August 2022 Performance Summary

Following a brief rally in July, equity and bond markets turned negative in August. In July, markets began to price in the prospect for a potentially more dovish policy outlook (i.e. the potential for future rate cuts) as a result of weakening economic data which pointed to a slowing global economy. However in August, Fed Chairman Powell delivered comments which were quite clear about the Fed's priorities to combat inflation and pointed to further rate hikes "until the job is done." The Fed's decidedly more hawkish stance caused market participants to become increasingly concerned at the prospects of an economic recession, which contributed to a 4.1% monthly decline in the S&P 500 Index and low single digit declines for domestic core bond indices.

Outside the U.S., equity market performance was mixed. European equities posted the largest decline for the month (-4.7%) as the level of economic uncertainty remained high, while other regions such as Japanese and Emerging Market equities actually posted modest local currency gains for the month. Global bond markets followed a similar path, with Japanese and Emerging Market bonds holding up relatively well, while European government bonds posted mid-to-high single digit declines.

During periods of heightened market challenges such as the present, investors may be tempted to change course and alter their investment strategy based on a perception that near term market conditions are obviously going to be a certain way. However, nothing about markets is ever obvious, and the view that what happens next was foreseeable is based on little more than the human tendency towards recency bias. It is our belief that long time horizon investors such as The Vermont Community Foundation increase their likelihood of meeting return objectives by sticking to a strategic asset allocation, which is predicated on making high-probability, long-term, strategic investments even if short-term results are unclear or unfavorable. This stands in sharp contrast with making low-probability, tactical bets that are often based on predicting an unknowable short-to-medium term.

Pessimism, volatility, and indiscriminate selling that occur during periods of market panic can create extreme dislocations in security prices, which plants the seed for very strong future returns for investors with a time horizon measured in years rather than in quarters. The Foundation is invested across a broadly diversified set of these mis-priced securities, and the underlying investment managers in the portfolio have been opportunistic in the current environment (adding long coveted names that have now reached a more favorable valuation and re-allocating capital to the opportunities with the most attractive risk/reward asymmetry) to continually improve the portfolios' forward looking return prospects.

In August, the Long-Term Pool declined 2.3%, outperforming the policy benchmark by 30 basis points.   For the month, the Pool's exposure to value-oriented strategies, emerging market equities, and hedge funds were the largest contributors to results. Thus far in 2022, the Pool is down 14.0% or 130 basis points behind the benchmark. Returns across growth-oriented sectors in both global equities and hedge funds have led to the shortfall year-to-date.

The Socially Responsible Pool declined by 3.6% for the month, underperforming its policy benchmark return by 60 basis points.   Thus far in 2022, the Pool is down 15.2% or 150 basis points behind the benchmark. The pool's exposure to global growth stocks was the largest detractor to results for both the month and year-to-date.

The Mid-Term Pool declined 2.8% for the month, trailing its policy benchmark by 10 basis points. Thus far in 2022, the Pool is down 11.5% or 70 basis points above its benchmark. As the Pool is largely invested in index funds, the return difference was primarily driven by cash movement in the Pool that resulted in temporary deviations from policy asset allocation targets.

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