Amadeus Wealth Alternatives 1345 Ave. of the Americas 2nd Fl., New York, NY 10105 www.amadeuswealth.com

Amadeus Wealth Alternatives
Your Compass to Alternative Investments

212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Earnings season begins.

Weekly Economic Update

Presented by Ed Papier, April 18, 2022

THE WEEK ON WALL STREET

Stocks posted losses in a holiday-shortened trading week as the first-quarter earnings season kicked off and investors digested new inflation data.

The Dow Jones Industrial Average declined 0.78%, while the Standard & Poor's 500 fell 2.13%. The Nasdaq Composite index dropped 2.63% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, lost 1.20%.[1,2,3]

WATCHING BONDS

Stocks began the week moving lower as bond yields climbed higher, with growth stocks suffering some of the steepest declines. Investors considered China's ongoing lockdown warily, worried it might worsen supply-chain issues.

Historically high consumer and producer price inflation reports were shrugged off by the stock and bond markets in the main, with bond yields slipping despite the hot inflation numbers. Despite an encouraging start to the first-quarter earnings season, stocks pulled back on Friday as bond yields resumed their move higher ahead of a three-day holiday weekend.

AN EYE ON INFLATION

On Tuesday, March's Consumer Price Index (CPI) report offered little indication that inflation may be moderating, as prices increased 8.5% year-over-year, the fastest pace in 40 years. Core inflation, excluding food and energy prices, recorded a 6.5% jump, the steepest rise since August 1982. One encouraging note was that core inflation showed potential signs of ebbing, posting a monthly increase of 0.3% versus expectations of a 0.5% increase.[4]

The following day, March's Producer Price Index, a potential insight into future inflation, rose 11.2% year-over-year. A March survey by the National Federation of Independent Business released earlier in the week, indicated that half of the respondents were likely to raise prices in the next three months.[5]

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: Housing Starts.

Wednesday: Existing Home Sales.

Thursday: Jobless Claims. Index of Leading Economic Indicators.

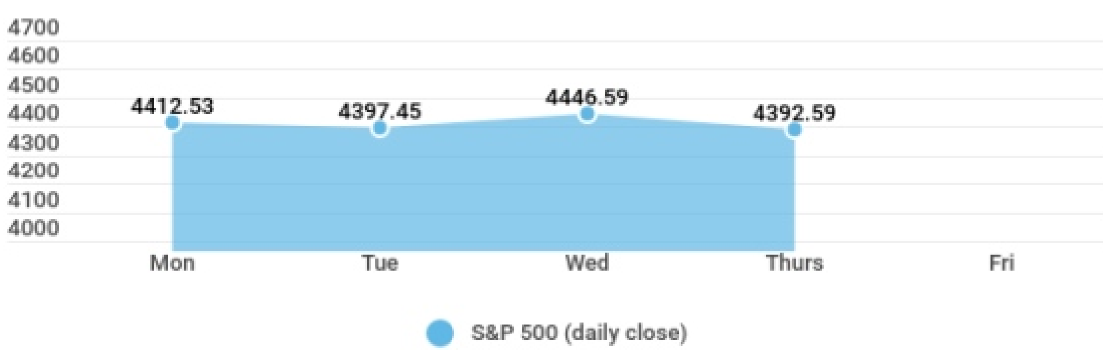
Friday: Purchasing Managers' Index (PMI) Composite Flash.

QUOTE OF THE WEEK

A man told Lord Buddha "I want happiness." Buddha said – first remove "I", that's ego. Then remove "Want", that's desire. See now you are left with only "Happiness".

BUDDHA

Market Index	Close	Week	Y-T-D
DJIA	34,451.23	-0.78%	-5.19%
NASDAQ	13,351.08	-2.63%	-14.66%
MSCI-EAFE	2,113.90	-1.20%	-9.51%
S&P 500	4,392.59	-2.13%	-7.84%



	Treasury	Close	Week	Y-T-D
	10-Year Note	2.83%	+0.11%	+1.31%

Sources: The Wall Street Journal, April 14, 2022; Treasury.gov, April 14, 2022
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, April 8, to Thursday, April 14, close. Weekly performance for the MSCI-EAFE is measured from Friday, April 8, open to Wednesday, April 13, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

In the early years of a private equity fund, investment returns are virtually always negative. This is something that surprises many people who are new to the asset class. However, it's a natural by-product of how capital is deployed by private equity managers who are looking to invest the money committed to their funds over a period of anywhere between one to four years. Perhaps the best analogy to use when thinking about this phenomenon is that of the entrepreneur who is starting a new business. Most, if not all, new businesses start with losses in the early years as capital is invested in building out the operations. As a business matures, and as capital investments start to pay off, revenue grows and eventually break-even and then profit is achieved. The exact same pattern is true with a private equity fund investment.

In the early years of a fund, the fund manager is making capital draw-downs to cover expenses, but the investment portfolio has not yet matured enough to build value and offset these costs. As the investments in the fund mature, the fund begins to realize gains and positive cash flows, and this explains the J-Curve pattern in returns that is usually seen. The shape of the letter "J" traces the funds' returns, negative in the early years, breaking even, and eventually becoming position.

The depth and length of a J-Curve depends on several factors. First, a fund usually consists of several types of transactions: some highly successful transactions, those that meet expectations and those that underperform. The latter can usually be identified fairly quickly and are hence written down or written off early on in the fund's life. For the investments meeting or exceeding expectations, it takes a longer time to implement the changes that create value and realize a positive outcome.

Second, the J-Curve is influenced by the level of expenses early on in the fund's life. Since management fees are often based on the entire committed capital, while this capital is only gradually invested over the first few years when distributions are generally small, management fees and organizational expenses will have an outsized effect on the shape of the J-Curve.

Third, the J-Curve effect is determined by the methodology a private equity manager uses to report the value of their investments. For example, some managers carry the value of their investments at cost until they're forced to write up the value of those assets at the time of a realization. Other managers utilize mark-to-market valuation where they write-up the value of the asset to reflect the current 'fair value' of that investment. The specific methodology used can have a significant impact on the size and depth of the J-Curve effect.

Fourth, the most important factor for the shape of the J-Curve is the timing of the investments and divestments. The more quickly fund managers invest capital, the steeper the J-Curve. The longer it takes to generate distributions, the longer (and usually deeper) the trough of the J-Curve.

Investors should expect a greater return from private equity than from public equity investments due to illiquidity and a long- term commitment. However, it is important to bear in mind that, in contrast to public equity, private equity investments initially have negative returns and accumulated negative net cash flows in the early years of a fund's life. Once one understands the J-Curve effect, this unique characteristic of private equity fund investing becomes less of a concern, and the true benefits of private equity as a return enhancer and asset diversification strategy can begin to be appreciated.

Ed Papier may be reached at 2126973930 or ep@amadeuswealth.com
www.amadeuswealth.com

Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Please consult your financial professional for additional information.

This content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

CITATIONS:

1. The Wall Street Journal, April 14, 2022
2. The Wall Street Journal, April 14, 2022
3. The Wall Street Journal, April 14, 2022
4. CNBC, April 12, 2022
5. The Wall Street Journal, April 13, 2022