Quarterly Outlook

APRIL 2022

First Quarter 2022

In January, hawkish comments by Fed Chairman Powell first signaled the FOMC's seriousness about whipping inflation, sparking a stock market sell-off.

Market Summary

Elevated inflation, rising interest rates, an Omicron wave, and the war in Ukraine weighed heavily on first-quarter market returns. Both stocks and bonds uncharacteristically produced negative returns in the same quarter. At their worst, the S&P 500 and the tech-heavy Nasdaq Index fell -13% and -21%, respectively, before partially rebounding. Only the Energy and Utilities sectors produced positive returns, while pockets of the market experienced extreme corrections. In terms of market leadership, large companies outperformed small and mid-sized companies, while value-style stocks significantly outperformed growth-style stocks.

Bond returns were mostly negative as the Fed initiated its first interest rate hiking cycle since December 2015. The US Treasury 10 Year yield climbed from 1.51% to 2.4%, while the average US 30-yr mortgage yield increased by 1.6%.

The Communication Services, Consumer Discretionary and Technology sectors were the worst performers as rising interest rates crushed high-multiple stocks (low to no current earnings) and inflation chipped away at consumer purchasing

Index/Instrument	**Category**	**Q1 2022 Total Return**	**Last 12 Months Total Return** (as of 3/31/2022)
S&P 500	Large-capitalization stocks	-4.60%	15.63%
S&P 400 Midcap	Mid-capitalization stocks	-4.89%	4.56%
S&P 600 Small Cap	Small-capitalization stocks	-5.64%	1.15%
NASDAQ 100	Large-capitalization stocks	-8.91%	14.14%
Russell 2000 Index	Small-capitalization stocks	-7.53%	-5.82%
MSCI World ex USA	Developed markets international stocks	-4.66%	3.60%
MSCI Emerging Market	Emerging markets international stocks	-6.99%	-11.13%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	-5.93%	-4.15%
Bloomberg Barclays US Treasuries	US government bonds	-5.58%	-3.67%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	-7.69%	-4.20%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	-4.84%	-0.66%
Bloomberg Barclays US MBS Index	US mortgage-backed securities	-4.97%	-4.92%
Bloomberg Barclays Global Aggregate Bond Index	Global investment-grade bonds	-6.16%	-6.40%
Bloomberg Barclays Global High-Yield Bond Index	Global high-yield bonds	-5.69%	-3.84%
Bloomberg Barclays Investment Grade US Convertibles	US high-grade convertible bonds	-1.25%	5.44%

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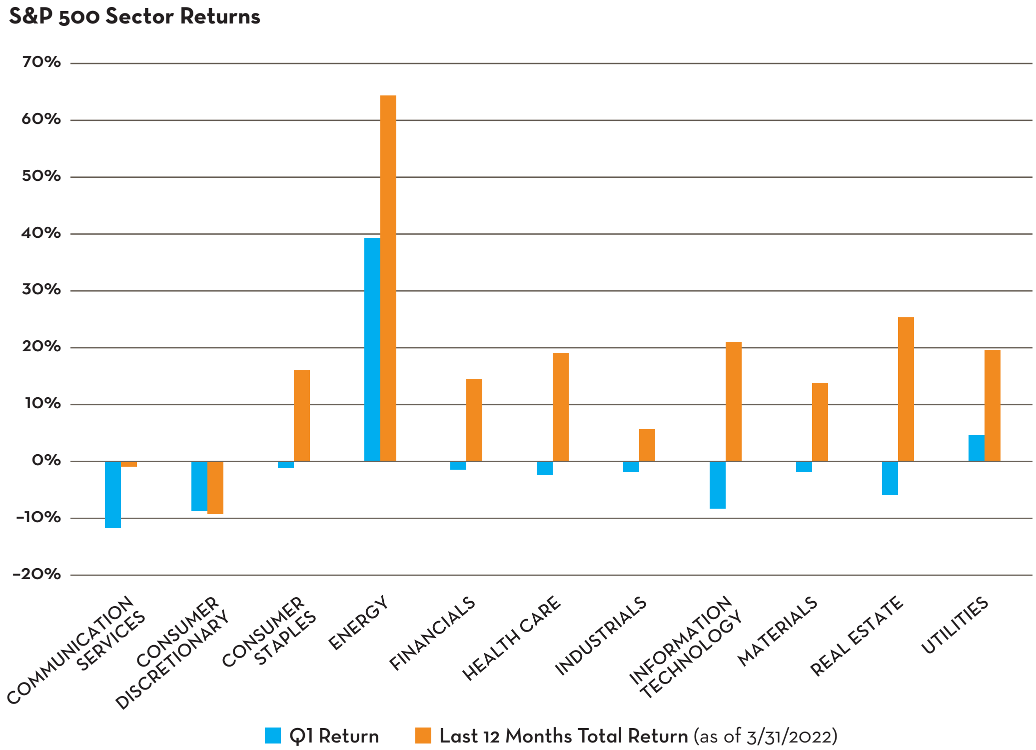

power. The Consumer Price Index (CPI) hit a multi-decade high of 7.9% in its latest reading, while the price of oil surged over 30% in the first quarter and 70% in past year. In January, hawkish comments by Fed Chairman Powell first signaled the FOMC's seriousness about whipping inflation, sparking a stock market sell-off. Bonds sold off globally while bond yields climbed back towards 2019 levels.

Stock valuation multiples have re-calibrated downward to compensate for the higher cost of money, yet we expect markets to remain volatile as an inevitable corporate earnings slowdown remains on the horizon. Last year, earnings exploded from pandemic lows, leading to exceptional equity returns. We expect more subdued results for the next 12 months as earnings growth and corporate profitability moderate.

Fed Policy and the Economy

It will be a difficult and nuanced task to tamp down inflation without triggering recession. Fed officials began to remove "emergency" levels of stimulus in March with their initial rate hike coming two years after the pandemic began. Fed Chairman Powell signaled multiple increases for 2022 in addition to aggressive quantitative tightening. While the US is just beginning its rate hiking cycle, global short rates have been increasing for more than a year, slowing growth in the developed world and tipping some emerging economies into recession. Consequently, the Fed's lagged response increases the risk of a "hard landing," which results from decelerating the economy too rapidly.

Conversely, while the Fed allowed inflation to simmer over, the labor market had sufficient time to heal and repair the damage inflicted by COVID-19. Both

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the size of the labor force and the unemployment rate have nearly returned to pre-pandemic levels, with the latter falling to 3.6%, a solid foundation for the coming slowdown.

Outlook

Consensus expectations call for GDP growth to slow substantially from 2021's 5.7% pace to 3% for 2022. Expectations range considerably from 1% to 4.4%, a sign of uncertainty and an economy in flux and moving into its latter stages. The US consumer has been remarkably resilient throughout the past two years, but with historically high inflation and falling stock prices, a negative "wealth effect" creates a considerable headwind to the economy. The services economy will likely take the baton from the manufacturing economy, with the Health Care and Travel & Entertainment sectors benefitting. As we adjust portfolios to the inevitable ebb and flow of the business cycle and associated slower growth and earnings, we expect defensive themes to supplant cyclical ones while our strategic allocation, balance, and diversification act as a buffer through a period of heightened volatility.