Memo: Investment Letter
From: Ryu Hsu, Bradley Van Ausdle, Amanda Olvera, Mandy Han, Noah Dantes, James Fryer, Jesse Lippold Peone
To: OSIF Board
Date: April 27th, 2023

Dear OSIF Faculty Advisors & Board of Directors,

On behalf of the Atkinson Graduate School of Management, we would like to thank you for the opportunity to manage the O'Neill Student Investment Fund. Through the course of the semester, we have all been able to gain valuable knowledge and experience in managing an investment portfolio. Making financial decisions with real money leading to real consequences has been an integral part of our learning as young investors. We are extremely grateful for this unique experience and would love to share our insights.

Macroeconomic Environment

We managed the portfolio from January 19th to April 27th, 2023, and were able to observe the market through many macroeconomic events including: the Silicon Valley Bank run, the conflict between Russia and Ukraine, steadily decreasing inflation in the US, semiconductor tensions in China and Taiwan, and interest rate hikes. We also paid special attention to the yield curve, which has been indicative of a coming recession.

Bank Failures

Silicon Valley Bank and Signature Bank both collapsed during our time managing the fund, leading to material concerns surrounding the banking sector. While other factors were undoubtedly in play, we believe that these recent bank failures can, at least partially, be attributed to the Federal Reserve's aggressive interest rate hikes, which negatively impacted the value of these banks' bonds. In addition, federal reserve regulations incentivised the banks to hold treasuries because they did not have the reserve against those holdings. We believe that some other banks continue to be at increased risk. That being said, we have confidence in our financial exposure - XLF and Goldman Sachs. Our financial holdings consist of some of the largest and most diversified financial institutions globally, ensuring that they are better positioned to withstand sector uncertainty and adapt to an evolving rate environment. In addition, XLF contains non-bank financial institutions.

Geopolitical Climate

Ukraine-Russia and China-U.S. geopolitical tensions influenced the group's decisions. The Ukraine-Russia war has begun to mature and has already contributed to increased costs of commodities and oil. However, the U.S. has adapted by strengthening its partnership with Saudi Arabia and relying more on its own oil reserves. When contemplating the purchase of oil stocks, we believed that it was important to address the ongoing tension that Russia's oil streamline could have. No oil companies' shares were purchased this term, however it is worth noting that petroleum gas companies (Exxon, Chevron, etc.) continued stock buyback programs.

We also believe that the current tensions between China and Taiwan have escalated to the U.S. This escalation seems to involve the semiconductor chip industry and we've identified firm level strategies from Taiwan Semiconductor Company (TSMC) as they have firmly set fabs in Arizona in response to the tensions with China. Additionally the U.S. has imposed tariffs on China and halted other supplier companies to do the same. As TSMC begins to move its operations into the United States, China appears to be losing the ability to mass produce useful products. Furthermore, Apple Inc. has pulled more manufacturing sites out of China with confidence that it can reinstate these manufacturing sites in India or other parts of southeast Asia. While the U.S. appears to be relatively stable with technology, the emerging AI market gave our group an interesting opportunity to generate alpha returns. This heavily influenced our decision to buy, and review, Microsoft, Intel, Nvidia, and AMD.

Inflation

Inflation has been a dominant theme over the past several months, with the US experiencing levels in 2022 not seen in over 40 years. This surge in inflation can be attributed to various factors, including the substantial influx of money in response to the COVID-19 pandemic, supply chain disruptions, labor shortages, and an increase in energy prices largely due to the war in Ukraine. Recent CPI and PPI reports have shown some signs of improvement; however, the combination of strong consumer spending and low unemployment has slowed the pace of this progress. In response to the inflationary pressure, we have seen a series of federal funds rate hikes. As inflation remains elevated, further rate hikes may still be on the table. Our investment decisions have taken into account the high inflationary environment. We have learned that holding bonds is not a failsafe strategy as we have seen our bond holdings experience significant losses. This fund has significantly reduced exposure to bonds and treasuries.

Yield Curve

The Treasury yield curve inverted for the first time since 2019 last year and has remained inverted throughout 2023. In March, the 2/10 yield curve experienced its deepest inversion since 1981, but since then, the spread has narrowed considerably. Historically, an inverted yield curve has been a signal of an upcoming recession. The current inversion is likely driven in part by the Federal Reserve's series of federal fund rate hikes to combat inflation, which has pushed up short-term interest rates.

Typically, the yield curve becomes inverted when more investors invest in longer-term bonds to lock in long-term rates, anticipating that rates will decline in the future, often as a result of the Fed lowering rates to stimulate the economy in response to a recession. However, some believe this inversion could be a false signal for a recession driven by the Fed's actions in raising short-term rates to combat inflation rather than an increase in demand for the ten-year treasuries. Ten-year treasury yields are still higher than the previous year, possibly indicating that investors are more confident in the long-term performance of stocks and now demand a higher return for holding long-term treasuries. Although there is no clear consensus, our general belief as a group is that there will be a minor recession in the next 6-12 months, followed by a relatively quick recovery.

Fund Holdings and Performance

Investment Decision Rationale

We initiated a position in Intel, driven by our favorable long-term outlook on the semiconductor industry and a belief that the significant drop in Intel's share price offered an appealing risk-reward opportunity. While Intel has faced increasing competition in recent years, primarily from AMD, and has experienced some product delays, the company continues to maintain a strong presence in the CPU market. We are confident that Intel is well-positioned to overcome these challenges and capitalize on growth opportunities in the rapidly evolving technology landscape. We also believe that Intel is strategically important for US national interests.

We increased our stake in Microsoft primarily to increase our exposure to the rapidly evolving artificial intelligence landscape, driven by the company's strategic partnership with OpenAI. As the popularity of Chat GPT has surged and AI's transformative potential across various industries becomes increasingly evident, we believe Microsoft is in a prime position to capitalize on these advancements. The integration of AI technologies, such as Chat GPT, into Microsoft's Office Suite Products (e.g Co-pilot) is expected to add immense value and enhance user experiences, while its application within Bing could enable the company to better compete with Google in the search space.

We decided to invest in Target to increase our exposure to consumer staples, which we believe could provide a measure of stability and resilience in the event of an economic downturn or recession. Target has a long history of returning value to shareholders and maintaining a loyal customer base. Despite facing challenges in 2022, such as declining profit margins driven by supply chain disruptions and inventory build-up, we view the resulting pullback in the stock as a potential opportunity. Given Target's strong track record and commitment to overcoming operational hurdles, we are confident that the company will regain its footing and continue to deliver value for our portfolio in the long term.

We initiated a position in Adobe primarily due to our assessment of the pending lawsuit seeking to block Adobe's acquisition of Figma. We believe that the lawsuit is unlikely to succeed, and that the acquisition will ultimately go through, providing a catalyst for growth. We see the addition of Figma to Adobe's already robust portfolio further solidifying the company's dominant position in the content creation space for the foreseeable future. Furthermore, we are intrigued by Adobe's commitment to artificial intelligence and the integration of AI technologies into its product offerings, which we believe will augment their value and user experience. As in every case, we analyzed Adobe’s financials and believe them to be rock solid.

We initiated a position in Volkswagen, attracted by its aggressive EV strategy that we believe positions the company to become a worldwide leader in electric vehicle production within the next couple of years. As we look ahead to 2023, we anticipate that Volkswagen's supply chain improvements and the resolution of its backlog will contribute to strong performance. In terms of capturing EV market share, we find Volkswagen's global reach particularly attractive. The company aims to expand its sales in North America, already holds a leading market share in Europe, and maintains a strong presence in China, which is arguably the most important market for EVs. Furthermore, from a valuation standpoint, we view Volkswagen as undervalued compared to its peers, making our entry point both timely and desirable.

We made the decision to sell a handful of stocks, including closing our positions in Air Products and Chemicals (APD), Taiwan Semiconductor Manufacturing (TSMC), and Global X Lithium and Battery Technology ETF (LIT), as well as reducing our stake in Raytheon. These strategic moves allowed us to lock in gains and reallocate capital towards higher conviction opportunities. Our choice to sell TSMC was influenced, in part, by escalating geopolitical tensions. We sold our stake in LIT in part due to ESG concerns and unease with the negative environmental impact of lithium mining.

Performance

We exceeded S&P returns by 58 basis points. From January 17th thru April 18th S&P returned 3.48% where our portfolio returned 4.06%. At the end of the semester we increased our cash position considering uncertainties outlined in this letter.

Outlook

In the short term, inflationary trends and interest rates are unpredictable. The Federal Open Market Committee (FOMC) is continuing to raise interest rates, and inflation has been subsiding but not fast enough (from 6.41% in March to 6.04% in April). Due to the collapse of Silicon Valley bank and volatility in the banking industry, combined with the fact that the yield curve is incredibly inverted, our team believes that a recession is likely this year. Propensity to consume has not been slowing down enough.

Beyond the U.S. market, global geopolitical tensions continue to rise. The Russian invasion of Ukraine is still ongoing, and China and Russia have become increasingly aligned. The Chinese yuan has replaced the dollar as the most traded currency in Russia. China is also making threatening moves against the U.S. in the Middle East: they have increased oil partnerships with Saudi Arabia, due to the nation's desire to move away from solely relying on the dollar. Tensions continue to escalate around Taiwan. With the U.S. midterm elections this year and the presidential election in 2024, we expect geopolitical tensions to continue to exacerbate market volatility.

Given all of the above, our overall market outlook is bearish. We recommend the next class look into banking or finance ETFs because of current undervaluation. We also recommend that the next class looks at the oil producers with reserves in North America, as oil stocks may benefit from Russian supply diminishing. Additionally, healthcare stocks are seasonal and tend to perform better in the fall season. Overall, we suggest a conservative approach to investing in the fall.

Thank you

Having the opportunity to manage the O'Neill Investment Fund for the Willamette community has been an invaluable learning experience allowing us to gain insights into investment processes. We are looking forward to the continued progress and future investment decisions for this portfolio. We would like to thank you once again for this unique experience and wish the next class success in managing the O'Neill Investment Fund.

Appendix

Exhibit 1: Balance and Performance

Symbol	Description	Current Value	Cost Basis Total	Total Gain/Loss Percent	Percent Of Account
SPAXX**	FIDELITY GOVERNMENT MONEY MARKET	$ 95,467.69	n/a	n/a	21.30%
AAPL	APPLE INC	$ 8,885.98	$ 7,517.49	18.20%	1.98%
ADBE	ADOBE SYSTEMS INCORPORATED COM	$ 8,037.43	$ 7,322.06	9.77%	1.79%
AMZN	AMAZON.COM INC	$ 10,144.08	$ 9,965.78	1.78%	2.26%
BSV	VANGUARD BD INDEX FDS SHORT TRM BOND	$ 34,813.32	$ 37,187.82	-6.39%	7.77%
COST	COSTCO WHOLESALE CORP COM USD0.01	$ 8,156.80	$ 7,454.24	9.42%	1.82%
GD	GENERAL DYNAMICS CORP COM USD1.00	$ 6,926.16	$ 7,408.06	-6.51%	1.55%
GOOGL	ALPHABET INC CAP STK CL A	$ 16,985.60	$ 21,000.00	-19.12%	3.79%
GS	GOLDMAN SACHS GROUP INC COM USD0.01	$ 14,532.00	$ 14,970.95	-2.94%	3.24%
INTC	INTEL CORP COM USD0.001	$ 5,151.30	$ 5,003.63	2.95%	1.15%
IWM	ISHARES RUSSELL 2000 ETF	$ 12,812.04	$ 13,964.94	-8.26%	2.86%
LQD	ISHARES IBOXX $ INVESTMENT GRADE CORPORATE BOND ETF	$ 13,007.43	$ 16,128.82	-19.36%	2.90%
MCD	MCDONALD S CORP	$ 8,441.03	$ 7,366.58	14.58%	1.88%
MSFT	MICROSOFT CORP	$ 15,790.39	$ 15,002.68	5.25%	3.52%
RTX	RAYTHEON TECHNOLOGIES CORP COM	$ 8,625.96	$ 7,524.59	14.63%	1.92%
SPY	SPDR S&P500 ETF TRUST TRUST UNIT DEPOSITARY RECEIPT	$ 118,271.43	$ 97,779.32	20.95%	26.39%
TGT	TARGET CORP	$ 5,017.51	$ 5,132.05	-2.24%	1.12%
UNH	UNITEDHEALTH GROUP INC	$ 19,495.40	$ 20,441.20	-4.63%	4.35%
VWAGY	VOLKSWAGEN AG UNSPON ADS EACH REP 0.1 ORD SHS	$ 4,943.10	$ 4,912.50	0.62%	1.10%
XLF	SELECT SECTOR SPDR TR FINANCIAL	$ 32,716.85	$ 31,826.37	2.79%	7.30%

Exhibit 2: Transactions

Company	Symbol	Decision	Trade Date	Shares	Price ($)	Amount ($)	Current Price ($)	Gain /Loss	Total Gain/Loss ($)
Intel	INTC	BUY	2/7/2023	165	30.33	5,004	31.83	4.95%	248
Microsoft	MSFT	BUY	2/15/2023	18	272.31	4,902	288.37	5.90%	289
Air Products & Chemicals	APD	SELL	2/22/2023	44	280.03	-12,220	288.55	*17.10%*	*2090*
Target	TGT	BUY	2/28/2023	31	165.55	5,132	162.4	-1.90%	-98
Adobe	ADBE	BUY	3/9/2023	21	348.68	7,322	377.55	8.28%	606
Volkswagen	VWAGY	BUY	3/30/2023	300	16.38	4,914	16.86	2.93%	144
Taiwan Semiconductor	TSM	SELL	4/18/2023	124	87.96	-10,907	88.4	*9.60%*	*1047*
Lithium & Battery Tech ETF	LIT	SELL	4/18/2023	91	63.85	-5,810	63.8	*-29.20%*	*-1697*
Raytheon Technologies	RTX	SELL	4/18/2023	81	104.4	-8,456	102.69	*12.10%*	*1023*

Italicized indicates total realized gain/loss