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Monthly Market Update

October 2022

Playing the Numbers Game

An increase in private funds available to the market make alternative investments more accessible to private wealth advisors

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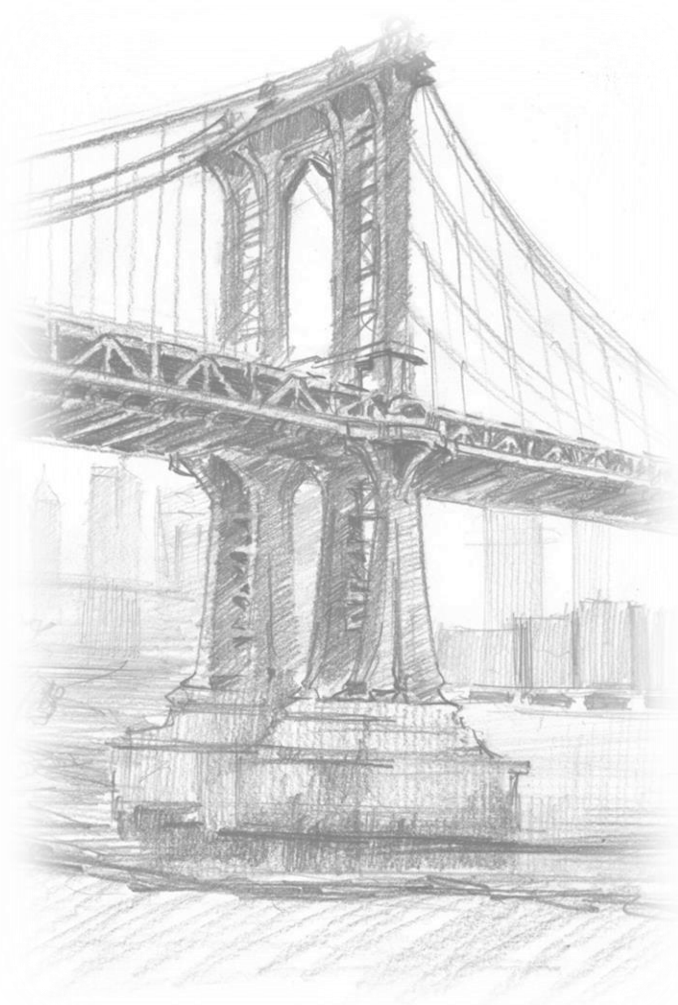


Volatility has remained an above-the-fold story throughout October as daily market swings are the norm. Any hint of the Federal Reserve Bank slowing its rate increases has led to big gains, while continued inflation pressures have meant corresponding dramatic selloffs. And, despite the Fed's actions driving short-term rates up, the yield remains inverted with longer term rates staying more stable. Thankfully, more private funds have entered the market to help ease the investing tension.

It's clear that the market doesn't believe the over-the-top actions taken by the Fed are sustainable, especially since a forthcoming recession in 2023 is now predicted by a consensus of economists. Unfortunately for near-term allocations, it leaves investors in a bind.

In this environment, replicating the success of 60/40 portfolios from the past 20 years is looking less likely. Stocks are under pressure. Interest rates are rising. Stock and bond prices will likely remain positively correlated, which may diminish the diversification benefits of time-tested 60/40 portfolios. As allocators embark on a quest for better risk-adjusted returns, they're considering bucking the trend of the traditional 60/40 mix. This change of course has fueled the continued momentum of alternative assets.

Not surprisingly, as alternative investments have trended upwards, the number of private funds in the market has increased more than 2 ½ times since 2018.

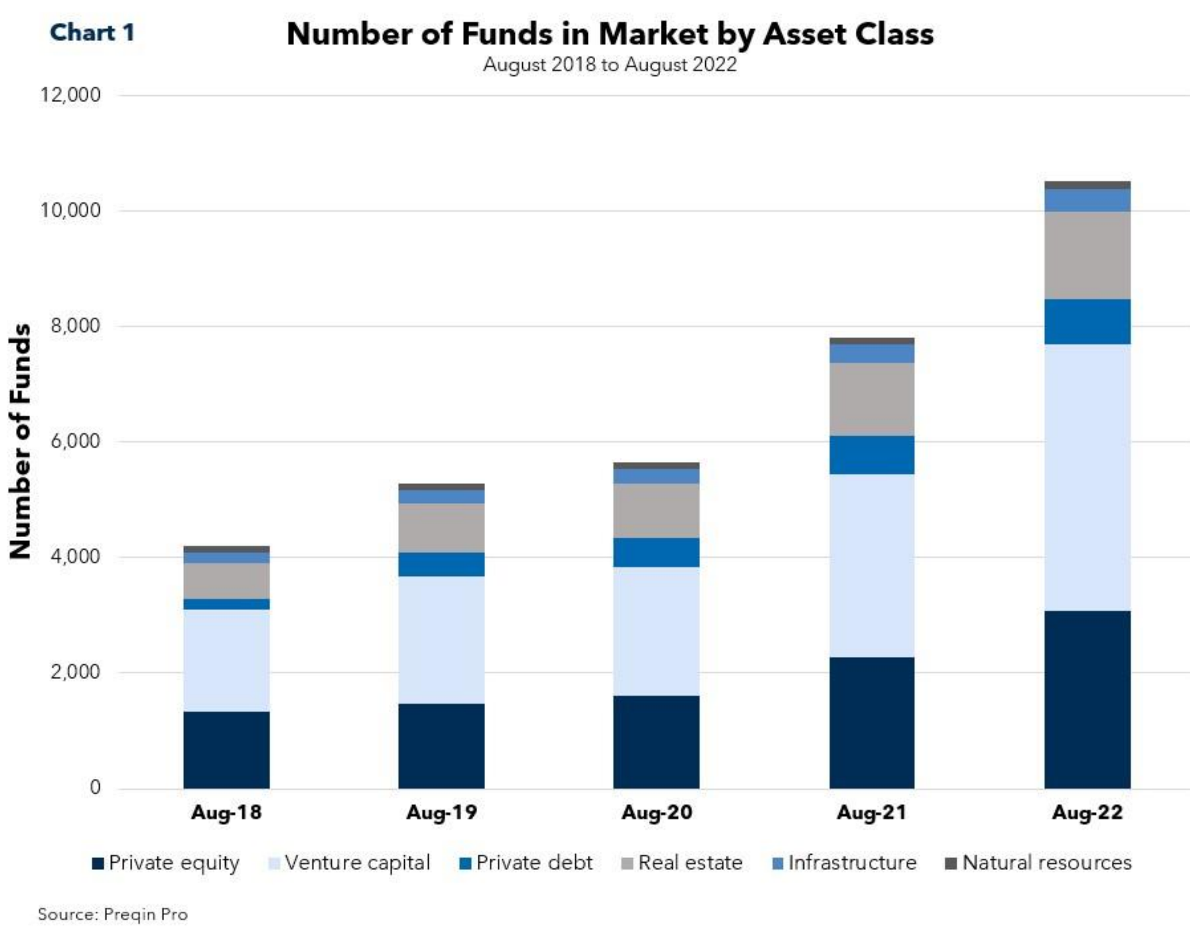
The data from Preqin in Chart 1 illustrates the growth of funds that have raised capital from August 2018 to August 2022.

- There were about 4,200 funds in 2018
- Now, in 2022, there are more than 10,500 funds

- Rising interest rates spurred the increase of private credit fund launches—growing more than 40%—the highest annual growth rate during the period

- Venture capital funds increased organically from about 1,800 funds in the market in 2018 to more than 4,600 in 2022, the largest increase of any sector.

Historically, public market environments similar to what we are experiencing now, have been some of the best vintage years to launch new venture capital and private equity funds.



Investors should consider alternative yield structures that aren't as correlated to the Fed's short-term rate moves. As interest rates are spiking, investors are looking for more floating rate or alternative income strategies with characteristics to hedge inflation within real estate and private credit. Through conversations with our private wealth advisor partners, we continue to see interest in several royalty-producing alternative income strategies, such as:

- Pharmaceuticals
- Music
- Film
- Strategies focused on accounts receivable or shipping financing

Throughout 2022, the appeal of venture capital has piqued the interest of investors, with valuations correcting across the private market landscape on the heels of the technology sector selloff by public markets. Earlier stage companies are much less impacted by the public markets compared to later stage funds that are closer to exits.

To harness this earning potential, we believe investors should consider adding more early-stage venture capital to client portfolios for a high upside return driver without the immediate pains of public market volatility. Logically speaking, in most cases, these early-stage companies are valued primarily on their revenue growth rates and fundamental business drivers and less on public market comps.

The likelihood of a recession is increasing, and inflation is at multi-decade highs. Both have contributed to the Federal Reserve losing credibility with the markets. Given all that, it's unlikely that a traditional 60/40 portfolio can achieve returns anywhere near normal in this environment.

With increasing inflation and the specter of an oncoming recession, we believe the need for additional alternative strategies is paramount in client portfolios. Fortunately, the number of alternative funds that investors can access continues to grow, which can put advisors that incorporate these strategies into client portfolios in a better position to likely outperform the traditional portfolio mix.

About PPB Capital Partners, LLC

Launched in July 2008, PPB Capital Partners brings premier alternative investment solutions and streamlined processing to the private wealth community. PPB Capital Partners provides a roster of institutional alternative investment managers and builds/operates feeder funds, customized fund-of-funds and registered products for private wealth advisors.

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