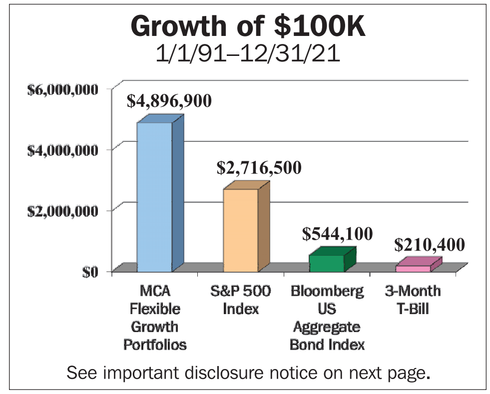
THE COMPASS

January 2022 | **A Quarterly Newsletter of Martin Capital Advisors, LLP**

INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner



The Fed, Inflation, Ukraine, and Omicron

January 31, 2022

2021 was another great year for the stock market, but 2022 has started off with the first correction (i.e., greater than a 10% decline) since the coronavirus driven bear market in 2020. The ongoing pandemic, higher inflation, concerns about Fed tightening, and the Ukraine have been issues for a while now; however, in January they suddenly weighed enough on sentiment to spook a stock market correction that was, admittedly, overdue. As I mentioned in the last edition of *The Compass*, none of the current concerns appear to be having a materially negative impact on the economy and corporate earnings, but this does not mean that there is no potential for more selling in the near-term, especially if Russia invades Ukraine. That said, a war in Ukraine would not have a material impact on the U.S. economy, so any further pullbacks from here probably would be reversed sooner than later.

Since everyone is terrified of inflation and the Fed these days, I'd like to repeat what I said in our last newsletter:

"The biggest fear for investors seems to be the bounce in inflation to above 6%, which last hit that level in 1990. I would point out, however, that the S&P 500 was down only 3.1% that year in the face of a fairly mild Fed driven recession and then went straight up on an annual basis for the next ten years. Historically, even higher levels of inflation have not been bad for the economy and the stock market. For instance, in 1979 the Consumer Price Index (CPI) was up 13.3% and the S&P 500 was up 18.6% that year and up 32.5% the following year. In the next 20 years there were only two down years for the S&P 500 – the aforementioned 1990 decline and -4.9% in 1981. (Details of this analysis can be found in the *Long-Term Performance of Stocks, Bonds, T-Bills, and Inflation* on the Martin Capital website, www.martincapital.com.)"

"My larger point is that stocks go up in the long-term despite a variety of short-term crises. The only real threat to stocks and the economy is the Fed. When the Fed severely inverts the yield curve, making short rates much higher than long rates, then there will be a major recession and bear market. Martin Capital has studied this phenomenon and developed a hedging strategy for it. Fortunately, most of the time the Fed just mildly inverts the yield curve and the economy has a mild recession and the stock market keeps going up. (To see a presentation on our hedging strategy please go to www.martincapital.com.)"

As for Omicron, it appears to be starting to fade, and between the current infection and vaccination rates, "herd immunity" may be on the horizon. If that proves to be the case, then COVID-19 will shift from being a pandemic disease to an endemic disease, such as the flu.

Bottom line: It's hard to say where the markets will be in the short run, but I remain bullish on the prospects for stocks in the long run.

COMPARISON OF INVESTMENT RESULTS

January 1, 1991 to December 31, 2021

	Martin Capital Advisors[1]	S&P 500	Russell 3000	Bloomberg U.S. Aggregate Bond Index	3 Month T-Bill	Consumer Price Index
Total[2]	4896.9%	2616.5%	2711.6%	444.1%	110.4%	107.7%
Avg.[3]	13.4%	11.2%	11.4%	5.6%	2.4%	2.4%

[1]Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors' *Flexible Growth Portfolios.*

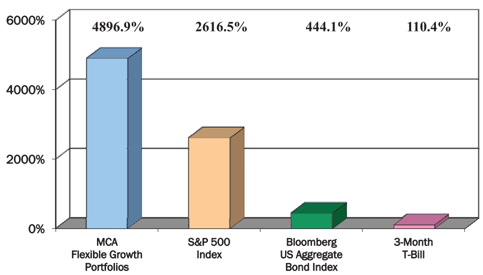
[2]Total compounded return, including reinvestment of dividends and interest. [3]1991-2021 annualized return.

—— See Important Disclosure Notice on last page. ——

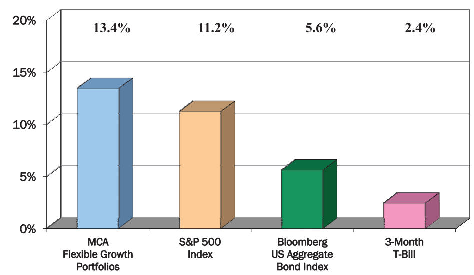
RELATIVE LONG-TERM PERFORMANCE

January 1, 1991 to December 31, 2021

Total Return



Annualized Return



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MARTIN CAPITAL ADVISORS, LLP

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Martin Capital Advisors, LLP, is a registered investment advisor managing private and institutional investment portfolios.

MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS

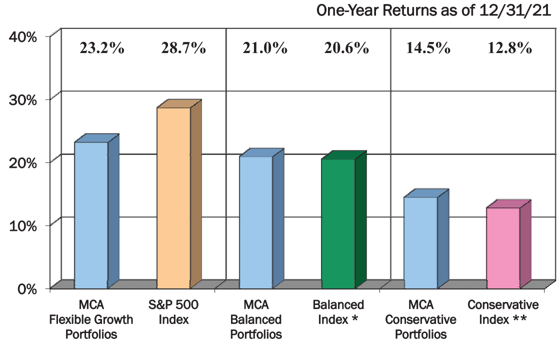
as of December 31, 2021

1	Apple	6	Starbucks	11	Visa	16	Lam Research	21	Paypal Holdings
2	Intuitive Surgical	7	MasterCard	12	Charles Schwab	17	Williams-Sonoma	22	Intercontinental Exchange
3	Block	8	Costco Wholesale	13	Alphabet Cl A	18	Nasdaq	23	US Physical Therapy
4	IDEXX Laboratories	9	Trex	14	Texas Instruments	19	Toll Brothers	24	Intuit
5	Edwards Lifesciences	10	Tractor Supply	15	Blackrock	20	Oracle	25	IPG Photonics

INVESTMENT RESULTS

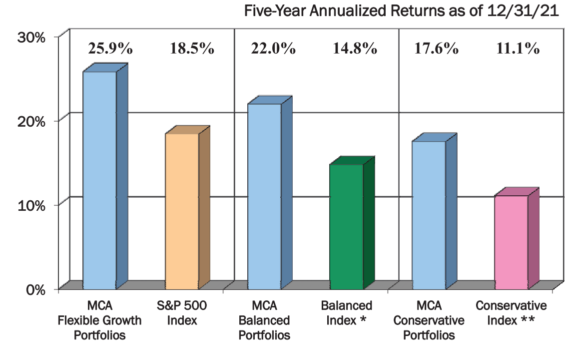
Martin Capital Advisors' Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

One-Year Returns as of 12/31/21



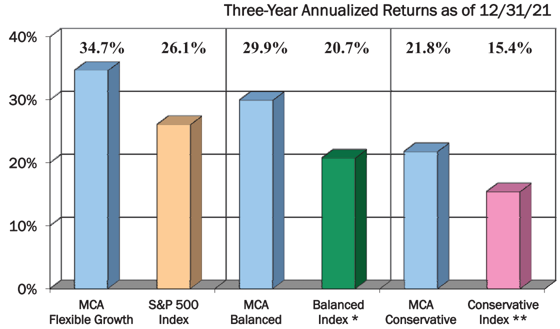
* 75% S&P 500 Index + 25% Bloomberg US Aggregate Bond Index
** 50% S&P 500 Index + 50% Bloomberg US Aggregate Bond Index

Five-Year Annualized Returns as of 12/31/21



* 75% S&P 500 Index + 25% Bloomberg US Aggregate Bond Index
** 50% S&P 500 Index + 50% Bloomberg US Aggregate Bond Index

Three-Year Annualized Returns as of 12/31/21



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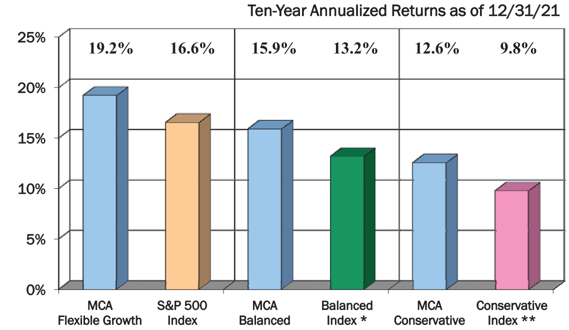
** 50% S&P 500 Index + 50% Bloomberg US Aggregate Bond Index

Ten-Year Annualized Returns as of 12/31/21



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IMPORTANT DISCLOSURE NOTICE

Past performance does not guarantee future results. Figures include the reinvestment of all dividends received and reflect cash and cash equivalents. Martin Capital Advisors, LLP (MCA) composite returns are net of all fees and expenses. From time to time, composite performance may reflect the use of margin investing and options, as well as material investments in bonds and cash, and volatility may differ from that of the benchmark. As of 12/31/2021, the *MCA Flexible Growth/Balanced/Conservative* portfolios' returns represent, respectively, 49/9/2 individual portfolios and 75%/20%/2% of all funds under management by MCA. Clients explicitly elect these management styles on their Personal Data Form. The *MCA Flexible Growth Portfolios* are managed for capital appreciation, and the *MCA Balanced and Conservative Portfolios* are managed for capital appreciation and income. Independent performance reporting is provided by CGM Investment Management.

MCA claims compliance with the Global Investment Performance Standards (GIPS®). MCA's GIPS® compliance has been independently verified for the periods January 1, 1991 to December 31, 2020 by Riddles Investment Consulting, LLC. The verification reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The reporting currency is U.S. dollars. Returns are net of fees. To receive a list of composite descriptions of MCA and/or a GIPS® Composite Report, contact Darby Ivins at (210) 694-2100, ext. 2, or darby@martincapital.com.

ADDITIONAL DISCLOSURE NOTICE

MARTIN CAPITAL ADVISORS, LLP (MCA) is a registered investment advisor based in San Antonio, Texas, founded in 1989. MCA specializes in managing customized equity and balanced investment portfolios with an all-cap equity strategy to grow capital, as well as balanced strategies to grow capital with less volatility.

MCA Flexible Growth Portfolios Composite consists of all fully discretionary portfolios that are invested in publicly traded companies with the goal of maximizing long-term returns. These portfolios are classified as an all-cap core strategy, but predominately invest in large and mid-cap stocks, blending the characteristics of both growth and value investing. Each portfolio typically invests in 30 to 40 stocks that are rigorously selected to meet our core philosophy of investing in companies with an enduring competitive advantage that offer growth at a reasonable price. These portfolios are for investors who are willing to accept significant short-term volatility in the pursuit of superior long-term returns. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is the S&P 500 Index, which is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe.

MCA Balanced Portfolios Composite consists of all fully discretionary portfolios that are invested in equities and fixed income securities with a target asset allocation of 75% equities and 25% fixed income. These portfolios are for investors with a long-term investment horizon who seek to grow capital, but want to do so with less short-term volatility than the MCA Flexible Growth Portfolios. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is a blend of 75% S&P 500 Index and 25% Bloomberg U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Bloomberg U.S. Aggregate Bond index is made up of the Bloomberg U.S. Government/Corporate Bond Index, Mortgage-Back Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

MCA Conservative Portfolios Composite consists of all fully discretionary portfolios that are invested in equities and fixed income securities with a target asset allocation of 50% equities and 50% fixed income. These portfolios are for investors who prefer to significantly reduce short-term volatility in their investments rather than maximize long-term returns. The equity investments in the portfolios are classified as an all-cap core strategy and are managed in the same way as the MCA Flexible Growth Portfolios. Fixed income investments include both individual and ETF fixed income securities. In addition, from time to time this strategy may utilize material amounts of leverage, options, bonds and strategic cash reserves. The benchmark for this composite is a blend of 50% S&P 500 Index and 50% Bloomberg U.S. Aggregate Bond Index, rebalanced monthly. The S&P 500 is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe. The Bloomberg U.S. Aggregate Bond index is made up of the Bloomberg U.S. Government/Corporate Bond Index, Mortgage-Back Securities Index, and Asset-Backed Securities Index, and only includes securities that are investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.