Alpine Bank Wealth Management

Dear Alpine Bank Wealth Management Client:

As I begin this letter, I find it strange to want to express some of the same thoughts as last year: "Gladly moving on" and, "It seems silly to think that merely changing the date on the calendar will change anything", and of course the numerous undocumented remarks that I've all said over and over again.

But things have changed; we *have* changed. Whether we have contracted COVID and have come away unscathed, have had it and are managing some lasting effects, dealt with the tragic loss of a loved one or have managed to maneuver through the maze of vaccines, boosters and supplements and have not "yet" tested positive, things are different; we are different.

And, we have moved on. At Alpine Bank Wealth Management (ABWM) we deal with change all of the time — it's in our nature, and it's a requirement of the business we're in. If the last two years have brought about a change in your life, allow us to help you through those changes.

As we close out another positive year within the equity markets, we find ourselves in a position that we have not been in for a number of years in the United States. We believe that we are now entering a period of rising prices (increased inflation) and falling unemployment (nearing full employment). What this means from a monetary policy perspective is that the Federal Reserve may become increasingly hawkish by accelerating its tapering of bond purchases and adjusting interest rates upward, as their focus moves from full employment to price stability.

How those changes in Fed policy are translated and priced into financial markets largely depends on the size, speed, and messaging surrounding any policy changes. It's not too farfetched, however, to believe that any movement off the hyper-accommodative policy stance that monetary authorities took when reacting to the onset of the pandemic will cause a necessary change in market expectations as we move back toward a more normal monetary policy. In other words, financial markets will likely continue to experience elevated volatility as they attempt to find their equilibrium within the new monetary policy paradigm. Given the current economic backdrop and our expectations about how markets will react to new policies, we adjusted our allocation stances during the fourth quarter of 2021.

At the aggregate portfolio level, the changes implemented within the managed strategies were made to 1) Provide better positioning should expected inflation persist longer than markets anticipate; 2) Diversify away from large domestic growth as it has experienced robust expansion; and 3) Diversify equity exposure more internationally and closer to the MSCI All Country World Index (ACWI) allocation.

We believe it's appropriate to shift the strategic equity exposure back toward benchmark neutral (relative to the MSCI ACWI) given the drastic increase in equity valuations experienced over the last 12 to 18 months relative to the international equity markets. While domestic equity valuations are elevated above their historical levels across a variety of metrics, domestic large growth is an area that has experienced particularly rich valuations. As such, the following strategic allocation changes were implemented across ABWM's strategies: 1) Reduced relative exposure to Domestic Large Cap Growth; 2) Increased relative exposure to Domestic Small- and Mid-Cap (SMid); and 3) Increased relative exposure to International Developed Market equity.

Within the fixed income allocation, we will continue to position the allocation in shorter duration (relative to the Bloomberg U.S. Aggregate) and higher-average credit quality. We are remaining on the shorter side of duration for two primary reasons; first, we expect that interest rates will eventually rise as monetary accommodations wind down, and second, we expect rates to rise as expected inflation premiums become priced into fixed income markets. To help reduce the inflation risk within the strategy, we have incorporated Treasury Inflation Protection (TIPS) funds.

Finally, we increased our allocation to liquid alternatives to help provide exposure to return streams that provide lower correlations to equity and fixed-income markets during periods of volatility, while providing portfolio income and diversification.

We wish all of you a very happy and prosperous New Year, and thank you for your continued trust and partnership.

Tim Kenczewicz, J.D.
President
Alpine Bank Wealth Management