First Quarter 2022 Market Summary

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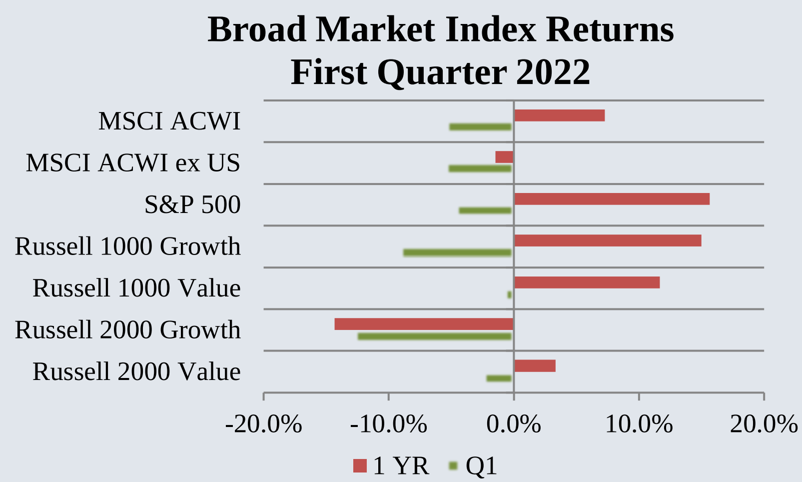
First Quarter 2022 Market Summary

The predictions of increased volatility coming into 2022 have proven to be accurate. Along with known market concerns, such as the Fed normalizing monetary policy, inflation, and high asset valuations, new developments have emerged that continue to shift market expectations. During the quarter, Russia invaded Ukraine and the world responded with a flurry of economic sanctions. In addition to being a humanitarian disaster of colossal proportion, the economic ramifications are being felt as well. The situation has greatly impacted commodity markets as Russia and Ukraine are large global exporters of energy, agriculture products and metals. The resulting higher commodity prices will likely cause inflation to remain at elevated levels for longer than otherwise expected. The war is also likely to negatively impact global growth expectations and will potentially continue to reduce risk-taking amongst investors broadly. Due to this increased uncertainty, almost all asset classes saw negative returns during the first quarter, with commodities being the only major asset class to produce positive returns. Despite the recent cool-off, total returns over the past few years remain strong. By nature, the cyclicality of the markets means there will be strong years paired with more challenging years.

Equities were largely negative across styles and regions during the quarter. U.S. large company stocks, represented by the S&P 500 Index, were down 4.6%. U.S. small company stocks, represented by the Russell 2000 Index, were down 7.5%. Although the S&P 500 did not incur a 10% correction at any point last year, it experienced a 13% drawdown during the first quarter 2022. Other parts of the market officially entered “bear” territory, with drawdowns greater than 20%. However, the equity markets did rally 10%-15% in late March, stemming some of the losses. The overall decline in prices, coupled with continued earnings growth, have caused valuations to decrease, though they remain above average. In both the U.S. and international equity markets, value oriented stocks significantly outperformed growth oriented stocks. Value stocks generally benefit from higher interest rates and commodity prices relative to growth stocks.

International stocks, represented by the MSCI ACWI ex US Index, were down 5.4% during the quarter. The Russia-Ukrainian war caused great volatility and dispersion of returns amongst countries. Commodity exporters generally performed better than commodity importers. China’s economy has lagged as they continue to have COVID-related lockdowns.

Fixed income markets had one of the worst quarters in decades. The Bloomberg Barclays U.S. Aggregate Bond Index, which represents a broad basket of bonds, was down 5.9% during the quarter as interest rates increased. Bonds with less interest rate risk performed better. Credit spreads widened slightly during the quarter. In a rare event, the poor performance of fixed income coincided with declining equity markets. Although it is not unusual for bonds to experience price declines during the early stage of a rate hiking cycle, typically, higher income rates will eventually offset initial losses overtime. While it was undoubtedly a challenging quarter, the underlying benefits of owning bonds remain: preservation of capital, diversifying risk, and establishing a reservoir of liquidity and income.



The Federal Open Market Committee (FOMC) raised the federal funds rate 25bps in March. Short-term interest rates have increased considerably as the market is expecting the Federal Reserve to raise the fed funds rate eight to ten times during 2022. The Fed has been increasingly concerned about curtailing inflation and they have expressed a willingness to use all of the tools necessary to stem it off, including slowing economic demand. The question is whether they can raise rates enough to slow inflation without sending the economy into a recession.

First Quarter 2022 Market Summary (continued)

As is typical in later stages of a market cycle, the yield curve has recently inverted. This will likely lead to hand-wringing from market observers, as an inversion of the yield curve has proceeded the past ten U.S. recessions. However, while the yield curve is a concern to be monitored, inversions are not a trustworthy indicator of immediate market conditions. In fact, in many cases, recessions “predicted” by a yield curve inversion did not actually occur for another 9-20 months.

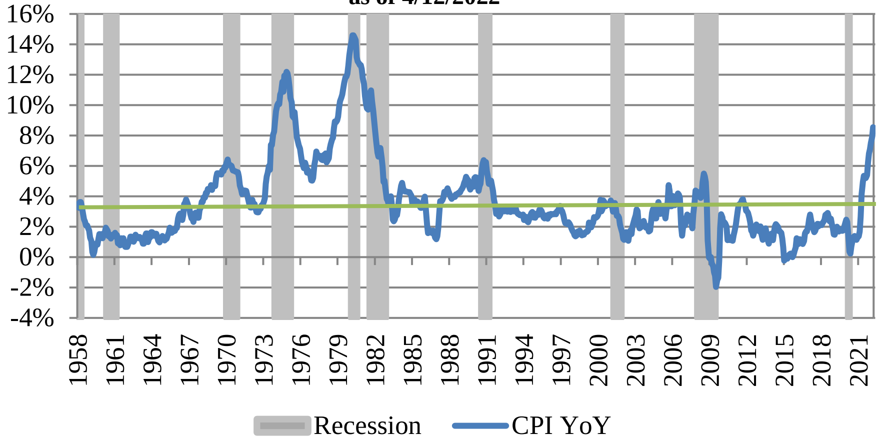
Looking forward, equity valuations are more attractive and yields are higher than they were at the start of the year. The Fed will continue to raise the fed funds rate; however, intermediate-term bonds are not likely to see such a dramatic rate-increase, and current yields are better equipped to buffer price declines. That being said, continued volatility and swings in asset prices should be expected. No longer contained to COVID-related sectors, higher inflation is now permeating other areas such as wages, rents, and consumables. Consumption remains strong, with housing, employment, and manufacturing all maintaining positive levels. However, recent global events, couple with domestic market uncertainty, have caused consumer sentiment to fall considerably. Investors are constantly being presented with risks, threats, geopolitical issues, economic concerns, and other unexpected variables to try to interpret. With hindsight, we are able to recognize and write-off these variables as temporary distractions; however, facing them in real time can feel insurmountable. Statistics have shown that, historically, “average investors” have proven to be less-than-average at “timing” the market, resulting in a large deficit between their performance and that of the overall market. Thus, it is important to remember that market declines are normal and they do not last forever.

Diversification is a simple concept and is not difficult to implement. Nevertheless, when faced with short-term turmoil, it can be a challenge to stick with a long-term plan. Behavioral biases like regret, loss aversion, etc. can influence investors to make changes to their portfolio. However, we caution against making significant adjustments in anticipation of a change in market returns. The very nature of a diversified portfolio means that, at any given time, some assets will perform well and some won’t. The idea of capturing all the highs and none of the lows is tantalizing, but ultimately unachievable. There is no elevator to long-term investment success – you have to take the stairs. Make an investment plan and adhere to it. Regularly save and invest. Rebalance as the market moves. Review your financial plan and how close you are to long-term goals. Plan for the unexpected. Focus on what you can control.

MACROECONOMICS

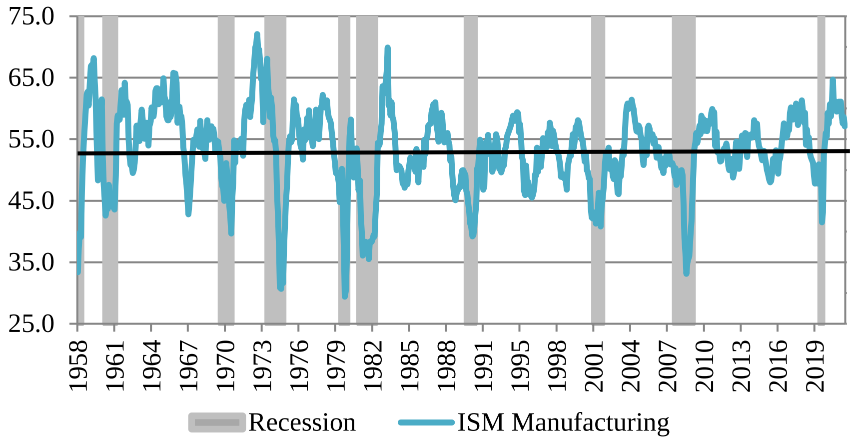
- The Bureau of Economic Analysis released the advanced estimate of first quarter 2022 real GDP, an annual rate increase of 1.4% from the preceding quarter.
- Inflation has increased over the past year. In March, headline CPI increased 8.5% year-over-year. Core CPI, which does not include food and energy, had a 6.5% increase.

Inflation - CPI
as of 4/12/2022



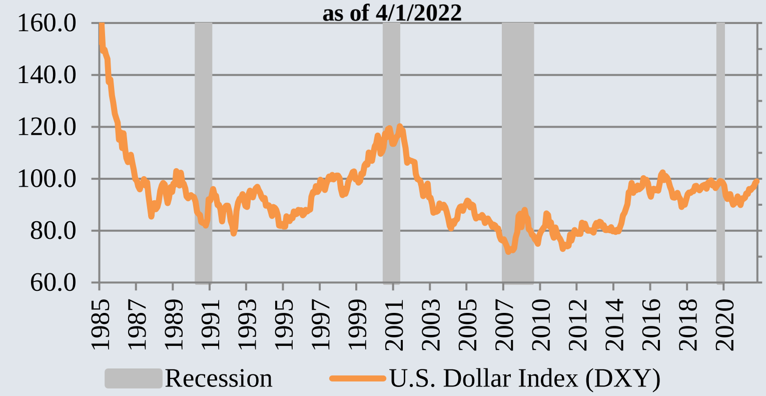
- The ISM Manufacturing Index remained elevated during the quarter, finishing at 57.1 versus 58.7 in December. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish. The ISM Non-Manufacturing Index was also strong during the quarter and finished at 58.3 in March.

ISM Manufacturing Index
as of 4/1/2022



- In March, the Conference Board Leading Economic Index increased 0.3% month-over-month to 119.8. The index, which is a composite of leading employment, housing, manufacturing, and market indicators, continues to increase over the past year.
- The U.S. dollar appreciated over the quarter and the past year.

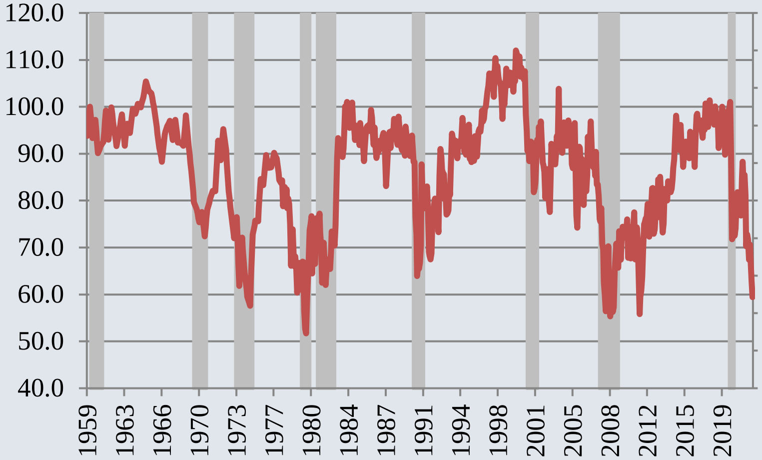
U.S. Dollar Index (DXY)
as of 4/1/2022



CONFIDENCE METRICS

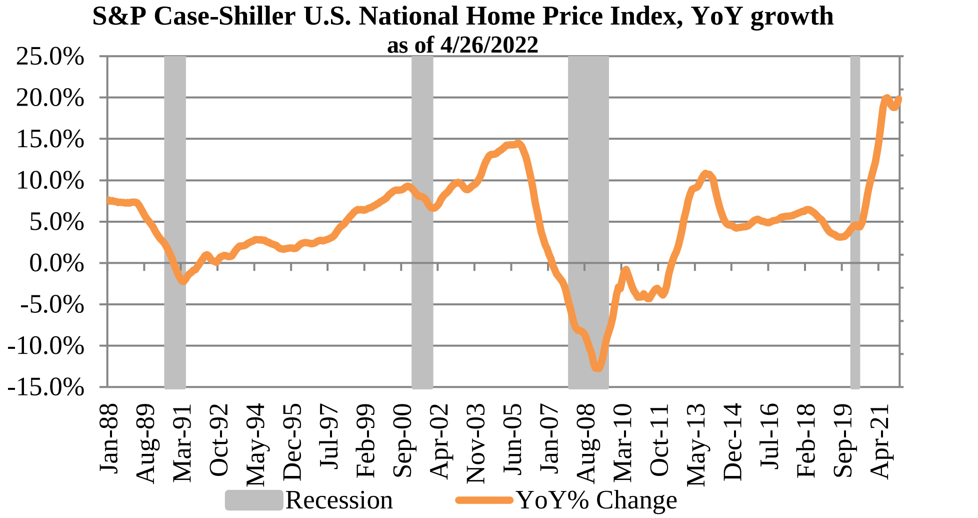
- The Conference Board's Consumer Confidence Index March reading was 107.2, down from 115.2 in December.
- The University of Michigan Consumer Sentiment Index final reading for March was 59.4, which is lower than 70.6 in December.

University of Michigan Consumer Sentiment Index
as of 4/1/2022

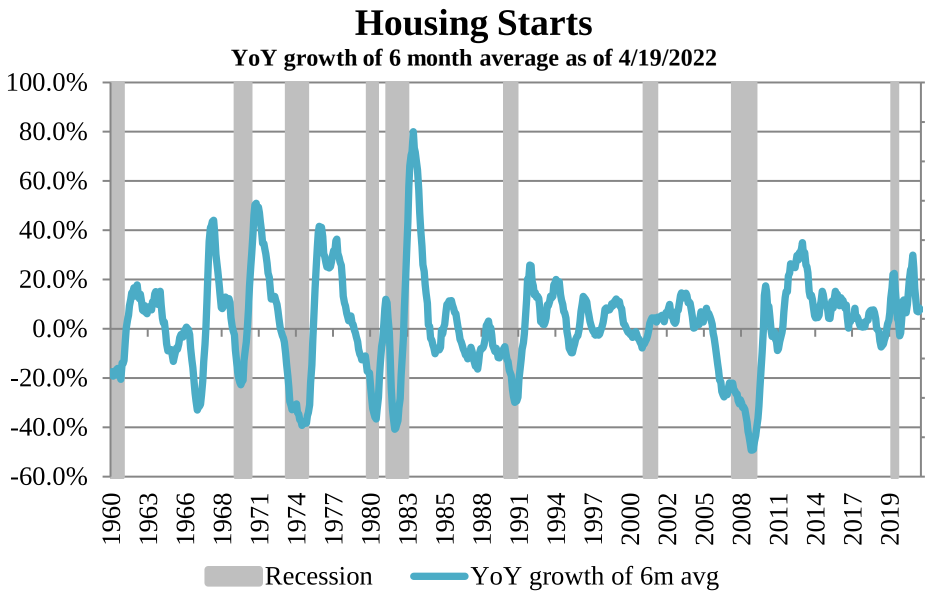


HOUSING

- Home prices continue to rise. S&P Case-Shiller U.S. National Home Price Index (seasonally adjusted) showed home prices rose over 19.8% year-over-year in February.

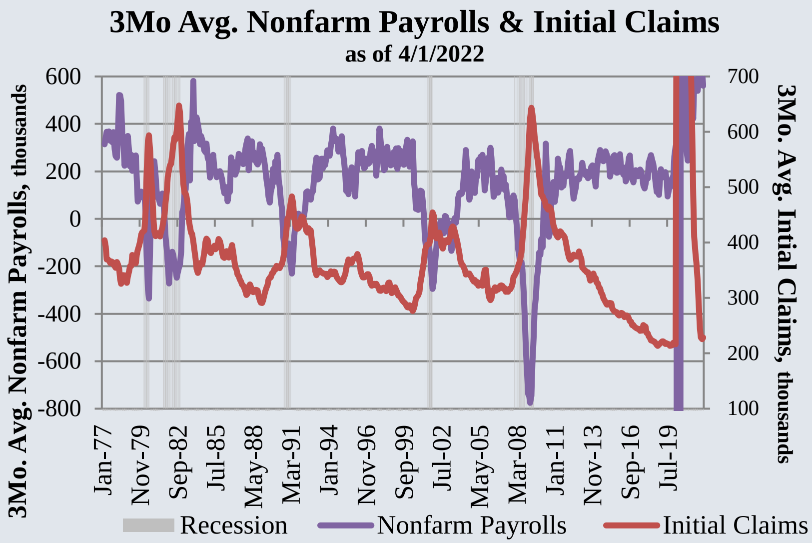


- Housing starts continued to be strong attempting to meet high demand.

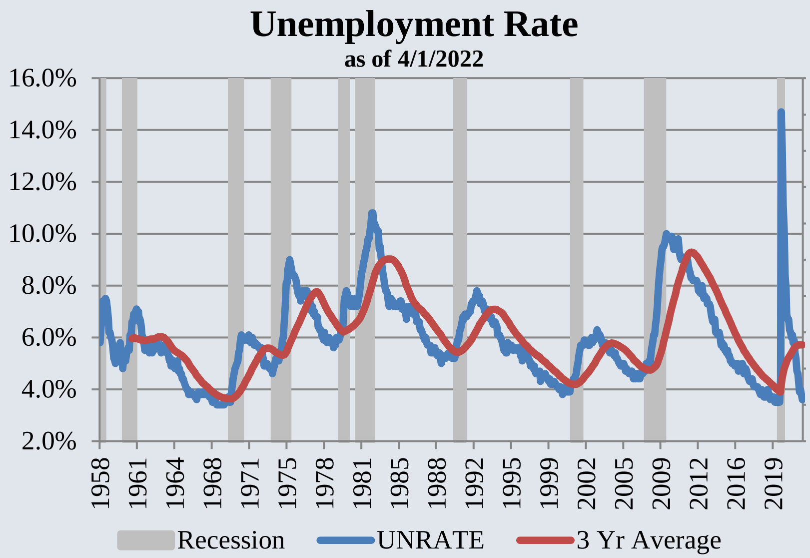


EMPLOYMENT

- During the quarter, nonfarm payrolls averaged 562,000 jobs added per month, while initial claims remain low.

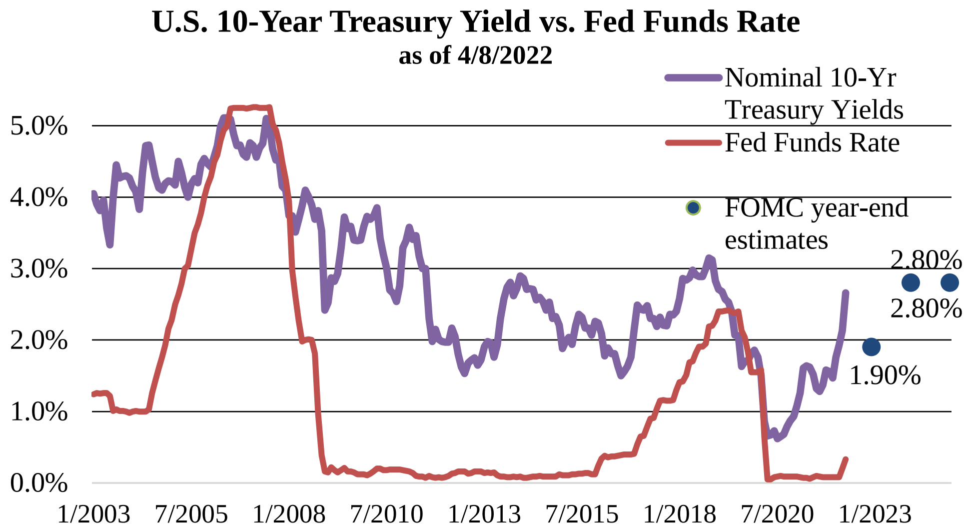


- The unemployment rate decreased during the quarter to 3.6% in March from 3.9% in December.

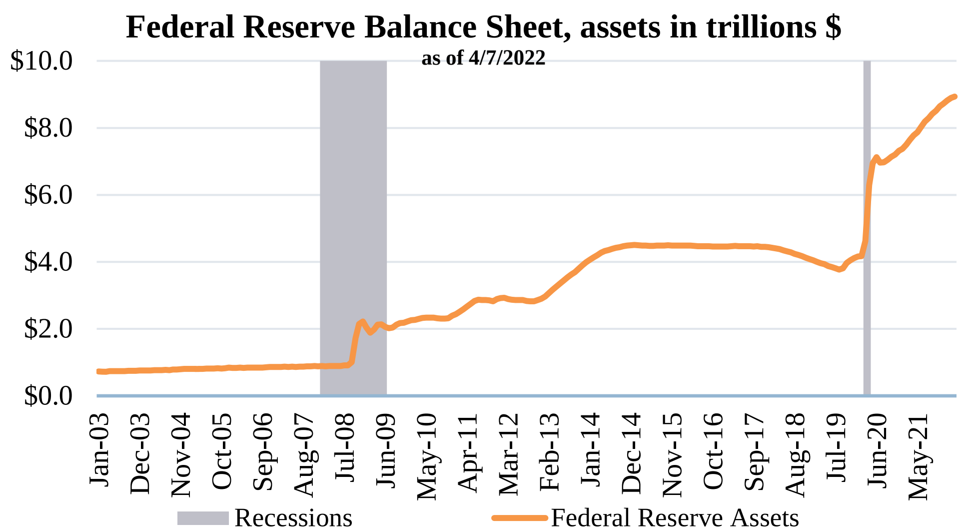


FED POLICY

- The Federal Open Market Committee (FOMC) kept the federal funds rate at a target range of 0.25% - 0.50% in March. The Fed is expected to raise interest rates at least eight times in 2022 in an attempt to contain inflation.

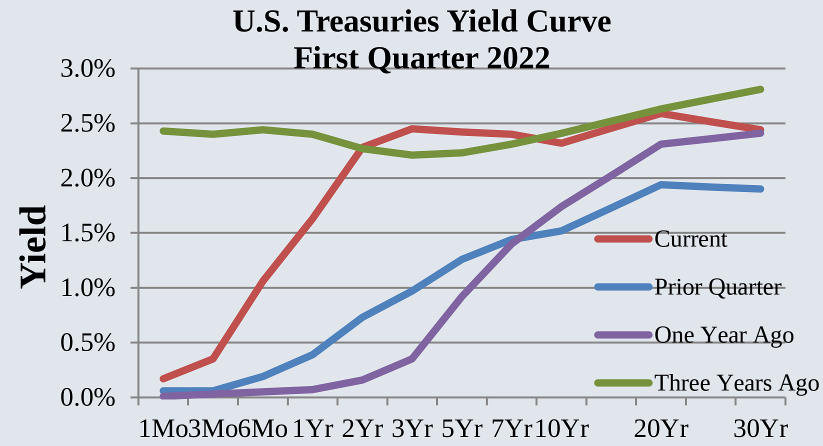


- The Fed discontinue adding to its balance sheet in March and will reduce its holdings of Treasuries and agency MBS over the next few months.

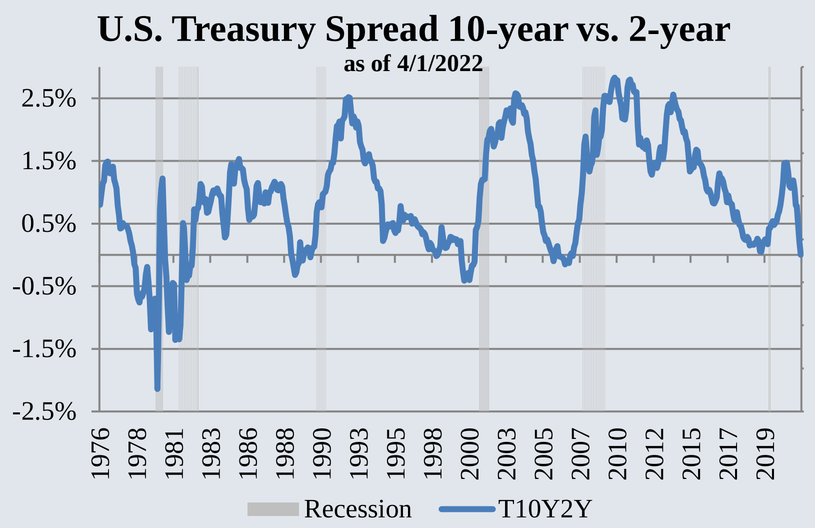


FIXED INCOME

- Yields across the U.S. Treasury curve increased during the quarter. Short-term rates rose more than long-term rates causing a flattening of the curve. Short-term interest rates are controlled or heavily influenced by central banks, where-as long term interest rates are affected by market forces and economic growth.



- The spread between short and intermediate-term Treasuries fell during the quarter to 22bps in March. Historically, the 10-year to 2-year Treasury curve has "inverted" 6-20 months before recessions.



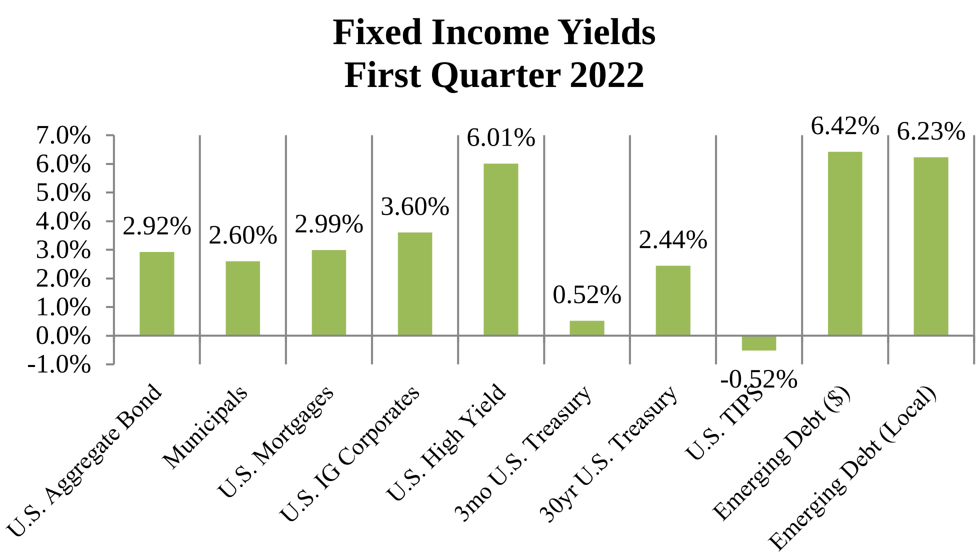
FIXED INCOME (continued)

- During the quarter, the Bloomberg Barclays U.S. Aggregate was down 5.93%. U.S. high yield and U.S. TIPS had slightly better returns, while emerging market debt and longer-dated bonds saw a larger drawdown.

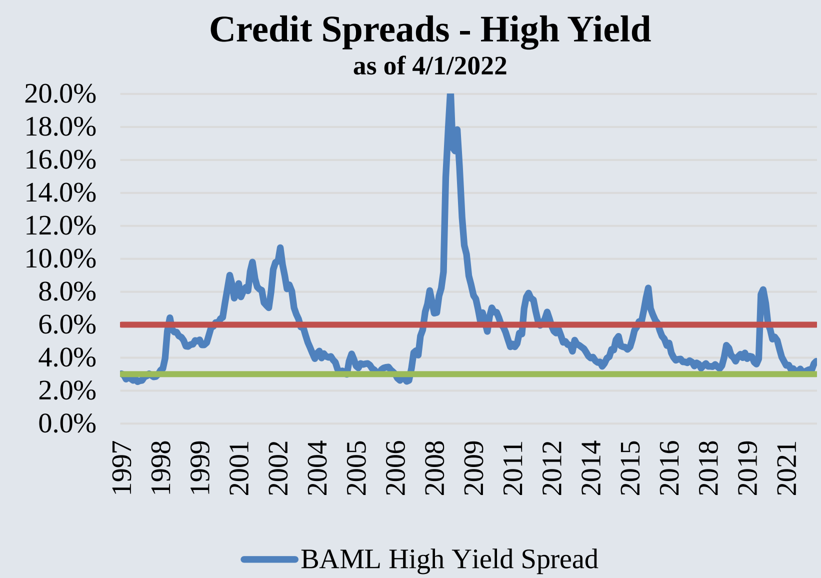
	1Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
U.S. Aggregate Bond	-5.93%	-4.15%	2.14%	2.24%
Municipals	-6.23%	-4.47%	2.52%	2.88%
U.S. Mortgages	-4.97%	-4.92%	1.36%	1.70%
U.S IG Corporates	-7.69%	-4.20%	3.34%	3.65%
U.S. High Yield	-4.84%	-0.66%	4.69%	5.75%
3mo U.S. Treasury	0.04%	0.06%	1.14%	0.65%
30yr U.S. Treasury	-11.41%	0.41%	4.13%	3.98%
U.S. TIPS	-3.02%	4.29%	4.43%	2.69%
Emerging Debt ($)	-10.02%	-7.44%	1.69%	3.74%
Emerging Debt (LCL)	-6.46%	-8.53%	0.18%	-0.72%

Bloomberg and JPMorgan Indices

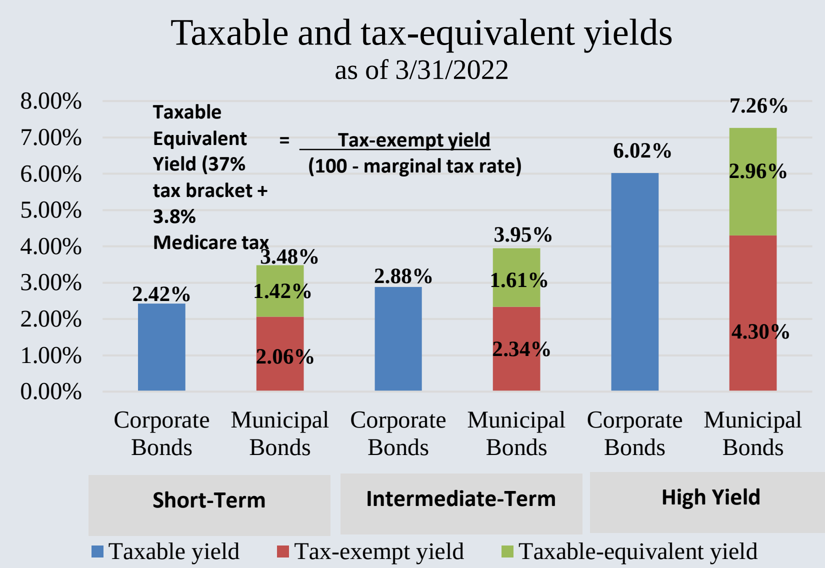
- Yields rose considerably in the first quarter and are now at much more attractive levels.



- Credit spreads widened off lows during the quarter.



- Municipals have become more attractive relative to taxable bonds on an after-tax basis over the past few months.



DOMESTIC EQUITIES

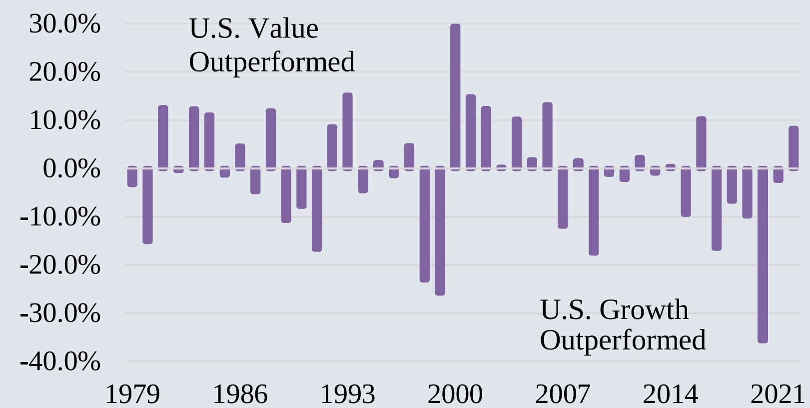
First Quarter 2022 Returns			
	Value	Core	Growth
Mega Cap		-4.9%	
Large Cap	-0.7%	-5.1%	-9.0%
Mid Cap	-1.8%	-5.7%	-12.6%
Small Cap	-2.4%	-7.5%	-12.6%
Micro Cap	-3.5%	-7.6%	-13.7%

- The Russell 1000 Index, comprised of large and mid-capitalization stocks, posted a negative total return of 5.1% during the first quarter. On a year-over-year basis, the Russell 1000 Index has increased 13.3%.
- Small capitalization stocks, as represented by the Russell 2000 Index, decreased 7.5% during the first quarter. On a year-over-year basis, the index has decreased 5.8%.

	S&P 500 Weight	Russell 1000 Value Weight	Russell 1000 Growth Weight	1Q 22 Return	1-Yr Return	10-Yr Return
Energy	3.9%	7.1%	0.5%	39.0%	64.3%	4.2%
Materials	2.6%	4.1%	0.9%	-2.4%	13.9%	11.4%
Financials	11.1%	20.8%	2.5%	-1.5%	14.7%	13.9%
Industrials	7.9%	11.0%	6.1%	-2.4%	6.1%	12.7%
Cons. Disc.	12.0%	5.0%	18.5%	-9.0%	9.8%	16.7%
Technology	28.0%	9.3%	46.2%	-8.4%	20.9%	20.6%
Comm. Services	9.4%	7.1%	10.5%	-11.9%	-0.9%	9.9%
Real Estate	2.7%	4.9%	1.7%	-6.2%	25.8%	11.3%
Health Care	13.6%	17.9%	8.9%	-2.6%	19.1%	15.9%
Cons. Staples	6.1%	7.4%	4.2%	-1.0%	16.1%	11.5%
Utilities	2.7%	5.4%	0.0%	4.8%	19.9%	11.8%
S&P 500 Index	100.0%	100%	100%	-4.6%	15.6%	14.6%

- During the quarter, energy massively outperformed while all other sectors except utilities were down.

U.S. Value vs. Growth Relative Equity Performance (as of 3/31/22)



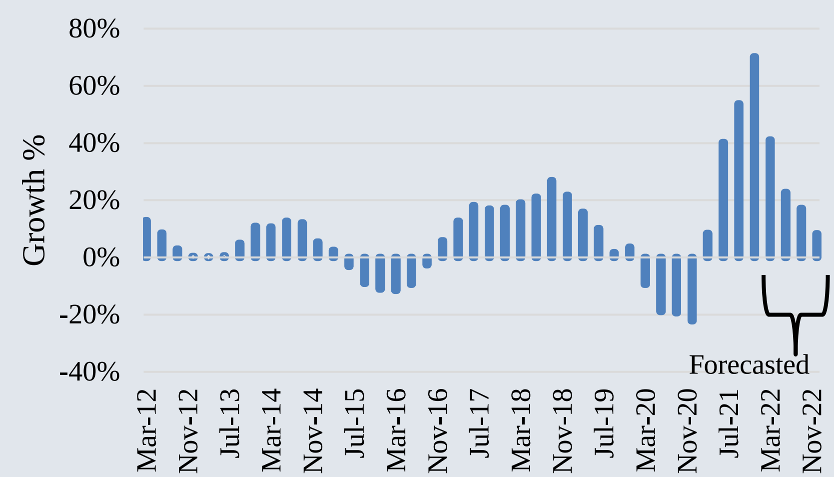
Russell 1000 Value TR vs. Russell 1000 Growth TR

- During the quarter, Value outperformed Growth. Growth has outperformed for eleven out of the past fifteen years during which interest rates and inflation were generally low.

S&P 500 Earnings Growth

Trailing 12-Month Operating Earnings Growth YoY

(as of 3/31/2022)



- Corporate earnings growth is expected to continue into 2022, but at a slower pace than 2021.

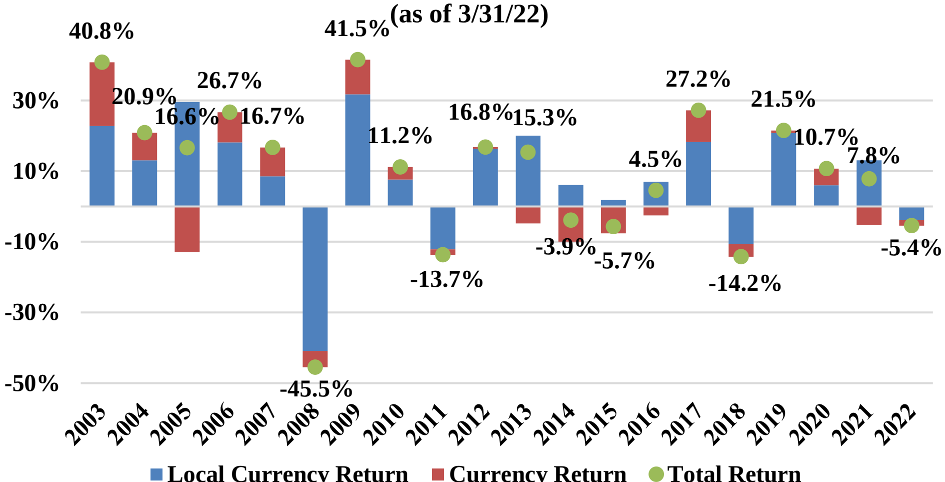
INTERNATIONAL EQUITIES

- Developed international stocks, as represented by the MSCI EAFE, were down 5.9% during the quarter but slightly up 1.2% on a year-over-year basis.
- Emerging market stocks underperformed developed markets during the first quarter as the MSCI Emerging Markets Index was down 7.0%. On a year-over-year basis, emerging market stocks are trailing developed markets with a return of negative 11.4%.

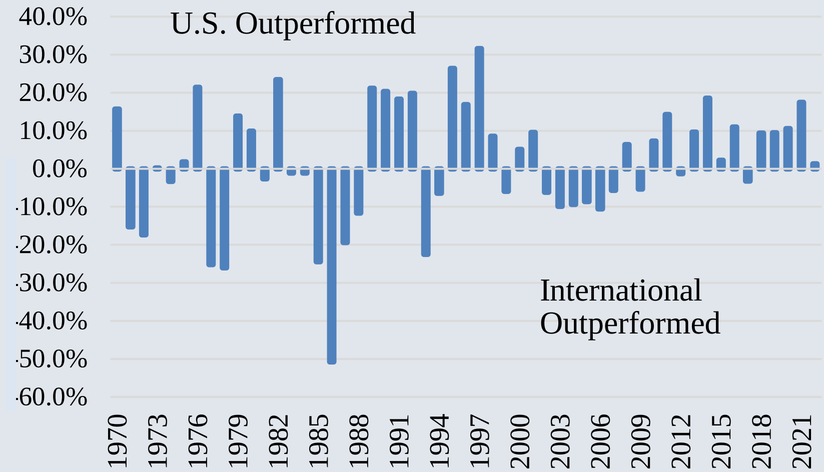
	1Q 22 Return	1-Yr Return	5-Yr Return	10-Yr Return
World	-5.4%	7.3%	11.6%	10.0%
World Ex-US	-5.4%	-1.5%	6.8%	5.6%
EAFE	-5.9%	1.2%	6.7%	6.3%
Europe	-7.4%	3.5%	6.9%	6.3%
Japan	-6.6%	-6.5%	6.1%	6.5%
Pacific Ex-Japan	3.8%	3.8%	6.7%	6.0%
Emerging Markets	-7.0%	-11.4%	6.0%	3.4%
EM (Asia)	-8.7%	-15.2%	7.2%	5.8%
EM (Latin America)	27.3%	23.5%	4.1%	-1.1%
EM (Eastern Europe)	-78.3%	-75.1%	-19.5%	-12.0%

- The U.S. dollar appreciated the past year, detracting from international equity returns. The dollar has been very strong the past ten years but currency trends tend to be cyclical.

MSCI ACWI ex US Index, total return and currency impact (as of 3/31/22)



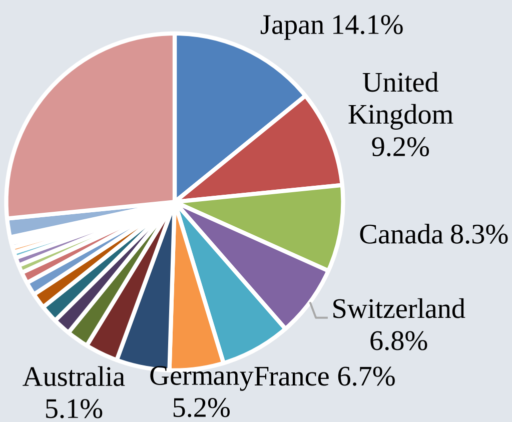
U.S. vs. International Equity Performance (as of 3/31/22)

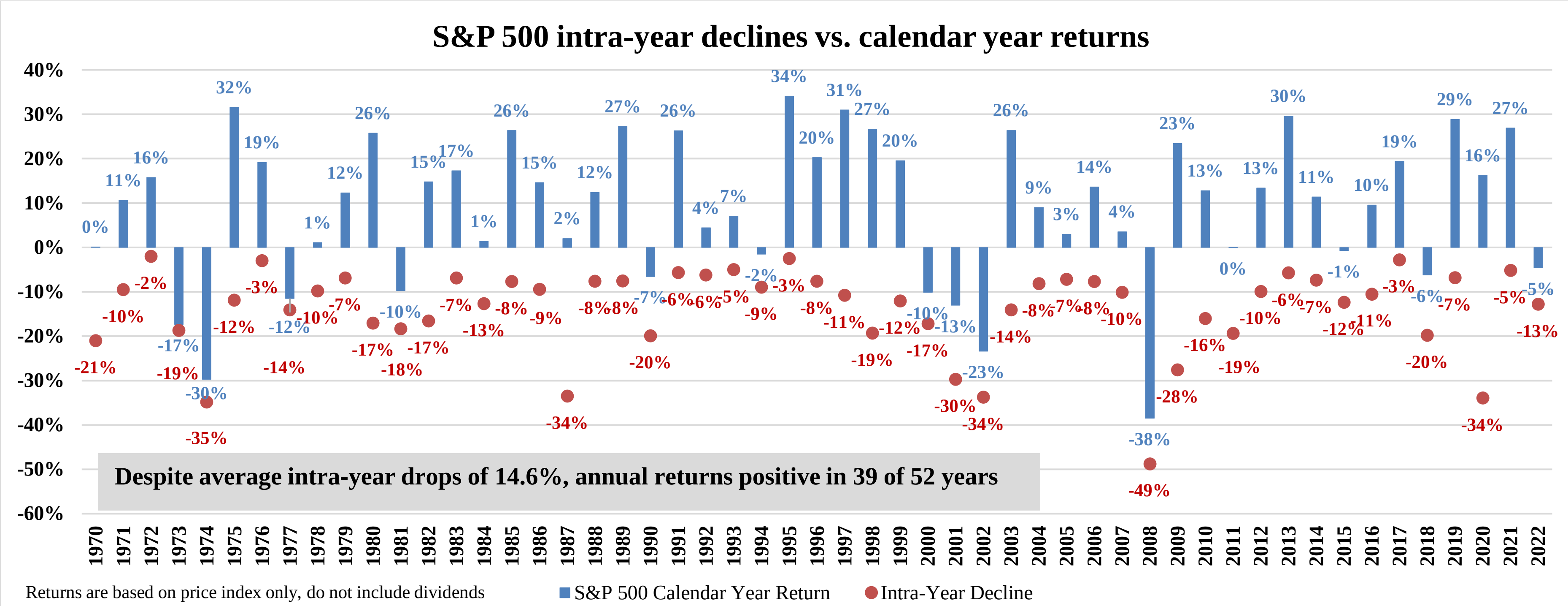


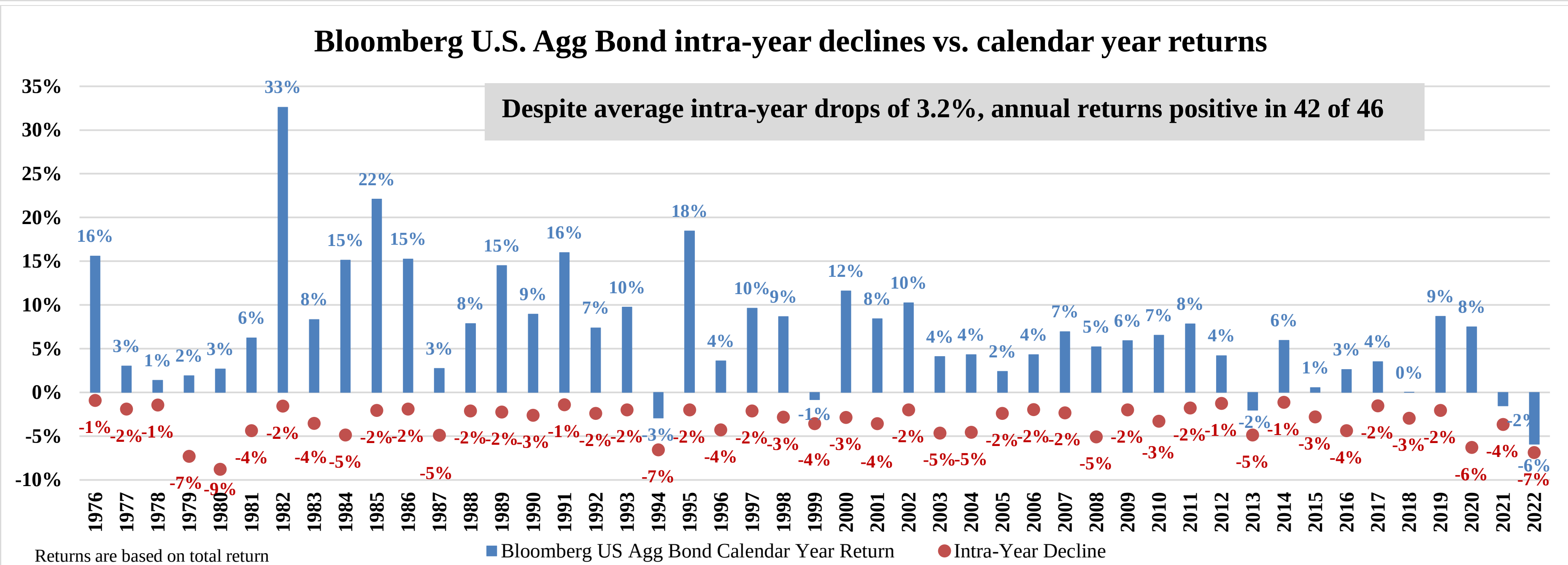
S&P 500 TR vs. MSCI EAFE NR

- During the quarter, International equities lagged behind U.S. equities. International equities have underperformed U.S. equities in ten out of the last twelve years; however, performance is cyclical as evidenced by the chart above.

Country Weighting in MSCI ACWI ex US (as of 3/31/2022)




S&P 500 intra-year declines vs. calendar year returns
Despite average intra-year drops of 14.6%, annual returns positive in 39 of 52 years
Returns are based on price index only, do not include dividends
S&P 500 Calendar Year Return
Intra-Year Decline


Bloomberg U.S. Agg Bond intra-year declines vs. calendar year returns
Despite average intra-year drops of 3.2%, annual returns positive in 42 of 46
Returns are based on total return
Bloomberg US Agg Bond Calendar Year Return
Intra-Year Decline

Market leadership changes. Focus on asset allocation and diversification.

Best

Asset Class Performance

Worst

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10-yrs ‘12-’21 Return	10-yrs ‘12-’21 Volatility
Real Estate 27.9%	Real Estate 8.3%	Real Estate 19.7%	Small Cap 38.8%	Real Estate 28.0%	Real Estate 2.8%	Small Cap 21.3%	Emerging Markets 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Real Estate 41.3%	Large Cap 16.6%	Small Cap 17.8%
Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	International 25.6%	Fixed Income 0.0%	Real Estate 28.7%	Emerging Markets 18.7%	Large Cap 28.7%	Small Cap 13.2%	Emerging Markets 16.4%
Emerging Markets 19.2%	High Yield 3.1%	Emerging Markets 18.6%	International 23.3%	Fixed Income 6.0%	Fixed Income 0.6%	Large Cap 12.0%	Large Cap 21.83%	Real Estate -4.0%	Small Cap 25.5%	Large Cap 18.4%	Commodities 27.1%	Real Estate 12.2%	Real Estate 14.9%
Commodities 16.8%	Large Cap 2.1%	International 17.9%	Asset Allocation 14.9%	Asset Allocation 5.3%	Cash 0.0%	Commodities 11.8%	Small Cap 14.7%	High Yield -4.1%	International 22.7%	Asset Allocation 10.5%	Small Cap 14.8%	Asset Allocation 8.8%	International 14.1%
Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	International -0.4%	Emerging Markets 11.6%	Asset Allocation 14.5%	Large Cap -4.4%	Asset Allocation 19.4%	International 8.3%	Asset Allocation 13.5%	International 8.5%	Commodities 13.3%
High Yield 14.8%	Asset Allocation -0.7%	Large Cap 16.0%	Real Estate 2.9%	Cash 0.0%	Asset Allocation -2.0%	Real Estate 8.6%	High Yield 10.4%	Asset Allocation -5.8%	Emerging Markets 18.9%	Fixed Income 7.5%	International 11.8%	High Yield 6.3%	Large Cap 13.1%
Asset Allocation 13.3%	Small Cap -4.2%	Asset Allocation 12.1%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Allocation 8.3%	Real Estate 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Emerging Markets 5.9%	Asset Allocation 8.6%
International 8.2%	International -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	Emerging Markets -1.8%	Small Cap -4.4%	Fixed Income 2.7%	Fixed Income 3.5%	Commodities -11.3%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Fixed Income 2.9%	High Yield 7.6%
Fixed Income 6.5%	Commodities -13.3%	Cash 0.1%	Emerging Markets -2.3%	International -4.5%	Emerging Markets -14.6%	International 1.5%	Commodities 1.7%	International -13.4%	Commodities 7.7%	Commodities -3.1%	Fixed Income -1.5%	Cash 0.6%	Fixed Income 3.0%
Cash 0.1%	Emerging Markets -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	Emerging Markets -14.3%	Cash 2.2%	Real Estate -5.1%	Emerging Markets -2.2%	Commodities -2.9%	Cash 0.2%

Performance of all sited indices is calculated on a total return basis and includes dividend reimbursement. Indices are not available for direct investment. Past performance is not indicative of future results. It is important to remember that there are risks inherent in any investment and there is no assurance that any asset class or index will provide positive performance over time.

* Large Cap – S&P 500 Index
* Small Cap – Russell 2000 Index
* International – MSCI EAFE GR Index
* Emerging Markets – MSCI EM GR Index
* Fixed Income – Barclays Capital Aggregate Bond Index
* Real Estate – FTSE NAREIT All Equity REIT Index
* Commodities – Bloomberg Commodity Index
* High Yield – Barclays Global High Yield Index
*Cash – Barclays 1-3m Treasury Index

The “Asset Allocation” portfolio assumes the following weights: 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays Agg, 5% Barclays 1-3m Treasury, 5% Barclays Global High Yield Index, 5% Bloomberg Commodity Index, 5% FTSE NAREIT All Equity REIT Index

Source: Morningstar, through 12/31/2021

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