Investment Commentary **April 2022**

According to Charles Darwin's book, "On the Origin of Species", first published in late November 1859, it is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is best able to adapt and adjust to the changing environment in which it finds itself.

The Federal Reserve told us last November that they were going to ease off of the very easy money that they had been injecting into the Economy at the rate of $120 billion per month. That they have done. The Federal Reserve's balance sheet has flat-lined now and stands at just a hair under $9 Trillion. That's up a whopping $4.8 Trillion since they began adding this easy money into the economy out of thin air.

This Quantitative easing was initiated as an emergency measure in response to the Government's decision to shut down businesses in an effort to slow the spread of the Covid-19 epidemic in the United States in late February of 2020. By the second half of 2021, many market participants, including myself, had come to question the need to continue with this emergency stimulation effort. Funny money was fueling a fool's paradise in the stock market and the Fed absolutely needed to take their foot off the gas pedal. Inflation was no longer merely transitory, it had become entrenched.

Now no more of the Hundreds of Billions of dollars, Trillions really, are being created out of thin air. That is a significant change. How have investors responded to this change? Clearly they have been dumping the high-flying, hyper-growth oriented names that had been driven into the stratosphere by all of the easy money. Since the first of this year, there has been a bloodbath for the likes of FANG stocks. (Facebook, Amazon, Netflix & Google.) The FANG+ Index, which represents those four companies plus six others including Nvidia, Tesla, Alibaba, Baidu, Apple and Microsoft has declined more than 33% since its high last November. Individually, from their November highs, Facebook is down 42%, Amazon is down 33%, Netflix is down 72%, Google is down 24%, Nvidia is down 44%, Tesla is down 29%, Alibaba is down 43% and Baidu is down 27%. Microsoft and Apple proved to hold up the best, with Microsoft only being down 19% and Apple only being down 5%, through April 29th of this year. Are these bad companies? No, they are not. Will they be survivors?

Most likely so. These are all examples of Innovative companies that have changed and have survived.

Elsewhere in the stock market, other high-flying concept stocks that had been the darlings of the fast-money crowd have crashed and burned. Nowhere is this more evident than in shares of the ARK Innovation Fund, an active ETF that invests in companies that are believed to be driving disruptive innovation. Of course, who doesn't want to take a ride on the disruptive innovators, to ride the vanguard of the future? When easy money was abundant and flowing, why almost Everyone did!

Since their respective highs last November, Roku is down 71%, Coinbase is down 68%, Teledoc is down 78%, Twilio is down 64%, CRISPR is down 49%, Spotify is down 66%, Shopify is down 75%, DraftKings is down 72%, Robinhood is down 74%, ROBLOX is down 77%, and Invitae is down 81%. Do you remember some of these "hot stocks" from last fall? Will you remember them all in ten years? Probably not all of them. Surely some of these will not survive.

These are the top holdings of the ARK Innovation Fund and they have all been slaughtered since their highs last November. Now, with the easy money punchbowl having been removed from the stock market party by the Fed, much of the fast money is fleeing the Innovation space faster than it was piling into it last fall. In fact, the ARK Innovation Fund has declined 62% since November 1st of last year.

Invest a dollar, now you've got 38 cents. How's that for Innovative Disruption?

Old Point Trust Equity Composite Performance

Following is the performance of the equities managed by Old Point Trust, as shown through a composite of 45 discretionary accounts representing $110 million of investments.

	Q1, 2022	Last 6 months	Last 12 months
Old Point Equities	0.0%	10.7%	18.1%
S&P 500 Index	-4.6%	5.9%	15.6%
Difference	**+4.6%**	**+4.8%**	**+2.5%**

I am happy to report that our Composite portfolio has produced this market-beating performance while carrying an equity beta of just 0.92. That means we are beating the index and we are doing it while only carrying 92% of the Index's risk.

I am not trying to brag here but rather make the point that a well-diversified portfolio of proven survivors from across all sectors of the economy, such as we build for you here at Old Point Trust, stands the best chance of survival when inevitable changes are thrust upon the economy.

Interest Rates

The Federal Reserve also told us in late January of this year that they were going to begin the process of raising the Federal Funds rate. This they have done as well. The first 1/4% rate hike occurred at their meeting on March 16th. It is now widely expected that they will be raising the rate by another 1/2% when they meet later this week on May 4th. Should you choose to believe the Fed Funds Futures market, another 1/2% hike will occur at the following meeting on June 15th. And further, it is expected now that there will be another 50 bp hike at the meeting after that! All told, the Fed Funds Futures market now has an implied Fed Funds rate of 3.005% priced in by their first meeting of 2023, which will occur on February 1st.

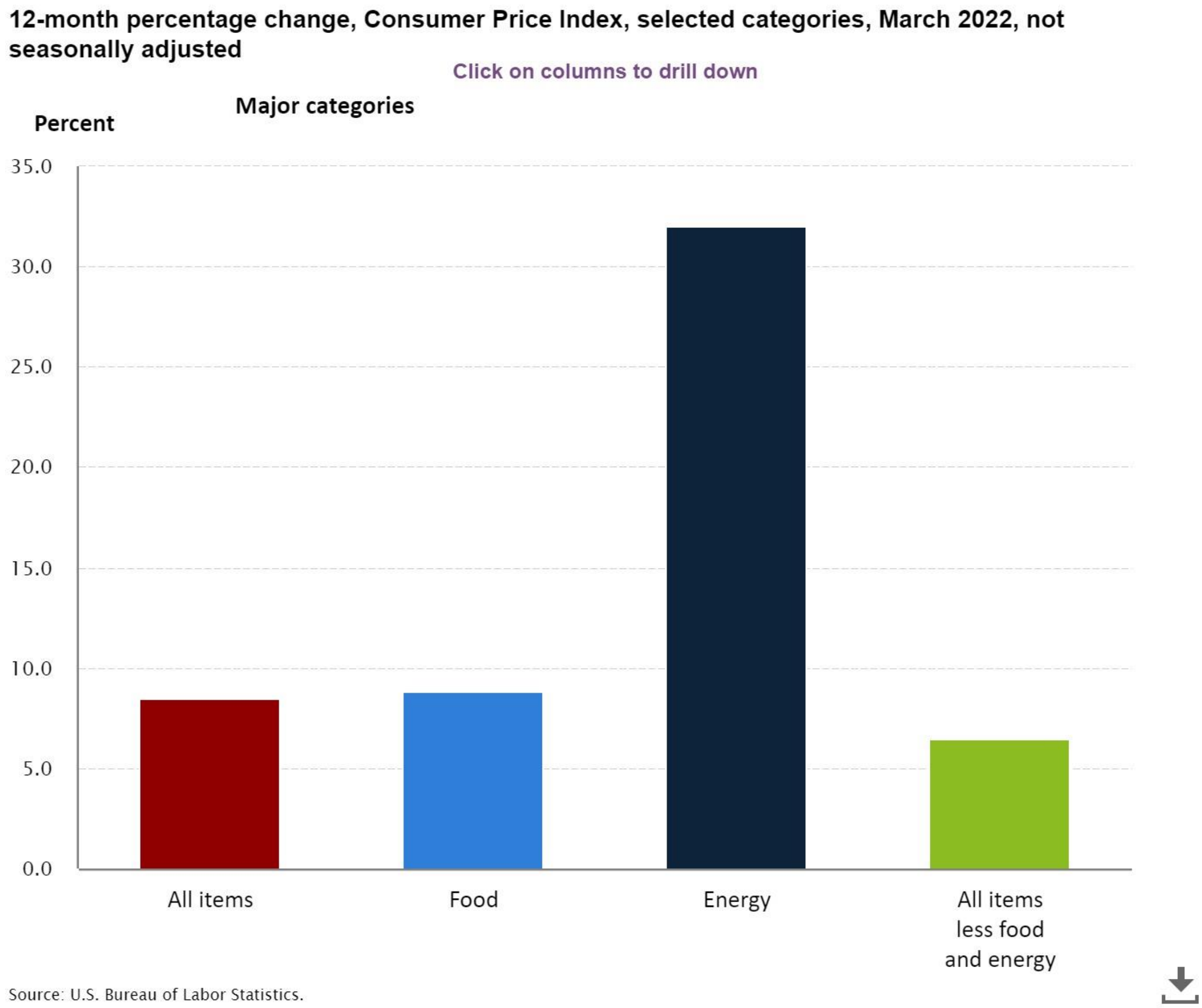
Inflation

Inflation is persistent and data show that it is hitting a new high not seen in decades. Consumer Prices and Producer Prices have rocketed higher and Employment Costs have increased by levels not seen in decades. What it costs to own or rent a primary residence is also starting to go through the roof.

While food and energy inflation may abate in the months ahead, the large inflation that we have seen in employment costs and in the cost of homeownership/rent are very sticky and are not likely to come down anytime soon.

Consumer Price Index

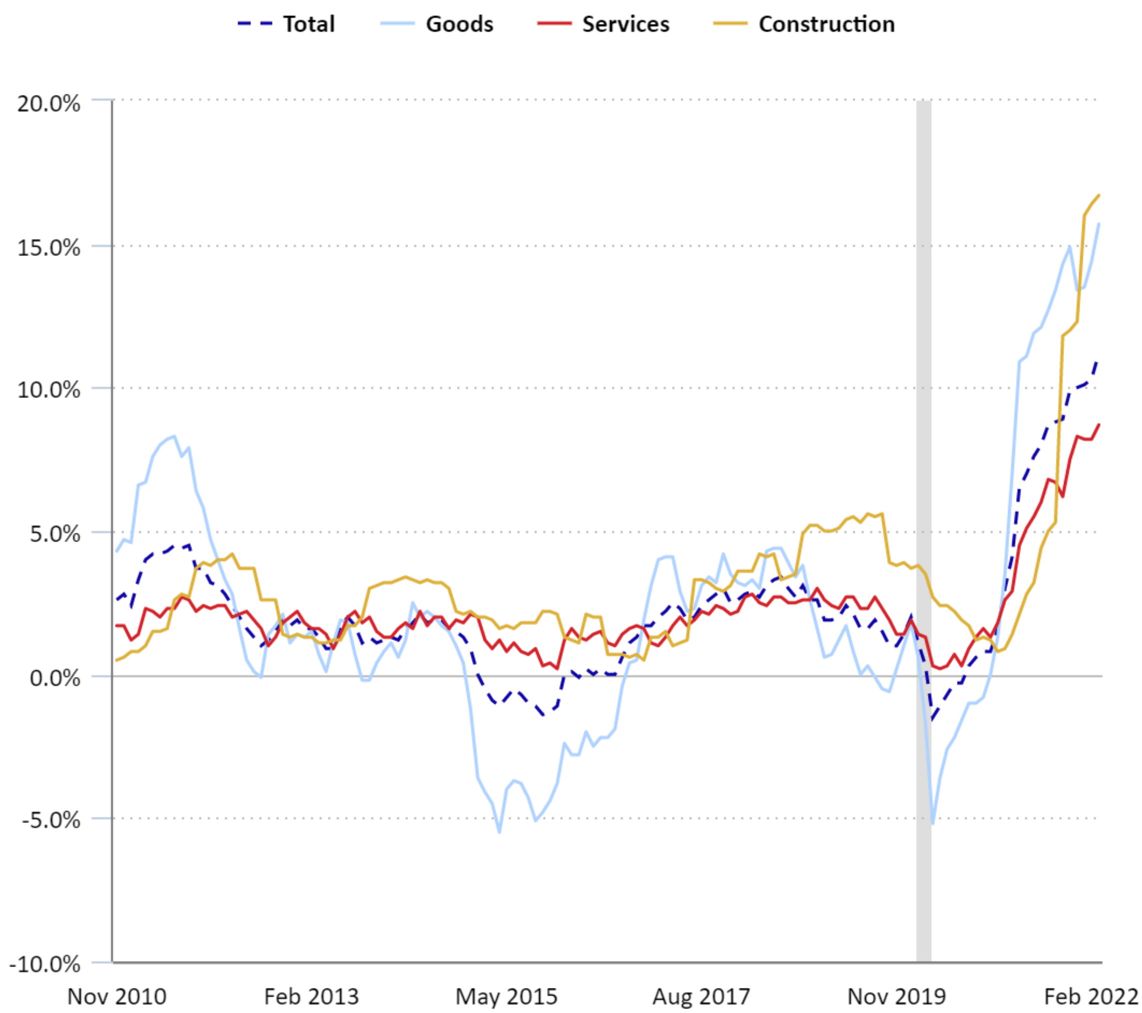
Consumer prices rose in March by the most since 1981, according to data released by the Bureau of Labor Statistics on April 20th. The Consumer Price Index, or CPI, for March rose 8.5% from a year earlier. This followed an 7.9% annual increase in February, according to data published by the Bureau of Labor Statistics on April 12th. (See: https://www.bls.gov/news.release/pdf/cpi.pdf) Increases in the prices for gasoline, shelter and food were the largest contributors. The gasoline index rose 18.3% in March and accounted for over half of the monthly increase.



Producer Price Index

The Producer Price Index for final demand rose 11.2% for the 12 months ended in March. The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products. For the year ended March 2022, prices for final demand goods increased 15.7%, prices for final demand services increased 8.7%, and prices for final demand construction increased 16.7%. All of these price increases were the largest since data were first calculated in November 2010. (See: https://www.bls.gov/opub/ted/2022/producer-prices-for-final-demand-up-11-2-percent-for-the-year-ended-march-2022.htm)

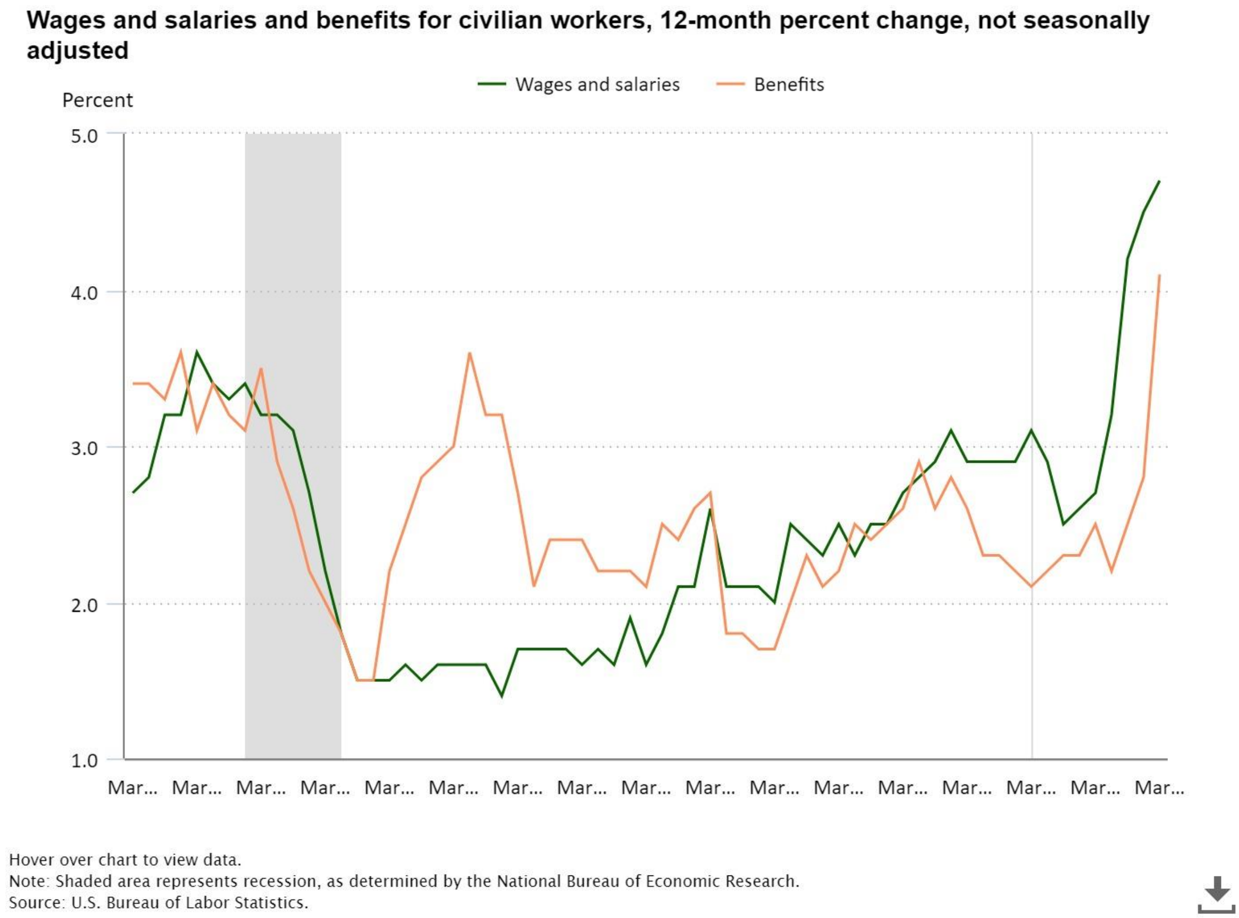
12-month percent change in Producer Price Indexes for final demand, November 2010–March 2022



Click legend items to change data display. Hover over chart to view data.
Shaded area represents a recession as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Employment Cost Index

Compensation costs for workers increased 1.4%, seasonally adjusted, for the first quarter ending in March 2022, the U.S. Bureau of Labor Statistics reported on April 29th. Wages and salaries increased 1.2% and benefit costs increased 1.8% from the prior quarter. Compensation costs for civilian workers increased 4.5% for the 12-month period ending in March 2022. Wages and salaries increased 4.7% for the 12-month period ending in March 2022. Benefit costs increased 4.1%. (See: https://www.bls.gov/news.release/pdf/eci.pdf)



GDP

The Initial reading for First Quarter GDP growth was actually a negative number, -1.4%, according to a report issued by the Commerce Department's Bureau of Economic Analysis on April 28th. The decrease in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending. (You can see the full report on the GDP at: https://www.bea.gov/news/2022/gross-domestic-product-first-quarter-2022-advance-estimate)

Change is constant. It is how we choose to adapt that will determine our survival.

McKim Williams, Jr.
Chief Investment Officer
April 30th, 2022