

Managing Investments in Periods of Uncertainty

Today's headlines are filled with news about economic uncertainty and market volatility in the U.S., as well as escalating geopolitical, economic, and volatility concerns worldwide. We understand that developments such as these may be unsettling to investors, which is why we believe it is important to maintain a long-term view that is consistent with your individual financial goals. Several key issues currently impacting the financial markets include the following:

Inflationary Pressures

A number of factors have contributed to higher inflation in the U.S., creating concerns for investors and headwinds for the financial markets. Inflation, as measured by the Consumer Price Index or CPI, has increased steadily, reaching its highest level in nearly 40 years. Economic growth is a contributing factor to inflation, led, of course, by the continued economic recovery from the global pandemic. Federal stimulus support has aided in our nation's economic recovery. Rapid economic growth, however, creates the potential for the economy to overheat.

Amid growing tensions emanating from Eastern Europe, higher global energy prices—specifically, oil prices—have emerged as a heightened factor when it comes to inflationary pressures. And domestically, local economic recoveries, supply chain issues, and inflation levels are expected to have a ripple effect throughout the U.S. economy and financial markets, something that will require close monitoring by the Federal Reserve.

Rising Interest Rates

Federal Reserve Chairman Jerome Powell has stated that the central bank would begin “carefully” raising interest rates, beginning in March. However, he cautioned that the Federal Reserve (the “Fed”) would be prepared to move more aggressively if inflation pressures persist. Mr. Powell's remarks were made amid the backdrop of managing U.S. inflation and the growing concerns across global economies.

The Federal Open Market Committee is scheduled to meet March 15-16. Market consensus suggests an initial increase in the Federal Funds Rate of 25 basis points. Whether the Fed acts further throughout the year will be dependent upon inflation levels and other economic indicators going forward. The decision to raise rates—how much, and how often—will likely be a balancing act for the Fed as it carefully measures the direction of economic growth, inflationary pressures, and market volatility.

Market Volatility

The equity markets' long bull run has been met with significant volatility in the early part of 2022, experiencing significant price declines since historical highs at the start of the year. As investors know, the financial markets do not like uncertainty,

and many stock prices and valuations have been affected. The tensions in Eastern Europe certainly add to the mix, which have resulted in precipitous market swings, both up and down.

Fixed income markets have been impacted as well, given rising inflation levels and the anticipation of rising interest rates. As addressed above, much of the course of the fixed income markets—both tax-exempt, as well as taxable—will be plotted by the future direction of the U.S. economy, inflationary pressures, and interest rates. Once again, potential actions by the Federal Reserve are expected to play an important role.

Investing with a Plan

We believe it is important to not let your emotions overtake your investment goals, especially during volatile and uncertain periods. A common mistake that investors make is to allow fear or uncertainty keep them from participating in financial opportunities, rather than sticking with their intended investment plans. Instead of concentrating on what the market is or isn't doing, we believe:

- **It is prudent to focus on your individual investment goals, your time frame for achieving them, and your tolerance for risk.** We generally recommend working with a financial professional to develop an asset allocation model to best address these important factors. A financial professional, who understands your investment objectives and long-term financial goals, can help you invest accordingly and be prepared for your financial future. Now may be an opportune time to review your investment portfolio to ensure it aligns with your individual goals.
- **Actively managed mutual funds may play an important role in your asset allocation model.** Portfolio managers actively manage fund holdings over time, implementing various strategies based on market expectations that may serve to reduce the impact of market volatility. For example, fixed income holdings may be adjusted by quality rating (with a goal to manage credit risk that may increase with rising rates), as well as by maturity date and coupon (thereby adjusting portfolio duration, or the sensitivity of the fund to movements in interest rates). Likewise, equity holdings may be modified in response to relative price valuations and growth expectations of certain stocks that may be held in the fund's portfolio (in seeking to achieve the fund's objective of capital appreciation).
- **Dollar-cost averaging may also be an important part of your investment plan, particularly if you may be concerned about market volatility.** Investing a set amount of money on a regular basis regardless of whether the market is up or down removes timing the market from your investment equation. This approach doesn't guarantee a

profit on your shares, nor will it protect against a loss if you redeem your investment in a declining market. However, it generally provides a more balanced outcome over the longer term. When interest rates increase and share prices decline, as is bound to happen at some point, you may view that downturn as an opportunity to acquire more shares at a lower price.

A Careful Approach for Today's Markets

At Aquila Group of Funds, each of our mutual funds is managed to our high standards of quality and care, which we apply when implementing our municipal bond, equity, and high-yield corporate bond strategies. These standards have served as the basis of [Aquila's Guiding Principles](#) since our founding in 1985—and they apply today, perhaps now more than ever.

The portfolio management teams of Aquila's single-state municipal bond are locally-based in the states where they invest, providing a distinct advantage that is a hallmark of our investment process. By having an up-close perspective on the economy and bond issuers in their local municipalities, cities and states, our Fund managers are able to gain valuable insights into what's happening locally and optimize the investment decision-making process.

Our investment professionals draw upon their many years of experience in analyzing securities, observing market and economic cycles, and recognizing risks and opportunities. Today's investment landscape is no exception. Regardless of Federal monetary policy and the direction of interest rates, each of our municipal bond funds is actively managed, consistently maintaining broadly diversified, high-quality portfolios, generally with an intermediate average maturity. We remain committed to effective risk management, seeking to provide our shareholders with an appropriate level of risk-adjusted returns.

Regarding Aquila's high-yield corporate bond and equity strategies, our portfolio management team remains committed to their disciplined research process that not only includes detailed analysis of companies owned in the Funds' portfolios, but also seeks to uncover new opportunities within their respective markets. The Funds continue to search for fiscally responsible corporate management teams that the portfolio managers believe are committed to growing operations prudently, and who recognize they can potentially improve their credit profile by focusing on company-specific measures.

Aquila Group of Funds remains committed to assisting our investment partners and financial professionals, and to delivering investment results for our valued shareholders.

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Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Trust performance could be more volatile than that of funds with greater geographic diversification.

Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus. The prospectus is available from your financial advisor, when you visit www.aquilafunds.com or call 800-437-1020.