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STAYING THE COURSE: LONG-TERM INVESTING DURING UNCERTAIN TIMES



By Matt Wagner, Vice President, Institutional Relationships

There is no doubt we are living in challenging times.

As this is being written, yet another wildfire –the Washburn Fire – is raging in the western United States. This fire has burned slowly across some 2,300 acres, threatening the famous Mariposa Grove of sequoia trees. With trees thought to be up to 3,000 years old, this grove was federally protected by the Lincoln administration all the way back in 1864.

Sadly, the foresight to protect such an ecological gift from God is no match for humankind’s negative impact on our climate, and we now are required to send some of our bravest men and women to protect these trees, which bear names such as the Grizzly Giant, California Tunnel Tree, and Bachelor and Three Graces, from encroaching flames.

Elsewhere in our world, other types of fires rage on as well. The flames of war burn hotly around the Ukrainian cities of Kyiv, Mariupol,

Donetsk and others as Russian invaders threaten the sovereignty and survival of its neighbor.

Further east, embers that have burned slowly for decades are now being fanned, as China threatens reunification with Taiwan, an independent democracy intent on remaining as such. And here in the U.S., we are learning more about the efforts of a former president and some in his administration to pour gasoline on a fire by rallying supporters to attack our Capitol, deny the votes of Americans and actively usurp the Presidency of the United States.

Add to these the figurative and actual fires lit in cities and towns across our country in recent years in protest of four centuries of social inequity and injustice, the illegal killings of Black Americans by law enforcement, the impacts of gun violence on the innocent and, most recently, the Supreme Court’s decision to take away a woman’s right to choose.

Investment markets are not immune to global and social issues. Impacts from the conflict in Ukraine and a drought in parts of the American Midwest have caused commodity prices, such as wheat, to skyrocket in the first half of 2022.

The current administration's commitment to reducing fossil fuel usage, while admirable, has caused short-term price spikes and uncertainty about how to strategically tap oil reserves. Concerns over hyper-partisan action (or inaction) in Congress and a general malaise in the U.S. from a distrust of government, fears of mass violence and a shift in the power dynamic of the Supreme Court have left investors with more questions than answers.

As the global economy slows from its post-COVID recovery pace, investors are "pricing in" a potential recession in the coming months as inflation pushes prices higher on everything from a gallon of gasoline to a loaf of bread to a hotel room. Meanwhile, the Federal Reserve is in the spotlight for how much and how quickly it will raise interest rates.

These and other factors have resulted in the S&P 500 showing its worst six-month return at the start of a year since 1970 (down 20% through June 30), global stock indexes being down some 20%, and the Barclays Global Aggregate Bond index having its worst start to a calendar year in the index's history (down 13% through June 30).

With both equity and bond markets under pressure, investors may rightly wonder about what is next for their portfolios. For some, it may feel like the flames are lapping at the door.

At United Church Funds, we understand, which is why we maintain a long-term strategy for the nearly \$1 billion in assets that we manage for our faith-based institutional investors. While market downturns like the one we are experiencing now can sting in the short term, we know from experience that time is on the side of investors with a long-term horizon.

For example, an institution that invested \$100,000 in the UCF Balanced Fund (a moderate risk portfolio of roughly 60% global stocks and 40% bonds) on July 1, 2017, would have realized over \$20,000 in gains in a five-year time period ending July 1, 2022, despite the past six months of downward pressure on stocks and bonds.

This is even more impressive when you consider that this time period includes not only the more recent negative returns but also the impact to markets of COVID-19 and the worst December (in 2018) since 1932. And within that timeframe, the UCF Balanced Fund experienced only one twelve-month span (July 1, 2020, to June 30, 2021) with a return north of 10.0%, a 24.05% return coming off the initial market lows brought on in March/April 2020 from the initial COVID global shutdowns.

If you extend the time horizon of this example to the past ten years (July 1, 2012, to June 30, 2022), this client would have enjoyed a nearly 7.0% annualized return on their investment.

Similar positive annualized returns can be found going back 15, 20, 30 years as well. Investors who stayed the course and weathered downturns ultimately were rewarded by reaping the uptrend that followed and benefiting from the positive impacts of compounding returns over decades.

What does staying the course mean to your organization, not just in financial terms, but in terms of your values? Does it mean fighting for equality and justice for all, especially when courts and governments are overturning precedents that impact vulnerable populations?

Does it mean marching for peace and safety, in the face of the tragedy at Robb Elementary in Uvalde, Texas, or the massacre at a Buffalo, New York, grocery store? Does it mean looking for options to reduce your organization's carbon footprint at a time when climate change is making oceans rise and natural disasters, like the Washburn Fire, more costly and harder to predict?

My guess is that if your organization is like many UCF clients, you have fought for equitable outcomes on many of these principles for decades and have experienced a fair share of short-term challenges and setbacks along the way.

Like investment markets, the arc of justice is far from a straight line and more often than not benefits from a long-term view of what success and positive outcomes can look like.

As a trusted investment partner, the team at United Church Funds is actively managing the assets entrusted to us on behalf of our clients during these challenging times.

We are at once respectful of and attentive to the impacts of global conflict, climate change, domestic issues and other pressures on the global economy, and we will continue to act as fiduciaries and partners to our clients as we navigate what might continue to be choppy waters ahead.

We encourage our clients, as they plan for the future needs of their missions and ministries, to keep their perspective focused on a long-term time horizon.

As always, we are grateful to be an investment partner and an advocate for sustainable and responsible investment strategy with you. Our team will stay the course alongside your organization, both in promoting your values and managing your financial assets.