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Market Corner: Rates, Rotations & Cash Flows
Are Technology Stocks Really "Long Duration"?

As investors, we are all probably quite aware of technology boom of the mid-to-late 1990s that popped with a spectacular bust in the early 2000s, coinciding with the Federal Reserve raising interest rates. That history seems to be playing out again more recently in the context of interest rates likely bottoming after a 40-plus year downward trend and concerns around technology stocks as the perceived "long duration" equities being at risk again.

This perception is particularly stark versus value stocks, where one is presumed to get more cash sooner. As all bond investors know, you don't want duration into rising interest rates, so the logical conclusion has been extended into equities: Do not own technology into rising rates, but trade into value stocks.

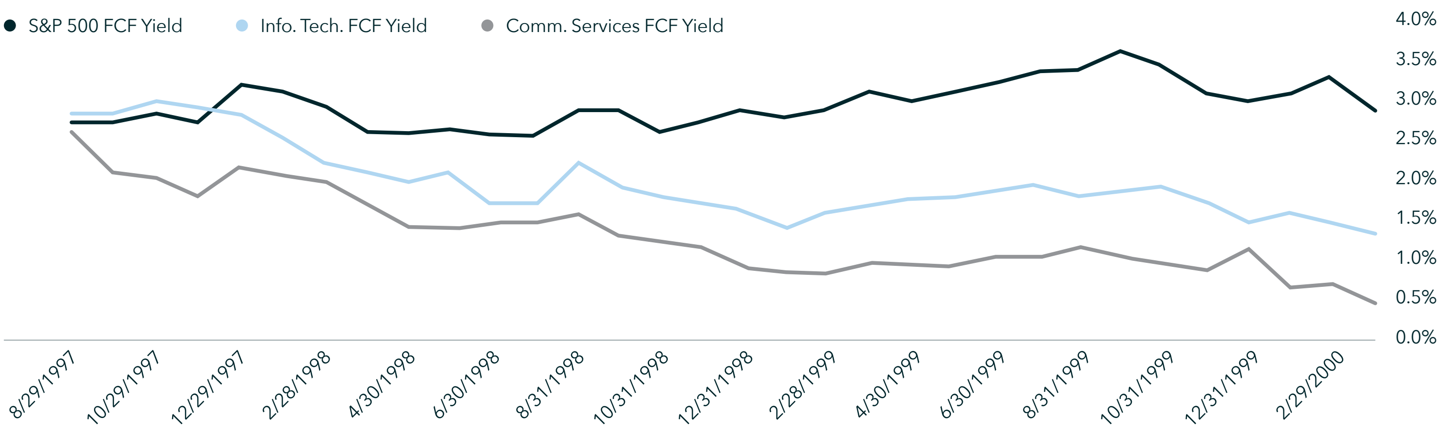
We certainly will not feign to challenge bond math or even the logical extension into discounted cash flows broadly: Time value of money is all pretty much accepted orthodoxy and embraced in our day-to-day analysis of investments.

That said, we think the seemingly widely accepted belief that technology stocks are indeed "wait to get your cash flow" names and that value stocks are "get all of your cash flows up front" names deserves a look, especially when comparing current conditions in relation to the 1999-2000 tech bubble and subsequent deflation of technology stock valuations. As always, we like to look at the data versus just accepting the broad narrative.

As demonstrated in the Figure 1, **the lead up to the crash in technology stocks in 2000 did indeed demonstrate a period where we saw a huge divergence in cash flows and valuations**. This is demonstrated by the massive decline in free cash flow yields for the Tech heavy subsectors of the S&P 500. More specifically the Information Technology sector, moved down to roughly 1/3 of the free cash flow yield of the S&P 500 broadly. Even more so, the Communication Services sector (where many internet-related stocks reside) approached a near-zero free cash flow yield by March 2000.

Figure 1: A Look Back at The Prelude to The Tech Bubble Pop: Yes, You Remembered it Correctly …

Free Cash Flow Yields Aug. 1997-March 2000: S&P 500 vs Info. Tech. vs Communication Services



Source: Bloomberg

The 3-year setup and subsequent deflation of very expensive technology stocks seemed to make sense fundamentally, and in our mind is a good pattern to look for to identify sector specific as well as broad market risks. **With that in mind, let's roll that same analysis forward to today and see if we may have fundamentally set the stage for a subsequent bubble in technology stocks.**

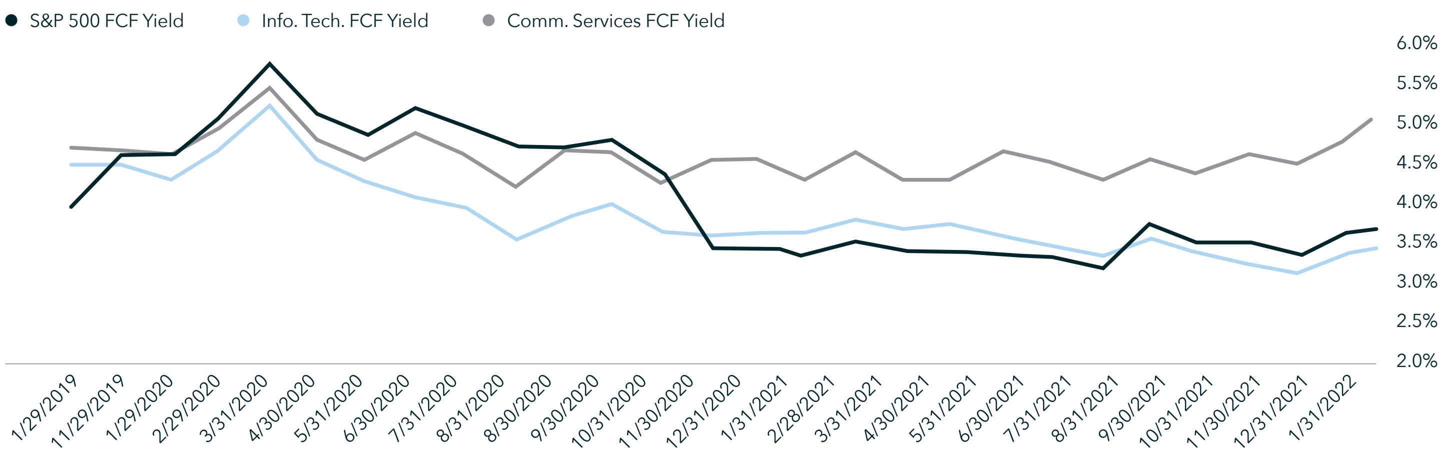
In Figure 2, we took the same indices and examined them over the last 2-3 years (late 2019 to mid-February 2022) to look for similar patterns. The results were a bit surprising to us, as given the current high level of speculation around tech-stocks being overvalued, and the trend towards underperformance versus value.

Notably, there has not been a massive downward move in free cash flow yields for technology stocks in these indices over the last 3 years. Furthermore, **not a significant divergence between technology and the broader markets at this point**, at least when looking at free-cash flow yields.

In fact, the free cash flow yield of the Communications Services sector is currently significantly higher than the market and is also higher than it has been in recent history, excepting the March 2020 market downdraft as the Pandemic hit hard. Similarly, the free cash flow yield of the Information Technology Sector has moved down some since late 2020 but is broadly in line with the markets overall. On these measures at least, we are not alarmed.

Of course these are indices and not individual stocks and yes there are almost always some individual companies that get bid up on speculation but have limited (or negative) cash flows with limited prospects to improve that situation. However, the indices do seem to indicate that this is not a fundamental problem that is *widespread* in the markets.

Figure 2: Free Cash Flow Yields 2019-2022: S&P 500 vs Info. Tech. vs Communication Services



Source: Bloomberg

That does not mean that technology stocks or "growth" broadly can't continue to underperform, markets are often swayed by perceptions over the short-term. However, as long-term investors, our job is to look past the short-term fluctuations in prices and market psychology to find those companies where the price seems inconsistent with the prospects we see playing out over time. To that point, we are seeing some interesting valuations and are putting some excess cash to work.

MWM Equity Strategies: 2021 Performance Review

2021 was a strange year indeed, as the globe suffered through the second year of a deadly pandemic that was originally expected to last a few weeks or months. The subsequent waves of infection driven by the Delta and Omicron variants served to further disrupt already stressed supply chains adding to inflation pressures which we had already flagged as a likely risk in our Market Corner of February 2021: Valuations, Inflation and Apollo 1

In that context, we carried higher than normal levels of cash in all 3 of our strategies during the year to help buffer against possible inflation risks and ongoing pandemic disruptions. In addition, we also incurred some direct hedging costs in 2 strategies (Dynamic Core and New Era) in the form of index put options which we employed on a limited basis when costs were not seen as prohibitive.

With inflation hitting new highs across the balance of 2021, we were a bit surprised by the strength of the markets. With the "wisdom of hindsight" that seemed clearly driven by strength in earnings as US corporations adapted to supply chain issues, worker shortages and, seemingly learned how to do more with less.

Total earnings for the S&P 500 index hit $192.3 in 2021 already well ahead (+26.2%) of the $152.3 booked at the 2019 pre-pandemic peak despite suppressed activity on the services side of the economy. The Energy sector (+53.6% in 2021) and Financial Services sector (+34.7% in 2021), two highly cyclical and largely commoditized sectors in our view, continued their run off the bottom, hurting our relative performance since we tend to structurally avoid heavy investment in these sectors.

All that said, we are happy with the absolute performance of all three of our strategies, which were strong even as we sacrificed some return to manage the risks that we identified. More specifically our Dynamic Core (CORE) Portfolio was up +18.4%, gross of fees and +17.4% net of fees. Our Sustainable Income (INC) Portfolio was up 22.0% gross of fees and 21.0% net of fees, and our New Era (ERA) Portfolio was up +19.5% gross of fees and +18.5% net of fees.

Our full year 2021 composite portfolio performance is shown relative to relevant benchmarks below.

Figure 3: Composite Portfolio Performance

	Dynamic Core	Sustainable Income	New Era
Gross	18.4%	22.0%	19.5%
Net	17.4%	21.0%	18.5%
Benchmark	28.7%	25.2%	27.6%

Data as of 12/31/21. Past performance is not indicative of future results. Current performance, as of the date indicated above, may be higher or lower than the performance quoted, and may not be a reliable guide to the future. Principal value and investment return will fluctuate, so that an investor's portfolio when redeemed may be worth more or less than the original investment. An investor cannot invest directly in an index. This information is for illustrative purposes only and is supplemental to the Merlin Wealth Management – Composite Reports provided herein.

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Performance information provided herein is for the Merlin Wealth Management – Dynamic Core Composite, Merlin Wealth Management – New Era Composite, and Merlin Wealth Management – Sustainable Income Composite for the periods presented and is supplemental to the information contained in the GIPS® Compliant Report for such composites. Strategy characteristics are provided for the Strategy's representative account. The performance and characteristics of individual accounts within a particular strategy will vary. Returns were calculated using daily, true-time weighted total returns in U.S. dollars that include unrealized and realized capital change and income earned from underlying holdings. Composite returns are calculated based in daily, asset-weighted individual portfolio returns using beginning-of-period values and net external asset movements. Trade date accounting is used for valuing positions. Dividends are recognized in accounts on an ex-date basis. Performance results reflect the effect of cash and cash equivalents. Periods greater than one year are annualized. Net of fee returns are calculated using actual account fees. All accounts included in the composites are charged wrap fees. The wrap fees are all inclusive and cover advisory, asset management, custody, bill pay, cash management and trading services & expenses which cannot be dis-aggregated. The standard fixed management fee for accounts with assets under management of up to $25 million is 1.00% per annum; 0.85% from $25 million to $50 million; 0.70% from $50 million to $100 million; 0.50% thereafter. Please note this fee schedule includes non-asset management fees inclusive of cash management, client advisory, and estate planning; fees may be negotiated. Portfolio returns, characteristics and holdings are for the time periods or dates shown, are subject to change at any time and may not be representative of current or future returns, characteristics and holdings. Company references and portfolio characteristics are provided for illustrative purposes only and should not be construed as investment advice or a recommendation to purchase, sell or hold any security. A complete list of holdings is available upon request. The investment return and principal value of an investment will fluctuate and may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted.

All investing involves risk. Principal loss is possible. The Strategy is susceptible to adverse economic, political, tax, or regulatory changes which may magnify other risks. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Capitalization Size Risk (Small/Mid): Small- and mid-cap stocks are often more volatile than large cap stocks. Smaller companies generally face higher risks due to their limited product lines, markets and financial resources.

Benchmark Definitions: The S&P 500 Index measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The Russell 1000® Growth Index measures the performance of the large- cap growth segment of the U.S.equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected and historical growth rates. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group. Indices are unmanaged and do not reflect commissions or fees that would be incurred by an investor pursuing the index. It is not possible to invest directly in an index.

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GIPS Composite Reports:

Composite: Dynamic Core	**Reporting Currency: USD**
Composite Inception Date: February 1, 2020	**Creation Date: October 30, 2020**

Year End	Total Firm Assets (USD Millions)	Composite Assets (USD Millions)	Number of Accounts	Composite Pure Gross Return*	Composite Net Return	S&P 500 Total Return	3-Year ex-post Std. Deviation Composite	3-Year ex-post Std. Deviation S&P 500	Composite Dispersion
2021**	1,360	554	837	12.6%	12.1%	15.3%			0.93%
2020***	1,242	492	818	25.1%	24.0%	18.5%			1.02%

* Pure Gross Returns are Supplemental Information

**Time Period is from 01/01/2021 - 06/30/2021

***Time Period is from 02/01/2020 - 12/31/2020

Merlin Wealth Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Merlin Wealth Management has been independently verified for the period February 1, 2020 through December 31, 2020. The verification reports are available upon request.

A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides the assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Merlin Wealth Management (MWM) is a private wealth practice with a proprietary investment unit embedded within. MWM is part of Rockefeller Capital Management (RCM). MWM has its own investment team which conducts research and due diligence and makes investment decisions for the MWM investment strategies. RCM has no influence over MWM's investment process, research, or decisions. Merlin Wealth Management was acquired by Rockefeller Capital management in January of 2020. In conjunction with that acquisition, all of the portfolio management team and virtually all of the accounts in the three equity strategies and two fixed income strategies were transferred to Rockefeller Capital Management and continued to be managed under the same strategies, using the same process and by the same team that was primarily responsible for the performance at the prior firm. The prior firm was not GIPS compliant. We are not claiming GIPS compliance on performance prior to February 2020

Dynamic Core utilizes a fundamental approach in order to identify high quality companies that we believe will grow consistently and outperform over time. Our investment process focuses on filtering for great businesses at good valuations and understanding the long-term prospects of each. A full list of composite descriptions is available upon request. The benchmark for Dynamic Core is the S&P 500 Total Return Index.

Merlin Wealth Management's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The minimum portfolio size for inclusion in the composite is $25 Thousand.

Returns are presented pure gross and net of fees. Pure gross of fee returns are calculated gross of all wrap fees. Net of fee returns are calculated using actual account fees. Internal Dispersion is calculated using the standard deviation of the returns of the accounts present for the full year (or partial year when a full year is not shown) where all accounts are equally weighted. This metric uses pure gross returns.

All accounts included in the composites are charged wrap fees. The wrap fees are all inclusive and cover advisory, asset management, custody, bill pay, cash management and trading services & expenses which cannot be dis-aggregated. The standard fixed management fee for accounts with assets under management of up to $25 million is 1.00% per annum; 0.85% from $25 million to $50 million; 0.70% from $50 million to $100 million; 0.50% thereafter. Please note this fee schedule includes non-asset management fees inclusive of cash management, client advisory, and estate planning; fees may be negotiated.

Composite: Sustainable Income	**Reporting Currency: USD**
Composite Inception Date: February 1, 2020	**Creation Date: October 30, 2020**

Year End	Total Firm Assets (USD Millions)	Composite Assets (USD Millions)	Number of Accounts	Composite Pure Gross Return*	Composite Net Return	Russell 1,000 Value Total Return	3-Year ex-post Std. Deviation Composite	3-Year ex-post Std. Deviation RLV	Composite Dispersion
2021**	1,360	322	653	11.5%	11.1%	17.1%			0.76%
2020***	1,242	282	641	4.7%	3.8%	5.0%			0.61%

* Pure Gross Returns are Supplemental Information

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Sustainable Income focuses on high quality, established companies with above average and growing dividend yields. The combination of stable growth and dividend payments provides total return with less risk. Our investment philosophy involves identifying companies with a high dividend yield and earnings yield, thus creating an expectation of both growth and income. The benchmark for Sustainable Income is the Russell 1,000 Value Total Return Index.

Merlin Wealth Management's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The minimum portfolio size for inclusion in the composite is $25,000.

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Composite: New ERA **Reporting Currency: USD**

Composite Inception Date: February 1, 2020 **Creation Date: October 30, 2020**

Year End	Total Firm Assets (USD Millions)	Composite Assets (USD Millions)	Number of Accounts	Composite Pure Gross Return*	Composite Net Return	S&P 500 Total Return	3-Year ex-post Std. Deviation Composite	3-Year ex-post Std. Deviation S&P 500	Composite Dispersion
2021**	1,360	168	452	13.1%	12.6%	13.0%			2.12%
2020***	1,242	146	418	50.4%	49.2%	18.5%			2.45%

* Pure Gross Returns are Supplemental Information

**Time Period is from 01/01/2021 - 06/30/2021

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The goal of New Era is to identify emerging growth companies in the accelerating phase of their life cycle as well as contrarian companies that we believe will be turn around opportunities. Younger or smaller companies often experience significant profit growth. Contrarian companies may experience renewed growth through company specific events. The benchmark for New Era is the Russell 1000 Growth Total Return Index.

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