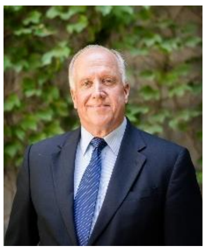
2022 – 1st Quarter Review & Outlook

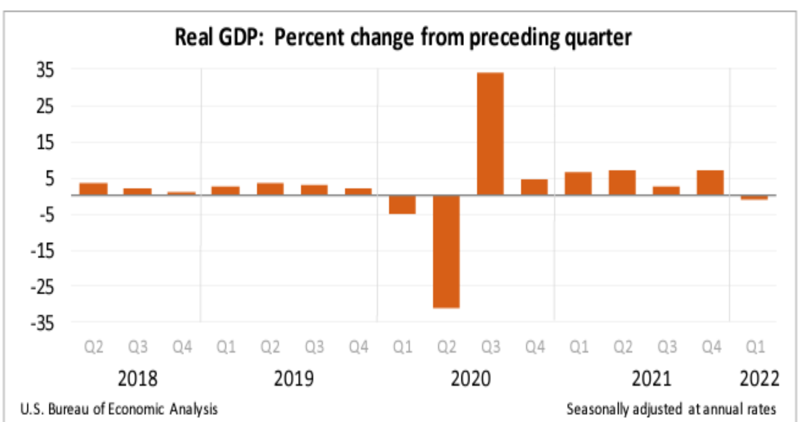
Economic and Investment Review



Mark Anderson

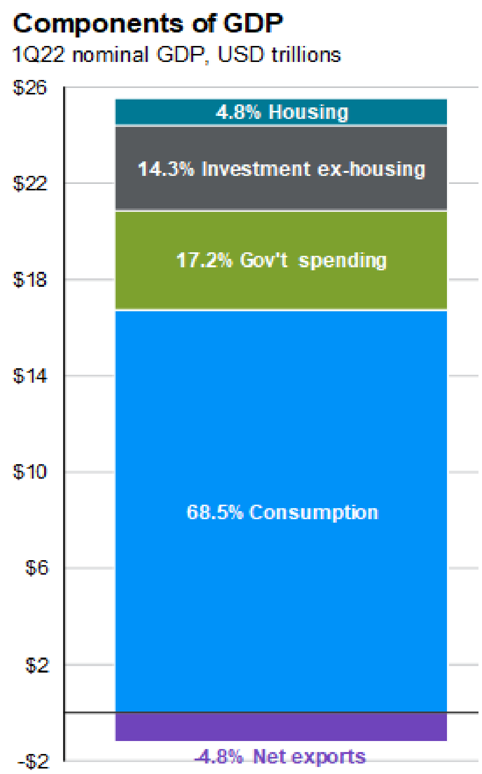
Chief Investment Officer

Economic Growth: Q1 GDP surprised to the downside, declining 1.4% Q/Q compared with the consensus estimate of positive 1.1%. The Bureau of Economic Analysis (BEA) stated that "the decrease in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. "



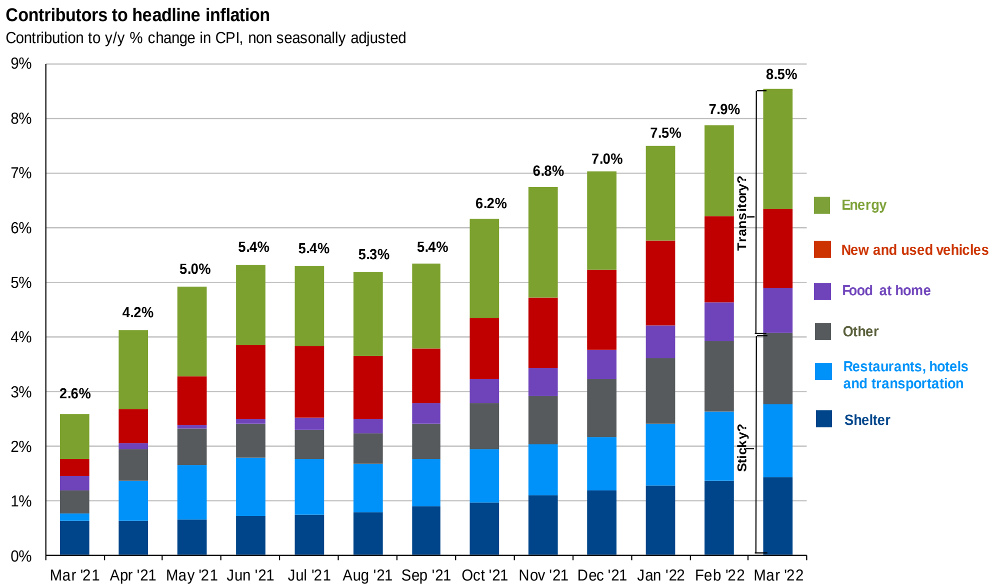
Supply-chain constraints continued to be a drag on the U.S. economy. The decline in private inventory was largely a reflection of the current difficulty that motor vehicle dealers are having in obtaining vehicles. Exports suffered from a sharp decline in nondurable goods. Nondurable goods are any consumer goods in an economy that are either consumed in one use or used up over a short period of time (considered by the United States Bureau of Economic Analysis to be within three years). It may be hard to believe given the current environment, but the decrease in federal government spending was primarily due to reduced defense spending. At the same time, the import of capital goods and durable goods picked up markedly. GDP was still positive on a Y/Y basis, increasing 3.6% compared to the consensus estimate of 4.3%

Consumer spending accounts for over 68% of GDP.



Source: JPMorgan Asset Management

Consumer spending continued to increase at a steady pace, rising at a 2.7% annual rate in the first quarter. Consumers are spending more on services as they resurface following the COVID-19 pandemic. Travel, lodging and dining are beneficiaries. Inflation has pressed consumers to spend more on gasoline, food and shelter. The March CPI report (all items) was startling as Y/Y inflation was reported at 8.5%,



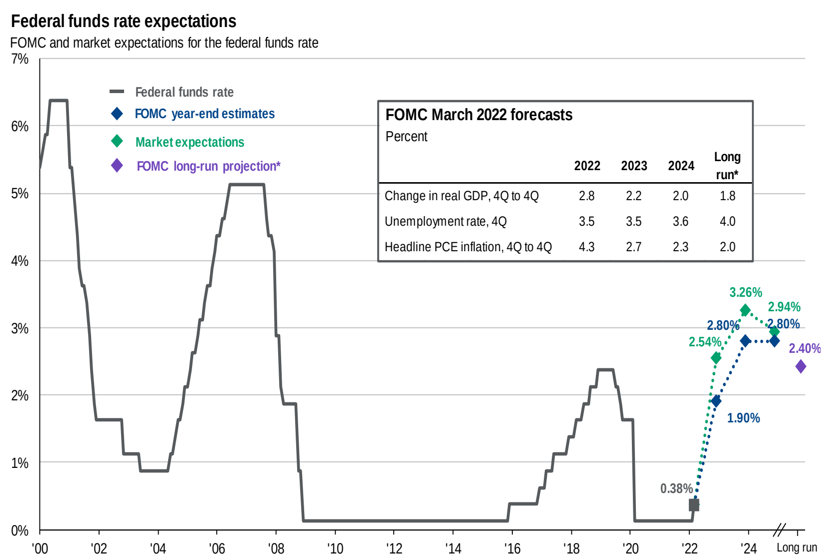
Source: JPMorgan Asset Management

the highest rate since 1981. The impact of Russia's invasion of Ukraine has been a jolt to gasoline and commodity inflation. There is some evidence that consumers are becoming less willing to absorb price increases. Demand for some big-ticket items appears to be tempered. Grocers have seen increased demand for discounted products and lower cost brands.

Jan Hatzius, Chief Economist – Goldman Sachs, states "we find that much of the rise in short-term inflation expectations can be explained by spikes in energy and food prices, which are particularly salient for consumers but are poor guides of future inflation trends. We find this reassuring, because it implies that if commodity prices level off, that alone might generate a meaningful decline in short-term expectations." He holds the position that monetary policy tightening could lower long-term inflation expectations; however, the Fed has little control over food and energy related inflation. The Goldman Sachs Economic-Inflation model makes three predictions:

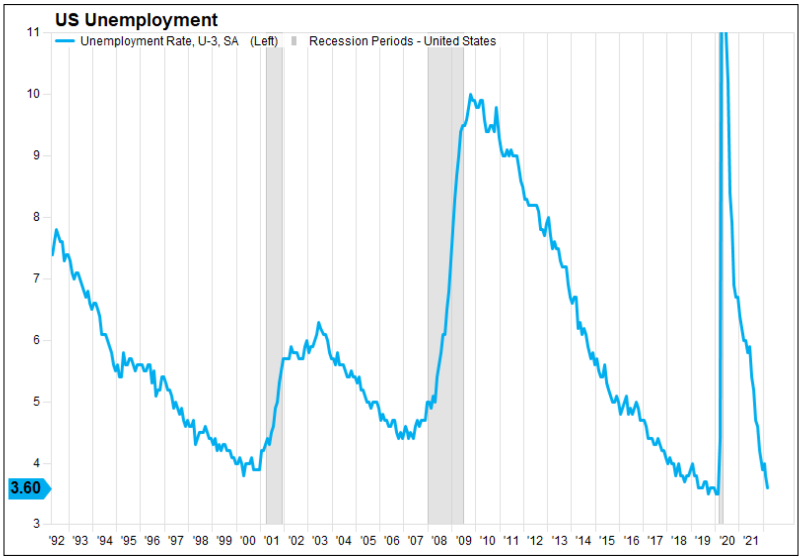
- Short-term inflation expectations will edge slightly higher before falling sharply due to lower realized inflation from the normalization of goods inflation, energy in particular.
- Long-term inflation expectations will continue to rise and will remain near 30-year highs, before eventually starting to moderate.
- Realized inflation will remain elevated for a bit longer than it otherwise might because of the upward pressure from inflation expectations.

The U.S. unemployment rate dropped from 3.8% to 3.6% in March. The tight labor market will likely add incentive for Fed to be more hawkish in moving interest rates higher in the coming months. Market expectations has the Federal funds rate moving to over 2.5% by year-end and near 3.25% by the end of 2023. Fed projections have the funds rate moving to 1.90% by year-end and 2.40% in 2023.



Source: Bloomberg, FactSet, Federal Reserve, JPMorgan Asset Management

Fortunately for consumers, they are supported by the strong labor market and wage growth. The 3.6% unemployment rate is nearly equal to the 50+year

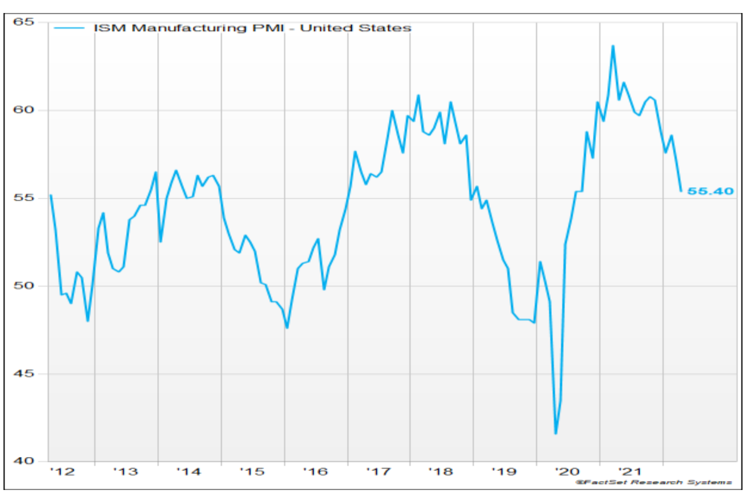


Source: FactSet

low of 3.5% reached in early 2000. Wages hit a recovery high of 5.6% Y/Y in March. This may allow the economy to absorb the rate hikes without resulting in a recession.

The consensus GDP estimate for 2022 remains at 3.3% despite the weaker than expected Q1, although we would not be surprised by downward revisions. It is not expected that the U.S. economy will fall into recession this year; however, a number of economists and strategist have increased probabilities that a recession will take place sometime in the next 2 years. Goldman Sachs Chief U.S. Equity Strategist David J. Kostin places the probability at 38% for a recession over the next two years.

Manufacturing, as measured by the ISM Purchasing Managers Index - PMI, continues to reflect

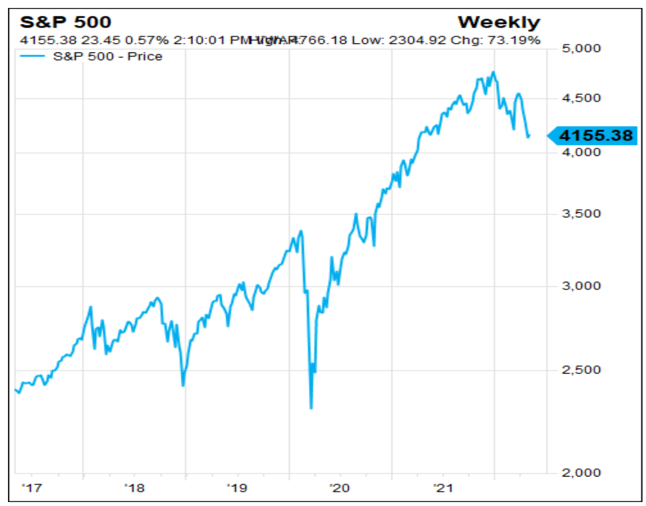


expansion but at a decelerating rate. The index declined from 57.10 in March to 55.40 in April. (Any reading over 50.0 indicates expansion and any reading under 50.0 indicates contraction.)

Industrial Production, as measured by the Federal Reserve System, moved up 0.9% Q/Q and 5.5% Y/Y in March. The strongest areas Y/Y include Oil & Gas Well Drilling, Converted Fuel, Semiconductors and Chemical.

Equity Markets

The S&P 500 closed at 4530 on March 31, down -4.60% YTD and up 15.65% through the end of the quarter. Since that time the market has moved into correction territory and is down -12.92% YTD and up just 0.21% for 12 months through the end of April.



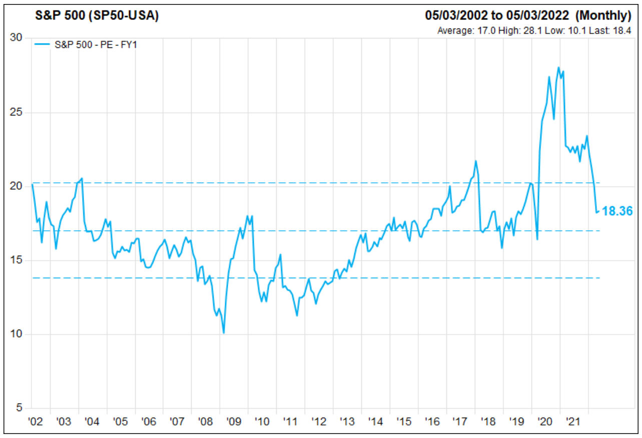
Source: FactSet

Equity markets have reacted negatively to:

- Increased geopolitical and investment risk as a result of the Russian invasion of Ukraine.
- Supply chain disruptions from COVID and the war.
- The impact of increased inflation on input costs and margins.
- The potential for decreased demand for goods and services due to increased inflation.
- Hawkish Fed comments and actions.

- Rising interest rates leading to decreased borrowing.
- The prospect for higher corporate and capital gains taxes.

Valuations have been adjusting downward through the onslaught of negative news. Valuations were well extended beyond long term averages but have reverted back to be within the 20-year range.



Source: FactSet

Even with this long list of negatives it is important to not disregard the positives:

- The U.S. economy remains reasonably strong even in the face of adversity.
- Workers and consumers are moving to a more normal post-COVID state of being.
- Corporate balance sheets are in good shape.
- Corporations are in a position to be able to buy back shares and increase dividends.
- Earnings growth remains strong.

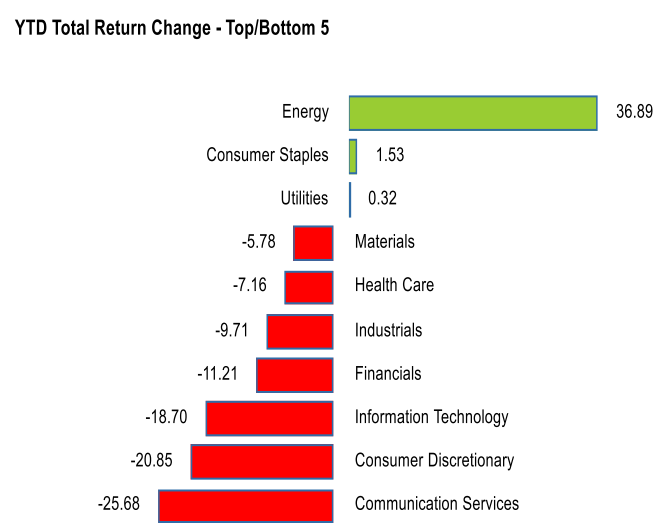
Our initial 2022 forecast for the S&P 500 at the end of last year was 4900. We have adjusted the forecast to 4700 which would mean that the year would end approximately where it began. We have reduced expected P/E multiples going forward due to higher interest rates and the expectation for greater pressure on margins and earnings growth. However, from the current level of 4155, the upside would be about 13.5%. The consensus forecast remains above 5200; however, both Goldman Sachs and Raymond James have forecasts at or near 4700.

Value stocks have held up better than growth stocks through the downturn. The preference for value stocks has also been a quality issue as investors focus more on current earnings, cash flow and dividends rather than earnings projections well into the future.

2022 Q1 Returns				
EQUITY	Q1 2022	YTD 3.31.22	1 Year 3.31.22	3 Years Annualized
S&P 500	-4.60	-4.60	15.65	18.92
S&P 500 Value	-0.16	-0.16	12.58	14.12
S&P 500 Growth	-8.59	-8.59	18.16	22.48
Dow Jones Ind Avg	-4.10	-4.10	7.11	12.57
S&P Mid Cap 400	-4.88	-4.88	4.59	14.14
S&P Small Cap 600	-5.62	-5.62	1.23	13.58
MSCI EAFE	-5.91	-5.91	1.16	7.78
MSCI Emerging Mkts	-6.97	-6.97	-11.37	4.94

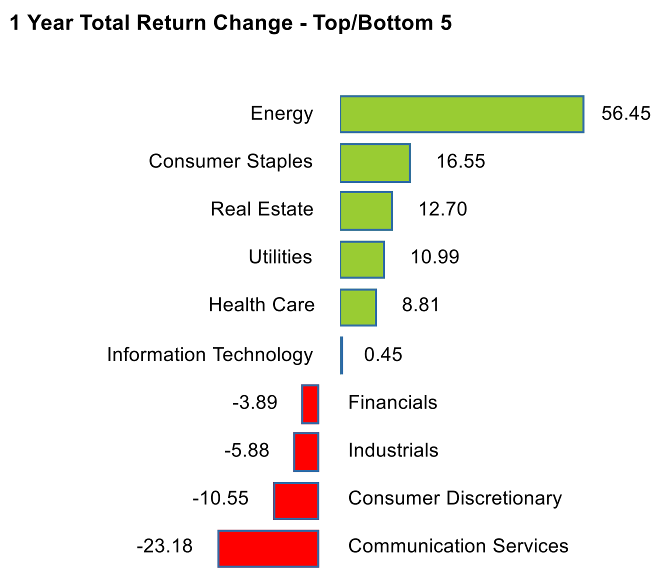
Source: FactSet

The spike in oil prices has caused the Energy sector to be the only sector to perform well YTD through April. Consumer Staples and Utilities were relatively flat but other sectors ranged from -5.78% to -25.68%. Communication Services, Consumer Discretionary and Information Technology were the worst performing sectors.



Source: FactSet

Energy well outpaced the other sectors for 1 year through April. Consumer Staples, Real Estate, Utilities and Health Care provided positive returns while Information Technology was relatively flat and Financials, Industrials, Consumer Discretionary and Communication Services were all negative.



Source: FactSet

Mid cap and small cap stocks performed in similar fashion to the S&P 500 YTD and lagged for 1 year.

Developed international markets (MSCI EAFE) have performed in line with the S&P 500 YTD but have trailed markedly for 1 year.

Source: FactSet

Source: FactSet

Emerging markets have also performed in line with the S&P 500 YTD but have trailed significantly for 1 year.

Source: FactSet

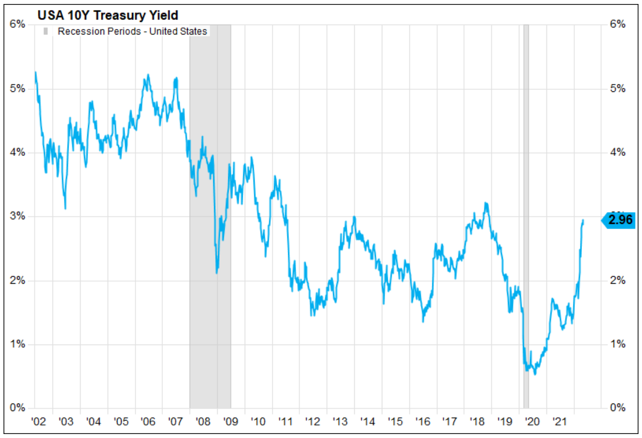
Source: FactSet

China makes up the largest part of Emerging Markets and has struggled due to multiple COVID lockdowns.

FactSet reports that 55% of the companies in the S&P 500 have reported actual results for Q1 2022 to date. Of these companies, 80% have reported actual EPS above estimates, which is above the 5-year average of 77%. In aggregate, companies are reporting earnings that are 3.4% above estimates, which is below the 5-year average of 8.9%. Positive earnings surprises reported by companies in the Information Technology, Financials, Communication Services, and Health Care sectors have been the largest contributors to the increase in the earnings growth rate since the end of the first quarter. Earnings growth in those sectors was partially offset by a negative earnings surprise reported by a company (Amazon) in the Consumer Discretionary sector.

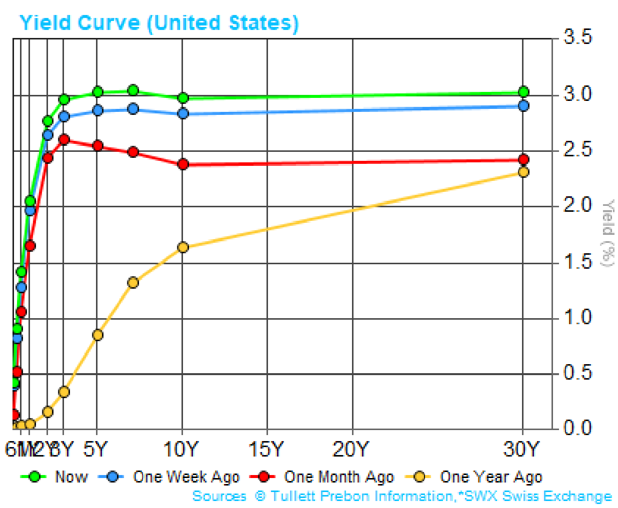
Fixed Income Markets

Interest rates have been moving up due to inflation pressures and Fed activity. The 10-year U.S. Treasury yield has nearly matched peaks in 2014 and 2018.



Source: FactSet

The increase has taken place across the entire yield curve but the curve has flattened from the 2-year to the 30-year Treasury.

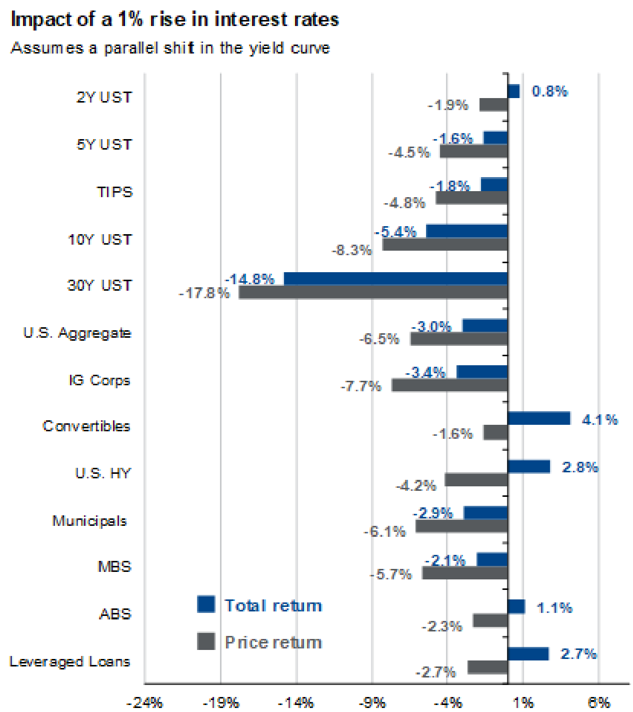


Bond prices have been negatively impacted by the increase in rates. Returns for investment grade bonds (Barclays U.S. Aggregate Index) were down -5.93% in Q1 and -4.15% for 1 year through March. Municipal bonds were down -5.69% for the quarter and -3.84% for 1 year. High yield bonds were down -4.82% and -1.10% for the same time periods.

2022 Q1 Returns				
FIXED INCOME	Q1 2022	YTD 3.31.22	1 Year 3.31.22	3 Years Annualized
B B US Agg Bond	-5.93	-5.93	-4.15	1.69
S&P National Muni	-5.69	-5.69	-3.84	1.65
B B High Yield	-4.82	-4.82	-1.10	3.95

Source: FactSet

We continue to expect interest rates to trend upward through the year. Even if inflation begins to level out in the next few quarters, it is likely that it will remain above 3.0% for a time. This will likely lead to the Fed pushing short rates to near that level, and longer rates moving to some spread above that level. The chart below displays the impact of a 1% rise in interest rates on various types of fixed income securities.



Source: JPMorgan

It can be seen from this chart how securities with longer maturities and durations are more sensitive to an increase in interest rates. Because of this, we have been recommending shortening duration (reducing the sensitivity to changes in interest rates) of bond portfolios and bond funds held.

Real Assets

Real Estate is also sensitive to changes in interest rates. The Dow Jones U.S. Real Estate index is a benchmark for Real Estate Investment Trusts (REITs). The benchmark was down -6.49% in Q1 but still posted a strong trailing 12-month return of 20.72%.

2022 Q1 Returns				
Real Assets	**Q1 2022**	**YTD 3.31.22**	**1 Year 3.31.22**	**3 Years Annualized**
Dow Jones U.S. R/E	-6.49	-6.49	20.72	10.73
S&P GSCI	33.13	33.13	64.55	45.82

Source: FactSet

Commodities continued to move considerably higher in the quarter. The S&P GSCI Commodity-Indexed Trust was up 33.13% in Q1 and 64.55% for 1 year. The benchmark is primarily driven by energy. The Energy sector accounts for 63.12% of the benchmark. The next two largest sectors are Agriculture at 18.16% and Industrial metals at 9.91%.

Asset Allocation

During Q1 we made the following tactical asset allocation changes:

- The allocation to developed markets equity was reduced due to the heightened risk and higher input costs in Europe due to the war in Ukraine.
- The allocation to emerging markets equity was reduced due to the ongoing COVID related lockdowns in China.
- The reduction in allocations from developed and emerging markets was partially moved to U.S. large cap equities.
- Allocation within U.S. Investment Grade Fixed Income was reallocated from 100% intermediate to 50% intermediate/50% ultrashort in order to reduce duration.
- The emerging markets bond allocation was eliminated because of the lack of shorter duration options.
- The allocation to commodities was increased as a hedge against inflation.

Disclosures