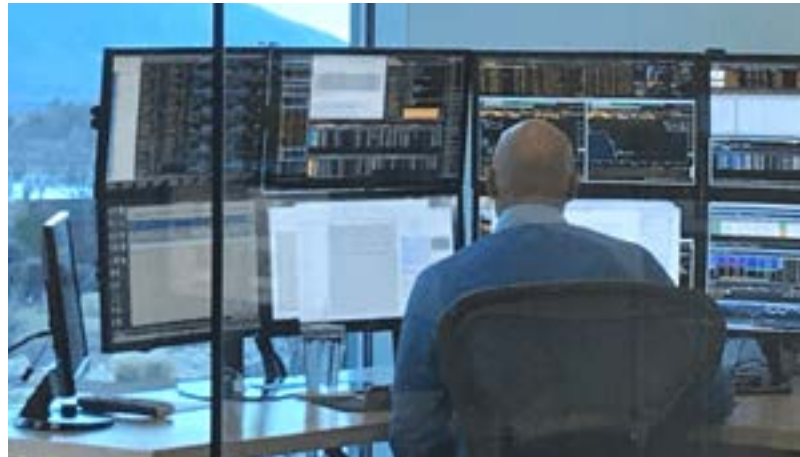


# Recession, Soft Landing Or Persistent Inflation?



## How the Wasatch Long/Short Alpha Fund Is Positioned For a Wide Range of Market Outcomes

NOVEMBER 17, 2023

In the years following the Covid-19 pandemic, the macro-economic events shaping markets have been truly historic. First, a wave of monetary stimulus more than doubled the balance-sheet size of the Federal Reserve (Fed). Next, the U.S. experienced its highest inflation in more than 40 years. Then, the Fed hiked interest rates at its fastest pace in modern history.

In the aftermath of these events, investors have spent much of 2023 grappling with one big question: What happens next?

The answer remains unknown, but three varying economic scenarios could emerge. And each scenario could have a big impact on markets. This article looks at how the **Wasatch Long/Short Alpha Fund** is positioned for each outcome.

Generally, economists outline three economic pathways that could emerge in the wake of the Fed's rate hikes. Each has been discussed at length in the financial press, but they include:

**A Soft Landing:** In this case, the Fed would have perfectly threaded the needle. The interest-rate hikes that have already occurred would eventually lower inflation to the central bank's target rate, and the economy would avoid a recession. Over time, the Fed could then lower interest rates gradually. This scenario would likely be positive for equity markets broadly.

**A Recession:** In a second scenario, the monetary tightening that has already occurred would prove to be too much, and too fast, tipping the economy into recession at some point in 2024. This scenario could create a pullback in equity markets before investors anticipate an eventual loosening of financial conditions.

**Persistent Inflation:** While inflation has cooled considerably in 2023, it's still above the Fed's target. There's a possibility that the final stages of taming inflation prove to be challenging. In this scenario, the central bank would have to leave rates high, or even keep raising interest rates. Such an environment would likely be negative for equities in general, and particularly for growth stocks.

## POSITIONING FOR EACH SCENARIO

In an environment fraught with uncertainty and a wide range of possible market outcomes, investors may benefit from holding a long/short fund. Long/short investing aims to reduce a portfolio's sensitivity to the macroeconomic environment, with the short positions in the portfolio potentially limiting losses during a market selloff, and the long positions allowing the portfolio to participate in the upside of a rising market.

The Wasatch Long/Short Alpha Fund has characteristics we believe can position it well for any of the possible economic scenarios outlined above, while still harnessing our team's fundamental insights into the inefficient and sometimes overlooked U.S. small- and mid-cap market. Here's how we believe those features may prepare the Fund for the scenarios discussed above:

**A Soft Landing:** The soft-landing scenario would potentially be the most favorable for Wasatch's style of investing, with company earnings growing, costs of capital decreasing and small caps likely leading the way up. In this scenario, we would expect our short positions to be a drag on performance but believe that the strength of our long positions would more than offset any declines. While the Fund's potential upside in this scenario is less than our comparable long-only strategies, we think the Fund's positioning could capture a significant amount of the market's upside.

**A Recession:** We believe a recessionary environment could cause a downturn in equity markets. This environment would be the most challenging for the Fund from an absolute return perspective. However, we think our combination of defensive longs, low-quality shorts and reduced beta has the potential to significantly mitigate the downside. We believe these features could lead to strong performance relative to the Fund's benchmark, the Russell 2500™ Index, with the potential to cover our short holdings at prices well below where they are today.

**Persistent Inflation:** If inflation persists and the Fed keeps interest rates higher for longer than the market currently anticipates, equities could lose ground. We've been in this regime for most of the Long/Short Alpha Fund's history, which has given us a good model for how the Fund has performed in this environment. Among our long positions we focus on high-quality businesses—companies with strong balance sheets, outstanding management teams, self-financing business models and strong competitive moats. Those high-quality long positions have fared far

better than our shorts, which we consider overpriced and more speculative. This has led the Fund to generate positive absolute returns in a down market.

## NAVIGATING CHALLENGING ENVIRONMENTS

The Long/Short Alpha Fund began on October 1, 2021. The period since its launch has included a bear market in 2022, a fairly substantial rebound in the first half of 2023, and then another market decline in recent months. Since its inception, the average annual total return through September 30, 2023 of the Fund's Investor Class was 7.29%, which compared very favorably to the benchmark Russell 2500 Index's loss of -6.31%. Moreover, the Fund achieved its return with a beta of 0.64. We believe the Fund's performance since its inception is a testament to its ability to weather different market environments.

To learn more about the Fund, we encourage you to read our [white paper](#) that explores Wasatch's unique approach to long/short investing, or our latest [quarterly commentary](#) for the Fund.

## ABOUT THE PORTFOLIO MANAGER



**Mick Rasmussen, CFA**  
Lead Portfolio Manager and  
Quantitative Analyst

2 / 9  
Years on Fund / Years at Wasatch

Mr. Rasmussen is the Lead Portfolio Manager of the Wasatch Long/Short Alpha Fund. He joined Wasatch Global Investors in 2014 as a Quantitative Analyst on the U.S. small/mid cap and global research teams.

Prior to joining Wasatch, Mr. Rasmussen studied at the University of Southern California, earning a Bachelor of Science in Finance. While in college, he held various internships with companies including eBay, Cincinnati Financial Corporation and Moreton & Company. Along with studying business, he earned a degree in Music Production and worked as a DJ in the Los Angeles area. He is also a CFA charterholder.

Mick enjoys music and travel. He is also an avid golfer and skier.

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## Fund and Benchmark Total Returns

AS OF SEPTEMBER 30, 2023

	YEAR TO DATE*	1 YEAR	SINCE INCEPTION**
Wasatch Long/Short Alpha Fund—Investor	11.98%	27.76%	7.29%
Wasatch Long/Short Alpha Fund—Institutional	12.14%	28.03%	7.52%
Russell 2500™ Index	3.59%	11.28%	-6.31%
FTSE U.S. 3-Month Treasury Bill Index	3.80%	4.71%	2.65%

\*Total returns for periods shorter than one year are not annualized. Total returns for periods one year or longer are annualized.

\*\*The Wasatch Long/Short Alpha Fund's inception date was October 1, 2021.

**The performance data quoted represents past performance. Past performance does not guarantee future results.** Current performance may be lower or higher than the performance quoted. To obtain the most recent month-end performance data available, please visit [wasatchglobal.com](http://wasatchglobal.com). The Advisor may absorb certain Fund expenses, without which total returns would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. **Total**

**Expense Ratio: Investor Class—Gross: 3.14%, Net: 2.41% / Institutional Class—Gross: 3.10%, Net: 2.20%.**

Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor. **The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.50% for the Institutional Class through at least January 31, 2024.** See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption fee on Fund shares held 60 days or less. The performance data does not reflect the deduction of fees or taxes, which if reflected, would reduce the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully.

## RISKS AND DISCLOSURES

Equity investing involves risks, including potential loss of the principal amount invested. Short selling incurs significant unique risks, including potentially unlimited downside risk, high short-sale related expenses, and unavailability of securities to sell short, among others, all of which could negatively impact the performance of the Fund. Additionally, the Fund may not be able to borrow the securities it intends to sell short.

*The Fund's investments in long and short equity positions expose it to changes in the value of securities, which exceed the value of the Fund's assets. Investment in the Fund will involve market risks associated with different types of investment decisions than those made for a typical "long only" fund. The Fund relies on quantitative models which entail unique risks, including the risk that a model may be limited or incorrect. These risks are described in more detail in the prospectus.*

Being non-diversified, the Fund can invest a larger portion of its assets in the stocks of a limited number of companies than a diversified fund. Non-diversification increases the risk of loss to the Fund if the values of these securities decline.

*An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit [wasatchglobal.com](http://wasatchglobal.com) or call 800.551.1700. Please read the prospectus carefully before investing.*

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose.

The Wasatch Long/Short Alpha Fund's investment objective is long-term growth of capital.

Wasatch Advisors LP, doing business as Wasatch Global Investors, is the investment advisor to Wasatch Funds.

Wasatch Funds are distributed by ALPS Distributors, Inc. (ADI). ADI is not affiliated with Wasatch Global Investors.

## DEFINITIONS

**Alpha** is an investment risk ratio. It measures the excess return earned on an investment above the benchmark return when adjusted for risk. An alpha of zero indicates that the portfolio has perfectly tracked the risk-adjusted benchmark and the manager hasn't lost or gained additional value.

**Beta** is a quantitative measure of the volatility of a given stock relative to the overall market. A beta above one is more volatile than the overall market, while a beta below one is less volatile.

**Cost of capital** is the return required to make a company's expenditures on a project, such as building a new manufacturing facility, worthwhile. Cost of capital includes the cost of debt and the cost of equity. Another description of cost of capital is the cost of funds used for financing a business. From an investment perspective, it is the return expected by those who provide capital for the business such as stock or bondholders or entities that issue loans to the company.

**Long-only investing** is the typical approach of buying stocks for a portfolio.

**Long/short investing** is an approach in which a portfolio manager buys some stocks but also sells some shares short (see short selling).

**Short selling** is the process in which a portfolio manager borrows shares of a stock and then sells them on the open market. If the shares then fall in price, the manager can repurchase them at the lower price and return them to the lender. That would net a profit for the portfolio manager because the manager sold the shares for more than the repurchase price. Clearly, this is the goal of short selling. But there's always the risk that the share price could rise and generate a loss for the portfolio manager.

The **Russell 2500 Index** is a market-cap weighted index that includes the smallest 2,500 small- and mid-cap stocks covered in the broad-based Russell 3000 Index of U.S.-based listed equities.

The **FTSE 3-Month U.S. Treasury Bill Index** is intended to track the daily performance of 3-month U.S. Treasury bills.

The Wasatch Long/Short Alpha Fund has been developed solely by Wasatch Global Investors. The Wasatch Long/Short Alpha Fund is not in any way connected to or sponsored, endorsed, sold or promoted by the London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies. All rights in the Russell 2500 Index and the FTSE 3-Month U.S. Treasury Bill Index vest in the relevant LSE Group company, which owns these indexes. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license. These indexes are calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. The LSE Group does not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in these indexes or (b) investment in or operation of the Wasatch Long/Short Alpha Fund or the suitability of these indexes for the purpose to which they are being put by Wasatch Global Investors.

Indexes are unmanaged. Investors cannot invest in these or any indexes.

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