QUARTERLY MARKET INSIGHTS

APRIL 2022

After a historically calm 2021, volatility returned in the first quarter of 2022, as inflation surged to 40-year highs, the Federal Reserve promised to raise interest rates faster than previously thought, and Russia surprised the world with a full-scale military invasion of Ukraine, marking the first major military conflict in Europe in decades. Those factors fueled a rise in volatility and pushed stocks lower in the first three months of the year.

Broad market volatility began to pick up during the first few days of 2022 as inflation readings hit multi-decade highs. This confirmed that price pressures were still accelerating. It also prompted multiple Federal Reserve officials to signal that interest rates will rise faster than markets had previously thought, including a possible rate hike in March. The prospect of sooner-than-expected interest rate hikes weighed on the sectors with the highest valuations, specifically growth-oriented technology stocks. The steep declines in the tech sector worsened market volatility in January.

Fourth-quarter earnings season was solid, but here were several large, widely held technology companies that posted disappointing results or forecasts. That also contributed to general market volatility.

Finally, in late January at the FOMC meeting, Fed Chair Powell clearly signaled that the Fed would be raising rates at the next meeting (in March). This confirmed to investors that interest rates were going to rise much more quickly than had been assumed just a few months prior. The S&P 500 ended January with the worst monthly return since March 2020 (the onset of the pandemic).

Volatility remained elevated in February with the market's primary concern shifting from monetary policy to geopolitics as Russia amassed troops on the Ukrainian border. The rising threat of a major military conflict in Europe for the first time in decades further weighed on stocks in early February. That added uncertainty, plus the still-stubbornly high inflation readings and continued warnings from Fed officials about future interest rate increases kept markets volatile throughout most of the month.

Then on February 24th, Western warnings of a Russian invasion of Ukraine were fulfilled as Russia invaded in the early morning hours. The conflict sent essential commodity prices such as oil, wheat, corn, and natural gas surging as commodity producers and end users feared production disruptions and reduced supply.

As one would expect, markets dropped in response to the invasion, and not just because of rising geopolitical concerns. Investors also realized higher commodity prices will only add to existing inflation pressures, and possibly pressure corporate earnings and consumer spending. Geopolitical uncertainty combined with lingering inflation concerns and anxiety over the pace of Fed rate hikes weighed on stocks again in February, and the S&P 500 declined for a second straight month.

Markets remained volatile in early March, as hopes for a relatively quick ceasefire in Ukraine faded and commodity prices stayed elevated. Shortly after Russia's invasion, the developed world united in a never-before-seen way against Russia, imposing crushing economic sanctions on the Russian economy. But while that showed important unity against Russian aggression, it became clear that the sanctions would also have a negative impact on Western economies, especially in the EU. That raised concerns about a global economic slowdown. However, stocks did mount a strong rebound in late March thanks to incrementally positive geopolitical and monetary policy news. First, the Ukrainian resistance stalled the Russian advance. While the situation devolved into an intense humanitarian tragedy in Ukraine, fears of the conflict extending beyond Ukraine's borders faded over the course of the month.

On March 16th, the Federal Reserve raised interest rates by 25 basis points, the first-rate hike in over three years. The rate hike was no worse than markets feared, and that provided a spark for a "relief rally" in stocks that produced a solidly positive monthly return.

In sum, the first quarter of 2022 was the most volatile quarter for markets since the depths of the pandemic in 2020, as a number of threats to economic growth emerged. As we start the second quarter, investors will need to see incrementally positive progress across geopolitics, monetary policy expectations, and the outlook for inflation if the late-March rally is to continue.

FIRST QUARTER PERFORMANCE REVIEW

All four major equity indices posted negative returns for the first quarter of 2022, although the S&P 500 and the Dow Industrials saw only mild losses compared to the Nasdaq and Russell 2000. Investors rotated out of growth-oriented, high-P/E technology stocks and into sectors that were more exposed to the traditional economy which trade at a cheaper valuation compared to the tech sector. That rotation benefitted the Dow Jones Industrial Average primarily while the Nasdaq Composite badly lagged both the S&P 500 and the Dow.

By market capitalization, large-cap stocks outperformed small-cap stocks in the first quarter, and that was to be expected given the geopolitical uncertainty and rising interest rates. Small-cap stocks typically are more reliant on debt financing to sustain their businesses. Rising interest rates can be a headwind on small-cap stocks as a result. Additionally, investors flocked to the relative safety of large caps amid the rise in volatility over the course of the quarter.

From an investment style standpoint, value massively outperformed growth in the first quarter as select value ETFs registered positive returns over the past three months. Elevated volatility, geopolitical uncertainty, and the prospect of quickly rising interest rates caused investors to flee richly valued, growth-oriented tech stocks and rotate to more fairly valued sectors of the market.

On a sector level, only two of the eleven sectors in the S&P 500 finished the first quarter with a positive return. Energy was the clear standout as the sector received help from the increase in geopolitical uncertainty and subsequent surge in oil and natural gas prices in response to the Russia-Ukraine war. Utilities, a traditionally defensive sector, logged a modestly positive return as investors rotated to defensive sectors in response to elevated market volatility and geopolitical uncertainty.

Finally, financials relatively outperformed the S&P 500 and saw only a small loss as the sector has historically benefited from rising interest rates, although concerns about exposure to the Russian economy weighed on many financial stocks in February and early March.

Sector laggards included the communication services, tech, and consumer discretionary sectors. They saw material declines in the first quarter thanks primarily to the broad rotation away from the more highly valued corners of the market. Specifically, internet stocks weighed on the communications sector, while online retail stocks were a drag on the consumer discretionary sector. Away from tech and tech-related sectors, most other sectors in the S&P 500 saw modest declines that did not stray too far from the performance of the S&P 500.

US Equity Indexes	Q1 Return	YTD
S&P 500	-4.60%	-4.60%
DJ Industrial Average	-4.10%	-4.10%
MASDAQ 100	-8.91%	-8.91%
S&P MidCap 400	-4.88%	-4.88%
Russell 2000	-7.53%	-7.53%

***Source: YCharts YTD Data as of 03/31/2022**

Internationally, foreign markets declined in the first quarter. Geopolitical uncertainty hit foreign markets early in the quarter, erasing what was moderately positive performance until that point. Emerging markets slightly lagged foreign developed markets due to a stronger U.S. dollar and rising geopolitical risks, but the underperformance was modest.

Internation Equity Indexes	Q1 Return	YTD
MCSCI EAFE TR USD (Foreign Developed)	-5.79%	-5.79%
MSCI EM TR USD (Emerging Market)	-6.92%	-6.92%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-5.33%	-5.33%

***Source: YCharts YTD Data as of 03/31/2022**

Commodities registered massively positive returns in the first quarter primarily thanks to rising geopolitical risks. Oil, wheat, natural gas, corn, and other essential commodities surged on a combination of actual production outages related to the Russia-Ukraine war (which reduced current supply) and buyers locking in supply for fear of any future production disruptions should the war continue for months or spread beyond Ukraine's borders.

Internation Equity Indexes	Q1 Return	YTD
S&P GSCI (Broad-based Commodities)	33.13%	33.13%
WTI Crude Oil	34.42%	34.42%
Gold Price	6.61%	6.61%

***Source: YCharts YTD Data as of 03/31/2022**

Switching to fixed income markets, bonds registered some of the worst performance in years during the first quarter. Most major bond indices declined as investors exited fixed income holdings in the face of high inflation and as the Federal Reserve consistently signaled that it was going to raise interest rates faster than investors had previously expected.

Looking deeper into the bond markets, shorter-term Treasury Bills outperformed longer-duration Treasury Notes and Bonds as high inflation and the threat of multiple future Fed rate hikes weighed on fixed income products with longer durations.

In the corporate debt markets, investment-grade bonds saw materially negative returns and underperformed lower-quality but higher-yielding corporate debt, which also declined but more modestly so. This underperformance in investment-grade debt reflected the impact of rising Treasury yields. The outperformance of high-yield corporate bonds served as a reminder of the still-positive outlook for the U.S. economy and corporate America, despite the macroeconomic headwinds of inflation, geopolitical unrest, and rising interest rates.

Internation Equity Indexes	Q1 Return	YTD
BBgBarc US Agg Bond	-5.79%	-5.79%
BBgBarc US T-Bill 1-3 Months	0.03%	0.03%
ICE US T-Bond 7-10 Years	-6.54%	-6.54%
BBgBarc US MBS (Motgage-backed)	-4.97%	-4.97%
BBgBarc Municipal	-6.23%	-6.23%
BBgBarc US Corporate Invest Grade	-7.69%	-7.69%
BBgBarc US Corporate High Yield	-4.84%	-4.84%

***Source: YCharts YTD Data as of 03/31/2022**

SECOND QUARTER PERFORMANCE REVIEW

As we start a new quarter, markets are facing the most uncertainty since the pandemic. Headwinds from inflation, less-accommodative monetary policy, and geopolitics are still in place.

Inflation still sits near a 40-year high as we start the second quarter. Major commodities such as oil, wheat, corn, and natural gas have surged in response to the Russia-Ukraine war and it's unlikely that key inflation indicators like the Consumer Price Index will meaningfully decline anytime soon. Until there is a definitive peak in inflation, the Federal Reserve is likely to continue to aggressively raise interest rates, and over time, higher rates will become a drag on economic growth.

The Federal Reserve, meanwhile, has consistently warned markets that aggressive interest rate hikes are coming in the months ahead. This quarter we expect the Fed will reveal its balance sheet reduction plan, which will detail how the Fed plans to unload the assets it acquired via the Quantitative Easing program over the past two years. If the details of this balance sheet reduction plan are more aggressive than markets expect, or the Fed commits to more rate hikes than are currently forecasted by markets, that could weigh on stocks and bonds alike.

Finally, the Russia-Ukraine war continues to rage on, and the geopolitical implications have spread beyond the battlefield. Relations between Russia and the West have hit multi-decade lows. Crippling economic sanctions against Russia remain in place and commodity prices are still very elevated. The longer those factors persist, the greater the chance we see a material slowdown in the global economy.

But while clearly there are risks to portfolios as we start the new quarter, it's also important to note that the U.S. economy is very strong, and unemployment remains historically low. That is helping to support asset markets. Additionally, interest rates are rising but remain far below levels where most economists forecast that they will begin to slow the economy. Finally, consumer spending, which is one of the main engines of growth for the U.S. economy, is robust, and corporate and personal balance sheets are healthy.

In sum, the outlook for markets and the economy is uncertain, and we should all expect continued volatility across asset classes in the short term. Core macroeconomic fundamentals are still strong while U.S. corporations and the U.S. consumer are, broadly speaking, financially healthy.

So, while risks remain, as they always do, there are also multiple positive factors supporting markets. It is important to remember that a well-executed and diversified, long-term financial plan can overcome bouts of even intense volatility like we saw in the first quarter.

We understand the risks facing both the markets and the economy. We are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even temporary bouts of volatility like we experienced over the past three months are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a plan and portfolio based on your financial position, risk tolerance, and investment timeline.

Please do not hesitate to contact us with any questions, comments, or to schedule a **portfolio review.**

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Reference to market index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indexes are unmanaged, hypothetical vehicles that serve as market indicators. Index total return performance data reflects the assumptions of the reinvestment of interest and dividends but does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio.

INDEX DEFINITIONS

Russell 3000 – Index comprised of 3,000 largest U.S. stocks by market capitalization.

Russell 1000 – Index comprised of 1,000 largest U.S. stocks by market capitalization.

Russell 2000 – Index comprised of 2,000 smaller U.S. stocks by market capitalization within the Russell 3000.

S&P 500 – Compilation of 500 major U.S. stocks meeting certain criteria; market capitalization and float-weighted.

MSCI All Country World – Global equity index across market capitalizations with about 2,800 constituents, representing about 85% of the free float-adjusted market capitalization across 23 developed and 27 emerging markets.

MSCI All Country World ex USA – Global equity index across market capitalizations, which excludes the U.S., with about 2,300 constituents which represents free float-adjusted market capitalization across 22 developed and 27 emerging markets.

MSCI Europe, Asia & Far East (EAFE) – International equity index across market capitalizations, which excludes North America, with about 840 constituents which represents free float-adjusted market capitalization across 21 developed markets.

MSCI Emerging Markets (EM) – International equity index across market capitalizations with about 1,400 constituents which represents free float-adjusted market capitalization across 27 emerging markets.

Bloomberg Barclays U.S. Aggregate Bond – Widely followed bond benchmark comprised of investment grade, U.S. dollar denominated, fixed rate taxable bonds including Treasuries, government-related, corporate, mortgage-backed, and agency.

Bloomberg Barclays U.S. Corporate High Yield Bond – Fixed rate U.S. dollar denominated index of corporate bonds rated BB+ or below by Fitch and S&P.

S&P Municipal High Yield Bond – U.S. index of municipal bonds that are either not rated or rated below investment grade.

The Dow Jones Industrial Average (DJIA), also known as the Dow 30, is a stock market index that tracks 30 large, publicly-owned blue-chip companies trading on the New York Stock Exchange (NYSE) and the Nasdaq.

The Nasdaq 100 Index is a basket of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry, like commercial and investment banks. These non-financial sectors include retail, biotechnology, industrial, technology, health care, and others.

The S&P MidCap 400 refers to a benchmark index published by Standard & Poor's (S&P). The index is comprised of 400 companies that broadly represent companies with midrange market capitalization between $3.6 billion and $13.1 billion.

The S&P GSCI is a composite index of commodities that measures the performance of the commodities market. The index often serves as a benchmark for commodities investments.

West Texas Intermediate (WTI) crude oil is a specific grade of crude oil and one of the main three benchmarks in oil pricing, along with Brent and Dubai Crude.

The Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index (^BBUTB13MTR) is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

The ICE U.S. Treasury 7-10 Year Bond Index is part of a series of indices intended to assess the U.S. Treasury market. The Index is market value weighted and is designed to measure the performance of U.S. dollar-denominated, fixed rate securities with minimum term to maturity greater than seven years and less than or equal to ten years.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed passthrough securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.