



Confidence in Your Investments: Retirement Plans, Financial Planning & Wealth Management

Déjà vu All Over Again?

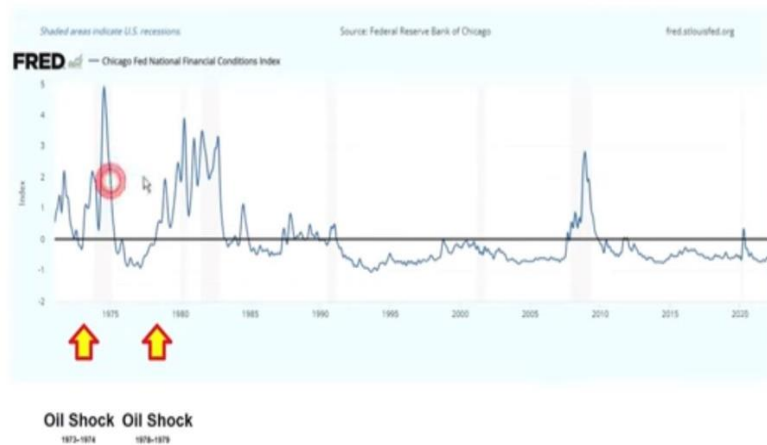
Just a month ago the Olympics were limping along to low television ratings in the US and Americans were starting to breathe a small sigh of relief on optimism that the Omicron wave of Covid-19 was finally drawing to a close. Today, gas prices sit more than \$1/gallon higher YTD and Russia has embarked upon one of the most troubling aggressions of our times.

Based on reader feedback, we are continuing the format from February as we look to touch on key elements of today's market climate. Our team looks to both respectfully contextualize recent events and offer investment insights we feel are relevant right now.

Is this the 1970's all over again?

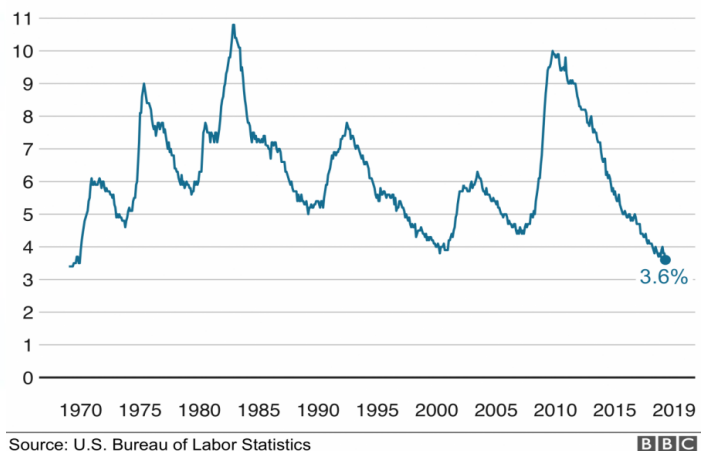
In a word, no! It's undeniable that recent oil shocks remind some of the shocks of 1973-74 and 1979-81. In 1973, the Syrian and Egyptian land grab sparked an oil embargo, stagflation, and a 43% selloff in equities. The 1979 Iranian revolution led to \$1/gallon gas at the pump for the first time in the US long lines just to get fuel, and a +12% year for equities. Ultimately, the Fed's hand was forced to aggressively fight inflation in the years following. ***So how is this time different?***

CHICAGO FED NATIONAL FINANCIAL CONDITIONS INDEX



US unemployment rate

Number of unemployed as a percentage of the labour force



Above Left: The Chicago Fed's gauge of financial conditions (aka, stress in the system) shows the oils shocks of the 1970's. The GFC and Covid spikes are easily identified as well. We are well within the healthy range right now.

Above Right: Our <4% unemployment level is a stark contrast to levels as high as 9% in the mid '70s.

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Geopolitical History & The Markets

Total Holding Period Return by Geopolitical Crisis (%)

Start	End		S&P 500		Stoxx Euro 600		MSCI EM	
			During	3m After	During	3m After	During	3m After
Aug '90	Feb '91	The Gulf War	4.4	6.2	(7.5)	6.8	(10.5)	11.9
Sep '01	Sep '01	September 2001	(4.7)	10.3	1.8	12.2	(9.6)	26.3
Mar '03	May '03	US Invasion of Iraq	4.6	7.0	4.2	7.5	5.1	19.6
Dec '10	Jan '11	Tunisian Revolution	4.0	2.0	2.7	(2.1)	4.0	1.9
Jul '11	Sep '11	European Debt Crisis Peaks	(16.5)	12.0	(22.1)	12.6	(24.6)	5.3
Feb '14	Mar '14	Russian Annexation of Crimea	0.7	5.6	(1.2)	3.3	1.9	8.1
Jun '16	Jul '16	Brexit Referendum	(0.6)	2.9	(8.0)	7.5	(1.9)	11.9
Aug '21	Aug '21	Taliban Takeover of Kabul	1.4	0.8	(0.7)	(2.1)	0.4	(5.7)
Median			1.0	5.9	(0.9)	7.1	(0.8)	10.0

Not only have US markets bounced back following major geopolitical events throughout history, but so too have non-US markets. During each of these events, it seemed that things would never calm, but in each instance they did. As we reflect on the past few weeks, we concede the uniqueness of the Russian invasion and maintain a watchful eye on the situation.

Stocks Usually Take Geopolitical Events In Stride

S&P 500 Index And Geopolitical Events

Market Shock Events	Event Date	S&P 500 Returns		Days	
		One Day	Total Drawdown	Bottom	Recovery
U.S. Pulls Out of Afghanistan	8/30/2021	0.4%	-0.1%	1	3
Iranian General Killed In Airstrike	1/3/2020	-0.7%	-0.7%	1	5
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		-1.1%	-4.6%	19.7	43.2

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/24/2021

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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Commodity Spike

Commodity Futures Prices Soar

	Since Feb. 23, 2022 (%)	YTD (%)	1 YR (%)
Wheat	38.8	56.5	86.1
Palladium	21.1	55.1	28.4
Crude Oil	19.4	46.8	70.4
Corn	9.2	22.8	36.0
Gold	4.8	11.0	16.6
Natural Gas	0.0	29.9	70.8
Lumber	-3.6	5.2	32.3

Source: FactSet. Data as of March 9, 2022.

Commodity prices had already aggressively moved higher before the Russian invasion, but the attack has led to historic moves in many parts of the commodity complex. For many of our clients, we have allocated to a diversified basket of commodities (via an ETF) for a hedge against both inflation and continued geopolitical risk. While probabilities (and futures markets) suggest some of the commodity spikes are likely to abate once the Ukrainian conflict is resolved, inflation headwinds are likely to remain far longer. During such times, commodities have historically served investors well.

Bonds...is the 40+ year bull market over?

Time Frame	Stocks	Bonds	Cash	Inflation
1928-1941	-0.4%	3.2%	1.1%	-1.1%
1942-1968	14.6%	2.2%	2.1%	3.2%
1969-1977	2.9%	5.4%	5.8%	6.4%
1978-1999	17.2%	8.7%	7.0%	4.7%
2000-2008	-3.6%	8.4%	3.0%	2.9%
2009-2020	14.8%	3.3%	0.4%	1.6%

Source: NYU

Low yields and the likelihood of the Fed hiking rates multiple times in the coming months presents investors with challenging risk-management decisions. The 1942-1968 era illustrates a much different bond market than most investors have experienced. As such, we believe one must remain disciplined and largely maintain equity allocations during the current storms.

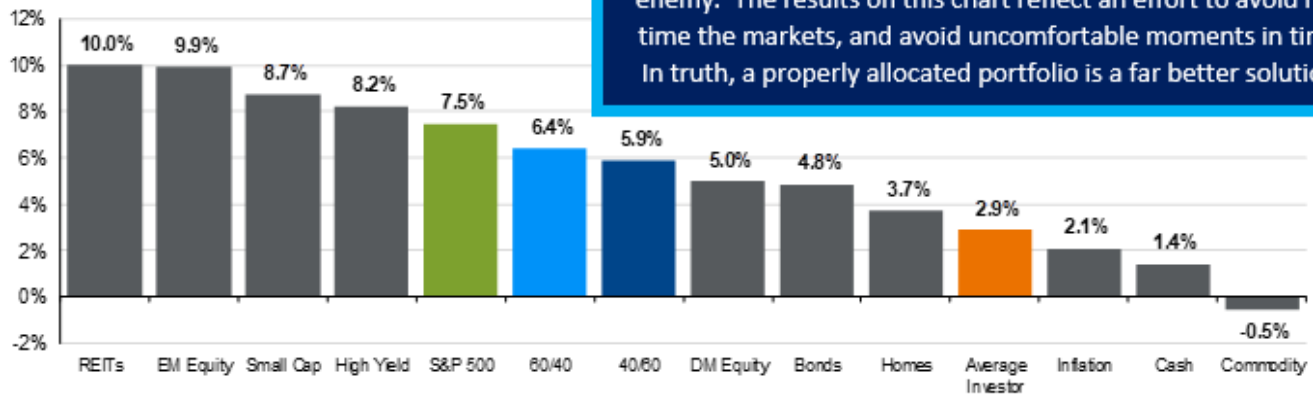
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Human Behavior



Finding a positive headline today is challenging. Finding one in March 2009...daunting. In 1980...hard to come by. At the Covid low in 2020 one would be hard pressed to find an uplifting headline (aside from a story about caregivers and medical efforts). The media has no intention of nor duty to offer a fair and balanced perspective. This is not new and will not likely change during our lifetimes. We believe the key is not to get swept away by the negativity.

But pessimism about money takes a different level of allure...Say we're nearing the next Great Depression and you'll get on TV. But mention that good times are ahead, or markets have room to run...and a common reaction from commentators and speculators alike is that you are either a salesman or comically aloof of risks."

—Morgan Housel
The Psychology of Money

Americans still have higher savings compared to before the pandemic, and jobs are plentiful. "Household balance sheets look to be the healthiest basically since we've been tracking this data" starting in the 1980s, Dr. Bovino of S&P Global Ratings said.

The biggest challenge for the economy right now is not demand, but supply.

The Wall Street Journal
January 27, 2022

There's little denying that we face challenges. The key is analyzing today's challenges IN CONTEXT. We are constantly speaking with managers and trusted industry experts to assess what's changed and what has not.

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Closing Thoughts from HIP

As we conclude, allow us briefly reflect upon the wisdom of some of the 20th century's greatest authors:

"The battleline between good and evil runs through the heart of every man." Aleksandr Solzhenitsyn, Russian author, critic of Communism, and former member of the Red Army during WWII

"Whoever is winning at the moment will always seem to be invincible." – George Orwell, Indian-born British author, supporter of democratic socialism

"The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists." Ernest Hemingway, American author, and soldier during WWI

Deep are the roots of truth that run through these quotes. To so many, fear is an inescapable reality. Heartbreak for the victims of this tragedy is both immeasurable and equally inescapable. Unfortunately, we have seen such tragedies throughout history and cannot escape them even in this modern era.

In this month's newsletter, we have tried to help lend some perspective and objectivity to a very emotional time in many investors' lives. The past 2+ years have challenged even the most perseverant soul. Our ask is that you reflect on what we have presented and share your thoughts, fears, and feedback with our team.

We welcome your calls and your e-mails.

Sincerely,

Your Team at Head Investment Partners

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