

Special Report: Astoria's 10 ETFs for 2023

Astoria's 10 ETF Themes for 2023					
Rank	Theme	Ticker	Name	Segment	AUM (\$MM)
1).	Alternative Equity	BTAL	AGFIQ US Market Neutral Anti-Beta Fund	US Long/Short Equity	\$380
2).	Defensive Equity	USMV	iShares MSCI USA Min Vol Factor ETF	US Low Volatility Equity	\$30,386
3).	Commodity	GLTR	abrdn Physical Precious Metals Basket Shares ETF	Global Precious Metals	\$996
3).	Commodity	PDBA	Invesco Agriculture Commodity Strategy No K-1 ETF	Global Agriculture	\$14
3).	Commodity (Equity)	MOO	VanEck Agribusiness ETF	Global Agriculture Equities	\$1,424
4).	Rolling LT Fixed Income	SPTL	SPDR Portfolio Long Term Treasury ETF	US 10+ Year Treasury Fixed Income	\$5,952
5).	Maturing Fixed Income	BSCO	Invesco BulletShares 2024 Corporate Bond ETF	US Corporate Fixed Income	\$3,630
5).	Maturing Fixed Income	BSMO	Invesco BulletShares 2024 Municipal Bond ETF	US Municipal Fixed Income	\$139
6).	Rolling ST Fixed Income	XONE	BondBloxx Bloomberg One Year Target Duration US Treasury ETF	US 1-Year Duration Treasury Fixed Income	\$41
7).	Dividend Equity	SDY	SPDR S&P Dividend ETF	US Large-Cap	\$23,784
7).	Dividend Equity	DVY	iShares Select Dividend ETF	US Large-Cap	\$22,768
7).	Dividend Equity	SPYD	SPDR Portfolio S&P 500 High Dividend ETF	US Large-Cap	\$7,660
8).	Mid-Cap Quality Equity	XMHQ	Invesco S&P MidCap Quality ETF	US Mid-Cap	\$361
9).	Value / Cash Flow Equity	COWZ	Pacer US Cash Cows 100 ETF	US Large-Cap Value	\$10,049
10).	Night Effect Alternative Equity	NSPL	NightShares 500 1x/1.5x ETF	US Large-Cap Levered Overnight	\$3
10).	Night Effect Alternative Equity	NSPY	NightShares 500 ETF	US Large-Cap Overnight	\$4

Table Source: Astoria Portfolio Advisors. Data Source: AUM retrieved from FactSet on December 13, 2022.

- The consensus is that a recession is coming, there will be a profits recession, and the Fed will cut rates in the second half of the year. We doubt all three will materialize. Can you recall a time when the consensus view came to fruition? In our decades' worth of investment management, consensus views usually do not manifest.
- We think a recession certainly has a high probability of occurring, but it's likely that it will unfold in either of these two scenarios:
 1. The recession is mild, and the S&P 500 doesn't fall 20% like it usually does in a recession. In reality, investors should care most about left tail events as they can cause severe damage to long-term wealth accumulation.
 2. The Fed won't meaningfully cut rates to reinflate financial assets.
- China is preparing to reopen its economy and unleash 1 billion people with pent-up spending power. Additionally, corporate layoffs will increase productivity as the labor force fights to stay employed. Higher productivity should improve margins and could deter the earnings recession that everyone is convinced will manifest. Both of these have the potential to become the market's green shoots.

- We follow all the same macro indicators as everyone else and acknowledge how poor the readings are. Do not get us wrong. The recession may well occur, and the Fed may need to do a ceremonial rate cut or two, but as long as inflation stays stubbornly high (we think there's a 75% probability CPI will be above 5% in 2023), the Fed will be forced to keep front-end rates high. Our view is that Fed Funds will range between 3-4% in the next 12-18 months. That is positive for investors. Too much money went into private credit and alternative income strategies (i.e., CEFs, REITs, multi-family housing, mixed commercial property, high-yield bonds, etc.).
- In the years to come, high front-end rates and stubbornly high inflation will dictate portfolio construction. For the past decade, rates were pegged at zero, and investors had to reach for yield and target growth-orientated strategies given deflationary forces. However, in the coming years, strategies geared toward higher front-end rates and high inflation will be the portfolio drivers (i.e., commodities, TIPS, value vs. growth, short-duration assets vs. long-duration assets, dividend payers vs. unprofitable growth stocks).
- Between the 1970s and '80s, CPI stayed north of 5% for a decade. We think pro-inflation assets (which continue to trade at bargain basement prices) still offer an asymmetric risk/reward. These assets carry well and offer a margin of safety for most portfolios that are stuck in the mud with tech-heavy, long-duration, and large cap growth exposure.

Dawn of a new decade, there will be new winners

- Investors' love affair with past winners is insatiable. Many of our peers still advocate for large cap technology and growth stocks. This tells us that the rotation to value, lower market cap stocks, shorter duration, dividend payers, commodities, and natural resource stocks still has legs.
- Our conviction level on stocks is significantly lower than last year. At the start of 2022, we leaned hard on value, pro inflation assets, and were underweight technology / growth / long-duration assets. For 2023, we are not so convinced. We think balancing growth and value exposures and hedging recession risk with the back end of the treasury curve makes more sense. Investors usually rotate back into growth stocks when earnings recede. Keep in mind that some value stocks are migrating into growth portfolios (think of energy stocks). Similarly, technology and growth stocks are moving down the value indices. The bottom line is to own companies with superior earnings power when the profits cycle turns negative.
- We would dip our toes into the mid cap space as large cap stocks are still expensive on an absolute and relative basis. As always, we think high quality stocks should be the cornerstone of one's portfolio. Own companies which are paying dividends to shareholders. In a world of uncertainty, having a defined cash flow is attractive to us.

- As mentioned, we think it's imperative to stay long commodities. They serve as an invaluable diversification tool. Commodities offer positive skewness, whereas stocks are pre exposed to negative skewness. In a world of heightening geopolitical risks, we think positive skewness is an attribute to harvest in multi-asset portfolios.
- The end of globalization means more goods and services will need to be produced in the US. As a result of US labor laws and higher manufacturing costs, domestically produced goods in the US ultimately cost more. Broad baskets of commodity equities are trading at 7x/8x valuation turns. If the valuations double, then it's worth trimming. Last year, we included PPI, the AXS Astoria Inflation Sensitive ETF, in our 10 ETFs for 2022. We won't repeat it for the sake of not being cheeky, but its relative outperformance in 2022 (PPI has outperformed SPY by 20.21%, YTD, as of Dec. 12, 2022) shows the buyer's strike and the margin of safety in pro inflation assets.
- Get ready for gut-wrenching volatility. The days of buy-and-hold, low volatility, and the Fed cobbling up \$9 trillion of financial assets are long gone. We think 15% swings in both directions will be the norm in the years to come. If you look at the historical normal distribution of stocks, 10-15% swings multiple times a year are par for the course. The truth was the past decade of low volatility was an anomaly. Most investors won't be able to absorb this volatility. In earnest, it will be a healthy sign if the novices leave.
- Our bottom line is that investors should treat alternatives like insurance policies. Nobody gets into their automobile or leaves their house without insurance. We wonder why investors want to leave their portfolios exposed without insurance. It is illegal to drive your car without maintaining insurance. We think the same logic should apply to portfolios.
- Alternatives were difficult to utilize when you lived in an era of an embedding Fed put. Again, those days are long gone, and it's hard to see the Fed increasing its balance sheet in a downturn. The dream is to find alternatives with a 7-8 standard deviation that can participate in the upside and hedge the downside.

Concluding Thoughts

- For the past ten years, investors had a major tailwind of low rates, a Fed put, and deflation; this permitted buy-and-hold, low-cost beta ETFs to produce high Sharpe Ratios. Money poured into these strategies, leading to distorted valuations. Most of this money went into US indexed stocks and bonds, while other asset classes were ignored on a relative basis.
- We are in a much different environment now. There is high inflation, higher rates, and no more Fed put. There are three notable things that Astoria Portfolio Advisors does that we feel distinguish us from our peers:

1. We tilt away from large cap / core index beta
 2. We mix factors in our portfolios
 3. We use liquid alternatives to help hedge the downside
- As a result of the current environment (i.e., no more Fed put, higher rates, and higher inflation), alternative and risk-managed strategies are in vogue. The day in the sun for this investment style could continue if this bear market continues and inflation stays high.
 - The next decade won't see the same winners as the prior cycle. Start to look beyond large cap technology stocks and deflationary assets. Investing requires a forward-looking approach. Do not make the mistake of investing by looking in the rear-view mirror.

Astoria's Equity ETFs for 2023

Ticker	Number of Holdings	Dividend Yield	P/E	Fwd. P/E (2023 E)	P/S	P/CF	P/BV	ROE	ROA
USMV	168	1.9%	19.4	18.4	2.3	14.1	4.5	23%	6%
MOO	51	2.7%	10.1	10.5	1.0	10.3	2.1	21%	8%
SDY	121	3.0%	16.1	16.0	1.4	12.1	2.7	17%	4%
DVY	99	3.8%	11.7	12.2	1.2	7.8	2.1	18%	3%
SPYD	81	4.3%	11.0	10.8	1.0	8.6	1.7	16%	2%
XMHQ	81	1.9%	11.3	12.3	1.5	7.9	2.3	21%	5%
COWZ	101	2.4%	7.6	9.4	0.7	5.4	2.4	32%	11%

Table Source: Astoria Portfolio Advisors. Data Source: FactSet. Data accessed on December 13, 2022. All data is calculated on a quarterly last twelve months reporting frequency unless otherwise specified.

Astoria's Fixed Income ETFs for 2023

Ticker	Number of Holdings	30-Day SEC Yield	12M Trailing Yield	Avg. Weighted Coupon	Avg. Effective Maturity	Yield to Maturity	Effective Duration
SPTL	79	3.77%	2.59%	2.72%	16.04	4.4%	15.9
BSCO	326	5.19%	2.06%	3.10%	1.63	5.4%	1.5
BSMO	691	3.05%	0.89%	4.91%	—	3.9%	2.4
XONE	20	4.69%	—	—	—	4.7%	0.9

Table Source: Astoria Portfolio Advisors. Data Sources: All Yield to Maturity, and Effective Duration data retrieved from FactSet on December 13, 2022. All Number of Holdings, 30-Day SEC Yield, 12M Trailing Yield, Avg. Weighted Coupon, and Avg. Effective Maturity data retrieved from Vanguard on December 13, 2022.

Background information on Astoria's 10 ETFs for 2023.

- Astoria's Founder & CIO has been producing a dedicated year-ahead ETF outlook for a decade. We like that our peers are starting to throw their hats into the ring. We try not to repeat our ETFs from one year to the next, as our goal is to communicate unique *and* actionable thematic ideas for the investment community. If VTI, IEFA, and SPAB were on our top 10 list every year, then it would not be an interesting report to read.
- Astoria runs various ETF managed portfolios with different risk tolerance bands and with different holdings. The commentary in this report is generally centered around our Dynamic and Risk Managed ETF Portfolios. Our Strategic ETF Portfolios can and will vary from the holdings noted in this report.
- The ETFs highlighted in this report are solutions that Astoria finds attractive on a per unit of risk basis. However, this list is not meant to be an asset allocation strategy, a trading idea, or an ETF managed portfolio. As such, this list does not constitute a recommendation of any ETF. There are other ETFs that Astoria currently owns which are not highlighted in this report. Contact us for a list of all of Astoria's ETF holdings.
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