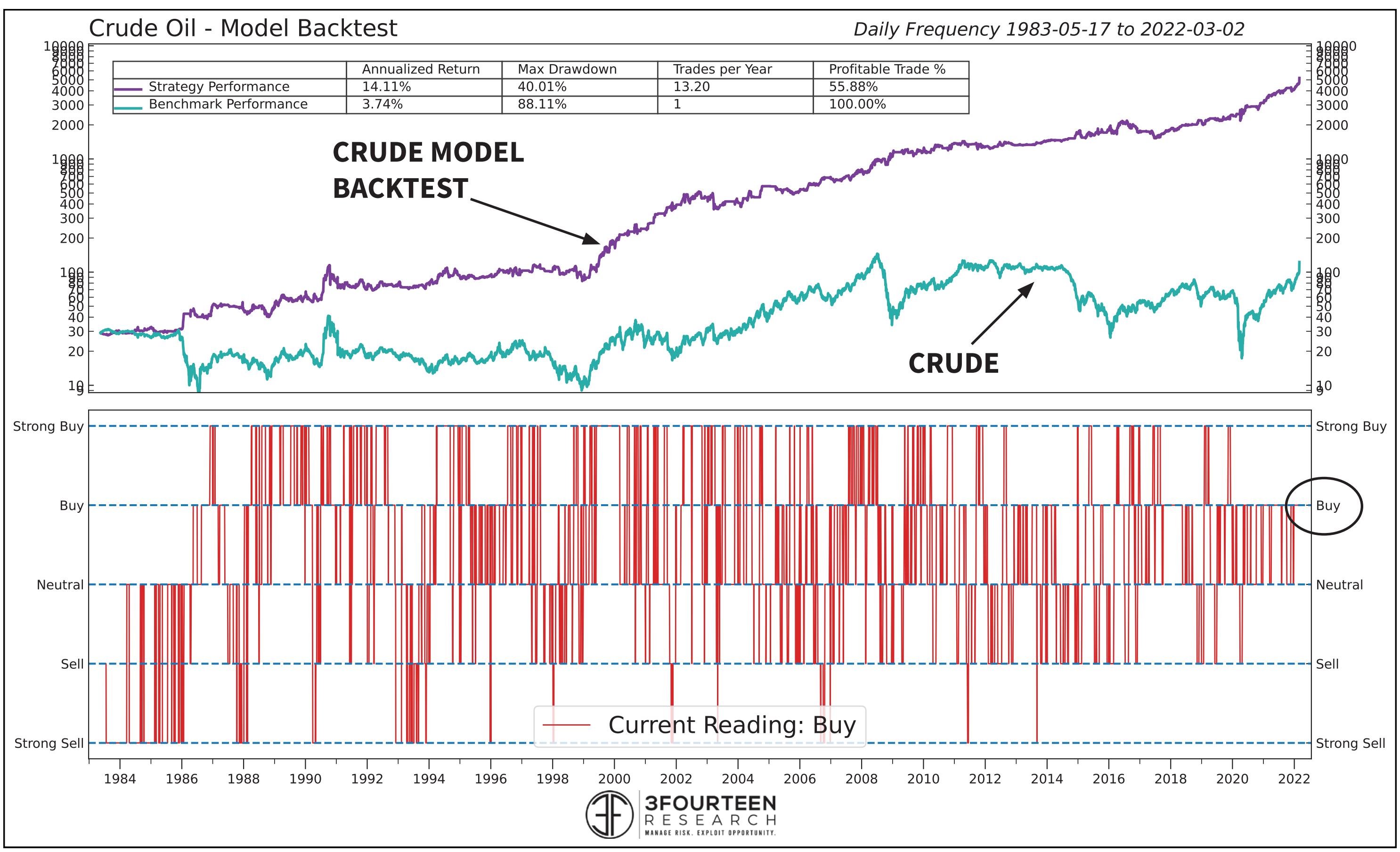
MARCH 3, 2022

Below, is our "back-of-the-envelope" oil market balance that could develop post-Russian sanctions.

- Russia exports ~6.5 mmbpd of crude oil plus condensate.
- China imports roughly 2.5 mmbpd of this. Under a sanction scenario, it is feasible to see Chinese imports ratchet up to 3.5 mmbpd.
- Thus, a full sanctioning of Russian crude will open a 3 million bpd gap in global market place. Heading into the crisis, global supply was undershooting demand by ~1.5-2 mmbpd.
- Saudi Arabia and the UAE could, conceivably, increase production by ~1 million bpd in response.
- One million barrels of Iranian oil could also come onto the market in the next six months.
- **This leaves the world with a total gap between supply and demand between 3 and 4 million bpd.**

Even with these optimistic assumptions, there is no where for the price of oil to go but higher under a full-sanction scenario.

CRUDE	MAR 2
OVERALL	**BUY**
Inventories	STRONG BUY
Physical Market	STRONG BUY
Positioning	NEUTRAL
Technicals	BUY



GOLD MODEL

MODEL UPDATE

MARCH 3, 2022

[Last January](), we wrote that "institutional trust (or lack thereof) is gold's prime driver." **No matter how it resolves (or metastasizes), the Russian invasion of Ukraine is a major destabilizing event. Its impacts will reverberate for years into the future. The secular decline of institutional trust will continue.** Using our logic, gold's multi-year bull market is far from over. More tactically, our Core Gold Model flipped to a buy early this year. In February, the RAAM (page 1) joined the bandwagon. As we have said for months, we are patiently waiting for gold to resolve the tight range it has defined between $1,680 and $1,950. Last week, gold briefly bounced up above $1,950, but, ultimately, reversed. We continue to believe that gold will break out to new all-time highs. But, we recommend staying disciplined until the breakout is confirmed.

GOLD	MAR 2
OVERALL	**STRONG BUY**
Asset Allocation	**STRONG BUY**
Positioning	**STRONG SELL**
Real Rates	**STRONG BUY**
Technicals	**STRONG BUY**

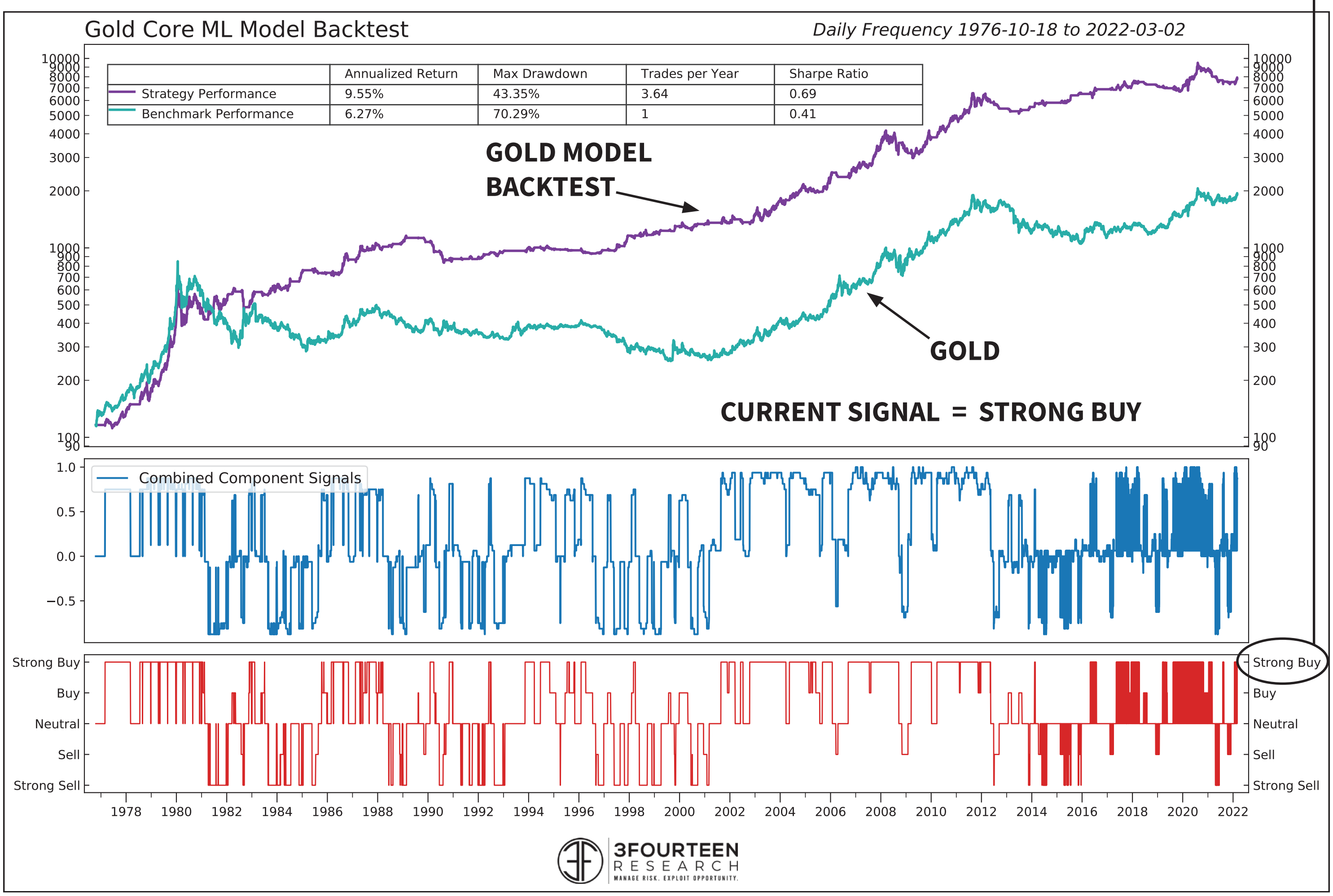


CHART OF THE WEEK

MODEL UPDATE

MARCH 3, 2022

LAST REPORT

Oil: A Wrecking Ball or Relief Valve?

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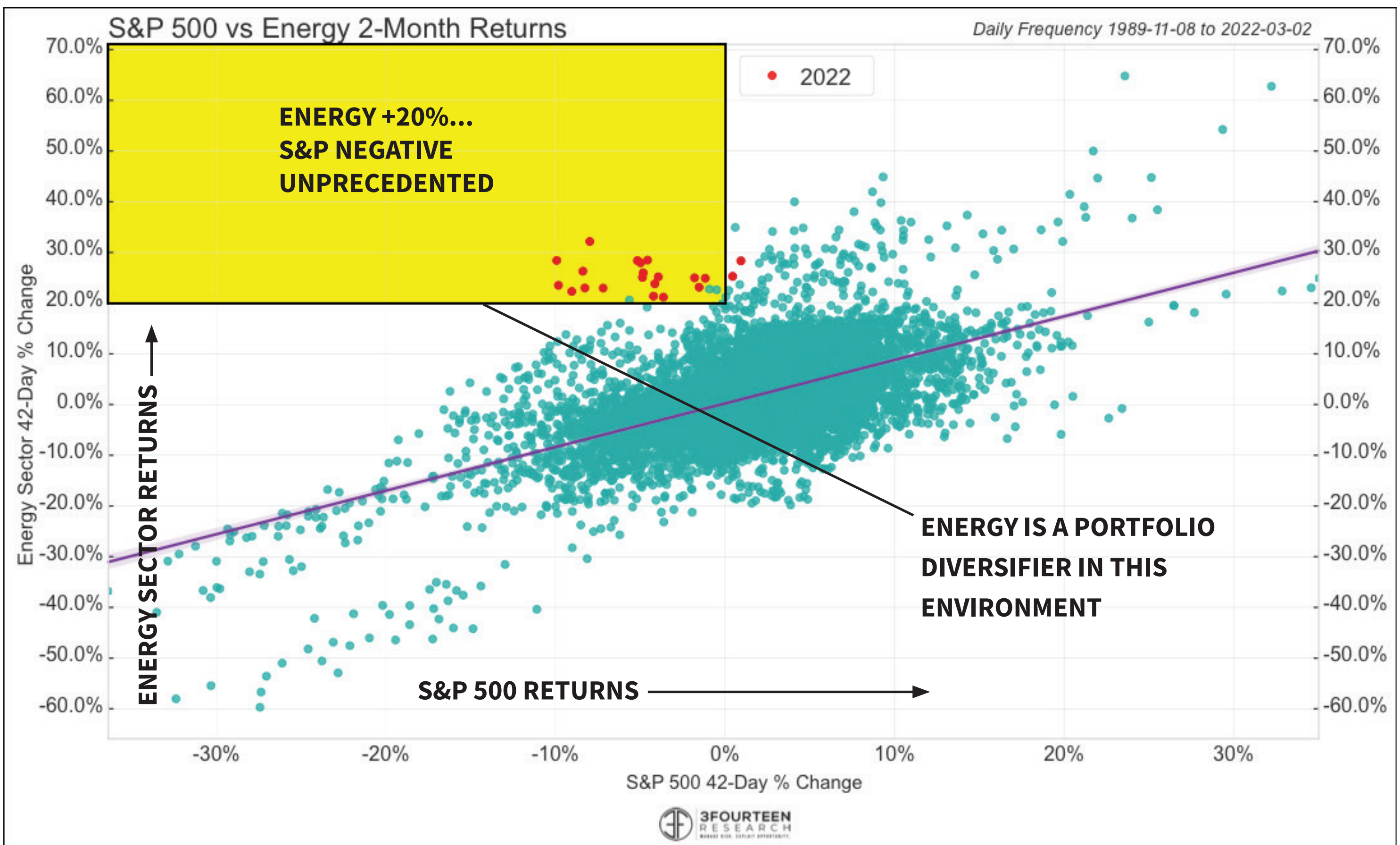
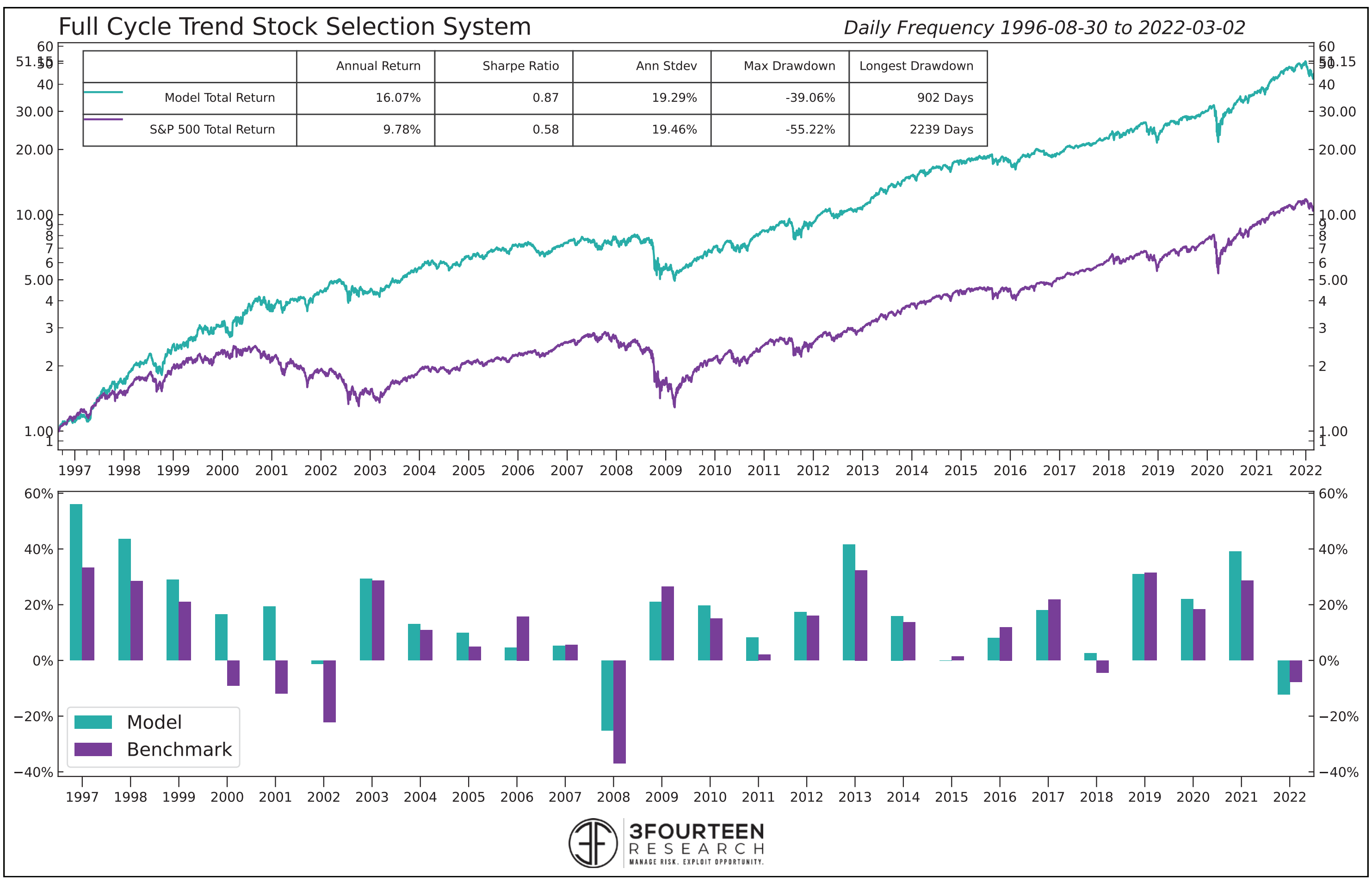
In recent days, we have fielded numerous client and media calls. Most questions center around the likelihood and consequences of sanctions on Russian energy exports and other near-term concerns. We do not mind speculating, but, ultimately, all of these answers are nothing more than educated guesses. A more important—and less speculative—consideration is how the current crisis may change investing appetites on a longer time horizon. For years, investors have eschewed traditional energy investments. Shale never produced the returns suggested by slick investor slide decks and single-well economics. Simultaneously, ESG and the Green Revolution called terminal values into question. However, we believe a shift is at hand. As we pointed out last November, the world is multiple decades away from reducing the growth of hydrocarbon consumption (even under aggressive decarbonization assumptions). In the intermediate-term, energy prices and security represent the most acute risks to equity markets. As we pointed out last week, a healthy overweight in traditional energy companies offers a hedge to those risks. Recently, the Energy Sector's portfolio diversifying characteristics have been on full display. In today's Chart of the Week, we compare rolling two-month returns for the Energy Sector (y-axis) to the S&P 500 (x-axis). **In the past couple of months, the Energy Sector has returned more than 30% while the S&P 500 has been negative. This is unprecedented. After years of divestment and multiple compression, we believe the valuations of traditional energy assets are set to rerate higher.**



FULL-CYCLE TREND: CURRENT HOLDINGS (3/3/2022)

TICKER	DATE	COMPANY	SECTOR	RANKING	% CHANGE	S&P 500 % CHG
TROW	2021-09-30	T Rowe Price Group Inc	Financials	2.0	-26.9%	2.4%
EXR	2021-09-30	Extra Space Storage Inc	Real Estate	7.0	16.0%	2.4%
MCO	2021-11-30	Moody's Corp	Financials	8.0	-16.4%	-3.6%
AMT	2021-11-30	American Tower Corp	Real Estate	9.0	-11.6%	-3.6%
POOL	2021-12-31	Pool Corp	Consumer Discretionary	10.0	-16.0%	-7.7%
MSFT	2021-12-31	Microsoft Corp	Information Technology	6.0	-10.6%	-7.7%
NDAQ	2021-12-31	Nasdaq Inc	Financials	4.0	-18.1%	-7.7%
ODFL	2021-12-31	Old Dominion Freight Line Inc	Industrials	3.0	-11.2%	-7.7%
ACN	2022-01-31	Accenture PLC	Information Technology	12.0	-10.0%	-2.7%
SHW	2022-01-31	Sherwin-Williams Co/The	Materials	16.0	-9.0%	-2.7%
ROK	2022-01-31	Rockwell Automation Inc	Industrials	17.0	-6.7%	-2.7%
ZTS	2022-01-31	Zoetis Inc	Health Care	5.0	-1.9%	-2.7%
EW	2022-01-31	Edwards Lifesciences Corp	Health Care	1.0	2.0%	-2.7%
FDS	2022-01-31	FactSet Research Systems Inc	Financials	11.0	-0.7%	-2.7%
TSCO	2022-02-28	Tractor Supply Co	Consumer Discretionary	13.0	1.9%	0.3%
HD	2022-02-28	Home Depot Inc/The	Consumer Discretionary	20.0	3.7%	0.3%
LOW	2022-02-28	Lowe's Cos Inc	Consumer Discretionary	15.0	3.4%	0.3%
LKQ	2022-02-28	LKQ Corp	Consumer Discretionary	19.0	1.5%	0.3%
NTAP	2022-02-28	NetApp Inc	Information Technology	14.0	3.5%	0.3%
KLAC	2022-02-28	KLA Corp	Information Technology	18.0	-0.7%	0.3%

New this month



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